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Constituency:
Research Project within the Department of Sociology.

Aims and Objectives:
To provide a service to the independent trade unions in the Natal region.

Current Programme:
Wage and Profit Analysis in the Construction, Food and Textile Industries of Natal.

TAXATION — 1988

APRIL — JUNE

HE'S NOT HEAVY ...

320

Recent tax developments that de-emphasise individuals are easily explicable when it is realised how much they pay. Inland Revenue estimates for 1988 show that of a R35,2bn total, individuals are due to pay 35% (R12,6bn) in income tax alone and a further 28% (R10bn) in GST.

So individual income tax and GST are set at 64% of total revenue for the year, compared with 22% in 1969. GST was imposed in 1979.

Of 1988's predicted take — which assumes (probably correctly) a largely unchanged tax system — the main contributor after individuals and GST is "other" companies, with 16% (R5,8bn).

Gold mines are set at 7% (R2,5bn) — now an optimistic estimate. In the gold boomtime of 1981, gold mines contributed 23% of Revenue's total take. So much for a single-commodity economy.

It is noteworthy that Pretoria rejected the Margo Commission's pet, the Comprehensive Business Tax, in favour of Value Added Tax (VAT). Traditionally, mines and companies have contributed proportionately much more to the fisc (37% a decade ago, against 26% estimated in 1988).

It would seem logical to strike, with CBT, at a sector that has eroded the tax base more successfully than others. Of course, individuals really pay all taxes. But perceptions change as quickly as the weather and, politically, the decision to adopt VAT is difficult to fault.

FINANCIAL MAIL APRIL 1 1988

Margo WP in a nutshell

The main part of the White Paper (WP), tabled on March 16, considered the 86 more important recommendations. The second part went through all these again, thus giving consideration to the (roughly) 300 Margo proposals:

☐ Under **personal income tax**, government accepts Margo's recommendations on medical allowances, insurance rebates, separate (but unequal) taxation for women and improvement of the final deduction system by substituting the Standard Income Tax on Employees. At least for the time being, Margo's core wish for separate and equal taxation for married women is rejected.

The WP accepts that fringe benefit rates, values and charges should be regularly updated, singling out company cars, and that benefits from a share incentive scheme be tax-free. Donations to charities will remain non-tax-deductible.

WP says the level where the maximum marginal personal rate first applies should be regularly adjusted upwards, rather than implementing a system of fewer income tax brackets. A possible withholding tax on investment income has been referred to the permanent Tax Advisory Committee (TAC);

☐ The WP accepts Margo's "alternative package" — meaning that an **invoice VAT**, not the controversial Comprehensive Business Tax, will replace GST, now scheduled for 1989. WP agrees that food be brought back into the net; that exports be excluded (except, perhaps, those to neighbouring states); that the inclusion of capital goods and intermediate services be further considered; and that all taxable services (except medical) be netted;

☐ Answering proposed changes for **business income (including company tax)**, WP says that it will not be easy to reduce the company tax rate. Double taxation of dividends will be considered longer term, but its abolition is rejected at this stage. WP agrees on no group taxation.

A minimum normal tax on companies declaring dividends was implemented in the Budget. WP felt that Margo "did not really address the problem of inflation," which goes to TAC.

Margo's recommendation for a universal 50%-30%-20% write-off for depreciation was whitewashed. For mines, the question goes to the Technical Working Group on Mining Taxation (TWG); for others, the formula will apply subject to discretion.

Margo's proposed 10% a year write-off for hotels, industrial and residential apartment buildings is rejected; 2% retained. For tax purposes, a business trust should be treated as a company;

☐ Looking at **special sectors**, WP agrees that in future, losses on livestock account may only be written off against farming income. WP accepts an objective test that will sort out real farmers from those who "farm" for tax reasons.

Margo, evidently terrified of the mining sector, made few final recommendations.

The Working Group did not reach consensus on a formula for taxing the intricate long-term insurance industry. In the upshot, the Budget increased the life office tax rate by 75%. For short-term insurers, WP accepts the preliminary approach of the Melamet Commission.

WP agrees to a gradual phasing-out of tax-free investments offered by building societies, Post Office and Treasury.

On pension, provident, retirement annuity and benefit funds, WP broadly accepts the status quo. The recommendation to tax all lump sums on the same basis is being urgently investigated.

WP agrees on neutrality between public- and private-sector pension funds; the matter is under investigation;

☐ Under **other aspects of taxation**, WP quotes Margo's argument that subsidisation through tax incentives should be kept to a minimum.

WP says the question of giving export incentives outside the Income Tax Act is being investigated.

Margo's wish that sponsorship (for sport and so on) be no longer tax deductible is rejected. WP agrees that compensation for security of national key points should be in cash and that there should be no special depreciation formula of general application for sectors other than those discussed in detail.

WP agrees that research and development of both capital and revenue natures be deductible. The deduction for donations to educational institutions will only be extended to primary schools if the system can be improved.

WP agrees with the majority recommendation that the status quo for tax-exempt organisations be retained. WP accepts the minority recommendation that public corporations which supply goods and services, be subject to income tax.

Margo recommended that subjective criteria for distinguishing capital and income (revenue) be replaced by objective criteria. WP notes that Margo could not agree on the form of such criteria. Further investigation of a capital gains tax is handed over to the TAC. WP accepts that a Capital Transfer Tax (CTT) will be substituted for the present estate duty and donations tax.

The Budget contained substantial changes for estate duty and donations tax, of a phasing-in nature for CTT; and

☐ Under **other recommendations**, the proposed piggyback single regional tax on Comprehensive Business Tax (CBT) to replace the two existing Regional Services Council levies, is automatically rejected. A piggyback regional sales tax on VAT or CBT is also rejected.

WP accepts that a differential land tax is not a good idea, but sounds interesting. It goes off to TAC.

Margo's wish for a more comprehensive Southern African Customs Union, that would include TBVC, is noted with gusto. The WP "is extremely concerned at the erosion of the base of customs and excise duties as a result of unrealistic transfers to BLS and TBVC countries."

Further, the WP:

☐ Rejects taxes on natural wine and sorghum beer;

☐ Rejects abolition of *ad valorem* duties;

☐ Accepts the now-implemented stiffer imposts for heavy-duty vehicles;

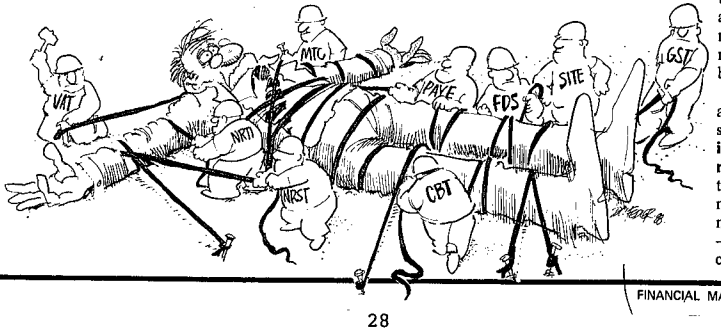
☐ Rejects user-charges for airports;

☐ Rejects abolition of Marketable Securities Tax and stamp duty; and

☐ Agrees that non-resident shareholders' tax be retained.

WP agrees that source should remain the basis of tax, pointing out that some gaps in the system have already been nailed, as recommended by Margo.

The WP also agrees to a string of **administrative arrangements** that would make Revenue more dreaded — and efficient. ■



FOR SUBSCRIPTION INQUIRIES — TELEPHON

DID 6/4/88

Income taxes to exceed last year's — bank

320

Daily Dispatch Correspondent

JOHANNESBURG — Volkskas estimates that personal income tax this year will exceed last year's payments by 17,3 per cent despite the concessions announced in the budget by the Minister of Finance, Mr Barend du Plessis.

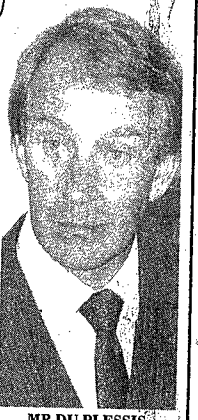
In its latest Economic Spotlight, the bank says it cannot share the opinion of those who give the impression that individuals as a group will benefit from the budget.

Mr Du Plessis said in Port Elizabeth last month that all income tax payers should benefit from the concessions announced in the budget.

He admitted that the scrapping of medical aid subscriptions as a tax deduction for persons under 65, and the proposal to make only medical expenses which exceed 5 per cent of the taxable income of an individual tax deductable, would offset some of the concessions.

"This will depend on individual circumstances, but even in the worst possible scenario, taxpayers should still benefit," he said.

Volkskas says that the estimated 17,3 per cent increase in personal income tax is unlikely to be absorbed by a similar increase in the income of individuals.



MR DU PLESSIS

Volkskas estimates that the gross increase in personal income tax from fiscal drag, higher fringe benefit tax, the scrapping or reduction of rebates for medical and physical disablement and the scrapping of discounts on insurance premiums and provident funds will amount to R3 325 million.

The tax concessions for individuals are estimated at R1 264m, giving a net increase in personal income tax of R2 061m or 17,3 per cent more than individuals would have paid last year, the bank says.

TAX EVASION

What was that?

Concern over tax evasion was one important topic minuted by the Standing Committee on Finance after the Budget. The committee, which took evidence from dozens of public and private bodies, was also keen to emphasise the "importance of effectively marketing to the public the economic implications of the Budget on an ongoing basis."

That helps explain the costly ad programme run by State President P W Botha, ostensibly illustrating what government is doing to stimulate economic growth. And for the first time, the Department of Finance has set up a public relations department.

One wonders what kind of evidence the committee heard, that it notes with concern "the high level of tax evasion which still exists and urgently recommends that the (commissioner) should be alert to new tax schemes, when they become apparent, so that not only in-depth measures can be taken speedily to deal with malpractice but that, where necessary, urgent legislative measures can be taken to deal with unacceptably and socially undesirable — even though technically legal — schemes."

That short statement on tax evasion is likely to become one of the most controversial ever made by an official body in SA.

Nobody will dispute that the "level" of tax evasion is high. But the point of a "technically legal" scheme being hit purely because of official consensus is a time-bomb. Most schemes have arisen simply because taxpayers demand, because of high tax rates, some kind of tax shelter.

Consultants, eager to earn fees, and adept at spotting gaps in a system that has had bits and pieces tacked on to it over decades, have met the demand. They will continue to do so, especially with all the teething problems that will become evident during implementation of certain Margo recommendations.

Examples are schemes in the motion picture and bloodstock industries. These took years to be countered with legislation that has, itself, not always been fully successful.

The reference to "urgent legislative measures" is also worrying. Some experts argue that the tax system has all the principles it needs, so tax schemes that sail close to the wind can be struck down in court. The precedent then speaks for itself.

Tacking legislation on to the Income Tax Act adds new complications and of course, scope for further loopholes. Also, to be effective, such legislation often has the undesirable characteristic of retroactivity.

Furthermore, such legislation is often drafted *too* speedily; a prime example is S24F of the Act, for motion pictures, which had hastily to be amended this year because of a glaring oversight.

Finally, to be effective, such charges are announced by press release — which gives vested interests time to be heard before final legislation is tabled.

But without question, the most worrying statement is the reference to "unacceptable and socially undesirable" schemes. These perceptions are so fluid and change so quickly that the taxpayer can now expect an even more uncertain atmosphere.

Schemes that prompted the reference to moral norms probably include some used in property, patents and trademarks and pension fund dividend flow sales. In each case, it can be argued that they were set up for the sole reason of avoiding tax.

While each may be "technically legal," there is no question that each helps to erode the tax-base. Surely a rifle approach to individual schemes, using the courts if necessary, is far better than the blunderbuss approach recommended by the Committee? ■

B/day 8/4/88

Chickens: things not so taxing

ROGER SMITH

SA CHICKEN producers may be at a disadvantage compared to their French counterparts, but do not operate entirely without the assistance of various benefits.

Johannesburg tax consultant Costa Divaris said a chicken producer may pay little tax by being classified as a farming rather than an industrial enterprise.

He said producers did not have to buy chickens; factory improvements and equipment had an accelerated depreciation such as farmers enjoyed on theirs; and feed costs — said to be about half the cost of a bird — were tax-deductable.

Through development expenditure the producers could build up tax shelters better than those enjoyed by farmers whose operations were less capital intensive.

However, Farm Fare MD Dr Eugene Brock defended SA's top producers as being "the most efficient in the world" and said that although there were tax advantages for producers, this was "a separate story".

He said the advantages were nothing compared to the fact the French producers were paying about half the feed price paid by SA producers.

THE ECONOMY

Polecat Pretoria? Not if there's money

By BEN TEMKIN

SOUTH AFRICA the polecat of the world? Forget it when it comes to investment: polecats don't smell quite as bad when there's money around.

If you're looking for proof, just note how the financial rand discount has been narrowing recently, from around 70 percent to as low now as 30 percent.

Could it be that foreign investors' perceptions of South Africa's prospects are improving?

No, it's not really like that. Two things have happened: the first has to do with the October stock market collapse, the second with the state of the property market overseas.

One of the stock markets worst affected by the October crash was Australia's and the worst affected sector was Australian gold mines.

The reason was simple enough. As most gold-share buyers know, the best shares to buy in a boom are in gold mines which don't yet have holes in the gound. That way none of the capital has to be invested in exploration, equipment, wages and the many other things mines need to produce gold.

In our own 1969 boom, it was a mine with no hole, Government Gold Mining Areas, whose share price zoomed highest into the stratosphere and then plummeted.

Many of the Australian gold mines don't yet have holes. This made them popular in the boom, because while there was euphoria in the markets, a hole-less mine in Australia was more attractive than the deep-holed producing variety in South Africa.

But after the crash investment managers are looking for "value" and they're finding that value in South African gold and diamond mines, especially at the low prices now prevailing. That's one reason they've been buying financial rands from the pool and why our investment rands are becoming worth nearly as much as our trading (commercial) rands.

But there's another important reason: property.

Property almost everywhere in the world's major financial centres is becoming very expensive indeed. In London, not long ago, a gent bought a lock-up single-car garage for £100 000, the equivalent then of R350 000 in commercial rands.

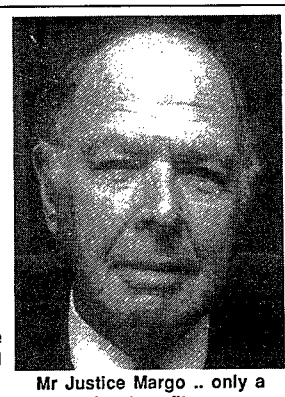
An alternative purchase, a mansion with a sea view in Cape Town, might not have been as useful to this same gent. But through the financial rand he could have bought himself just such an idyllic retirement home worth R850 000, for the same outlay of £100 000.

Yes, it's chancy when South Africa's future is uncertain. But think of all that lovely rent in the meantime ...

Some people must be beginning to wonder why Finance Minister Barend du Plessis is selling off South Africa so cheaply. Shouldn't he now be considering undoing the damage that has been done by the two-tier rand?

How do you tell VAT from GST? Just feel the pain in your pocket

If you do the arithmetic, VAT and GST add up to the same amounts. But only in theory. In practice, you could feel the VAT pain in your pocket every time you go shopping, reports HILARY JOFFE



Mr Justice Margo .. only a fraction benefits poor

VALUE Added Tax, which replaces General Sales Tax on March 1 next year, could add to the cost of living and will increase the cost of doing business.

In theory VAT, if introduced at the same rate as GST, should not cost consumers any more than sales tax.

In practice it may well add to our shopping bills.

The difference between VAT and GST is that only the final seller pays GST over to the receiver of revenue, but VAT is paid over on transactions all the way along the production and sales chain.

The wholesaler, for example, pays tax on the value he has added to the product since it was bought from the factory, and then claims credit for the VAT which was included in the factory's price.

It adds up to the same amount. But the government's intention in introducing VAT is to broaden the tax base by reducing the evasion widespread with GST and by making extra commodities taxable. It hopes to raise the same amount but to make the collection less visible and harder to evade.

Fresh food and services such as electricity, currently exempt from GST, would be taxed under VAT.

There is some case for removing the fresh food exemption: Margo estimated of the R1,8-billion revenue foregone, only R300-million served the intention of benefitting the poor. Higher-income households get the exemption on fresh fish or vegetables too and many basic commodities, such as canned foods which are staples for those who don't have refrigerators, are not exempt anyway.

But the imposition of tax on food will put up the cost of living, affecting the poor particularly severely, since food comprises a higher proportion of their household expenditure.

And it's a politically volatile proposition given already high inflation rates.

The government has asked Unisa's Bureau of Market Research to look into ways of helping the poor in terms of some sort of direct aid.

Checkers' Clive Weil has suggested food stamps to overcome the problem; Pick 'n Pay's Raymond Ackerman last week suggested differential VAT rates for food and other commodities.

But the evidence suggests differential VAT rates are dangerous: "All the countries which have tried variable rates of VAT have found it leads to high levels of evasion," says tax consultant Des Kruger, of Deloitte Haskins and Sells. It doesn't work to exempt food only or to assign it a different rate, since traders can start declaring all sorts of items as foodstuffs.

Even if the food problem is overcome, the introduction of VAT could have other adverse implications for consumers.

Traders could use the introduction of the new tax as an excuse to put up prices: a phenomenon which was seen when GST was introduced in 1978, says Kruger. The concern is that traders may, for example, calculate their mark-up on the higher wholesale purchase price which they pay with VAT, even though they can then claim a credit for it.

Informal traders and small retailers are among the chief targets of VAT. There is an incentive, with VAT, to declare one's sales in full so one can claim credit on one's full purchases.

But it is possible the traders who are evading GST now will evade VAT in the same way, by not declaring their sales in full — and will cover the cost of the credit they can't claim by putting up prices.

VAT evasion rates in other countries, such as Italy and Holland, run to as much as 30 to 40 percent.

But from the receiver of revenue's point of view, VAT evasion is still better than GST evasion: even if the final seller pockets his portion of the VAT, the receiver has still collected the tax on transactions prior to that final stage.

The cost of living could also rise as businesses pass on the increased administrative costs of VAT to consumers.

And even if VAT is introduced at a relatively low rate to start off with, GST's history is cause for some concern: introduced at four percent in 1978, the GST rate has gone up rapidly since 1982 to 12 percent.

As a proportion of government revenue, GST rose from 18,5 percent in 1982/3 to 27 percent in 1987/88. In the budget, Finance Minister Barend du Plessis estimated sales tax revenue at R11,6-billion for the coming fiscal year (compared with R3-billion in 1982/83).

The government has not yet announced at what rate VAT will be introduced.

The Margo Commission said if VAT were levied on the same basis as GST is now, and intended to bring in the same revenue, it would have to be introduced at the very high rate of 17 percent, even if food and a range of services were included. It did cite factors which would make a lower rate possible, such as better collection.

But the government White Paper on the Margo Commission, published with the budget, mentions a VAT rate of 10,9 percent, suggesting this would be possible if fresh foods and capital goods are included, and exports are exempt.

For companies the introduction of VAT poses problems of higher administration costs: they will have to employ more people and more computers to comply with the new system.

VAT will have to be paid over to the receiver of revenue by those involved in all stages of the production and sales chain, compared with GST which was only paid over at the final sales stage.

Companies will have to account carefully for all sales so they can pay the required tax, and for all purchases so they can claim the credits.

One problem faces corporations: different subsidiaries within a group will have to pay VAT to each other. Some groups are already restructuring, for example by cutting down on the number of separate companies within a group, making them rather divisions of a single company.

In this they will be helped in the 1988/89 tax year by the moratorium on stamp and transfer duties declared in the budget.

Kruger argues for the introduction of group registration for VAT — a common way of getting around this problem in other countries where this tax prevails.

Personal tax drops, but tax burden rises

By BRIAN GOLD

INDIVIDUALS will continue to contribute more to the tax base this fiscal year — 35,7 percent compared to 34,7 percent in 1987/88 and 18,4 percent in 1980/81, according to researchers at Econometrix.

This is despite the reductions in personal tax for 1988/89 totalling just over a net R1-billion announced by Finance Minister Barend du Plessis in his budget speech last month.

When general sales tax is included, individuals carry nearly 60 percent of the tax burden compared to under 30 percent in 1980.

Du Plessis reduced personal taxes through introducing Site (Standard Income Tax on Employers), worth R117-million, increasing primary rebates and higher thresholds for tax rates including marginal tax rates (combined worth R1,17-billion).

Against such concessions, he abolished medical, insurance and dependent rebates (R209-million).

At the same time Du Plessis is budgeting to receive 23 percent more (a total R14,65-billion) in tax receipts from individual taxpayers.

It is not the minister's maths that accounts for this anomaly. As he said, the higher individual tax burden stems "mainly from increased salaries and the consequent bracket creep".

Bracket creep is one of the evils of an inflationary economy where a high wage rise in nominal terms — but negative in real terms — puts one in a higher tax bracket.

All tax is ultimately borne by the individual through prices, salaries and other means of passing costs on. But most people notice changes in indirect taxes (such as sales tax) less than they notice increases in their own personal tax rates. This is one of the major themes that runs through the Margo Commission and is one reason why government is switching GST to a value added tax. The direct cost of VAT to a consumer is less obvious than GST.

The government also wants to crack down on tax evasion, which Margo estimates at around 25 percent of total revenue.

The government's tinkering with taxes, and the rising individual tax burden, indicates the seriousness of Du Plessis' problems. South Africa faces nothing less than a fiscal crisis with a declining revenue base and rising expenditure demands.

Because so few have a significant stake in the economy — Econometrix estimates the top 20 percent of earners contribute 60 percent of total income — South Africa's revenue base is severely limited.

In 1986/87 Africans contributed 3,7 percent of personal tax payments and constituted 22,1 percent of all taxpayers.

For those who do pay, the already high level of personal tax has been noted so the scope for further increases is limited. South Africans reach the top rate very early relative to the rich industrial countries. And these are countries which have well-developed welfare systems for their citizens, which South Africa does not.

The corporate tax rate of 50 percent is also relatively high, although the real rate is nearer 20-25 percent.

The mining houses, in the past a huge generator of wealth and hence tax revenue, contribute far less to the fiscus. Econometrix notes that mines contributed 34 percent towards total revenue in 1980/81 and expects this contribution to be a mere 7,5 percent in 1988/89.

This is not in the main entirely due to creative accounting. Mining houses are less profitable due to slack commodity prices, less output, and far higher costs thanks to more expensive imports, higher wages, and less output per tonnage mined. Gold mines are budgeted to contribute 17 percent less towards the fiscus than in 1987/88.

If too much is borrowed from the local money markets interest rates feel the pressure and cause other dislocations in the economy.

Du Plessis can also forget about boosting revenue through offshore borrowing.

Besides trade credit no foreign finance of any significance is coming South Africa's way — the credit squeeze is one of the more effective sanctions measures (although the motives of foreign financiers are probably more economic than political).

The future holds little promise. The economy, hence the tax base, is barely expanding after years of lethargy. If one considers that real gross domestic fixed investment declined by 31 percent since its 1981 peak, then the potential for future growth and jobs is dismal.

On the expenditure side, the minister has an equally daunting task. The financing of government's reform strategy, both the security and social sides, requires incomprehensively huge sums, money that South Africa simply has not got, especially when it labours under a gigantic bureaucracy. So the squeeze is on.

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THE ECONOMY

Black Pepsi takeover may crash

THE Soweto Investment Trust Company's takeover of Pepsi South Africa, the first move by black business people to take over a sizeable manufacturing concern, may have collapsed.

The *Weekly Mail* has learned that Sitco's bankers have called in its overdraft.

Sitco was set up by the Soweto Chamber of Commerce and financed to the tune of R2,5-million by First National Bank. It aimed to expand black business and it acquired Pepsi in November last year: the first real stake black businessmen have had of the billions of rands of stock of disinvesting companies.

It paid nothing for the company in real terms but took on Pepsi's debts of R2-million. Sitco planned to recapitalise Pepsico and get it back on its feet.

Pepsico's share of the South African soft drink market has dwindled to less than five percent and it is no longer sold in Johannesburg or Durban.

Weekly Mail Reporter

Technically the sale was not a divestment because Pepsi Cola International sold Pepsico Africa three years ago to Cape Beverage, which in turn sold to Sitco. Pepsi Cola International still controls the sale of franchise rights.

The calling in of the loan is said to have followed tensions in the relationship between Sitco and the bank.

First National's understanding may have been that Sitco would use the money to finance several smaller projects rather than one major one.

The bank is also said to have been unhappy because it felt Sitco office bearers were overlooking the joint finance committee set up to monitor the way the funds were being used.

Sitco is also said to have been looking overseas for further financing, since it was planning a couple of other projects.

And while the Pepsi deal did not require much money up front, it subsequently looked as if it would be more expensive than initially realised.

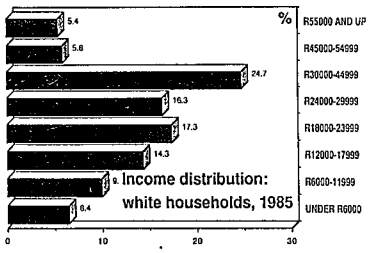
There is also said to be some conflict within Sitco's ranks.

Sitco's Macdonald Tamane this week failed to respond to *Weekly Mail's* repeated efforts to speak to him.

And First National general manager, Jimmy McKenzie, said he could not discuss the affairs of a client in public.

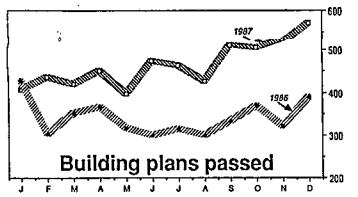
BUSINESS BAROMETER

GENERAL INDICATORS



WHITE HOUSEHOLDS

Over a third (36 percent) of white households had an annual income of more than R30 000 in 1985, while 16 percent had annual incomes of less than R12 000, according to a Central Statistical Services survey of white household expenditure. Average total income per household was R35 739, but house-dwellers' average income was R39 419 while that of flat dwellers was R24 643. The survey found white households were deriving a significant proportion of their income from indirect sources such as housing and transport subsidies, retirement benefits and medical aid claims: indirect income made up an average 24 percent of the total in 1985 compared with 14 percent in 1975. Income tax as a proportion of total income had risen from 9,3 percent in 1975 to 12,8 percent in 1985, an increase of 38 percent, the survey found.

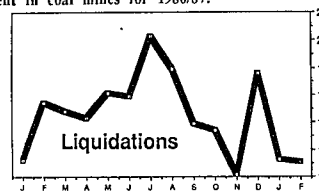


BUILDING INDUSTRY

The total value of building plans passed for January was 46 percent up on the same month last year, indicating good times for the construction industry. The highest increases were in plans for reside4ntial buildings (56 percent) and additions and alterations (47 percent) while the number of plans passed for non-residential buildings increased by only 18 percent. The value of buildings completed for January was one percent up on January 1987.

COMPANY PROFITS 1987

Total profits in commerce increased by almost 76 percent and in manufacturing by 21 percent between 1985/6 and 1986/7, figures in the Statistical and Economic Review published with the budget show. In gold and coal mining, however, total profits were down by and 0,3 percent and 28 percent respectively. The yield on shareholders's funds increased in commercen and manufacturing but fell in the mining sector. Profits as a percentage of shareholders' funds were 22,9 percent in manufacturing, 27,5 percent in commerce, 48,3 percent in gold mines and 24,9 percent in coal mines for 1986/87.



LIQUIDATIONS AND INSOLVENCIES

The total number of liquidations for the three months to February were down by 10,9 percent compared with the previous three months but up by seven percent on the same three months in 1986/7. Insolvencies for the three months up to January were down 20 percent on the same period in the previous year.

FINANCIAL INDICATORS

Gold Price

	7/3/88	WEEK AGO	% CHANGE
	446.20	456.50	—2.3

Selling price: Major currencies against rand

	7/3/88	WEEK AGO	% CHANGE
US dollars	2,1440	2,1250	+0,9
Pounds Sterling	4,0060	4,0056	+0,01
Deutsche Mark	,7826	,7794	+0,4
Yen	58,63	58,37	+0,4
Swiss Franc	,6472	,6421	+0,8

US Dollar against major currencies

	7/3/88	WEEK AGO	% CHANGE
Dm	1,6780	1,6562	+1,3
Sterling	1,8685	1,8850	—0,9
Yen	125,75	124,03	+1,7
SwFr	1,3877	1,3645	+1,3

Source: First National Bank

Metal Box pull-out startles the unions

Despite a Cosatu call to disinvesting companies to to inform unions, Metal Box, which has a liberal reputation on labour matters, pulled out quietly. HILARY JOFFE reports

WORKERS at Metal Box are surprised and concerned that they were given no indication of the disinvestment move by UK-based Metal Box, National Union of Metalworkers' organiser Bobby Marie said this week.

The British multinational last week said it had sold its 25 percent stake in Metal Box South Africa to Nampak, a Barlow Rand subsidiary, for R114-million. Nampak previously owned 54 percent of the company.

"It came as news to us," said Marie. "And we are concerned that management did not have the courtesy to mention it to us and explain its implications."

As yet it's unclear whether there will be any implications, since the British company only had a minority holding. The technical agreement between the two companies will be continued.

But Numsa was surprised that it was not informed of the disinvestment, since Metal Box SA has adopted a progressive approach to industrial relations. It consults with shop stewards and union organisers on a range of issues, including, for example, its social responsibility projects.

The company is aware of Cosatu affiliates' policy on disinvestment, which includes a call for disinvesting companies to negotiate disinvestment issues with unions in organised plants.

Marie says the union will be approaching Metal Box management to discuss the issue.

In its R148,4-million disinvestment, British company Metal Box also sold its 25 percent stake in Robor Industrial Holdings for R34,4-million to Barlow Rand, which already owns 60 percent of Robor. Barlow Rand is thus the ultimate beneficiary of the pullout.

A Metal Box spokesman was reported from London as saying the sale of the multinational's South African assets was based on commercial rather than political considerations.

The number of British companies which have disinvested from South Africa is relatively small compared with the 140 US companies which have pulled out over the last three years. Barclays Bank and Standard Chartered Bank were among the biggest British moves.

From London, British Industry Committee on South Africa (Bicsa) spokesman Nick Mitchell said this week he believed the Metal Box disinvestment was not part of a pattern, although "one can't exclude the possibility of other companies saying the economic advantage of staying in South Africa is outweighed by the disadvantage.

"By the beginning of this year there was less pressure but events in South Africa over the past few weeks have made life more difficult."

Bicsa's members comprise 40 of the largest British companies which have South African investments, making up an estimated 70 to 75 percent of the value of total investment. The committee was set up in January 1986 with combatting the sanctions campaigns as one of its primary aims.

Altogether there are about 160 British companies with South African investments. British direct investment in South Africa was estimated at £6-billion in 1984. With the decline in the value of the rand and some disinvestments since, this figure has probably remained at about that level, Mitchell estimates.

He adds that British associated companies in South Africa were spending more than R100-million a year on social investment, according to research done last year. The money was being allocated primarily towards education, housing and job creation.

● British industry's "Marshall Aid" plan for South Africa, reported in the press last year, never really existed, says Mitchell. A proposal was circulated for collective action on social change by British companies operating in South Africa. But Bicsa members rejected this in favour of continuing and expanding individual companies' social spending programmes.

Poverty amid glut: Food crisis worst in fifty years

While the West is swamped with a food surplus, millions starve elsewhere. A world conference on the food crisis opens in Brussels this week, reports KEVIN WATKINS

DURING the 1980s the international food trading system has undergone its deepest and most protracted crisis since the Great Depression. Prices for the major temperate food products have fallen to their lowest levels in real terms for 50 years and, according to the World Bank's most recent projections, are unlikely to recover until well into the next century.

Stocks of cereals have risen to record levels of over 400-million tons, sufficient to meet world import demand for over two years, and the European Community's grain mountain is set to double in size by 1992. The present crisis is decidedly structural in character.

Developing countries' import demand, which provided world food trade with its impetus for the two decades up to 1980, has gone into decline as a result of rising self-sufficiency and the twin trade and financial crises. Whereas Third World food imports from the industrially advanced countries grew by 22 percent a year during the 1970s, they have fallen by four percent since 1980.

However, farm output and productivity in the EC and United States have expanded three times faster than demand. The result: the creation of hugely expensive food stocks and embarrassing farm budgets.

Inevitably, the crisis in international food markets has given rise to severe trade tensions. The US and EC are main locked in an increasingly reckless subsidised dumping war which has served to depress prices further.

It has also brought the multilateral trading system to the brink of collapse, with the US threatening to walk out of the present round of the General Agreement on Tariffs and Trade (Gatt) unless the EC agrees to dismantle the edifice of Common Agricultural Policy (CAP) protection.

Some of the worst effects of the prevailing anarchy in world food markets have been felt in developing countries. Caught in the crossfire of a trans-Atlantic trade war, some of the world's poorest producers have been forced to compete with US and EC treasuries and have seen their incomes plummet as a result.

To appreciate the deadly interaction of US and EC farm policies for developing countries, it is necessary to grasp that for most commodities the the two determine the world market.

Because of its domination of the international cereals economy, for example, US domestic prices effectively set world prices.

Since the passage of the Farm Act, the Reagan administration has been committed to a dual strategy of slashing domestic prices and subsidising exports, through the $7-billion Export Enhancement Programme, in order to improve US competitiveness and force up the cost of the CAP.

During 1985-86 the expansion of the Export Enhancement Programme led domestic price cuts in cereals, rice, cotton, and soya revealed the full extent of US market power. In the case of rice, US action cut world prices from $230 to $170 a ton.

The EC has not been above pursuing agricultural policies with a disastrous developmental impact. Thanks to the CAP, the Community has become a major exporter of agricultural goods marketed with the aid of export subsidies.

Overall, CAP export subsidies are estimated to reduce the prices of temperate foodstuffs by 16 percent.

Attempts to resolve the international food crisis are focused on Gatt where the Reagan administration remains committed to complete free trade in farm produce by the year 2000.

For the majority of developing countries this would be a disaster, leaving their fragile food systems and vulnerable producers open to direct competition from the mechanised farming systems of the north.

For most developing countries and farmers in the north, what is needed is not an aggressive trade liberalisation which would ultimately benefit a few powerful traders (and the handful of grain corporations which control the world market), but a more rationally managed system and improved access to markets. — The Guardian.

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Double tax penalty unfair to individuals

The punitive tax measures taken against US companies and individuals doing business in South Africa has serious implications for people who have left this country.

This is the view of Mr Ian Wilson, a partner of Durban group, Price Waterhouse, who sees the recent imposition of double tax through the withdrawal of foreign tax credit on income derived by US companies and residents with investments in South Africa as having imposed the same penalty on individuals who have left behind assets after deciding to emigrate.

FRANK JEANS

"The legislation, although it was designed to encourage disinvestment and bring reform pressure to bear on the Government, introduces harsh penalties for the individual," he says.

"The US Government has apparently overlooked the fact that individuals, after having made the decision to leave South Africa, may have been prevented by South African exchange control regulations from repatriating capital from their investments in this country."

Mr Wilson believes that US taxpayers who are no longer resident here find themselves in the anomalous position of having to pay double tax on involuntary investments.

"These people are suffering the same penalty as those companies that continue to do business in South Africa," he says.

"The anomaly is compounded by the fact that companies are able to repatriate their capital through the financial rand without any penalty.

"I believe individuals have a strong case to make in seeking relief from the US tax authorities."

DDR 9/4/88 (320)

Advice on tax returns offered

EAST LONDON — The receiver of revenue here has opened its service to help anyone wanting advice on how to fill in the tax return forms, an assessor, Mr Anthony Russon, said yesterday.

The countrywide service is provided free to anyone who has any queries regarding the completion of forms or any tax-related questions.

Two tax assessors will be available between 4 pm and 6 pm every day until May 30.

An average of 50 people are helped daily, and if applicants have not been attended to by 6 pm the service would extend past closing time. — DDR

Piecemeal adjustments are intended to provide limited relief to a few, says economist

SA lagging behind the West on tax reform

By Michael Chester

Although the 1988 Budget contained promises of R1 billion worth of tax concessions over the next 12 months, with hints of more to come, there is growing despair among economists about the chances of South Africa following world trends towards tax reform on a dramatic scale.

The euphoria stirred by Finance Minister Barend du Plessis' pledge to take the "initial steps on the road to tax reform" has been dispelled as economic gurus complete their deeper analyses of the Budget.

MYTH

Dr Azar Jammine, director of the Econometrix think-tank, fears that even the tax cuts announced so far will prove a myth for thousands of taxpayers as inflation keeps driving them into higher and higher tax brackets.

The crunch, he points out, comes when one balances the package and notes that the Government still expects its revenue harvest from individual income-tax payers to climb to a new record in the current tax year.

On Econometrix calculations, the burden carried even now by individual taxpayers, discounting sales tax, will grow to more than 37 percent of inland revenue — double the share of the load they carried in 1980-81.

Mr Mark Addleson, senior economics lecturer at Wits Business School, says: "A series of piecemeal adjustments are intended to provide a limited amount of relief to a few taxpayers, with the object of raising more revenue overall. The underlying message is that the State cannot afford to be generous and tax reform cannot interfere with the Government's need to spend.

"The Minister's clear message, unfortunately, is that the State is not willing to contemplate any spending cuts and effective tax reform is going to falter at the start."

The Association of Chambers of Commerce has concluded its own comprehensive studies into trends and is equally sceptical about even the longer-term prospects of sweeping tax reform.

Its taxation committee has expressed "great disappointment" in the White Paper accompanying the Budget, which details the Government's response to the Margo recommendations.

The only really significant item was the decision to replace GST with value-added tax — "but that does not in fact constitute a step towards reform".

The Assocom committee added: "The need to relieve individuals from the undue share of the tax burden they bear, the need to broaden the tax base, the elimination of price-distorting tax measures and the elimination of bracket creep are intended. But virtually nothing has been done to attain these goals."

Many economists are turning envious eyes to the success of the massive tax reform programmes launched by most overseas industrial nations.

Professor Cedric Sandford, of the University of Bath in Britain, has reviewed the track record of the global tax reform phenomenon since 1976:

- In the US, the effective top federal marginal tax rate has been chopped from 70 percent to 33 percent and might well soon drop to 28 percent.
- In Canada, the top rate has been slashed to 29 percent.
- In Britain, Prime Minister Margaret Thatcher has cut the top rate from 83 percent to 40 percent, with targets set to bring it down to 20 percent.

Tax reform is high on the agenda everywhere from Bonn to Tokyo, but it is comparisons of South African and British tax models that engage local economists the most.

"It is easily forgotten that at first the popularity of Mrs Thatcher inside Britain fell like a stone when she launched her radical new economic programme," reflects Dr Jammine.

"South Africa, on the brink of its own privatisation programme, should note the way the Iron Lady mobilised privatisation as a crucial feature in long-term planning.

BALANCED BUDGET

"The result: Britain has not only balanced its national budget for the first time in years, it also now has one of the most virile economies in Europe."

The Econometrix researchers are particularly impressed by the simplicity of the Thatcher tax system, in which only two rates apply to individual taxpayers. In comparison, South Africans are confronted by no fewer than 19 steps up the tax ladder as their incomes go higher.

Dr Jammine predicts that South Africans will be able to do no more than express their envy for years to come.

HOW TAX BILLS COMPARE

*MARRIED-ANNUAL INCOME

Rands: £1= R4

RANDS	S AFRICA	BRITAIN	GAP
8 000	20	NIL	20
9 000	160	NIL	160
10 000	300	NIL	300
12 000	580	NIL	580
14 000	900	NIL	900
16 000	1 300	NIL	1 300
18 000	1 760	405	1 355
20 000	2 260	905	1 355
25 000	3 690	2 155	1 535
30 000	5 360	3 405	1 955
40 000	9 160	5 905	3 255
50 000	13 260	8 405	4 855
60 000	17 460	10 905	6 555
70 000	21 760	13 405	8 355
80 000	26 160	16 325	9 835
100 000	35 160	24 325	10 835

*Based on gross income a year of married person with no children and no earnings by spouse.

MARRIED COUPLES- BOTH WORKING

Rands: £1 = R4

JOINT INCOMES		*S AFRICA	BRITAIN
Husband	Wife	JOINT TAX BILL	
20 000	10 000	3 685	905
20 000	20 000	6 185	3 330
40 000	15 000	11 835	7 050
40 000	25 000	15 098	9 550
60 000	30 000	25 390	15 800
60 000	40 000	28 860	18 300

*SINGLE-ANNUAL INCOME

Rands: £1= R4

RANDS	S AFRICA	BRITAIN	GAP
6 000	90	NIL	90
7 000	230	NIL	230
8 000	370	NIL	370
9 000	510	NIL	510
10 000	650	NIL	650
12 000	970	395	575
14 000	1 370	895	475
16 000	1 850	1 395	455
18 000	2 390	1 895	495
20 000	2 970	2 395	575
25 000	4 600	3 645	955
30 000	6 470	4 895	1 575
40 000	10 610	7 395	3 215
50 000	14 910	9 895	5 015
60 000	19 370	12 395	6 975
70 000	23 870	14 895	8 975
80 000	28 370	17 815	10 555
100 000	37 370	25 815	11 555

*In Britain, the single person tax rate also applies to a wife's earnings

MARRIED TAXPAYER

Children	0	2
Under 60	R7 857	R9 286
60-65	R8 714	R10 142
Over 65	R11 428	R12 600

SINGLE PERSONS

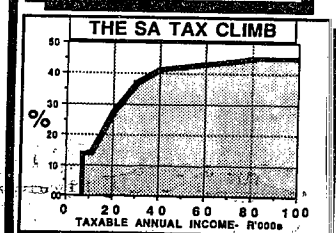
Under 60	R5 357
60-65	R6 214
Over 65	R8 928

MARRIED WOMEN

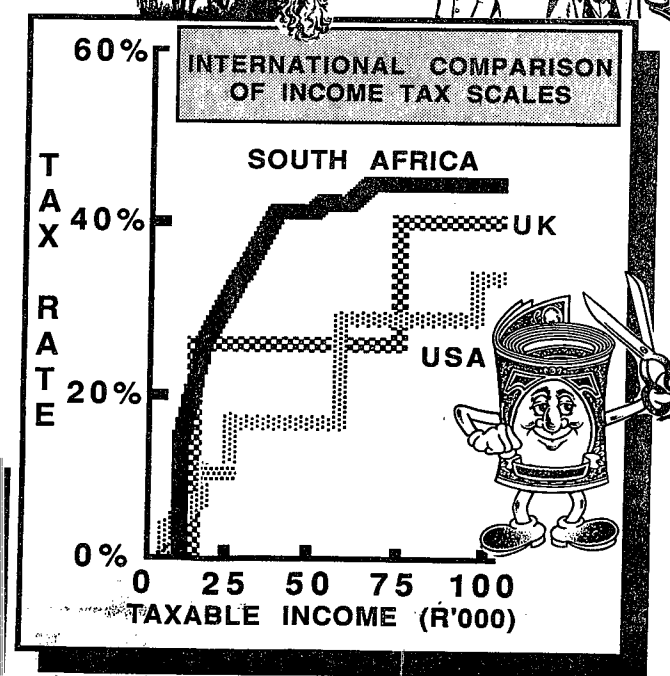
All ages R4 300

The tables show the threshold at which the annual incomes start the climb up the tax ladder, beginning at 14% and then on a staircase until the taxman takes 45cents an extra R1 earned at the top of the marginal tax scale which reaches its peak of 45% when taxable earnings of married taxpayers go over R80 000 a year and the income of single people goes over R54 000. There are no fewer than 19 steps up the ladder.

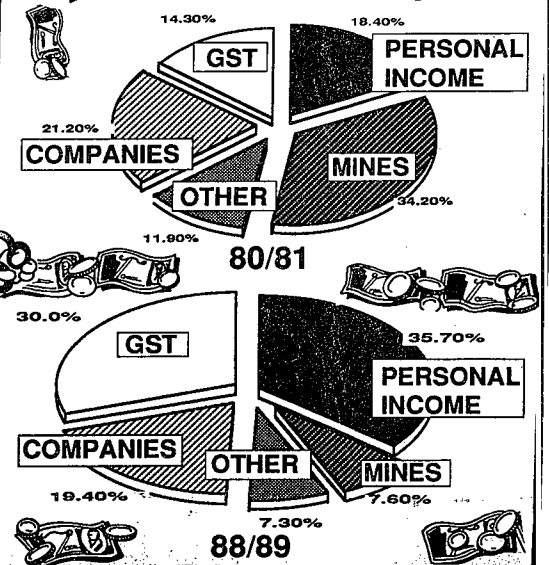
THE SA TAX CLIMB



INTERNATIONAL COMPARISON OF INCOME TAX SCALES



SOURCES OF INLAND REVENUE



GRAPHIC BY JAMES DE VILLIERS

...and Indians. Sapa.

Uncertainty over latest tax moves

320

Bloody

12/4/88

OUSE OF ASSEMBLY — Apartheid id forced the Finance Minister to pro-ce "magic" financial solutions that id created uncertainty in the business orld, Jasper Walsh (PFP Pinelands) id yesterday.

Speaking during the Budget debate, asked whether these new measures the minimum tax on companies TC), the tax on insurance companies d the clamp-down on financing film oduction — were one-off devices or rmanent tax innovations.

The Margo commission had stressed e principle of tax certainty which abled a taxpayer to plan his affairs d particularly his cash flow. These easures created uncertainty.

The Budget represented a funda-ental change in government's eco-mic thinking and illustrated — by its tended reduction of state expendi-re, by privatisation and deregulation a desire to return the economy to od health.

"However, there remains a consider-le gap between stated intentions and anned actions," Walsh said. The key estion was whether government had e will and capacity to carry out its licy to its logical conclusion.

He said: "The nature of these propos-s begs the questions:

"What will replace the once-off mea-res, such as minimum company tax, xt year?

"What is going to happen to public rvice salaries next year, particularly an election is to be held?

"In other words, is this a quick-fix dget or is it the first stage of a nger-term economic plan leading to stained economic recovery?" — pa.

Clarity is sought on MTC

KAY TURVEY

ASSOCOM has urged government to make it clear the new minimum tax on companies (MTC) will be removed next year.

In a memorandum submitted to Finance Deputy Minister Org Marais yesterday, Assocom says it is essential for business confidence that the tax is officially stated to be limited to one year only.

The memorandum, which follows a senior Assocom delegation meeting with Marais on Monday, says it is necessary for government to adopt a flexible attitude when looking at the "fine-tuning" of the tax. Specific problems should be addressed before the tax is finalised.

Finance Minister Barend du Plessis recently responded to mounting criticism of MTC by saying it was a temporary measure required to raise R350m in the 1988/89 fiscal year.

Assocom is concerned that care should be taken to minimise the negative impact MTC could have on business confidence in the months ahead.

It is neither commercially nor fiscally sensible for transactions to be entered into without the law governing these transactions being certain.

Assocom says the tax payable retrospectively violates one of the chief canons of taxation that liability be certain and could be penal in nature.

MTC will tax companies which are not paying full tax but are still declaring dividends. It is payable in respect of the latest year of assessment ended on or before February 29, 1988.

Companies which declared dividends prior to the Budget speech could now be subject to cash-flow problems.

Assocom says any company which is required to borrow funds to pay the tax will not be entitled to deduct the cost of these borrowings.

Assocom does not support the discretionary power given to the Commissioner of Inland Revenue to ease hard-luck cases.

Warning: taxation can make SA poor

DID 14/4/88

PRETORIA — The country could find itself sharing poverty instead of wealth unless government changes its tax policies.

Explaining this at a symposium here on Education Today, Mr C du P Kuun, managing director of Saambou National Building Society, said that although South Africa had not yet reached the crisis point, steps would have to be taken to prevent a situation where the economy could no longer finance the political demands of the day.

The tax burden imposed by the government on the productive sector was counter-productive, he said, and was jeopardising healthy economic growth.

Referring to the government's reform policy, he said it was obvious that reform would have to be accompanied by a redistribution of wealth.

He warned, however, that such a redistribution could not be accomplished by increasing the tax burden just on some sectors of the economy.

Such a policy would enjoy only temporary success because the productive sector would become so overburdened that no income would be available for redistribution.

Mr Kuun said it was alarming that individuals contributed as much as 60 per cent towards total state income.

He pointed out that government debt had increased five fold in the past seven years to more than R56 billion. Government expenditure regularly exceeded the national budget.

The government relied increasingly on loans to finance its current expenditure — an unhealthy state of affairs — said Mr Kuun.

He emphasised that economic growth in South Africa would be seriously hampered if this trend continued.

Economic growth was of critical importance to stimulate employment, improve the standard of living and encourage saving, he said. — Sapa

Growth will be 'seriously affected'

Kuun warns of growing tax burden

320

B/day 14/3/88

PRETORIA — The debilitating impact on the economy of the increasing tax burden was stressed yesterday by Saambou MD Christie Kuun.

He told an education symposium it had not gone well for the economy during the past seven years.

Government debt increased from R12bn to R56bn, government spending had consistently overshot the budgeted amount, investment had reached a post-war low and the productive sector's tax burden had stunted growth.

The individual's alarming tax burden, direct and indirect, made up 60% of government income. During the past decade the burden had grown rapidly.

If the tendency continued, economic growth would be seriously affected. Growth drastically needed the creation of jobs, raising of living standards and to encourage savings.

Since 1986, the growth rate had risen from 0,5% to 2,4% last year, and a 2,25% rate was forecast for this year.

On the government reform programme, Kuun warned a redistribution of wealth could not be achieved by increasing the tax burden.

"In such circumstances, we might find ourselves in a position of sharing poverty instead of wealth."

GERALD REILLY

He warned that timeous steps would have to be taken to avoid a crisis and a situation in which the economy could no longer finance the political demands of the day.

On employment, Kuun said that, in a 12-year period, the economy had been unable to provide jobs for new workers — and that in a country with surplus labour.

Jobs had to be found for 350 000 new workers every year merely to accommodate the natural increase and to avoid an enormous unemployment problem.

Between 1960 and 1980 the average growth rate was 5,5% a year.

With a growth rate higher than the population growth, living standards rose.

Since the eighties, however, the rate had plunged to 1,5% a year, which meant a real decline in living standards.

During this period, inflation reached a record level. It was alarming that SA could not reduce the rate to the level of its trading partners.

In the past decade, the rate was consistently above 13%, with a peak of 20% in 1980.

This compared with a zero to 4% rate in the US and certain European countries.

Business Report

Tax burden jeopardizes economic growth—Kuun

Financial Staff

THE tax burden imposed by the government on the productive sector is jeopardizing healthy economic growth says Chris du P Kuun, MD of Saambou National Building Society, and unless care was taken the country might find itself sharing its poverty and not its wealth.

Speaking at a symposium on education in Pretoria, Kuun said it is alarming that individuals contribute directly or indirectly as much as 60% towards the total state income.

He pointed out that government debt increased five-fold over the past seven years to more than R56bn. Government expenditure also regularly exceeded the national Budget.

The government relied increasingly on loans to finance its current expenditure which was an unhealthy state of affairs.

He emphasized that economic growth in SA would be seriously hampered if this trend were to continue — something the country could not afford.

At present economic growth was of critical importance to stimulate employment, improve the standard of living and encourage saving.

Referring to the government's reform policy, Kuun said it was obvious that reform would have to be accompanied by a redistribution of wealth.

He warned however that a redistribution of wealth could not be accomplished by increasing the tax burden of certain sectors of the economy.

Such a policy would only have temporary success because the productive sector would become so overburdened that no income would be available for redistribution.

The country might then find itself in a situation of sharing poverty instead of wealth.

Kuun said although SA had not yet reached the crisis point, timeous steps would have to be taken to prevent a situation where the economy could no longer finance the political demands of the day.

D/D 14/4/88

Assocom outlines more tax hitches

JOHANNESBURG — Further anomalies in the minimum tax on companies (MTC) introduced in the March budget have been highlighted by the Association of Chambers of Commerce and Industry (Assocom).

An Assocom delegation presented its objections to MTC at a meeting with the deputy minister of finance, Dr Org Marais.

Among the objections were:

● The tax affects companies which declared dividends prior to the budget. "Dividends may have been determined with a wary eye on a company's cash flow and other requirements and the need to pay an unexpected tax will upset that planning."

● Where a company is obliged to borrow funds to pay the tax, the cost of borrowing should be tax-deductible.

● A company which distributes a tax-free capital profit by way of a dividend could be unduly penalised by the tax. Such a dividend could be a multiple of of normal taxable income.

● Investment holding companies which earned only dividends would never pay normal tax. However, in certain cases dividends distributed in any one year could exceed dividends received.

Assocom says: "A suitable formula to remove much of the perceived hardships would be for the MTC formula to be based on dividends distributed less dividends recovered, capital profits, foreign source income and other non-taxable income."

It adds that a refund period of, say, three years would serve to reduce hardship "for those companies which normally and legitimately pay little or no normal tax and have unabsorbed credits for MCT for that period". — Sapa

Many overtaxed because new PAYE tables delayed

ARGUS 14/4/88 320

The Argus Correspondent

PRETORIA. — Many taxpayers are paying more tax than they are liable for because of a delay in the introduction of new PAYE (Pay As You Earn) deduction tables.

And they are likely to reap the full benefits of the tax relief announced in last month's Budget only by July 1 at the earliest.

The director of law interpretation for Inland Revenue in Pretoria, Mr Hennie Smit, confirmed today that July 1 was the target date for the introduction of the new PAYE deduction tables.

But he was not certain that this date would be met.

Circulated

The new tables and the instructions that go with them are still being drawn up.

Once completed, about 180 000 copies will be printed by the Government Printer and sent to Revenue offices around the country, which in turn will circulate them to employers.

The introduction of the new Standard Income Tax on Employees (SITE) is believed to be one of the major reasons for the delay.

SITE applies to a man or single woman earning not more than R12 000 a year, or R20 000 in the case of married women. Their tax liability will be determined by deductions in accordance with the PAYE system and these taxpayers will no longer need to submit tax returns.

However, Mr Smit pointed out that the new tax thresholds for employees had been published in the Government Gazette several weeks ago, which meant that these tax changes had already taken effect.

But Mr Smit said the computer formula and instructions for computer bureaus, which covered about 80 percent of taxpayers, would definitely be ready and come into force before July 1.

He said the drawing up of the new computer formula and instructions was a relatively minor task compared with the PAYE employees deduction tables. In addition, he said the formula and instructions had to be distributed to only between 1 000 and 2 000 bureaus.

Rectified

Mr Smit said employers had to apply the old PAYE deduction tables until the new tables came into effect.

Although this meant that many taypayers were paying more than their tax liability, Mr Smit said this overpayment of tax would be rectified when their tax return for 1988/89 was assessed.

This means they will either get a tax refund or the tax credit for the months they overpaid would be deducted from any tax due.



Picture: LEON MÜLLER, The Argus.

BLAZING CAR: Firemen put out a fire in a car in Clydesdale Crescent, Westridge, Mitchell's Plain, early today. A brigade spokesman said the car was apparently set alight by thieves after they had stolen it.

Stonehouse dies after heart attack

SOUTHAMPTON. — John Stonehouse, the novelist and former British Cabinet Minister who faked his own death in 1974, died today, a spokesman for Southampton General Hospital said. He was 62.

Mr Stonehouse had a heart attack at his home in Southampton.

With his business ventures crumbling, Mr Stonehouse went to Florida in 1974 and faked his own death by leaving his clothes on a Miami beach and disappearing.

He was arrested two months later in Australia where he was living under an alias. He was extradited to Britain and tried on 21 charges of theft, fraud and deception.

He was found guilty at London's Old Bailey in 1976 and sentenced to seven years' imprisonment. He served three years before being released on parole. — Sapa-AP.

Taxpayers still paying at the old rate

15/4/88 (330)

By Roy Cokayne

Many South African taxpayers are paying more tax than they are liable for due to a delay in the introduction of new PAYE (PAY As You Earn) employees deduction tables — and are likely to only reap the full benefits of the tax relief announced in last month's Budget by July 1 at the earliest.

Director of Law Interpretation for Inland Revenue in Pretoria Hennie Smit confirmed today they had a target date of July 1 for the introduction of the new PAYE employees deduction tables.

But he was not certain this target date would be met.The new tables and the instructions that go with them are still in the process of being drawn up.

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DEADLINE

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But Mr Smit said the computer formula and instructions for computer bureaus, which covered about 80 percent of taxpayers, would definitely be ready and come into force before July 1.

He said the drawing up of the new computer formula and instructions was a relatively minor task compared to the PAYE employees deduction tables.

In additon, he said the formula and instructions only had to be distributed to between 1 000 and 2 000 bureaus.

Mr Smit said employers had to apply the old PAYE employees deduction tables until the new tables came into effect.

Although he admitted this meant many taypayers were currently paying more than their tax liability, Mr Smit said this overpayment of tax would be rectified when their tax return for the 1988/89 tax year was assessed.

This means they will either get a tax refund or the tax credit for the months they overpaid would be deducted from any tax due.

SA still has far to go — Parsons

Tax-cuts a key to economic growth

KAY TURVEY

SA STILL had a long way to go to catch up with some of its major trading partners in cutting levels of direct taxation, said Assocom CE Raymond Parsons.

Speaking at the Assocom Free State regional congress in Bloemfontein last week, Parsons said SA's international competitiveness, economic growth and job-creation prospects were closely linked to its ability to achieve internationally competitive levels of personal and corporate tax.

A recent World Bank study had found the nations which had had the biggest tax cuts had shown the best economic progress.

Taxation could not be relied on to redistribute wealth, as over the long term it was economic growth and not taxation that offered the best hope for the under-privileged, Parsons said.

While he recognised the backlog of services for the under-privileged in SA, excessive state spending must not be allowed to become the enemy of real tax reductions needed to create wealth, he said.

The true sources of wealth creation in SA had to be protected — savings, initiative, incentive, productivity and the work ethic.

"These have to be managed for the future if we are to avoid sharing poverty instead of wealth."

While personal income rose less than threefold between 1980 and 1987, direct taxation of individuals increased nearly fivefold over the same period.

Parsons said total personal income, at current prices, rose 183% from R37,9bn in 1980 to R107,4bn in 1987. Direct taxes rose 395% from R2,5bn in 1980 to R12,3bn in 1987.

"This provides a good indication of the ever-increasing pressure exercised by direct tax on the individual income-earner during the past seven years," Parsons said.

Direct taxes, as a percentage of total personal pre-tax income, had continued to show an upward trend from 6,6% in 1980 to a 11,5% last year.

Essential factors in tax reform were cuts in state spending, progress in implementating privatisation and deregulation and a substantial tax-cutting strategy which was accepted as permanent.

The major weakness in government's white paper on the Margo commission report was that it was open-ended.

'20 mines will be affected by MTC'

18/4/88.

REINIE BOOYSEN

STOCKBROKERS Frankel, Kruger, Vinderine have compiled a list of some 20 SA gold mining companies which will be affected by the controversial Minimum Tax on Companies (MTC) announced in the 1988 Budget.

Some mining companies initially believed they would be exempt from this tax in view of the fact that mining tax is currently being investigated by the Marais Commission.

However, they have since discovered otherwise, and financial managers are spending many hours preparing for MTC.

The 60-point drop of the JSE All Gold Index from 1 303 on March 16, Budget Day, to 1 243 on March 21, two trading days later, showed the market jitters which met the announcement of MTC.

The tax was initiated to extract some fiscal contribution from those companies which escaped tax by "making use of existing concessions and incentives" — despite the fact that they earned good profits and declared dividends.

The tax will be calculated as 25% of net dividends paid less tax paid in the company's financial year ending in the 1986/7 Budget year.

Frankel analyst Rob Gillan's list shows that the companies which will be most severely affected by MCT are Gencor's Grootvlei and Golden Dumps' Consolidated Modder.

The effect of MCT on these companies' earnings a share, expressed as a percentage of their current share price, is about 3,1%.

Grootvlei will have to pay about R1,8m into a special MCT account, after which it will be treated as a credit against "such times where tax paid exceeds dividends paid," writes Gillan.

Cons Modder will pay R4,7m.

The next-hardest hit companies are Goldfields' Doornfontein Rand Mines' Harmony.

The effect on their earnings a share will be 3% of the current share price.

Doornfontein will pay R6,5m in MTC and Harmony R20m.

The company which will make the biggest MTC payment on September 30 is Anglo American's huge Free State operation, Freegold.

It will pay R32,6m, which will result in a 28c drop in earnings a share, or 0,8% of the current share price.

Some exemptions allowed, but . . .

Du Plessis declines to drop MTC

320 B/days 19/4/88.

CAPE TOWN — Government has turned down appeals from a wide spectrum of the private sector to signficantly change the controversial minimum tax on companies (MTC).

Finance Minister Barend du Plessis yesterday announced that while he had made some changes, which would lead to the exclusion of companies registered abroad but operating locally through a branch, he had not exempted gold mining companies from the MTC net.

Gold mining companies had strongly objected to the tax, claiming it would cost them R1,8bn.

Other exemptions involve unit trust companies, and firms that are in sequestration or are dormant and can prove they will not be liable for normal tax.

Du Plessis announced the changes in a statement yesterday saying they were in line with his department's approach to welcome constructive and well-meaning representations and discussions on the implications of any of its tax proposals.

He said most companies had not objected in principle to MTC but were concerned about its long-term effects.

He pointed out, however, he had said earlier MTC was a temporary measure to generate income to help government

Political Staff

over a cash-flow problem while it was introducing its tax reform programme.

MTC would diminish as other sources of revenue were developed.

Du Plessis reconfirmed this was still government's attitude. While valid points had been raised in further discussions, they had not taken into account the growing concern of those who sought the most equitable system possible.

"Some . . . companies are very prosperous and are declaring substantial dividends, but making little or no contribution to the fiscus.

"By using various schemes other companies have succeeded in wiping out their taxable incomes and, in some cases, building up substantial losses which will have the effect of freeing them from tax for several years."

Du Plessis said the net had been cast as widely as possible to include companies falling under definition (a) and (b) in the proposals.

"In light of the representations recently received, the reference to paragraph (b) will be omitted when the Bill is drafted," said Du Plessis.

Paragraph (a) companies include all

● To Page 2

Du Plessis will not drop controversial MTC

● From Page 1

320 B/days 19/4/88

those registered, managed and controlled in SA. Paragraph (b) companies are those registered abroad but operating in SA through branches.

Companies in liquidation or which are, or become, insolvent will in many cases not be able to meet the liability for MTC. If they are, they will have no future liability for normal tax against which to set off the MTC which they have paid. Dormant companies may well be in a similar position.

Provision to meet these situations will, as far as possible, be included in the draft Bill.

"Fixed property companies as defined in section one of the Unit Trusts Control Act will be subject to MTC in terms of the taxation proposals.

"Since dividends declared by such companies are deductible in the determination of their taxable incomes and subject to tax in full in the hands of the unit trust holder, there would appear to be little justification for levying MTC in these circumstances. Consideration will therefore be given to the provision of suitable exemption.'

Insurance has 'fair deal'

HOUSE OF ASSEMBLY — After increasing the tax load on insurance companies by 75%, this industry was still paying much less than other companies, Finance Minister Barend du Plessis said yesterday.

Replying to the Budget debate, he criticised one insurance company for having circularised a letter to its policy-holders warning them government's new taxation proposals would result in a possible loss in the unguaranteed bonus portion of their policies.

Du Plessis said this one-sided presentation of the facts was not conducive to sound economic decision-making by policy-holders.

The Margo Commission had identified the insurance industry as one which did not carry its rightful tax load.

There was also an absence of neutrality, which meant that other sectors had to be heavily taxed to make up the shortfall.

"Such a system is simply not tolerable over the long term because it means that the burden must be born by the taxpayer, either through direct or indirect taxation," Du Plessis said.

He said it did not serve the industry's long-term interests if it failed to make the type of contribution which helped to create the kind of country and economy which would enable it to eventually meet its commitments.

"The proposal only adds R200m in taxes for the entire industry. It still does not place the same burden on it as on other companies, even after a 75% increase in tax." — Sapa.

Commerce still unhappy with aspects of MTC

Own Correspondent

DURBAN — Commerce believes the Government has gone only part of the way towards rectifying major problems associated with the Minimum Tax on Companies (MTC).

Reacting to the announcement on Monday by Minister of Finance Barend du Plessis that certain companies would be let off the hook, the Natal Society of Chartered Accountants said yesterday the proposals as they stood still appeared to have a much wider impact than intended.

Exemptions covered companies which would have been unable to pay the tax anyway, a spokesman said.

Major areas of concern include: the retroactive effect of the tax, which means that sound business decisions based on tax law existing at the time will now be heavily penalised; the disadvantages still faced by companies which have accumulated past trading losses; and the lack of clarity on how MTC will be collected and how it will be set against assessed taxes.

"This makes it impossible for companies accurately to forecast their cash flows, which makes business planning and decisions most difficult," a spokesman said.

It appears many more companies than originally intended will be netted, and the society says it hopes enabling legislation will include exemptions that will bring the law into line with its stated intention.

On Monday, Mr du Plessis said exemptions would apply to companies registered abroad, but operating locally, to unit trust companies and firms that were in sequestration or dormant and could prove they would not be liable for normal tax.

Most companies had not objected in principle to MTC, but were concerned about its long-term effects, said the Minister.

He stressed the tax was a temporary revenue-generator designed to help the Government over a cash-flow problem while it introduced its tax reform programme.

MTC income will be higher

(320) B/Day 20/4/88.

KAY TURVEY

THE controversial minimum tax on companies (MTC) will generate substantially more than the budgeted R350m, analysts and accountants believe.

Estimates of the up-front tax vary from about R700m — double government's forecasts — to more than R1bn.

Price Waterhouse's Chris Frame sees the R350m as highly conservative, although he says it is a difficult figure to assess exactly due to different companies accounting dates.

Estimates for pre-payments from the gold-mining industry vary from R150m to R1,8bn.

Max Pollack & Freemantle in their latest Budget Review estimate the tax should bring in R150m from the gold mines.

It says leading listed companies, excluding gold mines, should bring in another R150m.

Profitable companies, such as SA Breweries and Highveld, which have built up large tax losses from losses in earlier years or from allowances on exports and big capital projects, will be among the hardest hit.

The report says compounding matters for the two paper producers, Sappi and Mondi, is the possibility that preference dividends will be included in the definition of dividends, although, from the companies point of view, preference shares are merely an alternative from of finance.

Finance Minister Barend du Plessis's announcement of certain exemptions of MTC on Monday failed to give clarification on whether dividend payments on all types of shares would be included in the MTC calculation.

Other casualties are banking and furniture sector companies which, due to allowances on instalment sale debtors, have reduced current tax.

Tax changes welcomed

Business Day Reporter

ASSOCOM yesterday welcomed the changes to MTC announced by Finance Minister Barend du Plessis as introducing an element of flexibility into the proposals.

Assocom spokesman Herbert Mabin said of particular importance was the intention to address the difficult position which the new tax would create for dormant companies and companies in liquidation.

However, many serious difficulties resulting from the proposals remained:

- The tax liability of companies which have distributed dividends from reserves that have been fully taxed in previous years or from capital profits;
- Investment holding companies which cannot set off any MTC liability against non-existent normal tax.

The underlying situation remains that MTC can and will violate the basic tax canon of certainty.

This was because it retroactively taxed companies whose allocations of resources in former years were entirely in accordance with the law and, in fact, encouraged by various incentives incorporated in the law.

Mabin said it was a pity Du Plessis had not committed himself to abolishing MTC next year.

Call for new tax system for gold mines

By AUDREY D'ANGELO
Financial Editor

THE importance of gold mining to SA leaves the government faced with the problem of finding a new system of taxing the industry on the lines suggested by the Margo Commission while still encouraging exploration and expansion.

This was made clear by the Governor of the Reserve Bank, Gerhard de Kock, yesterday when he also said official policy would encourage the growth of the jewellery manufacturing industry.

De Kock was speaking at the opening of the Eastern Gold Holdings project which, at full production, is expected to produce a ton of gold a month.

He said the rise in the gold price from an average of R26 an ounce in the 1970s to R909 an ounce last year — accompanied by a 40% decline in output between 1970 and 1987 — had made the industry more important to the SA economy than ever before.

Gold accounted for 37% of this country's exports last year, although SA's share of total gold production had declined considerably.

It had fallen from about 86% of total world production in 1970 to about 39% in 1986.

Another major change was the shift of much of the financial muscle of the international gold business to the Far East.

Some analysts believed Japan would import nearly 400 tons this year. There were signs that the central bank of Taiwan would continue to buy gold on an ongoing basis. Hong Kong, Singapore and Indonesia had also shown signs of absorbing significant quantities of gold in recent months.

"The Far East region as a whole may now take up roughly 40% of annual offerings of newly mined gold, which totalled around 1 700 tons last year."

De Kock said the basic implication for SA economic policy was "the need to ensure that adequate weight is given in monetary, fiscal and general economic policy to the encouragement of gold mining and related economic activities in SA — to the maximum extent that this can be reconciled with other major economic objectives.

He said that: "In the field of mining taxation the implication is that a system of gold mining taxation must be found that will fit into the Margo Commission's highly commendable broad approach to taxation while at the same time encouraging exploration activity, new investment and local beneficiation in the mining industry."

De Kock welcomed the fact that official strategy towards the beneficiation of precious metals into jewellery was being reassessed.

Call for clarity on VAT

CHRIS CAIRNCROSS

CAPE TOWN — Government's pronouncements concerning the introduction next year of Value Added Tax (VAT) have failed to clarify how the debtor's allowance, or credit reserve as it is called under the present Income Tax Act, will be dealt with.

The issue has been raised by the Cape Town Chamber of Commerce, which has submitted a memorandum to Inland Revenue arguing that there is no reason why a similar allowance should not be maintained when the GST system goes.

Under that system, a measure of relief is provided to those who sell on credit.

Inland Revenue chief director T F van Heerden said no decision had yet been made over the debtor's allowance.

However, organised commerce is concerned that government intends phasing out the allowance, presumably before VAT is introduced.

MINIMUM TAX ON COMPANIES

Certainty out of confusion?

Finance Minister Barend du Plessis has yielded to certain minor interests in granting exemptions from the net of the minimum normal tax on companies. But by not yielding to pressures to abolish MTC, he has given tax planning a desperately needed element of certainty.

Simply put, MTC, a retroactive tax that hits accounts for the latest year of assessment ending on or before February 29 1988, is here to stay for fiscal 1989. But, in his second statement on MTC since announcing it on March 16, Du Plessis again declined to confirm MTC will be a one-off tax.

The very fact that Du Plessis has made two official statements on MTC prior to its tabling in parliament indicates how controversial it is. It is not a nice tax.

As the *FM* has pointed out, MTC was both accepted and rejected in government's Margo White Paper (WP). One part of the WP, redrafted days before the Budget, accepts MTC, indicating there was an 11th hour about-face on the tax. Du Plessis is yet to explain the WP anomaly and the fact that the MTC formula used did not follow Margo.

This is not to say that Margo recommended an MTC; it suggested one, *subject* to further investigation. No evidence of such an investigation has emerged. The MTC formula, taxing net dividends received over tax paid, is deceptively simple.

However, the *FM* understands that Inland Revenue is happy with it — so far — and is aware of obstacles that must be overcome as the legislation is drafted. But why the haste? Wouldn't it be better to scrap the tax for fiscal 1989 and introduce it next year after proper study?

MTC has one big advantage over all non-personal taxes: it's a cash-flow tax. Only companies with cash pay it, unlike income and related taxes, which tax on the basis of other concepts.

But even with postponement of MTC unlikely, Du Plessis' reasons for retaining the tax are not convincing. He claims: "The objectors to MTC have failed to draw attention to considerations that have become of growing concern to taxpayers and observers who seek the most equitable system possible. These are, to mention but two:

☐ It is by means of generous tax and other concessions that many companies have been able to build up assets of enormous value — some of these companies are very prosperous and are declaring substantial dividends but making little or no contribution to the fiscus; and

☐ By using various schemes (most of which were legitimate in terms of existing law) other companies have succeeded in wiping out their taxable incomes and, in some cases, building up substantial losses which will have the effect of freeing them from tax for several years to come.

"In the result, the tax base was severely contracted and the Treasury has suffered the cash-flow consequences."



Du Plessis is in danger of being hoist by his own petard. His statement exempts four classes of taxpayers from MTC (branches owned by foreign companies; property unit trusts; companies in liquidation; or in trouble), which, in itself, "contracts the tax base."

Secondly, Du Plessis' entire policy approach to MTC ignores the simple tenet that all taxes are paid for by individuals. When company taxes increase, customers pay more; workers are paid less and shareholders receive smaller dividends.

Ultimately, it is they who will pay the tax. To take just one example: Fergusson Bros Hall Stewart's research shows that gold mines will pay R143m MTC. The worst affected is Freegold, with R32,5m MTC. Its estimated current dividend will be cut from 210c to 150c.

Du Plessis' argument that some companies are paying "substantial dividends" and little tax does not mean that Inland Revenue will not gain from the situation.

Moreover, companies that have accumulated tax losses that will free them from tax for some years to come would, without MTC, nevertheless have enriched the fiscus's coffers in some other way. Corporate savings, for example, are taxable and allow companies to expand and create what — in theory — are new taxable enterprises.

The *FM* can only applaud Du Plessis' desire to shift the *visible* burden of tax away from the individual. After all, the best ideas always start with the individual and, consequently, he should be exposed to the least onerous tax burden. But the inherent problems with MTC won't go away. Its retroactivity, its tainted pedigree, its vagueness, will be detrimental to the long-term well-being of the South African economy.

Given that MTC's expected yield amounts to just 0,8% of 1989 receipts, it might just come knocking, like a certain hunchback, on the gates of Union Buildings. ■

kpan, Germiston,
Nigel, Oberholzer,
s, Vanderbijlpark,

Cemenco Foundry has bought two new furnaces that will help it open up new ... company, which specialises in high quality engineering castings has, until no Meehanite, steel, stainless steel and bronze.

"However, the industry is demanding higher technology castings, higher perfor sion-resistant and lighter castings, says Mr Richard Garrett, managing director.

He says the furnaces, which have been modified and upgraded, will allow th aggressively into the stainless steel market and into new markets for special alloy

MTC could see companies paying out lower dividends

Star 22/4/88

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Finance Staff

The new minimum tax on companies (MTC) could seriously damage those which have undertaken capital projects on the assumption that they would benefit from tax incentives, says a leading management consultant.

Mr John Venter, director, Corfin Management Services, says the MTC negates tax incentives and results in lower returns on capital projects, perhaps below the hurdle rates.

"One of the obvious ways of avoiding the tax in the future will be to reduce dividend payments. This could have a negative impact on the Johannesburg Stock Exchange and cause share prices to drop."

The imposition of the tax means that companies will have to go back to the drawing board to revise their financial strategy and objectives in order to redetermine the returns required for self-sustaining growth.

Companies currently paying tax will be able to set the MTC off against future tax payable, although the effect will be to accelerate the payment. For companies which pay little or no tax and expect that situation to continue the MTC will, in effect, be a tax charge.

Mr Venter says: "Payment of the tax by September 30 cannot be avoided as it is intended to be applied retrospectively.

"This unfortunately means that any legitimate tax planning to minimise its effect is not possible. Many companies will, therefore, have to borrow funds to pay the tax and so increase their debt levels and interest charges.

"This will negatively affect a company's cash flow, interest cover and sustainable growth."

maturity.

Funds are locked in for 12 months.

Investors will have to supply identity and, if they have one, an income tax number. They will also have to declare that only their own funds have been used and that total investments with different financial institutions in these deposits do not exceed R30 000 — though they may be additional to any

ECONOMIC SEMINAR

Think tank

Stellenbosch University's Graduate School of Business (GSB) has organised a wide-ranging and intensive seminar to look at economic prospects in the year ahead.

Speakers at the function on April 29 will ment facing businessmen; George Huysamer and Partners economist Louis Geldenhuys on prospects for the financial sector; and Rand Merchant Bank group economist Rudolph Gouws on the international economic environment and prospects.

Economic prospects of sectors particularly important to the western Cape region will also be assessed.

The deciduous fruit industry will be dis-

HARRY SCHWARZ

Grappling with tax evasion



In parliament, PFP finance spokesman Harry Schwarz took the *FM* to task on an article discussing tax evasion (*FM* April 8). We quote Schwarz in full and attempt to answer his questions.

Schwarz (in the House): **I also want to draw the Hon Members' attention to something I cannot resist and that is the report of the Standing Committee on Finance where it states the following, and I quote: "The committee takes note with concern of the high level of tax evasion which exists and urgently recommends that the office of the Commissioner for Inland Revenue should be alert to new tax schemes when they become apparent, so that not only in-depth measures can be taken speedily to deal with malpractice, but that, where necessary, urgent legislative measures can be taken to deal with unacceptable and socially undesirable, — even though technically legal — schemes."**

The question I pose is — and here I refer to an attack which was in this regard, made by the *Financial Mail* — Does the *FM* believe that taxation should be equitable?

FM: Yes.

Is it logical that there should be tax shelters for the rich, while the wage earner and the salary earner pays his full share of the taxation?

It is inequitable but it is logical. In all tax systems, tax law is used for purposes of economic policy; for example, to encourage people to invest in plant and machinery.

Such incentives are always open to interpretation. This leads to tax shelters which "the rich" can afford to employ. This will never go away.

Does the *FM* believe that tax avoidance or evasion schemes should be kept secret or should be exposed?

They should be exposed for the scrutiny of all. The *FM* has done this often enough in the past.

To take just one example, we exposed (*Economy* March 11), exclusively, what is probably, in money terms, the biggest "family" of tax avoidance schemes. Clive Kingon, Commissioner, has subsequently stated our report on certain property schemes has led to a Revenue investigation.

Do they (the *FM*) believe that unacceptable and socially undesirable schemes should be legislated out of existence by specific legislation, or do they believe that there should be free reign to everybody to do what they like — to evade, to avoid, to do what they want to do so as to have a maldistribution in regard to the tax function?

It does not follow that without counter-legislation there will be "free reign." There is a very large, intermediate, "grey" area.

The Income Tax Act, for all its flaws, contains every principle needed to govern and administer a tax system. *Nobody* has free reign to act so as to foster maldistribution of the tax function.

The limitations are practical: for example, it is impossible to police 100 000 "free reign" traders who *each* evade R100 a month in GST.

There is a better way: if "undesirable" schemes are detected, at first opportunity a sample case can be taken to the Special Income Tax Court. If the scheme is struck down there, it would be stillborn.

This *use* of existing legislation disposes of the need for *extra, unnecessary* legislation.

Or, on the other hand, do they (the *FM*) believe there should be wide powers for the hon minister to deal with this as he wants to retrospectively, as we do not want to happen?

We are against retroactive (retrospective) law. To repeat, if detection is quick enough, the courts are the best solution.

The simple truth is that Revenue takes too long to cotton onto certain big schemes. When action is finally taken, retroactive law is the only *effective* method available to recapture tax otherwise foregone.

We want, when there are malpractices, to have them exposed if they are wrong and to have them dealt with effectively and expeditiously in this legislation. We say that tax evasion, which is unacceptable and socially undesirable, even if legal, is the basis on which one decides to have legislation.

There is no such thing as "tax evasion, which is unacceptable and socially undesirable, even if legal."

To quote just one precedent, the *Ayrshire Pullman* case, which is followed in SA: "Every man is entitled if he can to order his affairs so that the tax attaching under the appropriate Acts is less than it otherwise would be.

"If he succeeds in ordering them so as to secure this result, then, however unappreciative the Commissioners of Inland Revenue may be of his ingenuity, he cannot be compelled to pay an increased tax."

Use of concepts such as "wrong" and "unacceptable" and "socially undesirable" only confuses the issue. The Act does not define the two central mechanisms of tax law, income and capital. It also does not define tax avoidance, tax evasion or tax "avoison."

These definitions and many others have perplexed some of the best tax minds. For example, in economic terms, a rand evaded is always better spent than a rand duly paid in tax.

They (the *FM*) say it should not be a question of social acceptance, but taxation laws are based upon the social norms of the community of the time and that is why this sort of legislation is necessary and desirable so as to have an equitable distribution of the taxation burden in SA.

To repeat, retroactive law is not necessary when the courts are resorted to.

All this requires is more highly-skilled manpower at Inland Revenue — recommended by Margo and accepted by government in its White Paper.

Our interests would be perhaps better served if you inquired why so little has been *done*, in this regard, in pursuance of Margo and the WP.

MINING TAXATION

For whom the boat rocks



Should the Margo Commission be allowed to alter, forever, the essential structure of the South African mining industry? Please, no. Cosmetic changes may be needed here and there, and there could certainly be more open discussion of issues that sometimes run as thick as blood. But, as Amgold's Julian Ogilvie Thompson puts it, the mining tax "burden is acceptable because the risks attached to South African gold mining are matched by its unique tax structure."

SA's mining tax system is principally run — like Britain — by an unwritten constitu- unwritten constitution. In practice, that comes down to negotiations between Inland Revenue and the mining houses; and it works well enough. Margo's recommendations for mining would result in:

☐ An increase in aggregate taxes imposed upon the industry on top of what is already a heavy burden); and

☐ A fundamental change in the well-established relationship of risk to reward *as well as* the relationship between the investor and the fiscus.

The point is crucial. Mining tax can be described as one tax — and perhaps the only tax — that both sides are happy with. It comprises two unequal parts: written law, contained in the Income Tax Act; and unwritten law. The latter is the most important, since this is where negotiation (unwritten law) decides the crucial issues.

The Revenue specialists in mining taxation deal with a limited number of experts representing the private sector: that is the essence of the mining taxation system. In the hands of these people lie decisions regarding SA's powerhouse industry. And the industry wants it to remain that way.

The fact that the mining houses have split into two factions over Margo (see box) does not detract from the force of this. They differ on what Margo *said* — and that in itself cannot be described as far-reaching. In fact Margo deferred the issue: he called for a Technical Working Committee (TWC) to decide the crucial issues. It has since been appointed. Margo did not discuss, or even hint at, the existing negotiating process.

The TWC will hear evidence on a range of issues inevitably wider than in any other South African industry. Mining is the mainspring of the economy — the mines employ 750 000 people and earn more than two-thirds of our foreign exchange.

As Chris Frame of Price Waterhouse points out, mining is the only South African industry which is truly competitive internationally, and which generates technology wanted everywhere. Moreover, SA's mining tax system is seen as a model for the world. After substantial setbacks — if not outright failures — Canada and Australia, for example, have acquiesced in moving more towards the South African system.

Proposed changes to mining taxation have got the houses in a furore: they have divided on the issue. While areas of the current system certainly breed anomalies, it would be counter-productive to tamper with an industry that is the mainspring of the entire economy.

Margo pointed out, correctly, that mining tax contains anomaly after anomaly. This is not surprising, given the negotiation principle. Nevertheless, general rules *have* come to be embodied in written law. Take the most controversial areas — the mining lease formula, the surcharge and capital redemptions. Each is clearly prescribed in law, though how each applies to a particular mine differs from mine to mine. Nearly every mine negotiates its own "tax package" on the person-to-person basis described.

The differences help to explain why Margo has succeeded in creating factions within the mining houses: the suggested changes would lead to some mines paying more (and others paying less) tax.

In mining tax, the progressive formula is the most controversial area. It applies to both mining leases and mining income and its complex mathematical operation:

☐ Encourages mines to extract low- rather than high-grade ore;

☐ Takes immediate account of the difficulties arising from wide fluctuations in the world gold price; and

☐ Means that richer mines pay a higher *rate* of tax.

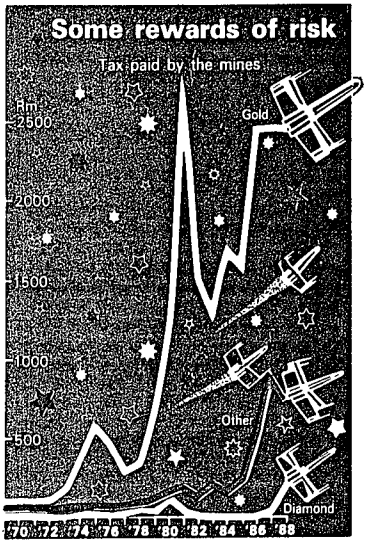
Various surcharges, originally enacted to raise extra revenue, have tended to remain in place.

The main concession for mines is the capital redemption, which allows 100% of capex to be written off in the year incurred. This substantial benefit, which also applied to items outside the normal definition of capital — such as housing and hospitals — came to be abused.

Accordingly, in 1984, "ringfencing" was introduced. This is not a confusing or esoteric concept. Ringfencing means that each mine becomes an entity, in every sense of the word. It bars a mine from abusing the capex write-off, inevitably too big for it to be used in one year, by transferring it to another group mine with substantial taxable profits.

In other words, ringfencing killed schemes that financed a new mine with profits of an older mine that had run out of capex write-offs.

In terms of the individual mine "tax package," some mines pay a marginal rate of as much as 82,5% — including lease payments. But, like personal marginal rates, this is an unreliable indicator of *average* rates. Gold mines assessed in 1985 paid an average rate of tax (including surcharges) of 54% of their mining income. If lease payments are included, the figure rises to 70%.

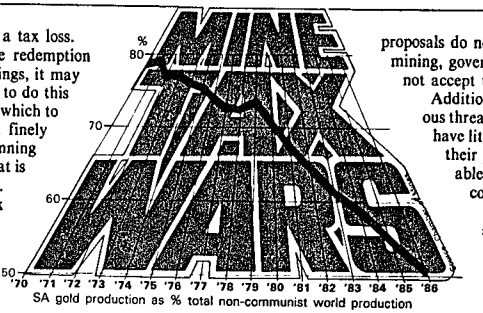


But "mining income" is calculated after deduction of the generous capital redemption allowances. If normal depreciation was substituted for immediate write-offs, the 54% would fall to 46%; the 70% to 58%. These adjusted rates look a lot better than, for example, that 82,5% rate paid by some mines.

But the fact remains that any tax (however nominal) above 50% — never mind 80% — is too high given the national requirement of fresh investment and increased output. The higher a tax rate, the more the fiscus contributes to concessions which can be claimed by the taxpayer. And, given the complexities of modern financial markets and financial instruments, very high tax rates lead to absurd situations.

To give one example: despite ringfencing, it is still possible for a company to reduce the income of a profitable mine by deducting its own capital redemption allowances *and then* the working losses of a developing mine. It ends up with a very

MINE TAX WARS



SA gold production as % total non-communist world production

small taxable income — or even a tax loss.

If the capex giving rise to the redemption allowances is financed by borrowings, it may even be possible for the company to do this and still have sufficient cash from which to pay a substantial dividend. So a finely tuned result of legitimate tax planning can lead to a political reaction. That is what we seem to have at present.

Again, a mine with an 80% tax rate saves R80 of every R100 taxable income it can shelter; with a 50% rate, it saves R50. Clearly, the incentive for a mine to find tax shelters (mainly by using the capital redemption allowance) is enhanced by high tax rates. As a result, South African mines tend to focus on activity of a capex nature, rather than more adventurous prospecting, which would be better for the economy in the long run. The system has led to the situation where prospecting is done by mining houses rather than mines.

Mining tax rates are too high, and on top of that the industry pays too many taxes. After the formula income and leasing taxes, *and* the surcharge, mines must now pay the minimum tax on companies — at least in 1988. Mines like Deelkraal, Elandsrand, Ergo, Harmony and Randfontein Estates, for example, whose tax liability was less than dividends declared to shareholders, have an obvious problem.

There is a further threat from work in progress, argues Ernst & Whinney's Ken Walton. For many years it has been accepted that gold in the process of production is not regarded as trading stock, and need not be brought to account for tax purposes. Now it appears, according to Walton, "that the Mining Taxation Section of Revenue is challenging this view. Any change in the present practice could be extremely damaging to the mining industry."

Margo also recommended that the present 100% capital redemption be replaced by a three-year depreciation of 50:30:20. This, like the flat tax proposed to replace the formula, is unacceptable to operating mines. It might have very little effect on the present value of new mines.

There are enormous risks attached to mining with long payback periods. While these proposals do not recognise the special nature of mining, government's Margo White Paper did not accept the proposal unequivocally.

Additionally, value added tax is an enormous threat to the mines, if only because they have little control over the selling price of their products. A mine will thus be unable to adjust its prices to recover the cost of paying VAT up front.

Moreover, some gold mines spend in excess of R20m/month on stores. While the input VAT on those stores can be deducted on the next VAT return, a great deal will depend on the efficiency of Revenue in processing those returns. If it is assumed that exports of gold will be zero-rated, the mine will be entitled to a refund of VAT each month. How quickly, Walton wonders, will those refunds be processed?

Regarding RSC levies, the impact of the 0,25% payroll levy is perhaps not significant. But any increase — which is where the real sting lies — would be damaging to mining which is, of course, labour-intensive. In its evidence to Margo, the Department of Finance said that the payroll levy would need to be 1,5% to achieve the aims of the RSCs. This is six times higher than the prevailing rate.

While the *FM* cannot say precisely what is happening behind closed doors — given the highly specialised negotiating process used in mining tax — what changes can be expect-

MINING HOUSES AND TAX CARDS

Mining is an industry which prides itself on presenting a united front to the outside world. Yet the major houses are seriously divided in their reactions to the Margo Commission and what should be done — or not done — about gold mine taxation.

Gold Fields of South Africa (GFSA) and Anglovaal generally accept Margo's suggestions that a flat tax rate be applied to the gold mines and that the progressive formula rate be scrapped. Anglo American, Gencor, Rand Mines and JCI all maintain the formula tax system must be retained. Who is right?

Anglo gold division head Peter Gush has described the two factions as those who believe the earth should be flat (GFSA and Anglovaal) and those who believe that it is round. That is a rough and ready guide to what is occurring.

Nonetheless, the work of the Technical Working Committee, set up in response to Margo, will not be made easier by the split in the industry and the imposition in the latest budget of the minimum tax on companies (MTC). That was a totally unexpected blow, completely at odds with Margo's recommended approach to taxation and could have serious implications for the development of new mines.

GFSA/Anglovaal have accepted Margo's proposals of a flat tax rate of 50% and the three-year capex write-off of 50:30:20, *provided* the current system of "ringfencing" mines for tax purposes is abolished, *and* the industry is treated for tax purposes in the same manner as any normal business.

Anglo and its followers have rejected the recommendations, saying the formula tax has worked well for both the industry and the Receiver of Revenue — coping with both boom and bust situations for the mines. They maintain mining is different from other businesses and needs a special tax system; they also feel the risks involved in mining are such that the immediate 100% write-off of capital expenditure is justified.

Inevitably, there is a lot of self-interest at stake. Driefontein, Kloof and Hartebeestfontein are the highest grade, most profitable and most highly-taxed mines in the industry. These mines would pay far less tax on a flat 50% basis. They just happen to be controlled by GFSA and Anglovaal.

Many of the marginal mines controlled by Rand Mines and Gencor would pay far more tax on a flat 50% rate than they are paying through the existing formula system. While Anglo producers like Vaal Reefs and Western Deep Levels can hardly be labelled basket cases, the feeling in the house is that gold mine profitability is going to drop over time because of higher working costs from inflation and increasing depth of operations; therefore, the formula is preferable.

Anglo is also understood to be particularly worried about the proposed change to writing-off capital expenditure. Several of the house's mines are expanding and are committed to huge capex programmes

GFSA sources acknowledge the self-interest in controlling the richest mines in the industry but also point out they have marginal producers in Venterspost and Doornfontein; the house's real concern is to make the most of the opportunity offered by Margo to reform.

GFSA says the three-year write-off in capex has to be phased in to avoid giving the Receiver of Revenue a windfall gain. It estimates that had the system been introduced in 1986 — without a phase-in period — gold mines would have paid R880m more in tax and would have had to cut dividends by a third.

Tax shock for foreign investors

Financial Editor

OVERSEAS investors expecting to escape SA income tax on interest earned in this country may be in for a disappointment, warns David Clegg of Arthur Young.

He thinks many people have been misled by an announcement by the Minister of Finance, Barend du Plessis, in his Budget speech that non-resident's tax on interest (NRTI), previously charged at the rate of 10%, would be abolished.

"Many people seem to have assumed that interest rates will automatically be tax-free," says Clegg.

Withholding tax

"But they need to take note that NRTI was only a preliminary withholding tax and that most interest was also subject to normal SA income tax at the appropriate company rate of 50% or individual rate with a maximum of 45%.

"This normal tax liability is avoided only when the source of the interest is outside SA and that involves awkward and complex procedures when a loan is originally made.

"Certainly the vast bulk of non-resident individuals earning SA interest and a large number of the corporate creditors will find that the source of their interest is in SA and that normal tax will still be payable notwithstanding the abolition of NRTI."

Debt moratorium

Clegg continues: "It may seem illogical that a withholding tax should be abolished leaving the principal tax in place.

"But as the abolition was meant to deal with debts affected by the debt moratorium, the bulk of which were so established as to be of a non-SA source, the inconsistency is more apparent than real.

"Of course, until the legislation is finally tabled in Parliament around July, there will be no certainty on the matter but it would be unwise in the extreme to commence any planning on the basis that interest is now tax-free."

DID 25/4/86

Tax tables should be ready by July

PRETORIA — The inland revenue is working "flat out" to get the new Paye tax tables out in time for July.

A spokesman said the tables should be in the hands of employers in good time for them to make the necessary adjustments.

Overpayments in the first three months of the current tax year resulting from the marginal relief granted in the budget will be credited to taxpayers.

The new tables will take into account:

- The basic rebate for married taxpayers;
- The maximum marginal tax rate of 45 per cent for incomes over R80 000;
- That employees earning less than R12 000 will not have to submit returns, and;
- That married women earning less than R20 000 a year will also be exempt from making returns.

— DDC

Growth at 2,3%

WASHINGTON. — The US economy grew at an annual rate of 2,3% in the first three months of the year, the Commerce Department said yesterday.

Chamber on MTC

CAPE TIMES 7/4/88

JOHANNESBURG. — The minimum tax on companies (MTC) introduced in the recent budget will penalize the mining industry, which has to invest money on exploration without being certain of profits later, says the Chamber of Mines.

In a statement issued yesterday the chamber says MTC strikes at the basis of mining tax in SA. MTC pre-empts the report of the Marais Committee appointed to examine the mining tax system following the Margo Commission recommendations.

It also "impacts against future growth of the industry — which makes a major contribution to the economy ..."

"MTC imposes an advance tax when it is uncertain that large capital expenditure will ever be recouped."

Its effect will be particularly severe on the coal industry, where a major expansion phase has been followed by a market slump exacerbated by political sanctions, says the statement.

MTC will accelerate the demise of dying mines which in effect will have to pay an extra tax. — Sapa

MTC: a long or short-term stop-gap?

320 B/day 27/4/88

Government shook the business sector in the March Budget with the introduction of minimum tax on companies, which Finance Minister Barend du Plessis calls a "bridging measure". But is MTC perhaps here to stay? KAY TURVEY reports

IS MINIMUM companies tax here to stay? Despite government assurances that it is a short-term bridging tax, there are fears in the business community that the State may continue its record of turning temporary taxes into long-term sources of revenue.

Government has not satisfactorily answered appeals that it limit the duration of the tax. Assocom's call for an official statement that the tax should be limited to a year and removed in 1989 has, for example, elicited no answer.

The result is that some tax consultants are sceptical of Finance Minister Barend du Plessis's assurance that MTC is merely a bridging measure to raise R350m whilst new tax reforms are introduced.

A new tax quickly develops vested interests, and government — with a seemingly insatiable appetite for funds — rapidly grows accustomed to added revenue.

The consultants' fears have historical precedence. It was Jan Smuts as Minister of Finance who introduced personal income tax in 1914 as a temporary contribution to the war effort. It was not abolished in 1919, and is still with us.

More recently, loan levies implemented in the Sixties as a "temporary" cash-raising exercise lasted on and off until 1980, during which time the rates were raised. Loan levies, although structurally very different to MTC, are similiar in that they were predominantly a cash-flow measure as opposed to a final tax.

Questioning whether MTC was just an interim liquidity exercise or an actual tax, Deloittes partner Willem Cronje said that if government wanted to raise R350m interest-free there were other ways in which this could have been done.

MTC's expected yield amounts to a mere 0,8% of government receipts, although it is felt that the R350m figure is grossly under-stated and that the tax will raise substantially more, thus fuelling fiscal greed.

'First resort'

Cronje said that, as a cash-flow tax, MTC flew in the face of Margo's recommendations. "After two years of discussion and deliberation, Margo considered MTC as a last resort if the removal of all other concessions failed. Instead, government has jumped at it as a first resort," he said.

Before attempting to remove various provisions which caused taxable income to fall below book income, government had opted for an imprecise tax, abandonding the main thrust of Margo's report, which was to strive for a simple tax system, he said.

"The mixed messages in MTC are disconcerting, while the lack of a fixed time period adds to the confusion and uncertainty. If MTC works it might be very tempting for government to keep it," said Cronje.

There appear few doubts that MTC will work short-term, although long-term its efficacy is expected to dissipate as businesses plan dividend policy.

Undistributed Profit Tax (UPT) will lure companies into payment of MTC. If dividend income is retained it will attract a 33,3% final tax, whereas if distributed the company will be liable for MTC at 25%. Apart from the 8% differential, the odds swing in MTC's favour, as it is not a dead payment but a future credit.

Arthur Young's Ian Mackenzie agreed that if MTC were to become permanent its tax base would become substantially diminished.

Companies would be careful as to how they drew up dividends and would not be caught out again, he said. The effectiveness of MTC might thus prove to lie in its retrospective nature.

Kessel Feinstein partner Ernest Mazansky said that if MTC were to continue, companies might plan to reduce MTC by reducing dividends. This would result in recipients of dividends paying less tax.

Plugging hole

Mazansky said: "MTC is a means of getting next year's tax this year, so creating an equilavent shortfall in the following year that will have to be made up from somewhere.

"Removal of concessions may or may not be the answer, depending upon the level of government spending in future years."

Pim Goldby's Graeme Richardson disputed whether MTC would be continued. "Government looked at income and expenditure and found a hole; MTC was a means of plugging it."

It was a stop-gap until government could increase taxation on insurance companies and introduce VAT as a means of broadening the cash-flow tax base, he said.

Professor John Morris, tax lecturer at the University of Cape Town, said Margo provided the tax reform package with checks and balances, but did not give the arithmetic answers as to how much government would recover of what they gave away.

"It follows, therefore, that government would want to leave itself breathing space until it establishes its liquidity requirements, before announcing a termination date for MTC."

However, Morris said it was essential the fiscus did see MTC as a short-term solution and treated it as a substitute for the elimination of special tax concessions.

"Government should not be involved in decisions as to business priorities, as it is at the moment, by virtue of special tax concessions. Commercial decisions should be made by business, based on returns on capital employed."

Ultimately, it appears the permanence of MTC will depend on fiscal cash-flow, the degree to which government can keep its costs down — or the discovery of some other source of income.



Johan Schabort, leader of the far-right Blanke Bevrydingsbeweging, addresses supporters at a rally in Krugersdorp this week.

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VAT proposals to fuel inflation?

KAY TURVEY

THE proposed inclusion of capital goods in the VAT base would be peculiar to SA and could have a cascading effect on the prices of consumer goods and hence fuel inflation.

Unisa Professor Ben van Rensburg, commissioned by Assocom to research VAT systems abroad, says in most other countries investment is totally exempt under VAT.

"It is the duty of Assocom to give attention to this aspect of the tax at an early stage," he says.

However, Van Rensburg says it would be wrong to campaign for a total exemption of investment goods as it would probably lead to a reduction of about 25% of the VAT base.

The option as to some form of relief, which may ultimately lead to the normalisation of the treatment of investment under VAT, is necessary, he says.

This would be to the advantage of the economy as it would serve as an incentive for new investment, and therefore for savings, while at the same time reducing inflation.

The way to reach this goal would be to implement in the VAT credit system the same three-year depreciation period as suggested by Margo.

This would imply that an input tax credit for VAT paid on capital be allowed to be phased in over three years, instead of being allowed in total as a credit in the tax year in which the capitl good was acquired.

Receiver of Revenue to hand out free tax advice

Transvaal taxpayers facing completion of their 1988 assessment forms before the May 30 deadline can receive help from Receiver of Revenue offices in Johannesburg, Pretoria, and on the East Rand and West Rand.

Staff will assist the public with queries and filling in of forms after official hours, every weekday — excluding public holidays — until May 30.

The deputy Receiver of Revenue in Johannesburg, Mr C T Prinsloo said: "On March 1 there were 31 000 tax return forms for 1987 still outstanding. This may have reduced to about 20 000 by now."

He said the Johannesburg office had issued about 270 000 forms this year, of which it expected 250 000 to be returned before May 30.

Another 115 000 forms were issued to provisional taxpayers, he said.

The Receiver's Rissik Street office will be open from 4.15 pm to 6.15 pm.

Pretoria's Van der Walt Street office will open at the same times.

Germiston, Kempton Park and Alberton will be open, but not during office hours.

Benoni, Springs, Boksburg, Brakpan, Krugersdorp, Randfontein and Roodepoort will also offer facilities.

Messina's senior management did not know about the negotiations until shortly before the cautionary announcement, it is understood.

and, via Gencor, [illegible] negotiations apparently concern Messina's promising platinum prospect near Tzaneen.

the project, news of [illegible] tiations was apparently as fresh for Messina's executives

The Chamber of Mines hammers proposed MTC

The Chamber of Mines has called on the Government to reconsider the minimum tax on companies (MTC) introduced in the Budget.

It said yesterday MTC struck at the basis of mining tax in South Africa and pre-empted the Marais Committee appointed to examine the mining tax system following the Margo Commission recommendations.

It also impacted on growth of the industry, which made a major contribution to the economy.

The chamber said MTC was contrary to fundamental principles of taxation: fairness, equity and neutrality.

It said that mining ventures required large capital sums over long lead times of up to 12 years, under risks such as water, depth, variable ore values and commodity prices outside the control of the producer.

"The formula tax system under review therefore allows all capital to be recouped before the fiscus shares in the profits. In recognition of this downside protection, high marginal rates are paid when the projects do generate profits.

"MTC imposes an advance tax when it is uncertain that large capital expenditure will ever be recouped."

Its effect would be particularly severe on the coal industry, where a major expansion phase had been followed by a market slump exacerbated by political sanctions, the chamber said.

Marginal mines would probably not be able to offset MTC against future taxes based on profitability. MTC would accelerate the demise of dying mines which, in effect, would have to pay an extra tax.

The chamber said if there were perceived problems of excessive capital write-offs, then the fiscus should address the underlying problems, instead of trying to recoup these write-offs by way of a minimum tax.

It held that MTC was inequitable in that it substantially penalised the mining industry in an attempt to curtail the use of legitimate, but possibly unacceptable, tax concessions available to other sectors.

It said the proposals were not neutral between the various sectors. Of the R350 million revenue the Government expected to be raised, mining would bear a disproportionate burden.

The chamber said the effects of MTC would be to:

- Discourage investors from funding new mineral projects.
- Excessively burden many companies in a downturn on the commodity markets.
- Either reduce capital expenditure or reduce dividends as mining companies presently paid out their residual profits in full.
- Accelerate the demise of marginal and dying mines, with significant impact on the economy.

RS

Good news for working wives

Working wives earning less than R700 a month should start getting bigger pay cheques from June.

That is when the new Standard Income Tax on Employees (Site) system for working wives earning less than R20 000 a year is expected to come into operation.

Wives earning more than that figure are likely to see no change in their take-home pay.

An analysis of the new rates suggests they will still pay tax at close to current rates. They will benefit from the new system only next year.

Then their incomes, if they earn less than R20 000 a year, will no longer be added to their husband's for tax assessment purposes.

Tax will be due only on the husband's income, which should lead to a much lower tax liability.

Nonetheless, although the new system puts most working wives in a better position than they are now, it does mean that above a certain income level one rand in every four they earn will still go to the Government.

The following table, based on details issued in the Budget, shows the expected new tax rates and the current tax rates.

MONTHLY INCOME (rands)	NEW TAX (rands)	OLD TAX (rands)
500.....	35,42	53,35
600.....	60,41	73,25
700.....	85,42	93,87
800.....	110,42	115,87
900.....	135,42	137,87
1 000.....	160,42	159,82
1 100.....	185,42	183,82
1 200.....	210,42	207,82
1 300.....	235,42	231,82
1 400.....	260,42	257,10
1 500.....	285,42	283,10
1 600.....	310,42	309,10

Can taxman ease pain of the crash?

320

Star 28/5/88

As a result of the Stock Exchange crash on October 19 1987, many taxpayers will be seeking to claim as tax deductions the share losses they suffered.

Some will, no doubt, find themselves in the unfamiliar role of trying to convince Inland Revenue that they are share dealers as opposed to long-term investors.

This article is aimed primarily at those who are either claiming share losses for the first time or are not certain of their status with Inland Revenue: share dealers or investors.

The terms "share dealer" and "investor" are not, in themselves, relevant in tax law. The importance of their meaning stems from the principle that only losses of a revenue ture, as opposed to those of a capital nature, may be deducted for tax purposes.



THEO SHAPIRO (above), a consultant at Ernst & Whinney, is the author of this article.

INTENTION: The principal test used in determining the capital or revenue nature of a loss (or gain) arising from the disposal of a share (or any other asset) is the test of intention, both at the time of acquisition of the asset and subsequently. While this intention may not always be conclusive, generally speaking it is the decisive factor.

A taxpayer will be regarded as an "investor" (transacting on capital account) if he acquires shares with the intention of holding them more or less permanently in order that they produce dividend income for him, and with the intention that he will dispose of them only if unexpected or special circumstances intervene.

On the other hand, a taxpayer will be regarded as a "share dealer" (transacting on revenue account) if the shares were acquired with the intention of selling them at a profit.

GUIDELINES: Taxpayers, in trying to claim a share loss, may find the following guidelines useful:

(1) The scope, nature and scale of the share transactions: where shares are traded frequently or are held for short periods, the inference is that the taxpayer is a share dealer and any loss suffered will be deductible. Unfortunately the term "frequently" is not easily quantifiable.

Our courts may, however, look at factors such as the proportion of the total portfolio turned over in a year; the extent of the lag between the disposal of old and the puchase of new shares in relation to the addition of counters to the existing holdings; and to the history of previous years' transactions.

2) Rate of return: where a taxpayer can show that he earned no dividend income from a share before he disposed of it. This may support his contention that he is a sharedealer and not an investor.

3) Financing: where it is clear that a taxpayer is using short-term loans to finance his share purchases — in the sense that he will be required to dispose of such shares in order to repay the loans on short notice —it may be inferred that the taxpayer is a share dealer.

4) Application of share proceeds: where proceeds are used to acquire new shares as opposed to adding to existing counters, there may be an inference that the taxpayer is not an investor trying to protect his capital, but is rather a share dealer intent on speculating. This is particularly the case where the new shares acquired have a poor dividend record.

5) Company as taxpayer: where an active policy of changing shareholdings is followed (for example, where a special share review committee is appointed), a company would probably be classified as a share dealer.

A taxpayer may have different intentions regarding his various share transactions. In such an event, regard must be had to his intention in each particular case. Thus, he could be regarded as a share dealer on certain transactions and as an investor on others.

UNREALISED LOSSES: Share dealers (not companies) should remember to claim as a deduction their unrealised losses in the year in which the losses are incurred. Unrealised losses relate to shares which are still on hand and not disposed of at year end.

INTEREST PAYMENTS: Where a taxpayer regarded as a sharedealer acquires shares with borrowed money, the interest payment is fully deductible even where a loss is suffered on the disposal of those particular shares. Such taxpayers would claim the share loss and the full (as opposed to two-thirds) interest paid as tax deductions.

PITFALLS: Taxpayers should carefully evaluate the extent of their share gains and losses made in the past three years before claiming the share loss. They should also carefully consider what their intentions are with regard to share transactions. This is because Inland Revenue is entitled to go back and re-open the past three years' tax assessments. On the basis of the taxpayer's contention that he is a share dealer in respect of a particular share loss, Inland Revenue will probably seek to tax all previous share gains that originally were untaxed.

Furthermore, the taxpayer may have difficulty in escaping tax in respect of future share gains where his contention will be that he is an investor.

WIVES: In a recent court case it was stated that in relation to share transactions, the intention of the spouses could be separately ascertained despite being one taxpayer. The court stated: "Although there is only one taxpayer, in the person of a husband, the income of the wife cannot be added to his income until such time as it has been characterised as income".

Therefore, there may be a solution for a taxpayer who has suffered a share loss and accordingly wants to be regarded as a share dealer for that particular transaction, but is concerned about losing his future status as an investor. If the wife were to take up future shares for investment purposes in her name, then his status as a share dealer may be protected.

This approach could also be used in the situation where the husband wants to protect his status as an investor — his wife could do the dealing. However, such arrangements could give rise to other problems completely divorced from tax.

Harnessing those

1464S 2-75/88 320

Screws to be tightened on RSC levy-dodgers

By ARNOLD KIRKBY
Tygerberg Bureau

THERE are 5 746 defaulters owing R2 083 525 in levies to the Regional Services Council but "the screws will be tightened on them soon", Mr Pietie Loubser told a meeting of the Bellville Chamber of Commerce and Afrikaanse Sakekamer.

He also warned that some levy payers had still not registered and that many of them would be caught.

By May 17 a total of 33 989 levy-payers had registered, he said.

Of these, 24 858 paid their levies monthly and 9 131 paid yearly.

Mr Loubser, who is chairman of the Western Cape RSC, said that not all RSC levies were added burdens on businessmen.

Some were replacement taxes while other obligations would fall away, he said.

The RSCs were not allowed to levy property taxes, which meant that the old Divisional Council tax fell away.

The three Divisional Councils (Cape, Paarl and Stellenbosch) collected about R36-million in rates in their last year of operation and this did not include rates paid by local areas like Constantia and Melkbosstrand.

In addition the RSC Act also provided that commitments such as transport levies and licence fees were no longer being paid by the municipalities.

"Entrustment of the function of land use and transport planning to the RSC can and probably will lead to the Metropolitan Transport Planning Board (Metplan) becoming the responsibility of the council and the contributions paid by them will fall away," he said.

In the past the various municipalities contributed towards the running of Metplan.

R309 156 was paid in by all the local authorities this year, with Bellville contributing R46 079, Durbanville R9 726, Kuils River R6 036 and Parow R27 868.

"It must be taken into account that the aim is to lower State subsidies gently to ease the load on the Treasury, which should in turn have an affect on the central government's tax rate."

PERKS TAX

Company cars hit

The financing of company cars needs substantial re-examination after new perks tax tables were gazetted last week. Company cars, as opposed to those subject to the car allowance, comprise about 80% of all late models on the roads.

The higher values were foreshadowed by Barend du Plessis in this year's Budget speech. Despite previous comment that the new tables embraced only a marginal increase, analysis for the *FM* by Ernst & Whinney's Pascale van der Elst shows increases ranging from 15%-60%.

She argues that the increase "makes a substantial difference in the size of the taxable benefit." After reassessment by employer and employee, the travel allowance may be a more attractive option.

The influence of the motor vehicle lobby previously ensured a lower tax liability for the company car, given the high proportion of new car sales as fleet cars. Margo reassessed the position and recommended that Revenue adjust the value of company cars annually to stay realistic. This was accepted by government, culminating in *Government Gazette* 956 of May 11.

Comparisons of old and new published tables show, for example, that a vehicle "valued" at R20 000 increases the amount to be added to the employee's salary by 15%, to R253. This rises to 60% in the case of vehicles valued at R150 000 **(see table)**. High as that may sound, inflation will soon push a number of manufacturers' flagships into this price category.

Is a travel allowance to an employee to compensate for the use of his private vehicle on company business a suitable alternative? There is no easy answer.

Van der Elst says the travel allowance should "preferably be granted to an employee who does at least 25 000 km a year." In other words, the employee should not be "desk-bound." The legislation deems that 10 000 km is used for private travel; if the employee is desk-bound, the private proportion would increase and be taxed.

There are two ways of calculating the value of the allowance taxable in the recipient's hands:

VALUE OF PRIVATE USE

Determined value	Old table	New table
Vehicle value:		
R20 000		
(3000 cc engine)	R220	R253
R55 000		
(3000 cc engine)	R380	R437
R80 000		
(2000 cc engine)	R430	R518
R100 000		
(3000 cc engine)	R540	R621
R150 000		
(3000 cc engine)	R560	R897

☐ Subtracting the "deemed" 10 000 km provision from *actual* kilometres travelled; or
☐ Keeping accurate records of the actual kilometres undertaken (if the employee can prove private travel is less than the deemed 10 000 km, taxable liability is reduced).

The advantages of the travel allowance are wide-ranging: the employee benefits from the resale value of the vehicle; he has flexibility in choosing the vehicle; deductions can be made for the allowance against tax returns (rather than the monthly PAYE); if the allowance has been properly calculated, taxable liability is reduced to a minimum; and phasing-in provisions apply.

For the employer, the travel allowance removes the vehicle from the company's balance sheet; the company may budget more accurately; administrative burdens are reduced; cars do not have to be replaced every three to four years; employees tend to take better care of their vehicles; and maintenance costs are reduced. ■

More tax evaders caught

B/day 24/5/88 (320)

GERALD REILLY

PRETORIA — Increasing numbers of GST fiddlers are being caught in the Directorate of Inland Revenue's net.

The Directorate's Chief Director (Operations) Schalk Albertyn said at the weekend the intensified tax recovery campaign had resulted in the discovery of R77m, including penalties, in the first three months of the year.

This was substantially greater than the amounts uncovered in the first quarter last year.

Record amounts of untaxed income were also discovered.

Untaxed company income unearthed amounted to more than R252m, while the figure for individuals was R67m.

On returns for the 1988 tax year Albertyn said only about 25% had been received with deadline just a week away.

However, those whose employers had not yet given them their IRP 5s would be given a period of grace until the end of June.

SATURDAY MAY 21 1988

SA's wealthy wait for tax shock

By DEREK TOMMEY

MANY wealthy people, and some not-so-wealthy, are waiting with mounting anxiety for the arrival of their 1985 and 1986 tax assessments.

They fear they might have to pay millions of rands more in taxes than they calculated when they submitted their returns.

They are the people who invested heavily in 1985 in certain film-making schemes with the major intention of incurring large tax losses and cutting their tax bills rather than making money.

But the tax authorities feel that the 1985 schemes may have infringed the law.

Tax losses

In fact, they have made two changes to the Tax Act since then, clarifying the situation and ensuring there is no repetition of the 1985 events, so that current investors in film schemes have no cause for worry.

However, they have delayed sending out assessments in cases where film scheme tax losses are claimed until they have fully investigated the situation and made a final ruling.

Were the tax authorities to rule against the 1985 schemes, those investors who put money in them would be hard hit. They will not get their tax losses, and, except for a few lucky ones, the return on their investment is likely to be low.

This is because most of the schemes were tax-driven rather than profit-driven.

The attraction of the 1985 schemes was that they could provide up to R4 in tax losses and sometimes even more for every R1 invested.

For tax payers in the maximum marginal tax bracket of 50 percent, the R4 tax loss meant that for every R1 they put into the scheme they could cut their tax payments by R2.

And although these schemes were regarded mainly as tax havens, there was the possibility that there would be some return on their investment. One or two investors, especially those who put money into King Solomon's Mines, in fact did extremely well.

The scheme worked as follows: An investor would put say R20 000 into a film-making scheme. The film company would then 'lend' him a further R20 000 to go on export marketing, increasing his total investment to R40 000.

The investor would be able to write off his initial R20 000 as a tax loss. And he would be able to write off double the R20 000 marketing allowance because it was spent overseas.

The result was that he would be able to write off R60 000 against his taxable income giving him a tax saving of R30 000.

However, in many instances the sum 'lent' for export marketing was much larger and this resulted in a much greater gearing. As the investors onlyt had to repay this sum when the company started making money, he actually incurred no liability.

The Department of Inland Revenue's man handling the case, Mr Trevor van Heerden, said this week that the department was still looking at the 1985 schemes. A special unit had been formed to investigate them and would report shortly.

Replying to claims by tax consultants that some people had already been allowed the tax losses while others had not, Mr van Heerden said that all assessments would be reviewed in the light of the unit's findings.

The changes in the tax laws has not stopped investors putting money into films, said a tax consultant this week, but it was the return they hoped to get and not their tax saving that was now the major criterion.

The Government has recently ruled that for a film scheme to benefit for the export tax concessions, 75 percent of the expenditure on the film had to be incurred in South Africa.

Also only the amount of money actually invested and 'at risk' was tax deductible.

Under the new system the tax loss is sharply reduced.

It is still possible to get a return of up to R1,20 for every rand invested, which ensures the investor does not lose his money, a tax consultant said.

But if the investor wants to make money he must pay more attention to the commercial prospects of the film.

Locally-made

Someone who welcomes the new arrangement is Mr Lindsay Reid-Ross, head of the recently established Cape Town company, Newfin Entertainment Productions, which arranges finance for locally-made films.

The company was formed last October when the new tax arrangements were announced and investors were given certainty about the tax benefits they could expect to receive. Newfin, which is part of the Unidev group, had long-term plans for the film industry, he said.

At present it was helping to finance six South African-made films. Promotion reels for the six had been exhibited at the Cannes film festival this week.

"The feedback we've had is that all have been well received," he said.

TAXATION

Corbett apportions

South African judges operate strictly under the jurisprudential umbrella of positivism — they are allowed only to interpret law, not *make* law. In recent years, in tax law at least, a number of decisions in the Appellate Division — the final court of appeal — have, some lawyers argue, tended to make law.

These judgments are normally delivered by Mr Justice M M Corbett, who this week delivered another judgment that breaks new ground in tax.

To date, the principle of apportionment has been used only when a taxpayer derives income from activities performed in SA *and* one or more other countries. Since SA taxes only income *sourced* here, income earned, say, in Botswana, would not be taxed here. One activity may be performed in both countries, needing apportionment of the income.

This week, Judge Corbett used the principle of apportionment in the income versus capital debate — without question, the most difficult area in tax law.

According to Sapa, one Nelson Raymond Tuck was, before retirement, MD and general manager of a pharmaceutical company. He received shares in terms of a management incentive plan. The Special Income Tax Court allowed an appeal by him against the amount of tax he had to pay. In a full bench decision, the Transvaal Supreme Court altered the Special Court decision, finding that the value of the shares should be assessed as taxable income.

Judge Corbett examined the quid pro quo given by Tuck for receipt of the shares, finding that it had two main elements:

- ☐ Service to the company (being of an income nature); and
- ☐ Restraint of trade (being of a capital nature), compliance with which was a prerequisite to Tuck receiving his annual instalment of shares over a 10-year period.

Judge Corbett reportedly said that it seemed to him that "in a proper case, apportionment provided a sensible and practical solution to the problem that arose when a taxpayer received a single receipt and the quid pro quo contains two or more separate elements, one or more of which would characterise it as capital.

"It could hardly have been the intention of the legislature that in such circumstances the receipt be regarded wholly as an income receipt, to the disadvantage of the taxpayer, or wholly as a capital receipt, to the detriment of the fiscus.

"It is not possible to infer that the one element was more important than the other. In all the circumstances, a 50-50 apportionment would be fair and reasonable."

While it is too soon to say if this ruling will be a milestone, it has major implications.

When applied to income versus capital, the principle of apportionment could be of limited application. But it is a brave judge who can see income *and* capital so clearly defined in a single receipt. The legislature has never attempted to define either.

As *Silke on SA Income Tax* puts it: "There is no definition in the (Income Tax) Act of receipts and accruals 'of a capital nature.' No doubt the legislature has realised that it is impossible to define the qualities that render a receipt either income or capital ..." ■

Retrospective tax laws 'unfair to companies'

Star 20/3/84 (320)

Finance Correspondent

DURBAN — South Africa faces between five and 10 years of tax-caused company failures as the business community comes to terms with the new order in the halls of Revenue.

So says tax consultant Pierre du Toit, advising companies to upgrade tax-planning in their management system. At the same time he calls on the Government to exercise restraint in its handling of tax legislation.

He told delegates to the congress of the Southern African Institute of Chartered Secretaries and Administrators, which started in Durban yesterday, that the law, rather than political and personal considerations, had to be the basis of tax collection; it was the responsibility of the State to legislate simply and fairly.

Retrospective laws, like the Minimum Tax on Companies, were manifestly unfair. Mr du Toit said he sensed a "big bad companies" syndrome in the Cabinet in its approach to tax and he urged the Government not to "turn the goose that lays the golden egg into a paper egg-laying goose".

Tax law which penalised commerce and industry for "dividends paid months before the legislation was dreamed up" contradicted the purpose of government — to interfere to the minimum in its role as arbitrator between disputing individuals, said Mr du Toit.

"Worst of all it's stupid because it inhibits entrepreneurs by introducing an air of uncertainty into an area of business decision-making which should be clearly defined."

He said South Africa was following the trend in the rest of the world towards a lowering of the tax burden and a broadening of the base, with a shift of the weight of taxes from the individual to the corporate sector.

To be effective, the change required the increasingly sophisticated methods of collection and the more thorough investigation of returns that were becoming manifest. Business people had to re-rate the importance of their tax liability in management.

Tax and reform in the post-Margo era

At a conference on tax, the Deputy Minister of Finance attacks business monopolies and says it would be 'of great interest' to analyse corporate taxes relative to profits. HILARY JOFFE reports

ONE thing tax reform and privatisation have in common in South Africa is that the government's reasons for favouring them may differ from the reason they are favoured by business.

The government's priority is to address the ever-widening gap between its spending and its revenue. It wants to continue financing "law and order" and "security" but it also wants funds for housing and welfare services.

Tax reform will raise the same or more money but distribute the burden differently and, it hopes, make people feel better about it.

The Margo Commission into South Africa's tax structure was not asked to look at government spending. But the government's response to it centres on spending: a point made clear before but reiterated this week by Deputy Finance Minister Org Marais when he gave the keynote address at a conference in Johannesburg on "South African Tax Post Margo" chaired by Mr Justice Cecil Margo.

"The government faces serious pressures to uplift the Third World component of this country through better education, housing and jobs, to maintain law and order, to fight sanctions and boycotts, and to compensate for the damages caused by droughts and floods. The result is a continuing demand for increased government spending," Marais said.

The government was prevented from having "a clear-cut policy to reduce 'total' tax rates on labour and capital", he said, even though this was what any tax reform policy should aim at and the government accepted there was a close relationship between tax policy and economic performance.

In outlining the reasons why the government had to reject some of the Margo Commission's recommendations and accept others only in part, Marais went futher than budget constraints.

He went on the attack, pointing to the role of entrenched big business interests and the way they limited the government's ability to implement reform. "The most important impediment to an ideal tax system is the institutions and economic structure of this country," he said.

South Africa had an over-concentated economic structure resulting in less than 10 groups ("some say four") controlling most of the private sector, he said. "It would be of great interest to have an in-depth analysis of the tax paid by these groups relative to their total profits published and unpublished."

The government couldn't see why it should remove tax on dividends if less than two percent of the shareholders of companies on the Stock Exchange are private individuals.

He added "Is is not true that it is the big groups who know how to make use of tax expenditures and tax base trading?"

The government was also constrained in its response to the commission by other political and economic priorities, he said.

The Department of Inland Revenue was understaffed and consulting firms robbed it of trained people "at double the salary plus a Mercedes Benz and a house", Marais said.

He said tax reform was a continuing process and the permanent committee set to investigate future tax reform might well start by examining insurance companies and pension funds and possibly the need for a capital gains tax — even though the Margo Commission had opposed this. So did many of the people at the conference, though attorney Michael Katz, who was a Margo Commission member, said although a capital gains tax might not yield much revenue it would be important in terms of perceptions — of better allocation of the tax burden between rich and poor.

And on perceptions, Eddie Broomberg cited the example of British tax rates which went up to a marginal rate of 100 percent during the war but there was little evasion. South Africans' unwillingness to pay taxes was in part greed, but also motivated by "the feeling of malaise in society against government"

He said the uncertainty created by the government about future tax measures and retroactive measures such as Comprehensive Business Tax were having a negative effect on business confidence — a point echoed by some of the other speakers.

Despite the minister's comments on the shortcomings of the taxman's office, two speakers at the conference stressed that tax collection was tightening up and future trends would be towards greater efficiency.

There had often been a preoccupation with tax policy in the past and not enough with the administration necessary for tax reform: better administration could generate better revenue, said Des Kruger, formerly of the Inland Revenue Department and now an associate director with Deloitte Haskins and Sells.

The Margo Commission found 70 percent of the staff of the Inland Revenue department were educated up to matric or less. This made for a very uneven playing field when the department's staff were up against sophisticated tax consultants.

Kruger said Inland Revenue was giving attention to staff shortages and computerisation and would become more vigilant and sophisticated in future. "The 'don't worry they won't detect us' attitude is getting more dangerous," he said.

Katz said the demands of government expenditure were such that tax rates were not likely to drop: rates would hold constant only if there were a better inflow to the fiscus.

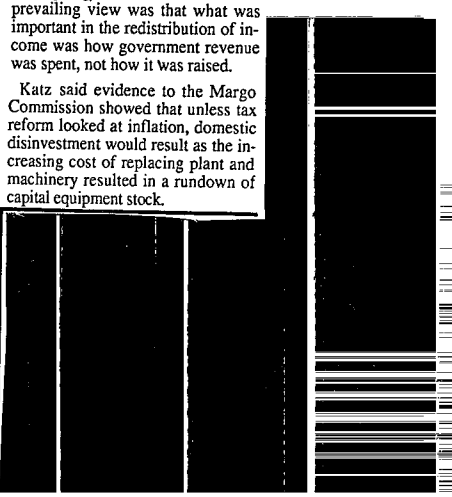
The future would likely see better administration and quicker collection of taxes through, for example, greater use of withholding taxes in spheres such as dividends and interest.

A broader tax base was vital from the economic and administrative point of view, Katz said. "Every dent in the base has the effect of driving up rates."

There were likely to be further moves to shift the burden of taxation from individuals to companies, he said. There would be a greater reliance on indirect taxes because direct taxes (mainly personal and company income tax) were vulnerable to inflation, manipulable, not a true tax on income and not efficient.

He said progressive income taxes were going out of fashion and the prevailing view was that what was important in the redistribution of income was how government revenue was spent, not how it was raised.

Katz said evidence to the Margo Commission showed that unless tax reform looked at inflation, domestic disinvestment would result as the increasing cost of replacing plant and machinery resulted in a rundown of capital equipment stock.



Firms' car tax rise 'negligible'

(320) B/Day 20/5/88

KAY TURVEY

THE increase in fringe benefit tax on company cars of about 15% has been dismissed by tax consultants and motor financiers as negligible, and also contrary to the spirit of the Margo Commission.

Commenting on the new taxable value of company cars as published in the latest Government Gazette, Fisher Hoffman Stride partner Anthony Chait says the marginal increases are not in the spirit of Margo or the white paper, which accepted that all benefits, whether in cash or kind, should be taxed on the same basis.

However, Chait describes the increases as practical in the light of possible powerful lobbies from the motor industry.

Determined value	Value of private use			
	Engine capacity			
	0-1600cc	1601-2000cc	2001-3000cc	Over 3000cc
	R	R	R	R
0-R 20 000	150	184	219	253
R 20 001-R 25 000	173	207	242	276
R 25 001-R 30 000	196	230	265	299
R 30 001-R 35 000	219	253	288	322
R 35 001-R 40 000	242	276	311	345
R 40 001-R 45 000	265	299	334	368
R 45 001-R 50 000	288	322	357	391
R 50 001-R 55 000	311	345	380	414
R 55 001-R 60 000	334	368	403	437
R 60 001-R 65 000	357	391	426	460
R 65 001-R 70 000	380	414	449	483
R 70 001-R 75 000	403	437	472	506
R 75 001-R 80 000	426	460	495	529
R 80 001-R 85 000	449	483	518	552
R 85 001-R 90 000	472	506	541	575
R 90 001-R 95 000	495	529	564	598
R 95 001-R100 000	518	552	587	621
R100 001-R110 000	564	598	633	667
R110 001-R120 000	610	644	679	713
R120 001-R130 000	656	690	725	759
R130 001-R140 000	702	736	771	805
R140 001-R150 000	748	782	817	851
Over R150 000	794	828	863	897

In addition SA management has become accustomed to cars as part of their package, he says, and given the shortage of staff at managerial levels it is important not to alienate them.

However, the new table comes down more heavily on luxury cars. Whereas previously the ceiling was on cars of over R100 000 it now goes up to R150 000 and above.

A raising of this tax was suggested by Finance Minister Barend du Plessis earlier this month.

However, the latest tables are not seen as the total assault on non-cash benefits as expected from Margo.

Wesbank senior GM Neville Nightingale says the increases are sensible and will have little effect.

VAT will stop tax evasion — Weil

b/day 20/5/88 (320)

DURBAN — The introduction of VAT would stop the widespread avoidance of GST and give those small retailers who had avoided paying it a massive headache, Checkers MD Clive Weil said yesterday.

No-one was sure how much GST was lost, he told the CIS conference, but he had been told by a banker recently it could be as much as R1,2bn.

Some small traders had avoided paying GST and used this advantage to compete with supermarkets, Weil said.

Own Correspondent

He forecast that consumerism would emerge in the next decade in response to the concentration both of supermarkets and a reduction in the number of suppliers.

Bread and butter issues would be raised in Parliament and he expected the existing small consumer bodies would get massive support from consumers in time to come.

There would be more flexible shopping hours — later in the evenings and on Saturdays and Sundays. It was something the consumer was demanding, Weil said.

Supermarkets would use computers for bar-coding, enabling customers to have their accounts debited and supermarkets to put a face to their customers.

Pick'n Pay would be converted to this system by 1991 and Checkers would be about 60% down the line by then. Costs would be heavy — about R275m for Checkers — but benefits considerable, Weil said.

Checkers was looking at a credit card system which would allow it to make special offers to customers.

Today is tax deadline for 500 000

Own Correspondent

Cape Times 30/6/88 (320)

PRETORIA. — More than half-a-million taxpayers have failed to render 1988 tax returns — and deadline is today.

The deadline was extended to June 30 from May 31 because of delays in employers getting out their IRP5s.

The chief director of inland revenue, Mr Schalk Albertyn, warns that no further extensions will be granted.

If taxpayers have a sound reason why their returns should be delayed beyond the end of the month, they will have to negotiate with their receivers.

In the seven major receiver areas — Johannesburg, Pretoria, Durban, Cape Town, Port Elizabeth, East London, and Bloemfontein — more than 400 000 taxpayers had failed to render returns.

In Johannesburg the non-return rate is 54%, and in Pretoria 57%.

State of emergency censorship restrictions apply to a wide range of reporting, comment and pictures in the Cape Time

D-day to submit tax forms

STV 30/6/87 (320)

By Sue Valentine

Today is D-day for the submission of income tax returns and first offenders who fail to meet the deadline could face fines of R100, according to the chief director of Inland Revenue, Mr Schalk Albertyn.

He said more than 500 000 Reef taxpayers had not yet submitted returns, and those who failed to do so would need to show good reason.

Mr Albertyn said "habitual delinquents" could be penalised more heavily. The maximum fine was double the amount of tax payable, but this was only imposed on "very serious" cases.

The deadline of May 31 was extended to June 30 because of delays by some employers in distributing IRP5 forms.

"If anyone needs a further extension they must apply to their local receiver. We expect to receive a large number of returns this week and we will give people a chance to get their forms to us before imposing penalties," he added.

Despite the tardiness of taxpayers who Mr Albertyn said "always wait till the last day" to make their returns, the department would not necessarily refuse to give general extensions in future.

"We review the situation each year. If there is a delay in the handing out of forms we try to find out the reason and then we consider whether or not to grant an extension."

missions in foreign countries, Chief Judges in Bloemfontein and Mafikeng, Chairman and member of the Commission for Administration and the Heads of certain government departments.

(ii) Occupation by the office bearers and their households.

Organizations listed as banned and subversive

1228. Mr C J DERBY-LEWIS asked the Minister of Justice:

Whether he will furnish the House with the names of organizations which are listed by his Department as (a) banned and (b) subversive; if not, why not; if so, (i) what are their names in each case and (ii) in respect of what date is this information furnished?

The MINISTER OF JUSTICE:

(a) The legislation administered by the Department of Justice does not provide for the listing of organizations as banned organizations. Section 4(1) of the Internal Security Act, 1982 (Act 74 of 1982), provides for the declaration of an organization to be an unlawful organization in the circumstances referred to in that section. The repealed Internal Security Act, 1950 (Act 44 of 1950), and Unlawful Organizations Act, 1960 (Act 34 of 1960) contained similar provisions and organizations declared to be unlawful organizations under those statutes are by virtue of the provisions of section 73 of the Internal Security Act, 1982 still unlawful organizations.

(i) The following organizations were declared to be unlawful organizations under the said statutes:

ORGANISATIONS DECLARED TO BE UNLAWFUL BY OR UNDER THE INTERNAL SECURITY ACT, 1950

Association for the Education and Cultural Advancement of the African People of South Africa
Black Parents' Association
Black People's Convention
Black Women's Federation
Border Youth Organisation, also known as Border Youth Union
Communist Party of South Africa
Eastern Province Youth Organisation, also known as Eastern Cape Youth Organisation
Medupe Writers Association
Natal Youth Organisation
National Youth Organisation
South African Communist Party
South African Congress of Democrats
South African Student's Movement
South African Students' Organisation
Soweto Students' Representative Council
The Black Community Programmes Limited
The Christian Institute of Southern Africa
The Defence and Aid Fund
Transvaal Youth Organisation
Union of Black Journalists
Western Cape Youth Organisation
Zimele Trust Fund

ORGANISATIONS DECLARED TO BE UNLAWFUL UNDER THE UNLAWFUL ORGANIZATIONS ACT, 1960

African National Congress
African Resistance Movement, also known as African Freedom Movement; National Committee, for Liberation; National Liberation Committee and The Socialist League
Dance Association
Football Club
Football League
Pan Africanist Congress
POQO
SAA Football League
South African Communist Party
Spear of the Nation
Umkhonto we Sizwe

ORGANISATIONS DECLARED TO BE UNLAWFUL UNDER THE INTERNAL SECURITY ACT, 1982

Congress of South African Students

(ii) 13 June 1988

(b) There is no provision for organizations to be listed as subversive.

Public Service: staff housing subsidies

1233. Mr R M BURROWS asked the Minister for Administration and Privatisation:

What total amount was allocated by the departments and the organizational component referred to in section 6(1) of the Public Service Act, No 111 of 1984, for the (a) 1986-87, (b) 1987-88 and (c) 1988-89 financial years for the payment of staff housing subsidies on a (i) compulsory and (ii) voluntary basis?

The MINISTER FOR ADMINISTRATION AND PRIVATISATION:

To furnish the Honourable Member with the information in the requested forma, the individual files of approximately 70 000 staff members receiving housing subsidies will have to be consulted. Due to the magnitude of the task, the requested information can not be furnished.

Residence permits: persons of Eastern European origin

1256. Mr C J DERBY-LEWIS asked the Minister of Home Affairs:

With reference to his reply to Question No 950 on 26 April 1988, (a) how many persons of Eastern European origin who entered South Africa on temporary residence permits or tourist visas over the latest specified five-year period for which figures are available returned to their countries of origin and (b) for what purposes did they visit South Africa?

The MINISTER OF HOME AFFAIRS:

(a) and (b)

Statistics on the basis required are not available.

Deferment of tax

1261. Mr C J DERBY-LEWIS asked the Minister of Finance:

(1) (a) Under what conditions may companies apply for deferment of the tax payable by them to the State and (b) for what periods are they granted deferment;

(2) whether the Receiver of Revenue receives interest on such deferred tax; if so, at what rate; if not, why not?

The MINISTER OF FINANCE:

(1) (a) The Income Tax Act provides that "any tax chargeable shall be paid on such days and at such places as may be notified by the Commissioner or as specified in this Act, and may be paid in one sum or in instalments of equal or varying amounts as may be determined by the Commissioner having regard to the circumstances of the case". While the Commissioner is thus empowered to defer the payment of tax there are no prescribed conditions attaching to such deferment.

(b) The period of deferment depends on the circumstances of the case, the Receiver of Revenue concerned having regard to factors such as the financial position of the taxpayer, the amount of tax payable and whether the taxpayer has a good or bad tax-paying record.

(2) Where income tax is not paid in full within the prescribed period, interest is payable at the rate of 15% per annum on the outstanding balance in respect of each completed month during which any portion of the tax remains unpaid.

In the case of sales tax where due to circumstances beyond the control of the person liable for the payment of tax the amount of tax due cannot be accurately determined within the time allowed, the Commissioner may, subject to such conditions as he may impose, accept a provisional payment. Any shortfall determined in relation to the actual liability as finally determined is subject to interest at the rate of 10% per annum in respect of the period reckoned from the day after the date by which the tax should have been paid in full to the date of payment of the shortpaid amount.

Number of first-year students

1263. Mr K M ANDREW asked the Minister of National Education:

Whether his Department keeps statistics on the number of first-year students registered at universities in South Africa; if so, how many (a) White, (b) Coloured, (c) Asian, (d) Black and (e) other specified first-year students were registered at each university in each of the latest specified four years for which figures are available?

'Glaring inequities' in exemptions

320 Bday 28/6/88

Tax experts swipe at govt over MTC

GOVERNMENT'S determination to press ahead with the minimum tax on companies (MTC) — as stated by Deputy Finance Minister Org Marais yesterday — has aroused strong condemnation from tax experts.

The tax, to be levied at a rate of 25% on declared dividends, was described as a low blow from government, and the "glaring inequities" in the provisions for exemptions were particularly criticised.

When Finance Minister Barend du Plessis announced MTC in the Budget, he described it as a temporary fund-raising exercise.

But Marais, speaking during the debate on the Income Tax Bill yesterday, said no assurances could be given that MTC would not be reimposed at some later stage.

Consultants argue MTC is rough and ready and could be much more circumscribed.

CHRIS CAIRNCROSS and KAY TURVEY

Arthur Anderson's Richard Rubin said it was a real shocker that there was to be no relief for companies whose capital profits were subject to dividend payments, as this was not a normal source of revenue.

Deloittes partner Willem Cronje said serious omissions from exemptions were dividends paid on preference shares, which were essentially a form of borrowing, and dividends paid out of accumulated reserves, relating to profits earned in previous years on which tax had already been paid.

He said companies liable for MTC on dividends paid from accumulated reserves would have a fair case to press

● To Page 2

Tax avoidance plan warning

CAPE TOWN — Tax avoidance schemes coming to light between now and March would be outlawed by 'retrospective amending legislation, Deputy Finance Minister Org Marais said yesterday.

During the Second Reading debate on the Income Tax Bill tabled in Parliament for the first time, Marais said that the incidence of tax avoidance schemes was causing concern and government would combat them strongly.

CHRIS CAIRNCROSS

Dealing with the Income Tax Bill, Marais recalled that government had accepted the concept of a capital transfer tax to replace the existing estate duty and donations tax, as recommended by the Margo Commission.

Government did not accept Margo recommendations concerning the writing off of various types of expenditure, which called for a single formula.

tax experts swipe at govt over MTC

● From Page 1

the authorities for relief.

Exemptions from MTC will be those companies that distributed dividends of less than R250 000 during a tax year; and any company whose receipts and accruals total no more than R100 000 — excluding capital income.

The exemption will also apply to any company which distributed dividends during the tax year to one or more shareholders who, on or before June 24, ceased to be shareholders, if the aggregate of dividends distributed amounted to not less than 75% of the total distributed.

Tax consultants say this particular exemption would appear to be directed at companies whose foreign parents have disinvested.

Any company being wound up or liquidated before September 30 this year will also be exempt from paying MTC, as will all companies exempt from normal tax under the Income Tax Act.

These include companies such as the CSIR, Armscor, Safto and the Gas Distribution Corporation.

Marais gave assurances that MTC would not be imposed in any form whatsoever in respect of dividends declared during the one-year moratorium — from June 17, 1988, to June 30, 1989 — announced earlier this month.

Let school fees be deductible — PFP

Sfr 28/6/88

(320)

Education was an investment in the future and parents should be allowed to deduct from their taxable income extra amounts they would to have to pay in the country's new education era, **Mr Harry Schwarz (PFP, Yeoville)** said in the House of Assembly yesterday.

In the second reading debate on the Income Tax Bill which incorporated, among others, 1988/89 Budget proposals, he said education in South Africa was entering a new era in which parents would have to pay more for their children's teaching.

"Is it, therefore, not logical that these amounts should, within laid down limits, be deductible for tax purposes?"



Mr Harry Schwarz . . . doesn't like toll roads.

TAX SHELTERS

Dealing with other aspects of the Bill, Mr Schwarz said he wanted to forecast that the Government would make provisison for toll roads to become tax shelters.

The indications were already there and, while he did not like toll roads for a start, he would like toll roads which were tax shelters even less.

On provisions of the Bill dealing with tax collection, the Progressive Federal Party finance spokesman said the Government was acting improperly when it changed the law to close legally proved loopholes in the tax regulations while the State's appeal was still pending.

Referring to several recent cases involving married women and pension provisions, he said taxpayers had legally avoided paying certain taxes, having gone to court to prove their claim, but that Government had then changed the law to make it retrospectively illegal while appeals were still pending.

"You cannot interfere with legislation to turn a case which you would have lost, into a loser case for the taxpayer."

Mr Schwarz said he fully supported the punishment of tax "evaders" and the closing of loopholes they had exploited but the distinction between tax "evasion" and "avoidance" which was the result of proper and legal tax planning, had to be maintained. — Sapa.

Govt hopes to phase out tax concessions

HOUSE OF ASSEMBLY — Government hoped to phase out most tax concessions within three years, Deputy Finance Minister Org Marais said yesterday.

Replying to debate on the Income Tax Bill, he said the Margo Commission had recommended the removal of tax allowances which had eroded the tax base.

He said the minimum tax on companies should be seen together with the removal of tax concessions and a reduction in the income tax rate.

Harry Schwarz (PFP Yeoville) said the situation would be unacceptable if the phasing out of the concessions did not go hand in hand with a reduction in income tax.

Schwarz said he saw one difficulty in the move away from direct taxation. He asked whether the phasing out of the debtors' allowance on GST would be accompanied by taxation under the new VAT system on a cash receipt basis.

Marais replied that the option of a cash receipt basis was being considered. A draft Bill was expected to be published in August.

The CP and PFP have opposed the Bill.

Speaking in the second reading debate on the Bill, Schwarz said education was "an investment in the future" and parents should be allowed to deduct extra amounts they were going to have to pay on education from their taxable income.

Schwarz said education in SA was entering a new era where parents would have to pay more for their children's teaching out of their own pockets.

"Is it therefore not logical that these amounts should, within laid down limits, be deductible for tax purposes?" he asked.

There was a definite need for investment in education in SA and government should provide incentives in this sphere, as it did in many others.

Dealing with other aspects of the Bill, Schwarz said he wanted to forecast that government was going to make provision for toll roads to become tax shelters.

The indications were already there and he did not approve of the idea.

On provisions of the Bill dealing with tax collection, Schwarz said government was acting improperly when it changed the law to close legally-proven loopholes in the tax regulations while the state's appeal was still pending.

Referring to several recent cases involving married women and pension provisions, he said taxpayers had legally avoided paying certain taxes, having gone to court to prove their claim, but government had then changed the law to make it retrospectively illegal while appeals were still pending.

Schwarz said he supported the punishment of tax "evaders" and closing of loopholes they had exploited, but that the distinction between tax "evasion" and "avoidance" which was the result of proper and legal tax planning, had to be maintained by government.

His overall impression of the Bill was that it was intended to tighten up tax collection first so that the fiscus could be built up as much as possible, and that government would decide later on real concessions to the taxpayer in the form of a more equitable tax basis.

He said this was contrary to the spirit of the Margo Commission's strategy for a new tax system in SA. — Sapa.

Tax experts slate govt's determination on MTC

By CHRIS CAIRNCROSS
and KAY TURVEY

GOVERNMENT'S determination to press ahead with the imposition of the Minimum Tax on Companies (MTC) as stated by Deputy Finance Minister Org Marais yesterday has aroused strong condemnation from tax experts.

They describe the tax to be levied at a rate of 25% on declared dividends as a low blow from government, in particular criticizing the "glaring inequities" in the provisions for exemptions.

Speaking during the debate on the Income Tax Bill, Marais said no assurances could be given by the authorities that MTC will not again be reimposed at some later stage.

Announcing the implementation of MTC in the budget proposals, Finance Minister Barend du Plessis described the tax as a temporary fund raising exercise.

Consultants argue MTC is rough and ready and could be much more circumscribed.

Arthur Anderson's Richard Rubin says it is a real shocker that there is to be no relief for companies whose capital profits are subject to dividend payments, as this is not a normal source of revenue.

Deloittes partner Willem Cronje says serious omissions from exemptions are dividends paid on preference shares, which are essentially a form of borrowing and dividends paid out of accumulated reserves, relating to profits earned in previous years on which tax has already been paid.

He said companies who would be liable for MTC due to dividends paid from accumulated reserves would have a fair case to go to the authorities and press for relief.

Exemptions from MTC will be those companies which distributed dividends during a tax year which totalled less than R250 000; and any company whose receipts and accruals — excluding income of a capital nature — totals no more than R100 000.

The exemption would also apply to any company which distributed dividends during the tax year to one or more shareholders who, on or before June 24, ceased to be shareholders in the distributing company, if the aggregate of dividends distributed amounted to not less than 75% of the total distributed.

Tax consultants say this particular exemption would appear to be directed at companies whose foreign parents have disinvested.

Any company being wound up or liquidated before September 30 this year will also be exempted from paying MTC, as will all companies exempt from normal tax under the provisions of the Income Tax Act.

Marais gave assurances that MTC will not be imposed in any form whatsoever in respect of dividends declared during the one year moratorium — from June 17, 1988 to June 30, 1989 — announced earlier this month.

Marais reiterated MTC can be set off against any future liability for normal tax or provisional tax and, to the extent that it has not be utilised by September 30, 1991, it will be refundable.

However tax experts observe it will in effect be a three year loan to revenue. Where a company fails to pay the MTC by the due date on September 30, 1988 it will be liable to interest on the outstanding amount from October 1, 1988 to the date of payment.

Govt to make tax-avoidance schemes illegal

CAA Twils 28/6/88 320

Political Staff

ANY tax-avoidance scheme coming to light between now and next March will be outlawed by means of retrospective amending legislation, the Deputy Minister of Finance, Mr Org Marais, warned yesterday.

Speaking during the second reading debate on the Income Tax Bill tabled in Parliament for the first time yesterday, Mr Marais said that the incidence of tax-avoidance schemes was continuing to cause concern and the government was determined to combat them with all the means at its disposal.

"Should any new scheme come to light between now and next March an announcement in regard to the matter will be made and the necessary amending legislation will be introduced as soon as possible and will apply as from the date of the announcement," Mr Marais said.

The PFP spokesman on finance, Mr Harry Schwarz, referring to a number of recent cases involving married women and pension provisions, said taxpayers had legally avoided paying certain taxes, and had gone to court to prove their claim. The government had then changed the law to make it retrospectively illegal while appeals were still pending.

"You cannot interfere with legislation to turn a winner case, which you would have lost, into a loser case for the taxpayer," he said.

Mr Schwarz said he fully supported the punishment of tax evaders and closing of loopholes they had exploited, but that the distinction between tax evasion and avoidance which was the result of proper and legal tax planning, had to be maintained.

Dealing with some elements of the Income Tax Bill, Mr Marais recalled that the government had accepted the concept of a capital transfer tax to replace the existing estate duty and donations tax, as recommended by the Margo Commission. Amendments had been introduced in the draft legislation.

● **Allow deductions for education — Page 7**

Afrus 28/6/88 (320)

How the new SITE affects married women

STANDARD Income Tax of Employees, better known as SITE is a final deduction system of taxation which has been approved by the Government and is to come into operation on 1 July 1988.

Although not only applicable to married woman, it should be seen as a step towards the separate taxation of married couples aimed at minimizing the tax penalty brought about by joint taxation.

It therefore becomes of interest to determine whether the working married woman will be better off under the new SITE regime and if so, to what extent.

Before an attempt can be made at determining the effect that SITE wowuld have on any given factual situation, the following should not noted:

● As far as married women are concerned, SITE will only apply to so much of the net remuneration earned in a particular tax year as does not exceed an amount of R20 000.

● Where the net rumeration earned by a married woman does not exceed R20 000 separate taxation applies and the net remuneration so earned by her will not to be taxed jointly with that of her husband.

If her net remuneration were however to exceed this amount, her total earnings would be taxed in the hands of her husband. In such an event certain allowances become applicable which are illustrated in the examples below.

● Net remuneration is defined as being the balance of remuneration remaining after deducting any current pension fund or retirement annuity fund contributions which so qualify, from the remuneration paid to an employee.

● Remuneration includes any bonus or similar payment made in terms of the employee's service conditions or any periodic payments that are made to the employee but also excludes various receipts, such as interest, etc.

● A married woman will pay SITE at a flat rate of 25% on the net remuneration earned by her and a deduction of R1 075 will be allowed against the amount so calculated.

● For purposes of SITE the term "married woman" may include a person who is unmarried, has never previously been married and who maintains a child in certain circumstances.

The following tables serve to illustrate the application of SITE in certain circumstances (deductions and rebates not specifically dealt with have been ignored):

Tax consultant Advocate H SWART of Ernst & Whinney Management Services examines how married women will be affected by the new Standard Income Tax of Employers.

EXAMPLE 1.

(a) WITHOUT SITE

Income husband	R50 000
Income wife (net remuneration)	R18 000
Combined income	R68 000
Taxable R68 000 — 4050 (22,5% x R18 000)	= R63 950
Tax	= R20 258

Note: The deduction of R4 050 is available in terms of section 20A(1)(a) of the Income Tax Act of 1962 if the provisions of section 20A of the Act are complied with and is calculated as being the greater of 22,5 percent of the wife's net earnings or R2 250.

(b) With SITE.

Income husband	R50 000
Income wife (net rumeration)	R18 000

Husband pays tax on 50 000 in the normal manner and SITE is withheld from wife's income, the latter being calculated at (25% x 18 000) — R1 075 = R3 425

Total tax = R14 360 + R3 425 = R17 785

EXAMPLE 2.

(a) WITHOUT SITE:

Income husband	R50 000
Income wife (net remuneration)	R25 000
Combined income	R75 000
Taxable R75 000 — R5 625 (22,5% 25 000)	= R69 375
Tax	R22 591

(b) With SITE

Income husband	R50 000
Income wife (net remuneration)	R25 000

Joint taxation on R50 000 + R25 000 — 22,5% of wife's income less a special deducation equal to R5 000 in this particular case = R75 000 — R5 625 — R5 000 = R64 375

Tax = R20 441

NOTE: The deduction of R5 000 is a special deduction providing a phasing-in relief where the net remuneration of the wife exceeds R20 000 and is therefore taxed jointly with the income of her husband. The deduction (to a maximum amount of R5 000) is calculated in terms of the formula Y — 20 A/100 — 35 B/100 in which:

● Y represents the amount to be determined

● A represents the taxpayer's taxable income (after having deducted the section 20 A(1) (a) deduction referred to in Example 1. (a), and;

● B represents an amount equal to the net remuneration of the wife less the section 20 A (1)(a) deduction.

EXAMPLE 3.

(a) With SITE, wife earning R20 000 and husband earning R33 000 (combined income R53 000).

Income husband	R33 000
Income wife (net remuneration)	R20 000
Total income	R53 000
Tax on husband's income	R7 570
SITE R5 000 — R1 075 = R4 925 (25% x R20 000) — R1 075	
Total tax	R11 495

(b) With SITE, wife earning R21 000 and husband earning R32 000 (combined income R53 000):

Income husband	R32 000
Income wife (net remuneration)	R21 000
Combined income	R53 000

Taxable (R53 000 — (22,5% x R21 000) less a special deduction equal to R3 959 = R53 000 — R4 725 — R3 959 = R44 316

Tax = R12 029

From the above, the married woman would generally seem to be in a more advantageous position. Example 3 however illustrates the situation where the couple's combined income remains unchanged but the ratio that each spouse's income bears to the combined income varies.

Due to the fact that the net remuneration of the wife exceeds R20 000 in Example 3(b), additional tax of R534 becomes payable. More disturbing however is the situation where the income ratio in example 3(a) is taken and the wife is granted an increase of R1 000.

The husband and wife then respectively contribute R33 000 and R21 000 to a total income figure of R54 000 which attracts R862 in additional tax. This leaves the wife with only R138 from a R1 000 increase.

It is therefore important for a married woman in these circumstances to keep her net remuneration below the R20 000 level — not by turning down increases but by utilizing available deductions such as contributions to retirement annuity funds.

A further benefit of such an arrangement would surely be the fact that she will then not have to divulge the extent of her wealth to her husband as she would not have to disclose her remuneration on her husband's income tax return form. Neither, for that matter, will she be required to submit a return herself.

STEMS *Advertisement Feature* IMAGE OFFICE SYSTEMS

Tax avoidance 'will be dealt with'

Any tax avoidance scheme coming to light before next March would be dealt with by retrospective legislation, **Deputy Minister of Finance Dr Org Marais**, said in the House of Assembly yesterday. SAW 25/6/84 (320)

Introducing the First Reading debate of the Income Tax Bill, Dr Marais said that in future the Minister would make an announcement on avoidance schemes uncovered and follow it up with retrospective legislation which would apply from the date of his announcement.

LIMIT CONCESSION

The Government could not accept the Margo Commission's recommended 50-30-20 percent write-off of assets over three years, and had decided to limit the concession to industrial and farming plant and machinery, said Dr Marais.

It would however, add to these categories certain plant and machinery used by co-operatives and hotels.

As there had been urgent representations against the June 3 announcement of the proposed 2 percent depreciation allowance on industrial buildings, co-op storage buildings and hotels, it had been decided to increase the allowance to 5 percent a year.

The Bill would also translate into law the Margo Commission recommendation on farming livestock, but would allow losses to be offset only against farming income.

This would do away with recent abuses by wealthy taxpayers who bought an interest in expensive animals, but it would not affect genuine farmers.

Mr Casper Uys, chief finance spokesman for the Conservative Party, said it appeared the country was now faced with legislation by press statement.

'Govt to phase out tax concessions'

Star 25/11/88 (320)

The Government hoped to phase out most tax concessions within three years, **the Deputy Minister of Finance, Dr Org Marais,** said in the House of Assembly yesterday.

Replying to debate on the Income Tax Bill, he said the Margo Commission recommended the removal of tax allowances which had been introduced into the tax system over the years and had eroded the tax base.

"We know how the brilliant accountants sit down and artificially inflate these concessions," he said.

The minimum tax on companies should be seen together with the removal of tax concessions and a reduction in the income tax rate.

Mr Harry Schwarz (PFP, Yeoville) said if the phasing out of the concessions did not go hand in hand with a reduction in income tax, the situation would be unacceptable.

His suggestion that when the Government released tax changes to the press, there should be simultaneous publication of the changes in the Government Gazette, was supported by Dr Marais.

DRAFT BILL

Mr Schwarz said he saw one difficulty in the move away from direct taxation. He asked that with the phasing out of the debtors allowance over GST, would there be taxation under the new VAT system on a cash receipt basis.

Dr Marais replied that the option of a cash receipt basis was being considered. A draft bill was expected to be published in August. — Sapa.

Star 25/6/88

(320)

New lower tax rates apply from next month

DEREK TOMMEY

Most families will find a few extra rands in their pay packets next month when new PAYE tax tables become operative.

But it seems that most working wives will have to wait until next year before getting any real benefit from the new SITE system.

The size of the tax savings for families increases in line with incomes.

According to the new tables issued this week a married man with two children and earning R775 a month will find his monthly tax bill cut from R16,35 to 17c — a savings of R16,18. But one earning R5 000 a month will pay R63,79c less in tax.

The new tax rates lighten the tax burden for the lower income groups more than the upper income groups.

A typical family with earnings of R1 000 a month will pay 36,6 percent less tax next month while one earning R2 000 will pay 8,2 percent less.

But by the time the family income reaches R3 000 the saving in tax has dropped to 5,1 percent, and someone earning R5 000 will save only 4,3 percent in tax.

Only married women earning less than R800 a month will find some extra rands in their pay packets.

As the tables show, those earning above this figure will gain little if any immediate benefit at all. In fact, married women earning R1 000 a month or more will have to pay a rand or two extra.

They will have to wait until next year for their tax concessions. Then only the incomes of those working wives earning more than R20 000 a year will be aggregated with their husbands' income for tax purposes.

For those earning R20 000 or less the tax savings under the new scheme could be quite substantial.

Where the husband earns R50 000 and the wife R18 000 there could be a saving of R2 485, said Mr Brian Musto of Ernst and Whinney, Cape Town.

Mr Musto said that working wives should watch their tax position closely when their incomes near R20 000.

MARRIED MAN WITH TWO CHILDREN

Monthly income Rand	New tax payable Rand	Present tax payable Rand
670	-	0,60
700	-	5,10
775	0,17	16,35
800	3,81	20,10
900	17,81	25,10
1000	31,51	49,67
1200	65,82	83,12
1400	105,85	126,30
1600	153,75	175,70
1800	206,32	228,37
2000	263,55	287,00
2200	330,97	350,30
2400	391,50	418,90
2600	463,30	492,20
2800	537,30	568,20
3000	612,77	645,17
3400	761,70	805,80
3800	933,90	973,95
4200	1098,14	1145,95
4600	1266,14	1321,93
5000	1434,14	1497,93

WORKING WIVES:

Monthly income	New tax payable	Present tax payable
200	-	1,40
300	-	15,40
358	0,03	25,25
400	10,43	33,25
500	35,43	53,25
600	65,56	73,25
700	85,43	93.85
800	110,43	115,87
900	135,43	137,87
1000	160,43	159,87
1100	185,43	183,82
1200	210,43	207,82
1300	235,43	231,82
1400	260,43	257,10
1600	310,43	309,10
1800	364,64	363,72
2000	420,66	419,72
2400	542,01	540,95
2800	672,69	671,50
3200	812,71	811,53
3600	962,06	960,80
4000	1114,06	1112,80
4500	1304,06	1302,80
5000	1494,06	1492,80

An increase of R1 000 to R21 000 in the wife's income could, in some conditions, increase the family's payment by R862. The wife would be left with only R138 from the additional R1 000.

He said that wives should not refuse wage increases to counter this situation, but reduce their taxable income by contributing, say, to retirement annuity funds.

will earn more

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CAPE TOWN — Finance Minister Mr Barend du Plessis has approved an increase of 0,5 percent in the interest rates on tax-free savings offered by the Treasury, the Post Office and building societies.

He has also increased the interest rates on partially tax-free savings of the building societies by one percent.

These will come into effect on July 1.

The Department of Finance also announced that the tax-free indefinite period treasury bonds would be increased by 0,5 percent to eight percent as of July 1.

The interest rate on indefinite period defence bonds will rise by one percent to 13 percent on July 15. — Sapa.

TAXATION (320)

Monkey's wedding?

The "rationalisation of a group of companies" provision in the omnibus Taxation Laws Amendment Bill 1988 is potentially one of the greatest tax holidays for years. The details also show it to be unnecessarily flawed; a sad comment on the interface between government and the private sector.

The proposed moratorium provides for the exemption from stamp and transfer duty on disposal of marketable securities and property, a cession of mortgage bonds and substitution of debtors in mortgage bonds, resulting from a rationalisation scheme in a group of companies. The moratorium is applicable for a generous period, stretching from June 17 1988 to June 30 1989.

A group of companies is defined to include a *controlling* company and one or more related *controlled* companies. A controlling company is defined as a company holding 75% of the shares of a controlled company. The first problem is that the definition is extremely restrictive; it takes no account of the complicated cross-holdings, which are a feature of the economy. In particular, effective control can often be associated with a shareholding of much lower than 75%.

The Bill proposes that the agreement must relate to a rationalisation scheme devised to "achieve ... substantial and enduring operational savings in operational expenditure ... or administrative advantages." From this, it may be presumed that the aim of the moratorium is to give a once-off opportunity for major groups to rationalise. Many of these, to put it mildly, have become more and more unmanageable over time.

Again, this fails to recognise the dynamics of a modern economy. In major groups, problems of this kind arise more on a monthly than yearly basis. The problems come about not only from acquisition and absorption of sub-groups, but ongoing rationalisation in and between companies.

For all its good intentions, the moratorium illustrates the failure of government — and for that matter the Margo Commission — to recognise that the *group* and not the *company* is now the basic economic unit. Though not widely known, this applies to both large and small corporations. A once-off moratorium will help — but not solve — the problem of legislating for an economic unit which to all intents and purposes does not exist.

This is as true for the Income Tax Act as for the Transfer and Stamp Duty Acts.

If the moratorium is a good idea in the sense of wanting to achieve groups organised in the most efficient way, it is as good an idea that the barriers to such an objective be permanently removed. This means, simply, that *group* relief from the Stamp and Transfer Duty Acts should be introduced.

Major rationalisations attract innumerable income tax problems. Some of these are specifically tackled in the Bill. One is the transfer of trading stock at no value, in which event it has no value in the hands of the transferee company, which will be taxed on the disposal of that stock as if it were income from a separate trade.

The Bill contains various provisions deeming group companies to be one company on the disposal of tax depreciable property. There are provisions whereby the commissioner may agree to various terms and conditions on the transfer of a business undertaking between group companies — which undoubtedly will be needed to deal with allowances such as section 24, on debtors.

(320) FM 24/6/88

This will certainly give rise to much negotiation and compromise between Revenue and taxpayer. Again, this reflects the fact that the Income Tax Act fails to deal with specific instances such as the rationalisation of groups — which is simply not the case in many other jurisdictions.

It is not difficult to recognise the necessity of dealing with the income tax problems prompted by the moratorium. But, by the same token, the authorities should realise that the need for such rules — and such agreements — is rooted in the inadequacy of income tax laws in the first place. ■

BUSINESS DAY, Wednesday, 22 June 1988

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MTC uncertainty 'main problem'

Tardy tax Bill gets a pasting

HELENA PATTEN

THE still untabled state and continuing lack of clarity of the Income Tax Amendment Bill is a matter of concern to tax consultants, with particular reference to MTC which is payable by September 30.

Senior partner at accounting firm Deloitte Haskins & Sells Mark Crisp yesterday described the situation as an "intolerable delay" in view of the number of issues impacting on MTC (minimum tax on companies) on which government had still brought no clarification.

He said: "If the Bill is not through by July 1, when Parliament adjourns, we'll be in real trouble."

Receiver of Revenue deputy director: legal drafting Ian Meiklejohn said the Bill always went through at the 11th hour. It was expected to be tabled by the end of this week, he said, and would definitely go through before the end of the sitting.

Crisp said the main MTC issue still unclear was the position of dormant companies which had previously paid huge dividends.

Aiken & Peat partner Hennie Coetzee said while certain exemptions from MTC were expected when legislation was finally passed, the rules should have been spelt out earlier to ease planning.

Kessel Feinstein partner Ernest Mazansky said, "It would have been desirable to table the Bill earlier, or at least to have made available the draft legislation, especially with so many major structural changes in the wings."

However, he said, the lateness of the Bill was almost standard.

□ GERALD REILLY reports registered white individual taxpayers will pay about 10 times more than the other three racial groups combined in the 1988 tax year, according to an updated Commissioner for Inland Revenue estimate.

The estimate shows whites will pay R10,732bn, coloureds R396,771m, Blacks R258,253m and Indians R350,990m.

Repression 'has helped sanctions drive'

DURBAN — The SA government's recent repressive actions have strengthened the sanctions campaign in the US, says KwaZulu-Natal Indaba director Professor Dawid van Wyk.

On his return from a month-long trip to the US, Van Wyk said government had, in the eyes of many Americans, fallen far short of what was required to regain international acceptance.

Sage Holdings Limited
(Registration number 68/14799/06)
("Sage")

Businesses must register

Final VAT Bill is set to be submitted in '89

Star 21/6/88

320

Preparations for the introduction of value-added tax were proceeding and draft legislation would be published during the parliamentary recess, **Deputy Finance Minister Org Marais** said in the Assembly yesterday.

Introducing the first reading of the Tax Laws Amendment Bill he said the final VAT Bill could not be submitted to Parliament until early 1989, but certain vital steps had to be taken well before the Bill became law.

The most important of these would be the registration of people carrying on business as suppliers of goods or services.

Clause 46 of the Bill therefore empowered the Commissioner for Inland Revenue to compile a register for the purposes of VAT and to call on people to supply information for that purpose.

The Bill was intended to give effect to certain recommendations of the Margo Commission, to provide for a moratorium to put company groups in a position to reorganise their structures, to make provision for certain anti-tax-avoidance measures and to raise the fines payable for certain contraventions of the Stamp Duty Act.

The Bill would give effect to the revisions of estate duty which were announced in the Budget and which would bring considerable relief to estates, Dr Marais said.

It had been announced that the present diversity of deductions would be replaced with a single deduction of R1 million. At the same time the tariff of this duty would be altered to 15 percent.

The Bill also provided for an exemption in connection with donations to retirement resorts.

Provisions were included in the Bill which would make it more difficult for people to avoid stamp duty. — Sapa.

All you will need to know about VAT

Government will this year introduce Value Added Tax (VAT), which will dramatically affect virtually every business in the country. Business Day, in conjunction with auditing firm Deloittes, Haskins and Sells, is setting out to answer questions readers may have about VAT. We will be publishing a series of explanatory articles by tax experts from Deloittes over the next few weeks, and invite readers to send questions about VAT to: Business Day VAT panel, PO Box 1138, Johannesburg 2000 (Or fax: 011-836-0805). Questions will be answered by Deloittes' tax experts, and their answers will be published. This is the first article in a regular series dealing with VAT

VAT is a method of indirect taxation used by governments in some 43 countries to derive a large proportion of their revenues. It is based on consumer spending and is similar to GST.

Why are we changing away from a tax method which is in place and established? VAT has achieved a high level of acceptance internationally, mainly because the ability to evade it is greatly reduced, since it is collected at each stage in a series of transactions.

GST, on the other hand, is borne in full by the consumer at the final point of sale.

Impact

VAT (although ultimately borne by the consumer) is collected at each level of transaction leading up to the final sale to the consumer.

On this basis, therefore, if the VAT collected in the sale to the consumer is not paid to Revenue, then Revenue only loses a portion of the tax.

The downside of VAT is without a doubt its impact on commerce and industry. Every business concern, including those which at present fall outside the GST net, will be filling in returns on a regular basis and making payments to (or claiming credits from) the Receiver of Revenue.

How exactly will it work and when will it come into the effect?

The example below illustrates quite clearly how each business involved in the movement of goods — i.e., producer to manufacturer to wholesaler to retailer, to consumer — will in future be making regular payments to the Receiver of Revenue of tax on the value added at each transaction level.

EXAMPLE:

Total taxable sales	R1 500,00
VAT collected (say 12%)	R180,00
LESS:	
Total taxable purchases	R1 000,00
VAT paid	R120,00
VAT payable to Inland Revenue	R60,00

When will this begin to happen? Government, having made the decision in February 1988 to switch from GST to VAT, legislation can be expected in September this year. This will enable businesses generally to start focusing on VAT.

Government will be looking for comments and criticisms of the draft legislation with a view to implementing the new taxation method in 1989.

Many service industries are not affected by GST. On the revenue side, for instance, the accounting and legal professions, the travel and transportation industries (both local and international) to name a few.

Stated policy

These will all be drawn into the VAT net in keeping with government's stated policy to include most, it not all, service industries under VAT. This means that those sectors of the business community which have had little or no exposure to administering GST in the past will now have an administrative burden under VAT.

This additional administrative burden will also affect producers and manufacturers (whose sales under GST have not attracted tax) and the set-up costs for changing accounting systems and extra staffing are likely to be significant.

IT'S CURIOUS and perhaps sad that Afrikaans writers have to be trans-

THE BEST IN BOOKS

Bonus shares an increasingly popular way to beat MTC

ROBERT GENTLE

RESISTANCE to MTC (minimum tax on companies) has already manifested itself: a growing number of companies are issuing bonus shares (non-taxable), instead of paying out dividends (taxable).

Almost every week, listed companies announce varying schemes whereby shareholders are given the option of foregoing their dividends in favour of bonus shares, the exact amount of which is related to their existing share stake.

Last week, electronics group Ohio announced that, after its first year as a listed company, 87% of its shareholders had opted for bonus shares, resulting in an extra 894 220 shares going into issue.

On the same day, recently listed Trimtex Holdings announced a similar scheme whereby shareholders may take seven bonus shares for every 100 shares held.

While acknowledging the obvious tax benefits of such moves, some companies make no bones there are other advantages. The most obvious is that it is a convenient and hassle-free method of raising extra equity, increasing working capital and improving the debt-carrying capacity.

"It is quite simply retaining capital for the long-term benefit of the business," says a director of one such company.

From the shareholder's point of view, it provides a neat choice of either hanging onto the newly acquired shares with a view to long-term capital gains, or simply selling them to make a quick profit.

What about disadvantages? Although the point is often made that more shares in issue dilutes net earnings a share, analysts say this is irrelevant precisely because of the increased number of shares in issue.

Scrapping of export incentives put off

TAX experts, business and industry have welcomed government's decision to postpone plans to scrap export incentives.

Economic Affairs and Technology Minister Danie Steyn said last week the existing categories A, B, C and D export measures would remain in place until the end of the 1989/90 financial year.

The A and B incentives relate to cash payouts granted on the value of exports, whereas C and D categories involve substantial marketing allowances dependant on



Business Day Reporters

export performance.

Deloittes' Doug Jolliffe said the sudden discontinuation of the allowances without replacement measures would have had a disruptive effect on the export market.

Jolliffe said although the reduction of direct subsidisation was in line with Margo, the abolition of the incentives would have created serious problems for exporters reliant on the subsidy, who had already set prices for next year.

Private Sector Economic Advisory Committee (PSEAC) chairman Nols Olivier in welcoming the announcement said: "The minister's statement removes the uncertainty which has existed among exporters and thus enables them to go about their international business with confidence."

PSEAC is the recognised consultative channel to co-ordinate with government on matters affecting exporters and export promotion.

Assocom and Safto are among its members.

B/day 13/6/88.

Tax deductions for education considered

Star (320) (31)

CAPE TOWN — The question of extending the benefit of income tax deductions to people who gave to special educational funds for primary schools was being considered, the **Minister of Finance, Mr Barend du Plessis**, said yesterday in reply to a question from **Mr Roger Burrows (PFP Pinetown)**.

The matter would be finalised as soon as all interested parties had been consulted.

However his department was not considering extending the deductibility of payments made for normal educational purposes. — Sapa.

Decision to slash excise duty . . .

A boost for jewellery manufacturers

By JON BEVERLEY

JEWELLERY prices will tumble following the government's decision to slash ad valorem excise duty from 35% to 20%. The drop, of about 12%, will come into effect in stages.

For those stores which pay the tax in advance the change will be later. For those which pay only on the sale the change can be immediate.

But the new rules will give a shot in the arm to the jewellery manufacturing industry.

Tim Davidson, executive director of the Jewellery Council, said: "We had hoped that ad valorem excise duty would be abolished completely but we are very happy with the steps announced."

Changes

The changes will allow:

- Manufacturing jewellers to buy gold on credit from the Reserve Bank, instead of paying in full in advance;
- Sawn and cleaved diamonds to be imported free of duty (previously the duty was 25%) which is seen as a considerable boost to the diamond cutting and setting industry;
- The changes will free the export of jewellery with a lower level of added value, such as chains, and
- Changes were made earlier this month which governed the amounts, and control, of raw gold held by a manufacturer.

Davidson said that the export incentive system was being examined to see how jewellery manufacturers could be encouraged to export.

More details of the government's proposals are expected when Kent Durr, Deputy Minister of Finance, opens the industry's trade fair in Johannesburg later this month.

The industry has long campaigned for the government to make it possible to process the precious metals and stones which are exported with limited added value.

It points out that Italy, without a single gold mine, makes over 200 tons of gold a year into jewellery; Israel and India without a single diamond mine between them process over half the gem diamonds mined (4,6m carats) in SA and Japan uses nearly half (900 000 ounces) of SA's platinum exports to make jewellery.

But setting up a local jewellery industry will need heavy capital investment in machinery and training, or "buying" abroad, of technicians.

According to Gold 1988 — the authoritative review of the gold industry — SA made 2,2 tons of gold into jewellery last year out of a world total of 1 300 tons of jewellery.

● **CHRIS CAIRNCROSS** writes that the restrictions hampering the jewellery manufacturing industry have been changed following a Board of Trade and Industry (BTI) investigation.

This pointed out that the industry had declined following constraints imposed mainly to protect the balance of payments.

Counterparts

But the BTI points out that the SA jewellery industry enjoys no comparative advantage over its counterparts elsewhere because although the gold and diamonds it buys are produced in this country they are sold at prices established on world markets and quoted in foreign currencies.

Because of this, the BTI concludes that the margin wherein a competitive position would have to be created is between 10% and 40% of the selling price. This margin consists of the intermediate inputs and value additions, such as labour.

Where the BTI recommended that the 35% ad valorem excise duty on jewellery be abolished, government has cautiously chosen to reduce this to 20%.

Sponsors tax rebate slashed

THE Department of National Education had decided to reduce the tax rebate for sponsors of international sporting events from 90% to 65%, a department spokesman said yesterday.

Sponsors, promoters and sporting bodies have strongly criticised the department for the move, saying it will severely affect the content and number of international events staged in SA.

The spokesman, who declined to be named, said the 65% rebate would apply to all events which had taken place since April 1, the beginning of the 1988/89 financial year.

MANDY JEAN WOODS

A flood of requests from sponsors resulted in rebates exceeding the budgeted allowance, he said.

"We wanted to accommodate all requests. The government's funds are limited," he said.

Showtime International MD Sam Feldman said sponsors who brought out people with no standing in world sport

● To Page 2

Big cut in sports tax rebate sparks row

and tagged it an "international" event had spoiled the future for genuine world-class events.

Sports International chairman Marc Player said potential sponsors for two major SA sporting events had withdrawn their commitment for the events as a result of the reduced rebate.

"A multi-national company was prepared to sponsor a three-year contract for a major golf tournament. But as a result of the tax rebate reduction the company said it will not commit itself. A week ago it was committed to the sponsorship," he said.

● From Page 1

SA Cricket Union president Joe Pamensky said yesterday he had no doubt the union would find it difficult, if not impossible, to secure sponsors for international events.

Futures market planned

LEGISLATION formalising the development of a financial futures market will be published for comment next month.

This was revealed by Finance Minister Barend du Plessis in Parliament yesterday.

Du Plessis said a final draft — aimed at ensuring the market evolved in an orderly fashion — had been scheduled for submission before Parliament during the 1989 session.

On the tax front, Du Plessis announced the tabling of legislation providing for the registration of all people

CHRIS CAIRNCROSS and ROBERT GENTLE

in businesses as suppliers of goods or services as a preliminary step to the introduction of VAT.

Futures legislation, to be styled on the Securities Control Act, will also control the development of evolving bonds and gilts markets.

There has been particular concern over the risk exposure of investors in options, futures and forward financial

● To Page 2

Du Plessis comments on futures, VAT

transactions, and the danger of a major default by issuers or writers of these.

Two technical committees have already completed investigations into futures, and their findings will be used to produce draft legislation promised for next year.

Initial favourable reaction has been received from Stuart Rees, GM of the Rand Merchant Bank and chairman of a recently formed futures working group comprising 15 banks and the JSE.

Mark Perkins of commodity brokers Bailey Overseas also welcomes the moves, saying they will give further credibility to the growing SA futures

● From Page 1

industry.

☐ The Taxation Laws Amendment Bill proposes to change the Sales Tax Act to empower the Commissioner for Inland Revenue to call on such people to furnish any information required by him for a register and to allocate registration numbers.

The measure also proposes certain changes to the Estate Duty Act and calls for amendment of the Stamp Duties Act. Also to be affected are textual or substantive amendments to the Marketable Securities and Transfer Duty Acts.

Chr Times 17/6/88

Govt group looks at VAT, tax formulas

Political Staff

THE devising of new tax formulas for long term insurers and the mining industry, together with the forthcoming switchover from GST to VAT, are top of the list of priorities being given urgent attention by Government's newly established taxation advisory committee.

These three issues were identified as the most important tasks to be tackled first, the advisory committee decided at its inaugural meeting on May 20, according to a statement released in Parliament yesterday by Finance Minister Barend du Plessis.

It has been decided that Finance Director-General Chris Stals, chairman of the advisory committee, together with its members, will meet representatives of the long term insurance industry on July 6 for initial discussions on tax reform initiatives pertinent to this sector.

Arising from the Margo report and White Paper, Deputy Finance Minister Org Marais has meanwhile appointed a special task group made up of representatives of the private sector to further investigate changes to mining industry taxation. Several meetings have already been held by this group, according to Du Plessis.

Another early initiative started by the advisory committee, which holds its next meeting in Pretoria on July 26, is the establishment of a special secretariat capable of providing administrative and research back-up to the committee. It was expected that this body will be functioning in the near future.

Aside from Stals, other members of the taxation advisory committee are: Michael Katz, deputy chairman, D Franzsen, Jan de Villiers Graaff, Hugh Hefer, Derek Keys, John Morris, Daan Kolesky (Commissioner for Customs and Excise), and Clive Kingon (Commissioner for Inland Revenue).

w/t Accts 18/6/88 320

Tax cuts from next month

By DEREK TOMMEY

MOST families will find a few extra rands in their pay packets next month when new PAYE tax tables become operative.

But it seems that most working wives will have to wait until next year before getting any real benefit from the new SITE system.

The size of the tax savings for families increases in line with incomes.

According to the new tables issued this week a married man with two children and earning R775 a month will find his monthly tax bill cut from R16,35 to 17c — a savings of R16,18. But one earning R5 000 a month will pay R63,79c less in tax.

The new tax rates lighten the tax burden for the lower income groups more than the upper income groups.

A typical family with earnings of R1 000 a month will pay 36,6 percent less tax next month while one earning R2 000 will pay 8,2 percent less.

But by the time the family income reaches R3 000 the saving in tax has dropped to 5,1 percent, and someone earning R5 000 will save only 4,3 percent in tax.

Only married women earning less than R800 a month will find some extra rands in their pay packets.

As the table below shows, those earning above this figure will gain little if any immediate benefit at all. In fact, married women earning R1 000 a month or more will have to pay a rand or two extra.

They will have to wait until next year for their tax concessions. Then only the incomes of those working wives earning more than R20 000 a year will be aggregated with their husbands' income for tax purposes.

For thoese earnings R20 000 or less the tax savings under the new scheme could be quite substantial.

Where the husband earns R50 000 and the wife R18 000 there could be a saving of R2 485, said Mr Brian Musto of Ernst and Whinney, Cape Town this week.

Mr Musto said that working wives should watch their tax position closely when their incomes near R20 000.

An increase of R1000 to R21 000 in the wife's income could, in some conditions, increase the family's tax payment by R862. The wife would be left with only R138 from the additional R1 000.

He said that wives should not refuse wage increases to counter this situation, but reduce their taxable income by contributing, say, to retirement annuity funds.

NEW TAX RATES

MARRIED MAN WITH TWO CHILDREN

Monthly income Rand	New tax payable Rand	Present tax payable Rand
670	-	0,60
700	-	5,10
775	0,17	16,35
800	3,81	20,10
900	17,81	25,10
1000	31,51	49,67
1200	65,62	83,12
1400	105,85	126,30
1600	153,75	175,70
1800	206,32	228,37
2000	263,55	287,00
2200	330,97	350,30
2400	391,50	418,90
2600	463,30	492,20
2800	537,30	568,20
3000	612,77	645,17
3400	761,70	805,80
3800	933,90	973,95
4200	1098,14	1145,95
4600	1266,14	1321,93
5000	1434,14	1497,93

WORKING WIVES:

Monthly income Rand	New tax payable Rand	Present tax payable Rand
200	-	1,40
300	-	15,40
358	0,03	25,25
400	10,43	33,25
500	35,43	53,25
600	65,56	73,25
700	85,43	93,85
800	110,43	115,87
900	135,43	137,87
1000	160,43	159,87
1100	185,43	183,82
1200	210,43	207,82
1300	235,43	231,82
1400	260,43	257,10
1600	310,43	309,10
1800	364,64	363,72
2000	420,66	419,72
2400	542,01	540,95
2800	672,69	671,50
3200	812,71	811,53
3600	962,06	960,80
4000	1114,06	1112,80
4500	1304,06	1302,80
5000	1494,06	1492,80

(320) B/day 8/6/88.

CA chief defends tax avoidance

DURBAN — The head of SA'a organised chartered accountancy profession yesterday defended the right of taxpayers to reduce the impact of tax — and he described retrospective amendments to income tax legislation as undesirable in principle.

John Edwards said in his presidential address to the Durban congress of the SA Institute of Chartered Accountants that the fiscus must expect taxpayers to take lawful measures to reduce the impact of tax.

"It is not acceptable that such action should be termed 'morally wrong' and that our members should be accused of inappropriate behaviour."

Edwards said the Commissioner for Inland Revenue had acknowledged that a taxpayer who carried out a legitimate tax avoidance scheme in a manner which did not involve fraud, dishonesty or misrepresentation would have met his duties if he fully and honestly completed his tax return and answered queries.

Edwards also outlined major strides in financing accountancy education and said SA was not producing enough CAs for its needs. It would need 20 000 CAs by the turn of the century and now had only half that number.

To date the institute had funded 129 annual bursaries and paid more thanR1m in subventions. — Sapa

Unions outline objections to manpower Bill

B/day 8/6/88.

Teaching brain-drain picks up speed

Own Correspondent

PRETORIA — The drain of highly experienced teachers to the private sector is accelerating, Transvaal Teachers Association (TTA) secretary Jack Ballard said yesterday.

Main reason for the widespread and growing dissatisfaction was the slowness of goverment to react to the profession's major grievances, lack of status and inadequate salaries.

Ballard said until a year ago defectors from the profession were mainly maths, science and accountancy teachers.

"Now, however, its across the board, and a new development, too, is that women teachers have joined the drift."

Ballard said during the recession the TTA felt depressed conditions in the private sector would plug the drain. However, resignations had continued. The momentum increased about a year ago when the economy showed signs of revival.

Many of those leaving were joining the public service where salaries and working conditions were often better than in teaching.

Ballard said another major grievance in the profession was that "we are lumped together with the country's vast bureaucracy, and we're no bureaucrats".

● See Page 5

More farm debt woes

GERALD REILLY

ALREADY burdened with interest payments of nearly R2bn a year on accumulated debt of R14bn, farmers are likely to have to pay even more after the Amended Banking Act comes into operation from August, according to SA Agricultural Union economist Koos du Toit.

He said the amended act would have an influence on costs inagriculture.

The amendments result from recommendations of the De Kock Commission of Inquiry into the SA monetary system.

Du Toit pointed out that any increase increased the ability of institutions to lend money and the Land Bank benefited by getting funds more cheaply.

Du Toit said Land Bank debentures issued after August would no longer qualify as liquid assets.

The Land Bank would, therefore, have to make use largely of bank overdrafts to obtain funds.

Political comment in this issue by Ken Owen. Newsbills by Neil Jacobsohn. Headlines and sub-editing by Michael Moon. All of Times Media Ltd, 11 Diagonal Street, Johannesburg.

Divaris hits out at avoidance packages

Tax dodges attacked

MORE than R1,5bn had been spent on the purchase of tax avoidance package products in the six months prior to the financial year ending February 29 1988.

KAY TURVEY

Tax expert Costa Divaris, speaking at a tax reform seminar in Johannesburg yesterday, said the purchase of such packages, which included forestry, bloodstock and film schemes, had grown to such and extent they represented a vast threat to national revenue.

Tax avoidance schemes had been aggressively marketed as legitimate financial products over the past few years, particularly prior to the last tax year, he said.

The sale of forestry partnerships — which boost cost of assets by including financing charges — alone amounted to R800m just prior to the tax year end, he said.

Revenue could not afford to continue suffering losses because of these packages, but lacked the teeth to fight them, he said.

This had led to SA being identified internationally as a "lucrative venue for the purveying of warmed-up , tax-avoidance leftovers from other jurisdictions".

However, Divaris said he believed the packages were vulnerable and already things appeared to be changing with the interest penalty, which levelled a 15% interest charge on failed packages.

He said the Finance Minister appeared to be fully aware of the cost to the fiscus of forestry, film and bloodstock schemes and had warned of retrospective tax legislation, which had now become a legitimate tool of fiscal policy.

Varsities discuss speech freedom

DISCUSSION of new draft rules governing freedom of speech is continuing at the universities of the Witwatersrand and Cape Town (UCT).

At both, the possibility has been raised of special committees being established to consider permission for speakers on their campuses.

In March it emerged that draft proposals for the control of meetings were being circulated at Wits, including a provision for refusing permission for a speaker.

And at a recent public debate on similar draft rules at UCT, deputy vice-chancellor Professor J V O Reid noted a proposal that a specially elected body be set up to provide for arrangements for speakers of different viewpoints.

'Trade with SA OK'

PORT LOUIS — The Mauritius Chamber of Commerce and Industry says it sees no reason why trade with SA should stop.

In a statement issued in Port Louis chamber secretary Jean-Claude Montocchio said reports worldwide had shown that blacks would suffer and the South African Government would institute new measures to become self-sufficient. — Sapa.

Pressure for tax equity is growing

(320)

b/day 9/6/88.

GERALD REILLY

PRETORIA — The political importance of horizontal equity in the tax system was likely to grow, Unisa mercantile law professor Gerard Swart said.

He was referring to the principle that all taxpayers in the same financial position should pay the same tax.

It would result in the phasing out of many special tax deductions or allowances for the prevention or elimination of avoidance schemes and for the elimination of statutory problems or anomalies which advantaged or imposed a burden on some taxpayers and was seen to be unfair.

Swart said the tax system should not contribute to the outflow of skilled workers or towards the declining trend of personal savings.

And the system should interfere as little as possible with the allocation of resources.

Increasing personal income tax would be politically difficult because of the historic rise in the personal income tax burden of individuals.

Swart said the effective rate of company tax was likely to move closer to the normal rate.

The reforms suggested would be in line with the main trends in tax reform in industrial countries where economic growth had become a priority.

RSC burden on OK's profits

Own Correspondent

REGIONAL Services Councils' levies cost OK Bazaars some 4% of pre-tax profits — or almost R2m — in the year to end March,.

Chairman Meyer Kahn reiterates in his annual report that the levies place an inequitable tax burden on mass merchandise, labour intensive retailers who operate on low margins and high turnovers.

In the year under review, OK's pre-tax margins improved marginally from 1,23% to 1,41%. This compares with 3% from Pick and Pay which, unlike OK, does not derive a significant proportion of its income from big ticket items.

In all, food accounted for 60,9% of OK's total sales. While the figure was lower than in 1987, MD Gordon Hood says this continues to exert a detrimental effect on gross margins.

Sales grew a satisfactory 20,8% compared to an increase of 18,5% in national retail sales — reflecting a gain in market share.

Kahn says the increase in the ratio of total liabilities to shareholders funds to 1,68:1 from 1,33:1 was a direct result of inflationary pressures and the improved level of sales experienced towards the end of the financial year. "The overall position is, however, still sound."

Meanwhile OK's shares remain relatively poorly rated on the JSE, trading on a price: earnings ratio of 8 and yielding 6,8% on dividend and 12,5% on earnings.

Analysts say that the group's returns on assets and equity are lower than can be obtained from other stocks. At R13, the shares are at a 53% discount to net worth.

(a) How many (i) White, (ii) Coloured, (iii) Indian and (iv) Black engineering students are currently registered at each university falling under his Department, (b) (i) how many persons are attached to the academic staff of each engineering faculty and (ii) what is the total cost involved in each case and (c) in respect of what date is this information furnished?

The MINISTER OF EDUCATION AND DEVELOPMENT AID:

(a)

(i)	(ii)	(iii)	(iv)
0	0	0	0

(b) (i) Department of Engineering, University of Zululand: 1 Professor

(ii) R80 000 was budgeted by the University for 1988

(c) 19 May 1988

Note: Approval has recently been given to the University of Zululand for the training of first year students in Engineering. It is envisaged to enrol students for the first year of the course in 1989. A professor in Engineering has been appointed for the necessary initial work to be done. The University is presently negotiating with other universities to enter into an agreement to enable students to complete their second and ensuing years at such other universities.

Personal tax contributions

1138. Mr C J DERBY-LEWIS asked the Minister of Finance:

What was the personal tax contribution by (a) Whites, (b) Coloured, (c) Blacks and (d) Indians for the latest specified tax year for which figures are available?

The MINISTER OF FINANCE:

(a) Whites		R10 732 787 478
(b) Coloureds		396 771 538
(c) Blacks		258 253 663
(d) Indians		350 990 206
	Total	R11 738 802 885

The above analysis of the 1987/88 financial year (provisional) collections for individual taxpayers was apportioned on the basis of the taxes assessed for the 1987 year of assessment.

Non-White pupils: admission to White schools

1145. Mr C J DERBY-LEWIS asked the Minister of Constitutional Development and Planning:

(1) Whether his Department is required to give consent for the admission of non-White pupils to White schools situated in White group areas; if so, to how many schools was such consent given in each of the latest specified 10 years for which information is available;

(2) whether his Department takes any action in respect of schools violating the relevant statutory provisions and/or regulations in this regard; if so, (a) what action and (b) who or what body has to initiate complaints giving rise to such action being taken?

The MINISTER OF CONSTITUTIONAL DEVELOPMENT AND PLANNING:

(1) No.

(2) Falls away.

Psychopaths: treatment in prisons

1156. Mr C J DERBY-LEWIS asked the Minister of National Health and Population Development:

(1) Whether his Department is responsible for research into problems relating to the treatment of psychopaths in prisons; if so, (a) to what extent and (b) what amount was allocated for this purpose during the latest specified period of 12 months for which figures are available;

(2) whether the funds available for such research meet the existing needs; if not,

(3) whether it is the intention to allocate more funds for this purpose; if so, what steps are being envisaged in this regard?

The MINISTER OF NATIONAL HEALTH AND POPULATION DEVELOPMENT:

(1) No,

(a) falls aay,

(b) falls away.

(2) Falls away

(3) Falls away.

Own Affairs:

Caravans for homeless people

147. Mr C J DERBY-LEWIS asked the Minister of Local Government and Housing:

(1) Whether his Department has made any caravans available to persons left homeless during the recent floods; if so, how many;

(2) whether his Department has hired any caravans for this purpose; if so, (a) how many, (b) from whom and (c) at what rentals were they made available?

The MINISTER OF LOCAL GOVERNMENT AND HOUSING:

(1) yes, 14;

(2) No, 14 secondhand caravans were purchased and made available at the folloing monthly rentals;
Pensioners — R5
Other — R10 or R15 depending on the value of the caravans.

New White pupils

150. Mr C J DERBY-LEWIS asked the Minister of Education and Culture:

How many new White pupils started school in (a) the Transvaal, (b) the Orange Free State, (c) Natal and (d) the Cape Province in each of the latest specified five years for which figures are available?

The MINISTER OF EDUCATION AND CULTURE:

A similar question was asked by Mr A. Gerber, MP as question 57. The honourable member is therefore referred to the answer given on 1988-03-11.

High school pupils: compulsory study of African languages

152. Mr C J DERBY-LEWIS asked the Minister of Education and Culture:

(1) Whether it is compulsory for high school pupils in the Transvaal to study Northern Sotho, Tswana or Zulu; if so, (a) why and (b) what is the motivation for the inclusion of the Zulu language in the curriculum for these schools;

(2) whether it is the intention to make the study of African languages compulsory for high school pupils in the other provinces; if so, what are the relevant particulars; if not, why not;

(3) whether it is possible for a pupil in the Transvaal who is compelled to study Tswana in primary school to find himself compelled to study Zulu in high school;

(4) whether he intends to reverse the decision to compel pupils in the Transvaal to study African languages; if so, when?

The MINISTER OF EDUCATION AND CULTURE:

(1) Yes, in Std 6 and 7,

(a) since it serves as an important medium of communication and by learning the language pupils become acquainted with the culture of another nation;

(b) Zulu is the language medium of the majority of Black people of the Witwatersrand and the Eastern Transvaal;

(2) no, each provincial education department determines its own policy in this regard; the possible revision of the school curriculum is receiving continuous attention and in doing so the provincial education departments also give attention to this aspect;

TAXATION (320)

Changes in Site

Teaching employers about the new Standard Income Tax for Employees (Site) regulations that are being introduced this year has turned out to be something of a two-way street for the Directorate of Inland Revenue. It has apparently learned a thing or two itself.

As well as passing on information about Site, it has had feedback which has resulted in changes which have now been put before Minister of Finance Barend du Plessis for his approval.

Streamlining the payment of taxes in the long run can create headaches in the short term, while the details and methods are worked out and organisations get to grips with the new procedures. In an attempt to avert some of these problems with Site, which was recommended by the Margo Commission on taxation and accepted in this year's Budget speech by Du Plessis, the Directorate of Inland Revenue set up meetings with selected major employers, computerised payroll software developers and computer bureaus to explain the implications of Site to them.

As legal draftsman Ian Meiklejohn explains to the *FM:* "Prior to the Budget we had to move swiftly in order to give an idea of how Site would work ready on time. Our next step was to hold the meetings with a two-fold



Warren . . .
amazed at lack of awareness

purpose — first we wanted to ask for their co-operation in implementing Site and secondly we wanted to try to jointly thrash out any technical problems we would be likely to run into before it became legislation."

These meetings brought to light certain inherent problems with the way the new system was to have been implemented, he says. As a result the department has "changed its thinking quite substantially."

However, Meiklejohn declines to give details because a draft Bill complete with proposed revisions is currently under consideration by Du Plessis. He believes the Bill could be approved within a fortnight.

Meiklejohn stresses that although there may be changes to it, the objective of Site remains the same. Its main perceived advantage is that certain categories of employee on fixed incomes will not have to submit annual returns because their employers will be responsible for determining the final tax liability under the PAYE system. This is an extension and refinement of the final deduction system which was introduced five years ago and should reduce substantially the number of tax returns which must be processed by the Department of Inland Revenue.

It does, however, mean adjustments in the way employers calculate taxes and, for those with computerised payroll systems, it means fundamental adjustments to the programs which do the calculations.

"I'm not a systems specialist, but the feedback I have from the private software houses and bureaus as well as our own systems people is that it shouldn't now be too difficult to implement," says Meiklejohn.

Others, however, take a different view.

Payroll software supplier Accsys believes that organisations which have not computerised their payroll systems could run into severe difficulties in trying to deal with Site.

"Tax calculations were already complex enough before the introduction of Site, says Accsys MD Dick Bradley. "In essence, the new taxation procedure stipulates that at the end of the tax year employers must split the tax deducted from their employees into two components — PAYE and Site. Site is calculated on the portion of taxable earnings below R12 000 a year for employees, other than for married women whose limit is R20 000.

"The Receiver has clearly placed the onus on the employer, who will have to adjust his returns accordingly. The situation is more demanding and complex than most employers might like to believe and an increasing number of non-computerised organisations will be obliged to invest in computerised payroll systems with updated tax facilities."

Ron Warren, technical director of Q-Packaged Programs, which has an estimated 2 000 users of its modular Q-Pac payroll package in SA, says his organisation has spent eight man-weeks on development alone, modifiying its Q-tax module which will cater for Site when hooked onto payroll packages. The organisation has also carried out familiarisation seminars around the country for its users and has introduced a free phone-in service for anyone wanting general information on Site.

"I was amazed at the lack of awareness of some organisations of the implications of Site," he tells the *FM.* "We came across a large group the other day that didn't even know of its existence." ■

FM 10/6/88

TAXATION — 1

Barend's roaring silence

In the past week Finance Minister Barend du Plessis has announced five vital tax changes affecting hotels, plant and machinery, industrial buildings, *en commandite* partnerships and valuation of livestock (**see box**). The changes, many fundamental, went practically unnoticed.

Perhaps the most striking thing about them is how the *FM* became a conduit for dissemination of Du Plessis' statements. Take, for example, changes for hotels, announced on the evening of June 3, to take effect the next day, a Saturday. On Monday June 6, when the *FM* approached hotel industry spokesmen for comment on the radical changes for their industry, nobody had seen the relevant statement — not even the Federated Hotel, Liquor and Catering Association (Fedhasa), umbrella representative body for the industry.

Indeed, such was the lack of communication that on June 3, Fedhasa prepared a press release stating that: "Upgrading of existing hotel accommodation could result from the news that government is planning to introduce new schemes to assist the industry."

On June 6, when Fedhasa issued this release and the *FM* told it about the tax changes, which do anything but help the industry, the reaction was akin to horror. Of course, some plan to "assist" hotels could still come from some other government department. But aid, if any, will have to be substantial simply to *neutralise* the tax changes.

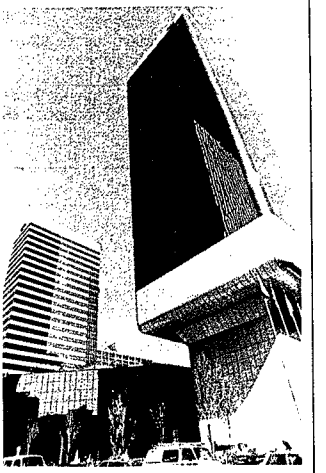
For example, says Horwath & Horwath's Del Carris, a new five-star hotel costing, say, R30m, could previously write off R12m against tax in its first three years of operation. Under the new system, it will only be able to claim R1,2m against tax in the first three years. It will now take 50, not nine years to write off a five-star hotel against tax.

In a broader context, the shifts, on balance, mean greater inflows for the Exchequer. Yet none was accompanied by even a suggestion of a relaxation of overall, or some, tax rates. In itself this is inequitable, since the major unstated objective of the Margo Commission was "revenue neutrality."

In other words, when a change rakes in more cash, there should be corresponding cuts elsewhere. It is not easy to estimate what extra revenue will be garnered from the changes; but that is not the point.

In comparison, Du Plessis was quick to point out in the Budget that the Minimum Tax on Companies was purely a temporary measure to stem cash flow shortfalls elsewhere. These shortfalls were not specified, but Du Plessis went ahead with the tax — which, to boot, was retroactive.

From the theoretical point of view, this week's changes are welcome. By simplifying and attempting to standardise, each change introduces more neutrality into the system. There is to be more like treatment of things unlike. For example, the depreciation allowances for hotel equipment and plant and machinery will now both be 50%:30%:20% over three years — the general depreciation allowance recommended by Margo.



Hotels ... bolt from the blue

Two substantial tax shelters have been knocked — those used by "armchair" farmers, and *en commandite* partnerships, used to great advantage in industries which include motion pictures, bloodstock, plantations, records, and publishing.

Unfortunately, two of the changes are retroactive. The hotel change, announced on June 3, became effective the next day. So while hotel construction under way is not affected, projects in the pipeline and due to start shortly may well be canned.

Secondly, while the position of *en commandite* partnerships will be clarified in amending legislation, existing schemes will be attacked in court. According to Du Plessis, tax returns provide "increasing evidence of the scale on which tax has been avoided by these arrangements."

Du Plessis has instructed the commissioner "to identify ... schemes ... and have them examined by a special team of assessors. Wherever it is considered possible to challenge (them) under existing legislation, this will be done at the earliest possible date."

Whether this is retroactive is open to debate. It probably is, as many *en commandite* schemes submitted to Revenue for approval were ignored. The schemes went ahead without a Revenue ruling, and are now up for attack *ex post*.

In any event, Du Plessis' proposed change to the law regarding *en commandites* will be retroactive to March 1.

Due to the nature of SA's parliamentary process, Du Plessis' "proposals" can be taken as final, though as a formality all have to go to the Standing Committee on Finance.

The nature of this week's changes opens serious questions about government's attitude to management of the tax system. There was just one suggestion of benevolence when Du Plessis said, regarding the January 1 1988 changeover for plant and machinery depreciation: "To enable industrialists and co-operatives to do advance planning ..." Otherwise, it has become little short of impossible to do advance tax planning in SA. ■

Whites to pay R10-bn in taxes

HOUSE OF ASSEMBLY — Whites would pay an estimated R10 732 787 478 in personal income tax in the 1987/88 financial year, the Minister of Finance, Mr Barend du Plessis, said yesterday in a written reply to a question by Mr Clive Derby-Lewis (CP Nominated).

Mr du Plessis said coloured people would pay R396 771 538, blacks R258 253 663 and Indians R350 990 206.

He said the provisional figures for the 1987/88 financial year for individual taxpayers were apportioned on the basis of the taxes assessed in 1987. — Sapa.

Time scale plan for taxing share sellers

Star 4/6/88

320

A time scale for taxin people who sell shares is being suggested by the South African Taxpayers Association.

People who invest in shares have a "Sword of Damocles" hanging over their heads, claims the executive director, Mr David Shrand, in a memorandum on the Margo Report submitted to the Minister.

The Revenue Department's current practice of taxing profits from share dealings is based on the doctrine of "intention," says the association's memorandum.

If the Receiver of Revenue is satisfied that the taxpayer has entered into a profit-making scheme, he is classified as a share-dealer and taxed on any profits made.

"Whether a taxpayer falls into the category of share-dealer or not is a question which can only be decided After a long investigation into the history of the taxpayer's past transactions as

FINANCE STAFF

well as other circumstances," says Mr Shrand.

"The doctrine of intention is a difficult approach and to establish intention is often an uncertain factor and difficult to formulate with any accuracy.

"In practice those who engage in share investment are confronted by uncertainty as there is the 'Sword of Damocles' hanging over their heads regarding any profits that may accrue as a result of change or substitution by way of selling one particular share and using the proceeds to buy another in their share portfolio."

A cardinal principle of a sound taxation system is that certainty should prevail, says the memorandum, and to attain this goal in share-dealing a time framework should be formulated to control the taxation of profits from share dealing.

If shares are sold within 12 months of purchase, a certain proportion of the profits should be taxed. The longer the share is held, the lower the tax liability should be and after a period of about three years no tax should be imposed.

Other proposals by the association include:

- Earned and unearned income should be taxed at differential levels as in Britain.
- The present tax allowance should be raised from 20 to between 25 and 35 percent to stimulate the beneficiation of raw materials, which will provide more jobs and earn more foreign exchange.
- Only 50 percent of farm losses should be set off against income from other sources. At present all loses can be offset.
- The Government should appoint a commission to investigate Government spending as well as the effect of monopolies on inflation with the aim of reducing taxes.

Tax-free investments likely to go

Star 4/6/88

CAPE TOWN — The Trust Building Society has issued a warning to its depositors that tax-free building society investments could soon be on the way out.

The directors say that the Government has accepted the Margo recommendation that the tax concessions on investments in building societies, the Post Office and the Treasury should be ended.

They say the authorities are formulating a programme for phasing out the concessions and an announcement will be made in due course.

The Trust Building Society increased its assets from R580,2 million to R625,5 million in the year ended March, and its reserves rose by R5,4 million to R39,0 million equal to 6,2 percent of assets.

Funds advanced for home loans rose from R508,9 million to R566,3 million.

The Trust Building Socity has not yet decided whether to "follow the equity route" and move actively into banking.

"It is still keeping its options open as to the future structure and function of Trustbou within the Bankorp group."

Call to apply VAT to home construction

Star 6/6/88 (320)

By Claire Robertson, Pretoria Bureau

The entire cost of building a private home should be subject to value added tax (VAT), says Mr Willem Cronje of financial management firm Deloitte, Haskins & Sells.

In a paper read on his behalf at the Unisa School of Business Leadership's two-day conference on housing in Pretoria last week, Mr Cronje said that although this would be unpopular politically, a broadly based tax system would enable a low tax rate to be maintained.

Granting tax relief on the construction of homes would benefit the relativly better off, he said, while not giving much to "those with the greatest need for housing".

Low-income home-owners would not benefit much from such relief as their houses, built generally from "sweat equity", fell outside the taxing system.

Under the general sales tax system, construction of homes is exempt from tax as this is a construction service, and only the materials used are taxed.

ready by the second half of the year, says McCrystal. However, it would still have to convince government of the implementation thereof.

McCrystal says the formula involved in the BTI Interim Report on Light Commercial Vehicles, which contains the proposal highlighted last week by Economic Affairs and Technology Deputy Minister Thoe Alant, is to be tabled in two weeks.

CHRIS CAIRNCROSS

Tax write-off grants to be discontinued

THE initial tax write-off concessions covering costs of industrial plant, machinery and buildings, and hotel equipment are to be discontinued at the end of the year, according to a statement released in Cape Town by Finance Minister Barend du Plessis.

These allowances are to be excised from draft income-tax legislation expected to be tabled during the current Parliamentary session. They cover costs of plant and machinery that:

☐ Is used in a process of manufacture or similar process;

☐ Is let and is used by the lessee directly in a process of manufacture or similar process; and

☐ Is used by a co-operative for storing or packing products of its members, or for subjecting such products to a primary process.

The decision to do away with these

320 B/day 6/6/88

● To Page 2

Tax write-off concessions discontinued

● From Page 1

allowances resulted from government's acceptance of the Margo Commission's recommendations concerning the depreciation of industrial plant and machinery.

Du Plessis said it was the intention now to recommend to Parliament that the depreciation allowance whereby the cost of an asset may be written off over three years on the basis of 50%, 30% and 20% respectively, will also apply to the plant and machinery mentioned above.

He said equipment brought into use before January 1 next year will continue to be written off at existing rates.

Du Plessis also announced that the initial 17,5% allowance in respect of industrial buildings in which a manufacturing process is carried out, or which are used for storage purposes by co-operatives, will not be allowed if construction starts after January 1 next year.

They will, however, still continue to qualify for the existing 2% annual allowance.

320 B/day 6/6/88

New BTI formula coming

Friday 6/2/88

HELOISE HENNING

THE Board of Trade and Industry (BTI) is likely to propose a tax-based formula that will penalise or benefit motor manufacturers on their usage of foreign exchange under the proposed value-based local content programme, BTI chairman Laurence McCrystal says.

But the formula will not prescribe a percentage of local content value like the current formula which prescribes the use of 66% local content based on the vehicle's weight, he says.

BTI should have its proposed formula ready by the second half of the year, says McCrystal. However, it would still have to convince government of the implementation thereof.

McCrystal says the formula involved the restructuring of the whole industry and implementation of the plan has to minimise the shocks to the industry.

A foreign exchange usage-based formula would promote the manufacture of components currently being imported which could, without immense cost to the industry, be manufactured locally.

Local manufacturers are generally importing the high-tech, high-value, low-volume items.

The BTI Interim Report on Light Commercial Vehicles, which contains the proposal highlighted last week by Economic Affairs and Technology Deputy Minister Thoe Alant, is to be tabled in two weeks.

CHRIS CAIRNCROSS

(1) Whether his Department owns portions 14, 15, 16, 17 and 18 of the piece of land known as Vlakfontein 303 IQ; if so, (a) what is the size of each of these portions and (b) for what purpose is the land (i) being used and/or (ii) to be used;

(2) whether he will make a statement on the matter?

The MINISTER OF LOCAL GOVERNMENT AND AGRICULTURE:

(1) No.

(a) Falls away.

(b) (i) Falls away.

(ii) Falls away.

(2) No.

HOUSE OF ASSEMBLY

†Indicates translated version.

For oral reply:

General Affairs:

Questions standing over from Tuesday, 24 May 1988:

Commission of Inquiry into Tax Structure of RSA: recommendation

*25. Mr R M BURROWS asked the Minister of Finance:

(1) Whether, with reference to his reply to Question No 30 on 8 March 1988, his Department is considering the recommendation of the Commission of Inquiry into the Tax Structure of the Republic of South Africa regarding the deductibility of expenditure incurred by taxpayers at school level in the form of donations to certain special educational funds; if not, why not; if so, when is it anticipated that departmental consideration of this matter will be finalized;

(2) whether his Department is considering extending the deductibility of payments made in respect of secondary and primary education from the limitation regarding "certain special educational funds" to normal voluntary school fees, State-imposed tuition fees and fees to private schools; if not, why not; if so, when is it anticipated that the policy on such payments will be finalized?

The MINISTER OF FINANCE:

(1) The question of extending the benefit of the section 18A income tax deduction to donations to primary schools is receiving attention and will be finalized as soon as all interested parties have been consulted.

(2) My Department is not considering extending the deductibility of payments made for normal educational purposes for the reasons set out in paragraph 1 of my reply on 30 March 1988.

New Questions:

*1. Mr C J DERBY-LEWIS — Law and Order. [Reply standing over.]

Diplomatic vehicles: number-plate system

*2. Mr C J DERBY-LEWIS asked the Minister of Foreign Affairs:

(1) What is the vehicle number-plate system used in the Republic for diplomatic vehicles;

(2) whether the United States of America uses a different number-plate system for diplomatic vehicles; if so, what system is used there;

(3) whether this system applies equally to all countries maintaining diplomatic relations with the United States;

(4) whether diplomatic vehicles used there by members of the South African diplomatic corps are identifiable by the letters and digits on their number-plates; if so,

(5) whether he will make a statement on the matter?

The DEPUTY MINISTER OF FOREIGN AFFAIRS:

(1) Diplomatic status vehicles are registered by the use of the letters DIP, followed by three numbers, not particularly to any country, followed by the letter D, for example, DIP 555 D.

Consular status vehicles are registered by the use of the letters FCC, followed by three numbers, not particularly to any country, followed by the letter D, for example, FCC 555 D.

The vehicles of the Secretariat for Multilateral Co-operation in Southern Africa are registered by the use of the letters SEC, followed by three numbers followed by the letter D, for example SEC 555 D.

(2) Yes, in the United States of America diplomatic status vehicles are registered by the use of the letter D followed by two letters, which are particular to the relevant country, followed by three numbers, denoting, in numerical order, the private and official vehicles of the Mission con-

HOUSE OF ASSEMBLY

†Indicates translated version.

For written reply:

General Affairs:

Bloodstock schemes: tax benefits

1033. Mr C J DERBY-LEWIS asked the Minister of Finance:

(1) Whether any tax benefits have been granted to persons investing in bloodstock schemes; if so, (a) why, (b) (i) what are these benefits and (ii) in respect of what date is this information furnished and (c) what amount in revenue is it estimated was lost by the State as a result of these benefits in the latest specified period of 12 months for which figures are available;

(2) whether it is the intention to reduce these benefits; if so, when?

The MINISTER OF FINANCE:

(1) The term "bloodstock scheme" encompasses a wide variety of schemes which range from *bona fide* farmers purchasing livestock to upgrade the quality of their herds to schemes which are mere tax shelters involving inflated purchase prices and artificial financing schemes. Statistics of livestock purchases are not maintained for income tax purposes but as the purchase of livestock at amounts in excess of the prescribed standard values gives rise to a tax benefit, and the purchase of livestock is a normal farming expense, it must be assumed that tax benefits are being granted to farmers for livestock purchases.

(a) The tax benefits are gratned in terms of the provisions of the Income Tax Act.

(b) (i) The deduction of the difference between the actual purchase price of the livestock and the standard values of such livestock is allowed as a deduction in the year of purchase.

(ii) No statistics are maintained.

(c) No statistics are maintained.

(2) It has already been announced that the Income Tax Act is to be amended with effect from 12 February 1988 to place it beyond doubt that the artificial inflation of the purchase price of livestock by means of interest to obtain tax benefits will not be allowed. The Commissioner for Inland Revenue will also invoke the present anti-avoidance provisions of the Act to counter these schemes. The Government announced in the White Paper on the Margo Commission Report that it accepts that recommendation of the Commission which will restrict the tax benefits presently enjoyed by farmers in respect of the purchase of livestock, and the necessary amendments to the Act will be introduced this year.

Own Affairs:

Colleges of Education: new posts

141. Mr R M BURROWS asked the Minister of Education and Culture:

What number of new posts at each post level has been created in colleges of education in each provincial education department since 1 November 1987?

The MINISTER OF EDUCATION AND CULTURE:

Natal: post level 5 : 9
post level 4 : 6
post level 3 : 14,

Cape, OFS and Transvaal : 0.

Schools: time spent on subjects

143. Mr K M ANDREW asked the Minister of Education and Culture:

How much time is spent each week in each standard from Std 2 to Std 10 in (a) English and (b) Afrikaans medium schools on (i) English, (ii) Afrikaans, (iii) a third language, (iv) Mathematics, (v) Geography and (vi) Physical Science?

The MINISTER OF EDUCATION AND CULTURE:

Time is denoted in hours.

Taxpayers defended

DURBAN — The head of the accountancy profession defended the right of taxpayers to reduce the impact of tax and described retrospective amendments to income tax legislation as undesirable in principle.

John Edwards said in his presidential address the fiscus must expect taxpayers to take legal measures to reduce the impact of tax.

"It is not acceptable that such action should be termed morally wrong and that our members should be accused of inappropriate behaviour."

Mr Edwards said the Commissioner for Inland Revenue had acknowledged that the taxpayer who carried out a legitimate tax avoidance scheme in a manner which did not involve fraud, dishonesty, or misrepresentations, would have met his duties if he honestly completed his return and answered queries raised.

Mr Edwards respected the right of the Minister of Finance to take retrospective action on occasion when faced with a situation where the scale and scope of practices threatened the national interest. However, such occasions must be exceptional.

While there was no objection to correcting previous anomalies "it is undesirable in principle to introduce such retrospective legislation".

Over the past year there had been several instances where the Government had introduced tax amendments with retrospective effect.

Where the effect of the legislation was "to charge to tax an amount which in terms of the law would not previously have been charged to tax, it is in our opinion that this is an undesirable practice".

"Taxpayers should be able to plan their affairs in an atmosphere of certainty and legal clarity." — Sapa.

TAXATION

Pensions in the spotlight

It's official: government is considering taxing pension funds. That will initiate, if nothing else, vociferous public debate. Among the vital questions it will raise is whether yet another attack on savings will be acceptably compensated for by cuts in other tax rates.

According to assurance industry sources, the idea of taxing pension funds was first unofficially aired, fairly recently, by Finance Minister Barend du Plessis. Listening to representations after the Budget — when he upped life office tax by 75% to 35% of gross investment income — he was (correctly) told that about two-thirds of life office income comes from pension funds. A large percentage of SA's 20 000 registered funds are administered by life offices.

Life office spokesmen argued that aggregating their pension fund income with insurance income was one factor that had given rise to the idea that life offices are not paying their "fair share" of tax.

Word went out to Finance Department officials to find as a model a country that taxes pension funds. By the time Deputy Finance Minister Org Marais came to deliver a speech in Johannesburg this week, such a country had been found and studied — New Zealand. This socialist country, in a recent package of tax reform:

- ☐ Introduced fringe benefits tax;
- ☐ Cut personal and corporate tax to a flat 25%;
- ☐ Removed tax expenditures (concessions) from the business arena;
- ☐ Introduced a goods and services tax with *no* exemptions; and
- ☐ Introduced a withholding tax on dividends and interest.

The Exchequer is being stroked into believing that pension funds should be taxed. What this would mean for future pensioners is only one of the questions that acceptance of the principle would raise. Economic growth and what would happen to the overall tax burden will also need to be carefully probed.

Finally, it introduced the taxation of pension funds "up front." Marais was highly impressed by the package. "I must express my admiration for the New Zealand government in introducing tax reform satisfying most of the principles of public finance," he said.

Indeed, tax reforms introduced by New Zealand Finance Minister Roger Douglas have been described as "more Thatcherite than Thatcher." Among sweeping changes since 1984, Douglas has deregulated, abolished fiscal snarls, ended farming subsidies, and privatised. His package rings of changes that have been made, or are on the way, in SA. We are phasing in perks tax; a (hopefully) no-exemption VAT is to replace GST; and tax expenditures are gradually being wrested away from the business sector.

But the idea of taxing pensions is new; and was not included in the Margo recommendations. The subject is extremely complicated (phasing out of the present pensions system is a minefield in itself). But if taxing pensions is acceptable at all, a prerequisite is a guarantee that lower general tax rates will result.

Taxation of pension funds lends itself to many possibilities. There are as many ways of taxing funds as there are of taxing individuals, who will end up paying these taxes anyway.

Our pensions system has three facets:

- ☐ Contributions (by employee and employer) are partially deductible from income;
- ☐ The pension fund is not taxed; and
- ☐ Receipts from a pension fund are taxed in the hands of the pensioner (or on "early" withdrawal), after a tax-free lump sum.

In other words, the system substantially defers the taxation of pension funds until a taxpayer starts receiving his pension. The Exchequer, which inherited a pension system based on centuries-old British practice, believes it's forgoing a fortune. The shortfall is aggravated by high inflation.

According to figures supplied by the Re-

serve Bank to the Margo Commission, pension funds (including those administered by life offices) earned R6,4bn in investment income in 1985.

Contributions amounted to R10bn, while other income totalled R1,7bn. In all, then, pension fund income was just over R18bn in 1985 — not far short of the R22bn collected by Inland Revenue that year. The *FM* estimates that pension fund income in 1988 will be about R35bn — an enormous, easily accessible tax source.

But that is not the point. What *is* important is that if pension funds are to be taxed, common ground has to be found between taxpayers and government. Marais stresses that it is important to remember that countries like New Zealand have a largely homogeneous population — lacking in SA. Comparisons could, indeed, even be ludicrous.

"There are many strings that have to be pulled together in SA," he tells the *FM*. Among them:

☐ The difficult tax treatment of lump sums, a process which has been politicised;

☐ Lack of pensions portability is blatantly unjust, favouring employers;

☐ Early withdrawal from a pension fund carries a heavy penalty that does not accord with movements in the modern job market;

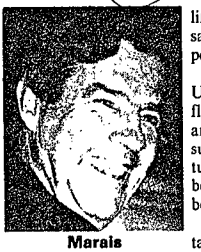
☐ Only a fraction of employees retire on a full pension, showing that the system is simply not working; and

☐ Monthly pension payments are seldom adjusted enough to offset inflation.

Besides, the whole pensions system has become unwieldy. In 1985, according to Inland Revenue, there were, approved and registered: 10 119 pension funds, 5 994 provident funds, 79 retirement annuity funds, and 3 294 benefit funds.

About 2 500 new funds were being registered each year; and 5 000 changes made each year to the rules of existing funds. *Four* State employees are charged with the job of overseeing all fund work. Clearly, the system needs scouring of duplication and inefficiencies.

These and other problems are under consideration by the Meiring Committee, which is about to be reconstituted. It will now also turn to the question of taxing pension funds. It will have to consider how to abolish the differentiation between public- and private-sector funds, as recommended by Margo.



Marais

For example, if public funds are allowed to invest in the private sector, the impact on the JSE and the capital market will be considerable.

But the overriding question is the flow of savings and where they end up. Says Marais: "There is a heavy concentration of savings in life offices. For that, they must be given a big plus mark. But the question now is simply: is their *investment* the best possible for SA? It tends to go into low-risk areas, which is not what we need most right now." (Though it may, of course, be what potential pensioners prefer.)

In other words, would the taxation of pension funds see investment in new areas which would benefit SA more in the long run? The reforms sweeping through so much of the Western world — cutting taxes, shrinking government, privatising and deregulating — are all changes in favour of greater individual choice.

One consequence is more privity between what the individual does with his (higher) disposable income and his investments. An individual who oversees his investments, rather than making them by debit order each month, is far more likely (so the reasoning goes) to have influence over how that investment performs.

Such investments (for example, a few friends in a takeaway shop) could be just as successful a hedge against old age as monotonous payments into a pension fund — though they might also be more risky. It is generally accepted that individual entrepreneurs rather than corporations do more for wealth creation. Taxing pension funds — though not in isolation — might, if this be correct, encourage more individual entrepreneurship. Or it might not.



Minister Du Plessis ... testing the waters

Of course, taxing pension funds does not mean they should, or would, fall into disuse. Along with life insurance, there should always be ways to provide against living too long, or dying too soon.

Another argument used to support the taxation of pension funds is that with two-thirds of private-sector funds administered by the life offices, the distinction between life and pensions business is often blurred.

The accusation is that through retirement annuities, in particular, life offices are now conducting deposit-taking activities under the tax umbrella of pension funds. In the words of a government spokesman, if life offices are seen as long-term savings institutions, taking deposits is not on.

Statistics, analysed by the UBS's Piet Badenhorst, show a flow of cash away from banks and building societies as a result, he says, of the tax-free status of pension funds. This may be true, but inflation must also be a factor.

If pension funds are to be taxed, it would probably be by taxing their gross investment income, in line with life offices' insurance business. This, some argue, would mean that:

☐ Contributions should be paid out of taxed income; and

☐ Receipts should be tax-free.

This way, proponents of taxing pension funds argue, deferral of pension fund taxation is dispensed with; the Exchequer gathers more; and pensioners are not left to grapple with overcomplicated laws that are unwanted and unnecessary.

The quid pro quo for taxing pension funds is that they will no longer be forced to invest half their assets in prescribed investments, which are low-yielding fixed-interest official securities. According to Marais, prescribed assets would be dispensed with if pension funds are taxed, and retirement annuities would be abolished.

The *FM* supports the principle that all savings institutions should be taxed in the same way, according to the nature of the markets they serve. But the problem is not as simple as we suspect Marais would have us believe.

Those that have planned their retirement under the existing system are entitled to seek reassurance that their tax position will not be altered.

The question of regression will have to be addressed: rich pensioners could benefit more than poor ones.

And remember, ultimately it is not pension funds but actual and potential pensioners who will bear the cost. If the consequence is to make savings via investment funds less rewarding, there is a distinct risk that more old people will become more of a burden on the State, rendering the exercise counterproductive.

Whether it is in the interests of economic growth that savings be taxed at all also needs serious attention. One of the means whereby the Japanese engineered such rapid growth after the war was by abolishing all tax on savings and, in fact, making it more advantageous to invest in a business than in a house.

We suspect, too, government's motives. Is it trying to spread the tax burden (an emotive term which is not always as convincing as it sounds) and so reduce the overall tax load, or is it merely getting its fingers into a larger source of revenue to spend on further interference in our lives? If that be true, then taxing pension funds will just be another way of mugging pensioners, even if the pensions they receive are not taxed. ■

Most taxpayers have still not returned forms

Star 18/5/88

By Paula Fray

Most taxpayers have still not returned their income tax forms — with less than two weeks before the return deadline on May 30.

About 20 percent of salary taxpayers have sent back their forms. This means only 37 833 from more than 220 000 have been returned.

At this stage, 188 218 forms are still outstanding in the Johannesburg region and the indications are that the rest of the Transvaal is in the same boat.

"Taxpayers have also not made use of the after hours facilities we offer," says Johannesburg Receiver of Revenue, Mr Kobus Stone.

"We have 10 staff on duty from 4 pm to 6 pm and our largest number on any day has been only 42. There has not been as many people as we would like to see."

Only a tiny percentage of the 105 268 business taxpayers have returned their forms, and there are still 100 194 forms outstanding.

"However we expect the forms to start coming in now. People always wait until the month end before sending in their forms."

Although the Receiver of Revenue's staff have not begun processing the forms, Mr Stone appealed to the public to remember to enclose the necessary certificates regarding tax, salaries, unemployment and when relevant, investments.

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Mr Stone said the bank numbers now required on the front page of the form was vital as they intend to deposit any refunds directly into the relevant accounts. This would eliminate any possible fraud.

● All the Receiver of Revenue offices in the PWV area are offering after hours facilities to assist taxpayers fill in their forms. The offices open at about 4 pm until 6 pm.

Taxman seeks GST on free newspapers

THE Receiver of Revenue is trying to levy GST on free-sheet newspapers and magazines — even though they are free.

By Ian Smith

The move is likely to be fought out in court.

Publishers of magazines and newspapers which are sold pay GST on their cover price.

A spokesman for the quoted Caxton group, the biggest publisher of give-away newspapers, "I believe we will contest the Receiver's claim."

He says that GST is levied at source on all advertising carried in the publications. Advertising makes up the publishers' total revenue.

"Now he is saying that the editorial content has been deemed an 'own use' item in terms of the GST Act and we must pay the tax on the cost of all materials for preparing that editorial content.

"It means we would be paying GST on GST."

Controversy

Free-sheet publishers did pay sales tax on the cost of preparing editorial material while advertising was free of GST. But when the application of the tax was widened to apply to advertising four years ago the levy on editorial material fell away.

The advertising and publishing industries are still crying "foul" about the extension of GST to advertisements, and the new move will stir up more controversy.

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"It is more a question of the principle than the money. I don't believe very large sums are at stake."

Taxman seeks GST on free newspapers

THE Receiver of Revenue is trying to levy GST on free-sheet newspapers and magazines — even though they are free.

By Ian Smith

The move is likely to be fought out in court.

Publishers of magazines and newspapers which are sold pay GST on their cover price.

A spokesman for the quoted Caxton group, the biggest publisher of give-away newspapers, "I believe we will contest the Receiver's claim."

He says that GST is levied at source on all advertising carried in the publications. Advertising makes up the publishers' total revenue.

"Now he is saying that the editorial content has been deemed an 'own use' item in terms of the GST Act and we must pay the tax on the cost of all materials for preparing that editorial content.

"It means we would be paying GST on GST."

Controversy

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Diesel card

SHELL South Africa has launched a diesel fleet card, linked to a payment and fleet management system. The cost is R2 a card for each vehicle. Shell charges no interest on fuel and lubricant purchases or Government levies.

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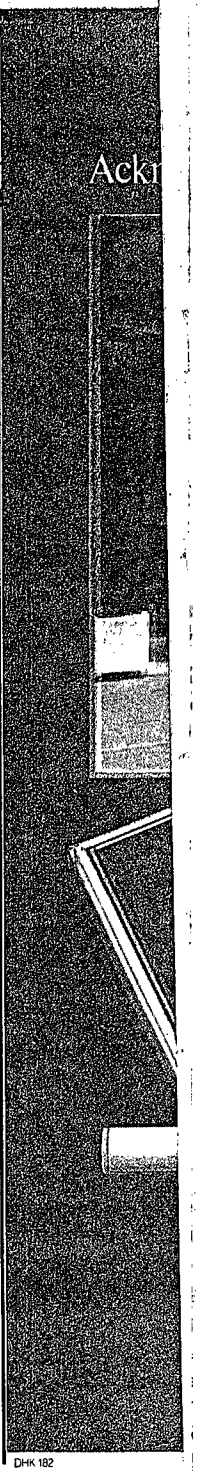

DHK 182

WEDNESDAY, MAY 11, 1988

R2-m in tax rebates goes astray

11/5/88

320

By SY MAKARINGE

NEARLY R2-million in tax rebates went astray in the last 12 months as racketeers continue to intercept and cash cheques sent to the tax payers by the Department of Inland Revenue.

This was disclosed yesterday by Mr Chris Dempers, Director of Operations Control at the Department of Inland Revenue, as the deadline for submitting the 1987 tax

• To page 2

Rebates go astray

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• From Page 1

returns draws nearer.

Mr Dempers told the *Sowetan* that more than 5 750 rebate cheques involving about R1 968 541 were stolen and fraudulently cashed by racketeers between March last year and February this year.

The racket, which dates back to 1986, has shocked many tax experts and angered scores of black tax payers, although many people were arrested for stealing tax refund cheques last year, there had been, so far, no signs that the racket was coming to an end.

Duplicate cheques take up to three months to be sent to the recipients. In some instances, these duplicates had also been intercepted and cashed.

Victims

One of the victims of the racket is Mr Stan Hlophe, of Soweto, who received a statement of assessment in December last year. He was informed that there was an amount of R1 700 that was due to him.

When the cheque was not forthcoming, Mr Hlophe went to the offices of the Receiver in Rissik Street where he was told his cheque had been cashed.

After making an affidavit swearing that he did not cash the cheque, he was told to wait for about three months for a duplicate cheque. The cheque, he was told, would be deposited into his banking account.

Refund

Mr Joseph Nyathi, who lost his job in March last year, thought he would make ends meet when he received a statement from the Receiver saying that he would receive a refund of R1 774.

"I waited for the cheque for several months, but in vain. So I decided to go to the offices of the Receiver. They told me somebody had cashed my cheque," he said.

Mr Dempers said the department had given the matter serious consideration. He said from this year, rebates would be deposited into the tax payer's savings account.

Tax scheme terminology



David Clegg is a partner of Arthur Young, Cape Town.

Originally, when discussing tax schemes, one had only to deal with the words "avoidance" and "evasion." The distinction was clear. The former was legal, the latter not. In the late Seventies, Owen Horwood, then Minister of Finance, coined the word "avoision," which seemed to refer to morally reprehensible avoidance of the tax which was legally perfectly legitimate.

Now, following a decision of the Privy Council (PC) in an appeal from the New Zealand Court of Appeals — the Challenge Corporation case — a new fourth concept has made its appearance: "tax mitigation."

The importance of this judgment and the concept of "tax mitigation" is that New Zealand has a general tax avoidance provision in its tax legislation, similar to our own Section 103. Although there has for some years been a debate in academic circles as to whether the substance over form test applied to tax schemes in UK and US courts would find favour here, the general view has been that the concept has no place in South African law.

One was, therefore, left with the awkward problem of deciding just what type of arrangement could be attacked by Revenue under Section 103.

The court decision provides an interesting guideline. It draws a distinction between the arrangement of one's affairs in such a way that "the tax attaching under the appropriate Act is less than it otherwise would be" (the famous quote from the Duke of Westminster case, also heard in the PC), and the case where a person enters into "an arrangement when the taxpayer reduces his tax without involving him in the loss or expenditure which entitles him to that reduction."

The PC found that the anti-avoidance provisions of the New Zealand Act could not attack a situation in which the taxpayer actually incurred expenditure which gave rise (under specific provisions of tax legislation) to a reduction of tax. This is legitimate "tax mitigation."

But where the taxpayer managed to insert himself into a specific provision of the tax statute without actually incurring appropriate expenditure, the arrangement would be able to be attacked.

In many respects, the underlying concept is in line with the "at risk" rule introduced to deal with the taxation of film schemes; through the emphasis on actual incurral of expenditure, it also seems to introduce a test of artificiality, that is, looking for an actual, as opposed to apparent, incurral of expense.

Although the Challenge Corporation ruling is of no real persuasive power in South African law, it holds the germ of an idea which could reasonably be applied in interpreting our legislation. I would not be surprised to find the commissioner's reptresentatives referring to the concept of tax mitigation as opposed to tax avoidance in future appeals.

CLAMPS SOON ON AVOIDANCE OF TAXATION

2/5/88

CHRIS CAIRNCROSS

CAPE TOWN — Government is to introduce legislation this session aimed at cracking down on attempts by the business community to seek loopholes in the tax system.

An announcement can be expected soon, Finance Minister Barend du Plessis told delegates at a weekend conference on SA's economic prospects, arranged by Stellenbosch University's Business School.

Du Plessis said it was government's intention to move ahead rapidly with the implementation of the Margo commission's tax reform measures referred to in the March Budget, and an announcement could be expected soon.

He warned it would also address the "leap-frogging" taking place in the business sector aimed at uncovering loopholes in the tax system.

"It is in the interest of all of us to see that the integrity of the tax system is protected. Loopholes lead to concentrations of the tax on too narrow a basis," Du Plessis said, declaring it was the intention of the revenue authorities to broaden the base as much as possible.

520 Bday

Company taxes 'insufficient'

By Sven Lünsche

A major reason for the sluggish growth in the central government's current income may be found in insufficient relative growth in company taxes, according to economists at the University of Pretoria.

Writing in Senbank's latest edition of *Focus on Key Economic Issues* the academics say that owing to economic factors such as the long recession, cost increases and a relatively low gold price, the increase in income from taxes on gold mines and other companies were in recent years too slow to finance the growth in government expenditure (*see graph*).

"For understandably political reasons, the loss in taxes on companies could not be fully recovered from individual income tax and indirect taxes, resulting in an increase in the budget deficit and government debt," the economists write.

No cause for concern would exist about the growing deficit and government debt if it resulted from an expansion in the infrastructure or in the production capacity.

Coinciding with the growth in the budget deficit has been the rise in interest on government debt — as a percentage of total debt it has risen from less than two percent in 1960 to almost 13 percent.

Government now uses virtually its entire yearly borrowings to repay the interest on its accumulated debt and the growth of government debt and associated interest payment account for the third largest component of government expenditure.

Fight for tour

CAPE TIMES 2/6/88 320 280

Own Correspondent

LONDON. — French Rugby boss Mr Albert Ferrasse is to set up a summit meeting with SARB president Dr Danie Craven in Argentina in a bid to save the World XV tour of South Africa in August.

"I will be in Argentina at the end of this week and my respected friend Dr Craven says he will join me there for talks very soon after I arrive," said Mr Ferrasse, President of the French Rugby Federation (FFR).

He would not comment on whether or not representatives of the other full International Board countries would also attend the meeting, at the start of the French tour of South America.

French govt orders

But Mr Ferrasse said: "I believe it is important for international rugby to have a strong World XV in South Africa this year. I hope Dr Craven and I can set up something to make sure everything goes well."

He said reports in South Africa yesterday stating that the FFR had already been ordered by the new left-wing government in Paris to ban players from joining the World XV tour as a group representing France, were premature.

He gave the broadest hint yet that a plan would be discussed to beat government bans on the World XV tour, scheduled to start in August and including two test matches, by sending players to South Africa as "individuals".

He revealed that a number of top French players would be arriving in South Africa soon for a stay lasting "one or two months".

He refused to name the French players but said they would play for well known clubs.

"Nobody can stop them going there as individuals. And if it so happens that there are individual players there from other countries at the same time, then I will be very happy."

Speaking from Stellenbosch last night, Dr Craven said if going to Argentina would help the tour, he would go.

"However, the Argentine government has already once refused me a visa and they might not allow me there again."

8 changes to WP team — BACK PAGE

Mr Ferrasse's suggestion that plans are advanced for a fullhouse of individuals from the major board countries to be conveniently placed in South Africa in August, has been circulating in Britain in recent days as well.

A spokesman for the Welsh union, which was the first to reject the SARB request to handle invitations to five Welsh players, admitted: "It would be legally very difficult, and perhaps impossible, to stop individual players going to South Africa."

England has already confirmed that it would not oppose flank Peter Winterbottom playing for the World XV. There are unconfirmed claims that other "individual" England players will arrive in July.



Barend's new tax shock

CAPE TIMES 2/6/88 320

Political Staff

THE government is to clamp down on tax avoidance schemes with a revision of the Income Tax Act, the Finance Minister, Mr Barend du Plessis, said yesterday.

The changes will be retrospective to March 1 and have been spurred by increasing evidence of large-scale tax avoidance schemes.

A special team of assessors under the Commissioner for Inland Revenue will be set up to investigate the schemes, Mr Du Plessis said in a statement.

Wherever it was considered possible to challenge the schemes under existing legislation, this would be done at the earliest possible date.

Mr Du Plessis said that to place the matter beyond all possible doubt it had been decided to amend the Income Tax Act to place a limit on any deduction which a taxpayer may claim should such a scheme fail.

The schemes have in general been structured to ensure no liability rests on the partner should a particular scheme fail.

Mr Du Plessis said another planned change to the act would eliminate problems in valuing farm livestock for tax purposes.

Retroactive tax legislation in the pipeline

2/6/88

CHRIS CAIRNCROSS

CAPE TOWN — The Income Tax Act is to be amended during the current Parliamentary session to limit deductions a taxpayer may claim for a scheme of arrangment, Finance Minister Barend du Plessis announced yesterday.

The new ceiling will apply to all "*en commandite*" partnerships and arrangements, and will relate to the amount of a partner's true liability should the scheme fail.

Legislative changes would be retroactive to March 1, Du Plessis said.

He said as a result of increasing evidence of the scale on which tax had been avoided by means of these various arrangements, the Commissioner for Inland Revenue had been instructed to identify them and have them examined by a special team of assessors.

Du Plessis also announced yesterday the Income Tax Act would be amended this session to handle problems experienced with farming income where it related to valuing livestock for income tax purposes.

TAX CONFUSION? (320) 3/6/88

Taxpayers who have read the article concerning export incentives in the April edition of Juta's *Taxgram*, have no fear. The fate of the category A-D export incentives has been sealed (*Economy* April 15). All that is lacking is finer details on what is to replace them.

Taxgram states (according to *The Star*), that C (cash grants for assessed loss and cash-poor companies) and D (the marketing allowance) will be abolished. This is correct; as is the statement that A (input compensation) and B (value added) will also be abolished.

Taxgram then states that "not a word has yet even been whispered about any change to the income tax *deduction* made available by the marketing allowance included in the Income Tax Act." The marketing allowance, Section 11 *bis* of the Act, *is* the category D export incentive.

The contradiction, that D is to be abolished, and then that nothing has been said about the Act's marketing allowance, is the source of the confusion.

That A-D are to be abolished was made public by Economic Affairs and Technology Minister Danie Steyn back in December.

Taxgram compounds its error by saying that "it will take something like 15 years for (the marketing allowance) to be phased out."

For the record, A and B will be abolished on December 31; C and D on March 1 1989. Steyn has given bare details of what will replace the categories. For example, Export Market Development Assistance is to plug the gap left by C and D (see *Economy* April).

PERKS TAX

Opportunities galore!

Yes — you can still have a grand old time with perks tax. Those who have tired of the subject don't realise that, with careful planning, the value of a remuneration package can be increased substantially.

Of course, lots of opportunities have been removed — for example, leased suits for executives are out. But the top exec can still have a chauffeur without adding to his perks tax burden. And provided he makes business calls from home, that expense, paid for by the company, is not a taxable perk.

Free tickets for Ellis Park, Sun City and the State Theatre (from his or any other company) under the guise of entertainment are not taxable perks. For that matter, those few hundred who flew to Mauritius on a Jumbo jet hired by Sol Kerzner to celebrate his birthday were not exposed to any tax threat.

Of course, the parameters of perks tax can change quickly, with or without warning. The recent gazetting of new company car tables — foreshadowed by Margo and Finance Minister Barend du Plessis — highlights those constantly shifting parameters. But the myths remain: that perks are either tax-free or fully taxed.

Neither is true. To establish the facts, each perk — and there are more than two dozen — has to be examined in turn. By such means as phasing-in concessions and deeming provisions, the taxable liability can be reduced to a minimum.

The list goes on. In-house business lunches — Moët et Chandon or not — where clients are fed, or dining at a restaurant, or a party at home, do not attract perks tax. A timeshare apartment in Plet paid for by the exec's company attracts perks tax of only R25 per person a day — even at the height of the season. That's *almost* for free.

The levelling process of perks taxation is leading towards cash-only remuneration — up to a point. A little forethought by intelligent personnel departments can make life a little easier for executives. It's not a question of seeking out loopholes, but of making optimum use of what there is.

Free petrol, staff purchase schemes (such as getting cost-price meat while working for a butcher) do not attract perks tax. Moreover, occupation of a company-owned flat in another city does not attract perks tax.



E & W's van der Elst ... at times perks tax doesn't apply

If the company takes out block membership of a gym, golf club, or any other kind of club, and pays for it directly, employees can indulge without fear of upping their tax payments. Another example is companies who discharge credit card debits for employees. The list *is* literally endless — and there are lots of special cases.

For example, television viewers may have noticed that newscaster Gillian van Houten's clothes are credited to various retailers at the end of TV1's *Network*. The SABC, aware that a new set of clothes for Van Houten each time she broadcasts could add a fortune to her perks tax burden, contracts with each retailer.

The value of the advertising credit to the retailer is such that it at least covers the "value" of the clothes — which are returned anyway. So she gets no real benefit.

Today's "top" typical perks package involves a housing loan, a share incentive scheme, a company vehicle or two, an entertainment allowance, retirement benefits (payments into pension funds, provident funds and deferred compensation), overseas travel with or without spouse, use of an (approved) bursary scheme and a relocation allowance if the executive is moving.

The choices available have not been made any easier by the Margo Commission and government's White Paper (WP). But, in some cases, argues Ernst & Whinney's Pascale van der Elst, perks tax can not only be reduced but even eliminated. The breaks available are never immediately apparent.

For example, one of the best opportunities exists in residential accommodation. Here the employer rents on behalf of the employee and allows the employee residence free of charge — or for "pepper corn" rental.

Tax invoice is the key to VAT

Government will move this year to introduce Value Added Tax (VAT), which will dramatically affect virtually every business in SA. Business Day, in conjunction with auditing firm Deloittes, Haskins and Sells, is setting out to answer questions readers may have about VAT. We will be publishing a series of explanatory articles on VAT, written by tax exprts from Deloittes, over the next few weeks, and invite readers to send questions about VAT to: Business Day VAT Panel, PO Box 1138, Johannesburg 2000 (or fax 011-836-0805). The questions will be answered by the Deloittes tax experts, and their answers will be published

THE KEY document in any VAT system is the tax invoice. For most transactions this will be the normal commerical invoice issued in respect of the supply of goods or services. This will reflect the amount of VAT payable in respect of the transaction to which it refers.

Where a business is purchasing goods or services, the amount of VAT reflected on the tax invoice is known as the **input** tax, whilst the business which provided the goods or services will regard the tax it collects as its **output** tax.

The Receiver of Revenue will set accounting periods, and the tax payments and tax receipts of a business during each period must be accounted for in a return to the Receiver.

Based on tax invoices received or issued during each tax period, the business will complete a return reflecting the total output tax received and the total input tax paid. The difference between these two figures (ie, output tax minus input tax) will represent the net amount of VAT payable to the Receiver.

VAT systems generally work on the accruals basis. That is to say the tax liability (input and output) is determined by the supply of the goods or service *or* the issue of a tax invoice and is not delayed until the date of payment for the goods or services. Tax due to the Receiver may therefore be paid *earlier or later* than actual recovery by the taxpayer.

What will the tax rate be under VAT? The introduction of VAT to replace GST is a tax reform measure designed to introduce a more efficient method of tax collection and is not intended, at least initially, to increase or decrease current revenue levels.

Under VAT the tax base will change, in that many items which at present are not liable to GST, including certain foodstuffs, will become liable to VAT. At the same time it is likely that business consumables, many of which are currently subject to GST, will be relieved of tax through the input credit system.

There has been much speculation regarding the likely rate at which VAT will be introduced, but nothing to suggest that the 11% or 12% rate which the Margo Commission Report arrived at is far out (although a number of commentators have been urging a 10% rate, which may be feasible with good enforcement).

Once determined, this rate will be known as the standard rate of VAT. This will contrast with selected transactions, which may be zero rated or exempt. Zero rating will apply primarily to sales of goods for export, and means that whilst the seller will not collect or pay any tax (because zero rated), he is nevertheless entitled to claim a credit for any tax paid on his inputs.

An exempt transaction on the other hand differs from a zero rated supply, inasmuch as no input credit may be claimed by the suppliers of the exempt service.

In most VAT systems the main class of institutions exempted from VAT are the banks, insurance companies and other financial services, although some countries go further and exempt social activities, such as health, education and public transport.

New Zealand recently adopted a VAT system and has kept exemptions and zero rating to an absolute minimum, probably learning from the mistakes of other countries where administrative problems abound because of extremely complicated legislation and multiple rate structures.

submit a return herself.

Pros and cons of Value-Added Tax

LEON SWANEPOEL, legal researcher for marketing services at Sanlam, examines the pros and cons of the invoice type value-added tax (VAT) system which will be replacing GST in the near future.

IN terms of an invoice-type VAT system, tax will be levied at each point of sale in the production or distribution account of the primary producer (or importer) and the various middle men, for instance wholesalers and retailers, up to the end-user.

To avoid tax being levied on tax and to ensure that a VAT system would yield the same returns as the GST system for a given rate, an enterpreneur can write off the tax paid on purchases against the tax he collects on sales.

The VAT that an entrepreneur pays on purchases is later "repaid" to him in that he need only pay Inland Revenue the difference between the VAT on purchases and the VAT he collected on sales. He therefore pays tax only on the added value.

Farmers will be liable for paying and collecting VAT unless they are exempted in some way or another.

Exports are taxed at a nil rate under a VAT system. An exporter will therefore not be able to claim any VAT on purchases. Thus, certain repayments will have to be made to exporters.

Under the VAT system an importer will have to pay VAT on the import price, which in turn will be a credit against the tax he collects in respect of the sale price of the imported product.

The possibility exists that all services, including professional services, will be subject to VAT. The exclusion of certain taxable services could be restricted to cases where this is required for policy reasons, such as medical and educational services, or where particular problems exist in determining a suitable basis for taxation, as in the case of financial services.

The major difficulty here is identifying, for the purposes of VAT, the remuneration paid for the services rendered. For example, banks do not charge service fees for all services, but recover costs by imposing different interest rates on deposits and loans.

Advantages

- The impact is immediate as VAT is collected at a large number of points in a series of transactions.
- The total tax is collected in smaller amounts.
- An invoice type VAT is more easily traceable.
- A great proportion of VAT will be collected from big businesses. Since the amounts collected at each point are smaller, there will be less temptation to evade taxation.
- As VAT is collected at various points, there is a greater possibility that enterpreneurs will themselves bear part of the tax rather than pass it on to consumers.

Disadvantages

- It will be difficult to collect because of the large number of collection points.
- It will require more detailed records.
- VAT will be more expensive to implement.
- The possibility of a large number of refunds exists, particularly to exporters.

At this stage it is impossible to say whether the introduction of VAT will have a positive effect. It is hoped that the tax-payer's liability will decrease together with the increased revenue which will accrue to the state.

Although the implementation of this system will require more administrative work, it should be neutralised by way of the increased income.

Times 19/6/88

Business will bear the burden of VAT

VALUE added tax will be a major headache for business, warns a British authority.

David Pangbourne, international tax consultant for auditing firm Touche Ross of London says VAT shifts a large part of the tax collecting burden from the Receiver to the business sector.

Jonathan Low, of the SA auditing firm, Pim Goldby, which represents Touche Ross here, says the added administrative burden imposed by VAT will be aggravated by other new self-collect taxes such as regional services council taxes, the standard income tax on employees and minimum tax on companies.

VAT is a "cascade" tax. The best way to describe it is to start at the beginning of the production process, for instance a mine.

A primary producer such as an iron ore mine pays very little VAT, as it gets its stock-in-trade from the ground, but it collects VAT from the steel maker.

It pays the difference between what it collects and the VAT it has paid on electricity or perhaps machinery, to the Receiver.

The steel maker, in turn, charges processors and engineering shops VAT, based on the selling prices of his finished products.

Business Times Reporter

At the end of a stipulated period (three months in the UK, two months in New Zealand and probably SA) the processors and engineers send the Receiver a cheque for VAT collections less the VAT that he has paid.

Wholesalers likewise charge VAT, subtract the tax they have suffered and settle the net amount every two or three months.

Because each link in the production and distribution chain reclaims VAT suffered, the ultimate purchaser eventually bears the VAT burden.

The system saddles every businessman with a much bigger administrative and accounting burden. Each business has to keep track of invoices, complete returns and process forms.

Mistakes have to be laboriously reversed out and re-entered. Mr Pangbourne warns that most businesses face substantial cost increases because of VAT.

The Treasury has the relatively easy job of processing VAT payments and claims for deductions on a big computer.

The advantages of the VAT system to the Exchequer are clear. Not only is it easier for him. He can raise and lower rates easily according to the state of the economy.

Evasion

Because a number of parties are involved, evasion is more difficult than with GST, though collection of GST from companies that operate with cash remains problematical.

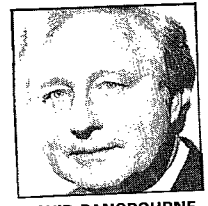
"But if a cash business ducks VAT, the loss to the Exchequer is not so great as if he ducks GST. With VAT, the tax dodger does at least pay tax on the goods he has bought. He escapes tax only on the value he has added."

With GST, if a business keeps the tax money in the till, the entire 12% is lost to the Receiver.

Mr Pangbourne said some businesses in the UK are zero rated and others were merely exempt.

To encourage exports, for instance, aircraft are zero rated. Aircraft manufacturers charged their customers no VAT — and could claim back the VAT they paid out.

Tax exempt industries charged no VAT but could not reclaim VAT paid.



DAVID PANGBOURNE
Confusion coming

Exports were exempt in most countries and in the UK medical services were VAT exempt.

"When sales tax was introduced initially there was confusion in this country," said Mr Low.

"It will happen again. It will take several years before there is a true understanding of the complexities of VAT.

"The government faces some difficult decisions, on what to exempt.

"In the UK, for instance, accommodation is tax exempt. What is the position of a chap who lets a flat above his shop, which is not exempt?"

According to Mr Pangbourne, the number of tax cases in UK courts has rocketed since the introducton of VAT.

Food was zero rated but not restaurants. This created confusion. Now one pays VAT on hot food only.

Children's clothes were zero rated and this is determined by the size of garment. Some children are bigger than some adults, so some children pay tax, while some adults get away with it.

VAT can impact seriously on companies' cash flow. Big companies can expect to have millions tied up at the Receiver.

One mercy is that stocks will not be a problem at the date of imposition.

VAT can be introduced as from a certain date. A manufacturer, for instance, will charge VAT on goods produced from existing stocks, but will merely pass it on to the Receiver.

Doubt

In the UK capital goods are tax exempt but there is doubt that the SA Exchequer can afford such generosity. In the white paper it was revealed that for collections to equal GST collections, a VAT rate of 10,9% would be required.

If capital goods were to be exempted the required rate would be 14,7%, suggesting that the sacrifice to the Receiver would be too large.

D 10 28/4/88

Assocom told: VAT to boost liability

320

JOHANNESBURG — Businesses will have to arrange additional finances to meet the liability for output value added tax (VAT) in the first return period after implementation of the new system, according to a representative of the firm Arthur Andersen.

Mr Andrew Boynton, of the firm's London office, told an Association of Chambers of Commerce (Assocom) meeting here that the effects of VAT on businesses would be the added bookkeeping and reporting obligations, while acting as the unpaid tax collector for the revenue authorities.

Some businesses could find themselves in an adverse cash flow position as the liability of VAT crystalised on the issue of an invoice rather than when payment is received, he said.

Under VAT credit control became more important for businesses, Mr Boynton said as they were not only controlling debt, but the payment of VAT for which they had already paid the output tax.

He said this was because VAT would apply to a larger base and that opportunities for evasion were reduced.

There was also a need to consider dropping capital goods from the VAT base as this was not in line with the system as run in other countries.

It would also have the effect of increasing the end tax-rate to the consumer by a greater amount than the VAT rate because of increased investment costs. The price of exports on overseas markets would also be affected.

Professor Ben van Rensburg, who has just studied the VAT system overseas for Assocom, suggests that a review board be appointed.

"For both the government and the private sector, a new tax such as VAT will create an enormous amount of uncertainty and confusion," he said.

"It is of the utmost importance that, especially the private sector who will be required to act as en masse tax collectors on behalf of the Government, be assured of fair and impartial treatment under all circumstances."

Certain businesses making exempt supplies may be restircted in their ability to recover VAT suffered, resulting in an absolute cost to that business and hitting bottom line as an expense.

Under most VAT systems, suppliers for exempt services in the sectors of insurance, finance, health services and land have a restricted recovery of VAT, he said.

However, where a trade only makes taxable supplies, generally all VAT suffered on purchase can be recovered.

The introductory rate for VAT when introduced should be at the current GST level of 12 per cent, Prof Van Rensburg, said.

There were two reasons for this. They were to avoid confusion and the fact that the government could use the extra income generated for further tax relief and other areas where cash was needed.

He said the introduction of VAT into South Africa would prove to be more difficult than it was in Europe. This was because the number of Third World entrepeneurs operating in the small business sector was high and they would have to be properly educated in the new system before it was introduced.

He suggested that a high level of entry taxation be introduced for small business to overcome this probelm.

He pointed out that while this could result in a small loss of taxation it would not be high as tax under the system would be accrued at other entry points.

Prof Van Rensburg said that if VAT was introduced at around 10,9 per cent it would produce the same level of income as GST at 12 per cent.

He said this was because VAT would apply to a larger base and that opportunities for evasion were reduced.

There was also a need to consider dropping capital goods from the VAT base as this was not in line with the system as run in other countries.

It would also have the effect of increasing the end tax-rate to the consumer by a greater amount than the VAT rate because of increased investment costs. The price of exports on overseas market would also be affected.

With appropriate tax planning the effects of VAT could be mitigated, he said.

Arthur Andersen's Richard Ruben said although VAT was much easier to legislate, the internal administration of this tax was likely to be more complex.

VAT system need only be set at 10 pc

320 By Michael Chester

Star 27/4/88

The Government has scope to peg its proposed new value-added tax rate on all consumer goods at no higher than 10 percent, compared with the current 12 percent load of general sales tax, unless it plans to reap still more revenue from VAT than from GST.

That is the conclusion of special studies carried out by the Association of Chambers of Commerce and Industry into the next round of tax reform proposals outlined by the Government in response to the Margo Commission.

If the Government sets the VAT rate anywhere over 10 percent, and there are wide expectations it may be set on par with the 12 percent GST rate, it should theoretically boost revenue even higher, it is argued.

The Government, in turn, would have the choice of using the extra income to cut direct income tax or reduce its international debt burden if the cash were not channelled into still higher State spending.

The 10 percent level, enough to equal current sales tax revenue, has been agreed both by Professor Ben van Rensburg, economics wizard of the University of South Africa, and by a special behind-the-scenes committee created by Assocom to act as a watchdog on the VAT proposals.

The 10 percent level is significantly lower than official Department of Finance guesstimates that VAT needs to be set at a minimum of 10,9 percent — inferring 11 percent in actual practice — to match income from GST.

Professor van Rensburg added that the switch-over to VAT from a relatively straightforward GST system was bound to create "an enormous amount of confusion and uncertainty".

VAT a pity - no tax relief likely

329

24/9/88

DEREK TOMMEY

GOVERNMENT spokesmen have been hinting that personal taxes could be cut next year.

But as the introduction of the new Value Added Tax (VAT), which is intended to fatten Government revenues, recedes further into the distance there is growing doubt that the Government will be able to make any significant tax reductions in the 1989 Budget.

VAT is to replace general sales tax some time next year.

Tax officials freely admit that VAT is aimed at producing more revenue than the Government is getting from General Sales Tax. One reason is that the loss of revenue from the non-payment of VAT will be much less than from the non-payment of GST.

If consumers refuse to pay GST or the retailer puts the GST into his own pocket, the Department of Finance loses 100 percent of the tax. But if the consumer or retailer does not pay VAT the loss is only a small portion of the tax as most of it has already been built into the cost of the item.

Tax officials have 'guestimated' that they are losing up to 20 percent of GST collections. In current figures this suggests a loss of between R2 billion to R2,5 billion.

VAT is also to be imposed on a wider range of goods than GST — including food stuffs and services. Apart from increasing the tax haul this should also close a number loop holes.

But while VAT is more efficient than GST it is also a much more complex tax. Providing for all its subleties has led to considerable problems in preparing a draft Bill.

Commerce and industry, which will have to pay and administer the new tax, were expecting the draft Bill to be issued at the beginning of August. But nothing has been issued yet and now there is talk of it being published only towards the end of next month.

Businessmen see little chance of VAT being introduced on April 1, next year — the date everyone has been expecting.

The Commissioner for Inland Revenue, Mr Clive Kingon, this week would not say when the draft Bill would be issued. He said it was still being "refined".

He also denied that April 1 had been the official date for the start of the VAT. He said no specific date for VAT had been given by the tax authorities. All that had been said was that VAT would be introduced as soon as possible.

With VAT probably delayed, taxpayers now have to hope that the Government can increase revenue from other sources or cut expenditure.

Hopes that the pull-out from Angola and South West Africa would result in some financial savings have been dwindling as the Cubans show every sign of staying in Angola for the nex two to three years.

However, in seeking other sources of cash the Government still has the privatistion of its enterprises to fall back on. And it may be significant that it announced this week that it has formed a privatisation panel to ensure that what is privatised is in the national interest.

It does seem that the privatisation process is about to start, though it could some time before it gets off the ground.

Taxpayers can hope that not too far ahead privatisation will start producing a steady stream of revenue for the Treasury — and lead to a steady and sustained reduction in personal tax.

ASSOCOM'S VAT DEAL

Assocom's "desirable" shape of VAT includes:

☐ VAT be "truly" based on value added with the minimum of exemptions and with avoidance of anything approaching a transactions tax;

☐ Input VAT on capital goods should be deductible from output VAT;

☐ The VAT rate should not exceed 12%;

☐ Foodstuffs should be subject to VAT;

☐ New buildings should be subject to net VAT (output VAT minus input VAT);

☐ Rentals should be subject to net VAT;

☐ Sale of *land* should be VAT-exempt;

☐ Used goods (including buildings) sold by a non-registered person should not be subject to VAT;

☐ Certain financial services or "supplies" should be VAT-exempt; but short-term insurance premiums and brokerage commissions should be subject to VAT;

☐ Provision should be made for a cash basis as an *optional* alternative to an accruals basis;

☐ There should be provision for relief from VAT in respect of bad debts, on an accrual basis;

☐ Sales to neighbouring states should be liable to VAT, with inter-state settlement where neighbouring states have "acceptable" VAT systems;

☐ VAT should be on an "add-on" basis, and;

☐ Voluntary exemption should be provided for businesses with annual turnovers of less than R100 000.

7/7/80 320 FM

VALUE ADDED TAX

Assocom sounds out

Assocom has released its recommendations to Inland Revenue on SA's most important new tax for more than a decade. Value added tax (VAT), due to be implemented either fully or partially in 1989, will replace GST.

Perhaps the main aim of the change is to increase revenue yields. GST is fully charged on the end-user, meaning a 100% loss if the tax is evaded. VAT is charged at many more stages, from manufacture onwards. The consumer pays the same cash amount at the same rate of GST or VAT.

Parties along the way collect and deduct VAT to yield Revenue a net amount. So if VAT is evaded at the point of final sale, much less than 100% of the tax is lost.

Assocom gives a useful reminder of exactly what VAT is meant to be in theory. "VAT in principle is a tax on GDP. It is not a consumption tax; it is not a sales tax; it is not a transactions tax; it is not an expenditure tax; it is not an income tax; and it is not a capital or wealth tax. It is a tax on the total economic effort of the nation."

This is useful; for example, GST is a misnomer in at least two senses. The tax is regulated under the Sales Tax Act, not the General Sales Tax Act; and it is a transactions tax, *not* a sales tax.

While VAT appears to have a very wide base, it is really no bigger than that for GST. Depending on what is finally pulled into the net, Assocom suggests the highest acceptable rate is 12% — the same as GST now.

Conforming with the principles of equity, fairness and neutrality, Assocom welcomes the inclusion "of large numbers of services and the maximum coverage of VAT." So among its recommendations (**see box**) is the inclusion of foodstuffs.

The limit of the net is that "the tax is applied on sound principles only where value is indeed added to goods and services by work, capital assets and entrepreneurship."

Main concern

Perhaps Assocom's main concern hinges on the stated intention not to allow the cost of capital goods as a deduction in determining the taxable amount. This, argues Assocom, essentially transforms VAT into "a mere transactions tax.

"It would continue to exert the cost impact now resulting from sales tax on capital goods. Already the total cost of capital and labour per unit of output is substantially higher than in our major trading partners in Europe and North America — the BTI puts the cost differential at 22% and finds that it is worsening rapidly."

Elsewhere, it notes that "it must be remembered that VAT is, inter alia, a tax on the reward of labour and the reward of labour is already taxed at high marginal rates of income tax."

Assocom makes logical recommendations for deductions: for example, for sales of some secondhand goods — where no "value" is added. Indeed, it is perhaps only its recommendations concerning financial services where Assocom seems to get confused.

It points out that "the exclusion or exemption of many financial services appears to be general practice in overseas VAT administrations." Among reasons, Assocom suggests the "difficulty of identifying value added in interest or related charges."

Accordingly, there are five groups of financial services where it appears that "exemption is unavoidable."

One is bank ledger fees. Along with the other four, this would notably erode the possible VAT base.

Here, Assocom seems to have overlooked the essence of the value added concept. For a financial institution, value added is simply the payroll plus profits. That sum gives the value that the financial institution adds to national economic output by way of its management of money.

That SA will have an invoice-type VAT should not be allowed to blur that reality. The same should apply when the great lobbyists come to argue for exemptions. ■

Star 12/12/88

VAT won't ease tax burden on the individual

(320)

David Clegg, tax partner at the accounting firm of Arthur Young explains why the introduction of VAT in place of GST is unlikely to reduce the tax burden on individuals.

nybody who has read the financial ress recently will have seen sugges- ons that VAT is to be introduced at a ate of 15 percent.

In some cases, this has been linked the pay rise for public servants and ith a rise in GST to that level, which ay or may not be the case.

But surely VAT is meant to RE- UCE tax rates! After all, the Margo ommission which recommended VAT as supposed to reduce personal tax, what has happened? The answer, ite simply, is nothing.

Anybody who understands the VAT stem and can compare it with GST ould have to come to the conclusion at the rate must be higher than GST nless one of two things happens:

- Government wants less money (unikely), or
- the VAT system is somehow distorted (read complicated) so as to generate nore tax.

How so? Without getting too technical, a simple example will serve to illustrate the point. When a commercial rganisation pays its advertising agency or SABC TV, the payment is subject GST. This forms a cost of doing business for the company and tax revenue government.

n addition the company doing the ertising also charges sales tax on goods that it sells to the man in et — more tax for the government.

ut under a VAT system the company selling the goods to the man in street collects the tax and, before ing it over to the government, deducts the tax it has already been charged on its advertising. A moment's thought will make it clear that government must then collect less tax under VAT.

If one adds up all the GST which businesses pay on goods and services that they buy, but for which they will be granted a credit under a normal VAT system, it probably amounts to almost one-third of the sales tax collected at present.

So, to compensate for the tax which will be lost under VAT, the government will have to raise the rate from 12 percent to about 16 percent.

But surely (I hear you cry) VAT taxes more transactions than GST and collects more tax, not less. True, but not so many as to collect enough tax to reduce the rate by very much.

When government announced the introduction of VAT, it recognised this problem and tried to compensate by decreeing there will be no credit for businesses on the VAT that they pay on their capital goods — machinery, vehicles, cash tills, furniture and so on.

This will bring the rate back down by about 3 percent at the cost of complicating the system. Even so, it is unlikely that the rate can be brought much below 10 percent to 12 percent and, certainly, that is a lot higher than most people will find acceptable.

Remember tax on basic foodstuffs was abolished when the rate of GST reached 7 percent.

Just how government plans to sell this to people is the best kept secret of 1989.

VAT legislation delayed until next year

creased, but this was by no means certain. The Revenue authorities remained under considerable strain to find other sources of funding.

The news that the draft legislation would come later rather than earlier has eased some of the tension in the private sector, which had expected it to drop on them over the holiday period.

Assocom's tax expert Bob Wood said yesterday there were several issues still to be ironed out and his organisation would require at least a month to canvas members' views and draw up a response to any draft proposals.

● From Page 1

Assocom was trying to lobby that input VAT on capital goods should be deductible from output VAT; and the VAT rate should not exceed the 12% GST.

Unless an election interrupted Parliament's legislative programme in March or April it was thought the VAT legislation could probably be finalised in July or August. This would suggest it was unlikely to be put into effect before the end of 1989.

VAT legislation delayed until next year

CAPE TOWN — Draft legislation for the introduction of VAT would not be completed this year and was likely to be published for comment towards the end of January, Commissioner for Inland Revenue Clive Kingon said yesterday.

He said the delays — the legislation was expected as early as October — related to decisions on policy and on how wide the tax base should be spread.

There also appeared to be problems in deciding the level at which the VAT rate should be pitched. The general view was that government would like to see the rate rise to 15% from the existing 12% GST level — a prospect which was being opposed by organised commerce.

CHRIS CAIRNCROSS

The 10c increase in the fuel price from January might have lessened the chances of sales tax also being in-

● To Page 2

All you will need to know about VAT

Government will this year introduce Value Added Tax (VAT), which will dramatically affect virtually every business in the country. Business Day, in conjunction with auditing firm Deloittes, Haskins and Sells, is setting out to answer questions readers may have about VAT. We will be publishing a series of explanatory articles by tax experts from Deloittes over the next few weeks, and invite readers to send questions about VAT to: Business Day VAT panel, PO Box 1138, Johannesburg 2000 (Or fax: 011-836-0805). Questions will be answered by Deloittes' tax experts, and their answers will be published. This is the first article in a regular series dealing with VAT

VAT is a method of indirect taxation used by governments in some 43 countries to derive a large proportion of their revenues. It is based on consumer spending and is similar to GST.

Why are we changing away from a tax method which is in place and established? VAT has achieved a high level of acceptance internationally, mainly because the ability to evade it is greatly reduced, since it is collected at each stage in a series of transactions.

GST, on the other hand, is borne in full by the consumer at the final point of sale.

Impact

VAT (although ultimately borne by the consumer) is collected at each level of transaction leading up to the final sale to the consumer.

On this basis, therefore, if the VAT collected in the sale to the consumer is not paid to Revenue, then Revenue only loses a portion of the tax.

The downside of VAT is without a doubt its impact on commerce and industry. Every business concern, including those which at present fall outside the GST net, will be filling in returns on a regular basis and making payments to (or claiming credits from) the Receiver of Revenue.

How exactly will it work and when will it come into the effect?

The example below illustrates quite clearly how each business involved in the movement of goods — i.e., producer to manufacturer to wholesaler to retailer, to consumer — will in future be making regular payments to the Receiver of Revenue of tax on the value added at each transaction level.

EXAMPLE:

Total taxable sales	R1 500,00
VAT collected (say 12%)	R180,00
LESS:	
Total taxable purchases	R1 000,00
VAT paid	R120,00
VAT payable to Inland Revenue	R60,00

When will this begin to happen? Government, having made the decision in February 1988 to switch from GST to VAT, legislation can be expected in September this year. This will enable businesses generally to start focusing on VAT.

Government will be looking for comments and criticisms of the draft legislation with a view to implementing the new taxation method in 1989.

Many service industries are not affected by GST. On the revenue side, for instance, the accounting and legal professions, the travel and transportation industries (both local and international) to name a few.

Stated policy

These will all be drawn into the VAT net in keeping with government's stated policy to include most it not all, service industries under VAT. This means that those sectors of the business community which have had little or no exposure to administering GST in the past will now have an administrative burden under VAT.

This additional administrative burden will also affect producers and manufacturers (whose sales under GST have not attracted tax) and the set-up costs for changing accounting systems and extra staffing are likely to be significant.

THE BEST IN BOOKS

IT'S CURIOUS and perhaps sad that

INDUSTRIAL AID CENTRE*

Address:
Room 312, Trevor Building, Voortrekker Street, Vereeniging 1930

Phone:
(016) 22 1700

Vice-Chairman:
B.M. Sechaba

General Secretary:
Esau Ralitsela

Membership and Constituency:
Has a membership of people who cannot join trade unions.

Aims and Objectives:
Helps Industrial and domestic workers with their problems.
Helps people who have influx control problems draft their affidavits.
Helps to initiate community projects.
Educates workers about their rights by running seminars.

Facilities and Resources:
Library: Yes, small library with diverse material relating to trade unionism and labour legislation.
Training Materials: Prepares educational materials on matters of interest to workers and carries out research on agreed matters of interest to workers.

Current Progamme:
Educating workers about their rights by running seminars.

JULY — ~~SEPT~~, ~~JUN~~, DEC,

TAXATION — 1988

TAXATION (27 JUN 1988)

Poor, poor taxpayer

Within days, Deputy Minister of Finance Org Marais has ended a significant tax loophole discovered by a taxpayer in a Durban court — with retroactive effect. Introducing the Income Tax Bill in parliament, Marais pointed to an amendment that would counter the finding that allowed a taxpayer's wife's pension to be deducted from "earnings".

In the past, a taxpayer has been unable to deduct his wife's pension as "earnings". Stan Poole sought to do this in his return for the year to February 1986. The Receiver of Revenue disallowed the R1 600 deduction.

Poole opposed the assessment, but his objection was disallowed. He appealed to the Special Income Tax Court and won.

The Commissioner for Inland Revenue was left either to take the case on appeal, which could have taken years for a final decision, or change the legislation. Marais said the definition of "earnings" was amended to confirm a long-standing practice of the commissioner, which until the Durban finding was thought to be a correct interpretation of the law.

Complicating the issue is the suggestion that the Receiver was not consistent in the interpretation. Ernst & Whinney's Rob Stretch tells the *FM* he had previously secured such allowances from the Durban Receiver's office on behalf of clients. Stretch also feels that the impact on Exchequer receipts of broadcasting this loophole would be minimal and expresses some surprise at the fuss created by the ruling.

Since 1986, of course, the amount of a wife's "earnings" which may be deducted from joint income has been increased — to the greater of 20% or R2 000 for 1987-1988, and 22,5% or R2 500 for 1988-1989. Perhaps more significantly, theoretically the finding could have opened a floodgate of retrospective claims.

The Receiver's office in Durban was coy about its response to the ruling. Durban Receiver Geoff Grant referred the *FM* to Pretoria, where a spokesman said it would be fair to assume the matter was "under consideration." Another, asked to comment on the likelihood of retrospective claims, said certain responses from the Receiver could be anticipated "within a week." How right he was.

PFP finance spokesman Harry Schwarz is not impressed. "Government acts improperly when it changes the law to close legally proven loopholes in the tax regulations while the State's appeal is still pending."

Referring to the Poole-type case, Schwarz says taxpayers had legally avoided paying certain taxes and had gone to court to prove their claims, but government then changed the law to make it retrospectively illegal while appeals were still pending. "You cannot interfere with legislation to turn a winner case into a loser case for the taxpayer."

Meanwhile, Poole, a former mayor of Westville, is a most reluctant tax reformer — albeit of short duration. "I feel most uncomfortable talking to the press," he told the *FM* this week. ■

TAXATION

Barend backtracks

For the first time Finance Minister Barend du Plessis has made a significant concession to a lobby group affected by retroactive tax law. In so doing the hotel industry has set a significant new precedent.

The industry — which showed about R750m investments in the pipeline and cried "loss of foreign exchange" — had practically all its tax concessions swept out of the door on June 3 by law effective the next day. Both



Du Plessis ... significant concession

up-front and grading tax allowances were abolished (*FM* June 10).

In future, said Du Plessis, hotels could only write off 2% of building costs a year. On the other hand, tax depreciation allowances were made more generous by a 50%-30%-20% write-off over three years, and the "double deduction" for expenditure aimed at attracting foreign tourists remained.

Now the building tax allowance will be 5%, instead of 2%, a year. It will take 20 instead of 50 years to write off a hotel building against tax. However, thanks to inflation, discounted cash flow projections on drawing board projects will not improve significantly.

The change from 2% to 5% also applies to hotel improvements, industrial buildings and improvements, and storage buildings and improvements. As Du Plessis pointed out, Margo recommended that the write-off be 10% a year for these three categories.

Government's White Paper rejected the figure as too generous, and substituted 2% — as Du Plessis used in the initial announcement. His backtracking is proof either that lobbying works, or that the 2% figure was never seriously intended in the first place.

The concession for hotels applies only as to rate and not date: the changes still apply from June 4. Other categories of construction will only be affected, as before, to start-ups on or after January 1 1989.

Tax planning has never been the same since mid-1984 when Owen Horwood announced the first big hit retroactive tax law, affecting "lessor trusts." The precedent has been followed by Du Plessis on more occasions than even the most conscientious tax shelter consultant cares to remember.

Because — generally speaking — hotels only start making taxable profits after two or three years, the change from 2% to 5% a year will have only a marginal effect on investment plans. Which, perhaps, is exactly what Du Plessis intended. Clearly, the days of significant and lucrative tax shelters available in hotel investment are gone forever. ■

TAX REFORM

Taking with one hand

320

The Income Tax Bill tabled in parliament this week is a sorry event marked more by tinkering than by comprehensive, economically beneficial reform. In the 10 months since Margo was unveiled, the tax system has become messier and more complicated and the real overall burden has risen.

The Bill is a resounding 63 pages (both official languages). It introduces the legislative details of a brand-new tax, the Minimum Tax on Companies (MTC), which has been opposed by all — including, unofficially, Inland Revenue.

Introducing the Bill, Deputy Finance Minister Org Marais said that government "hoped to phase out most tax concessions within three years." He said that Margo recommended the removal of tax allowances introduced into the system over the years which had eroded the tax base. "We know how the brilliant accountants sit down and artificially inflate these concessions."

Just what does this mean? If the Bill is a reference point, the phasing out of concessions will be arbitrary and incomplete.

There are three new taxes, Standard Income Tax on Employees (SITE), MTC and a still-incomplete Capital Transfer Tax (CTT). The last two imposts, in particular, are extraordinarily complicated.

The Bill contains amendments aimed at avoidance schemes in several main areas: armchair farmers, motion pictures, patents/copyrights and *en commandite* partnerships. These all mean extra revenue for the fiscus; crackdowns in none, barring the first, were directly recommended by Margo.

Moreover, whereas Margo's all-encompassing depreciation allowance of 50%:30%:20% over three years was rejected in government's White Paper, the Bill extends just such a formula to industrial, farming, hotel and co-operative plant and machinery. These big, valuable tax breaks are irreconcilable with an intention of phasing out concessions within three years.

Marais' discussion of the investigation into life office tax suggests that a final finding is a long way off. Meanwhile, the industry will simply have to sit with the hike of 75% in its tax rate announced in the Budget.

The Bill means more money for the fiscus: new taxes, plugging avoidance schemes, maintaining the status quo for life offices and reduced write-offs for industrial and hotel buildings (but even then, irreconcilable with a three-year phase-out).

Which leads to the question: where are the cuts for taxpayers in general? Nowhere.

The most important tax "concession" of the year was the decision to apply the top personal marginal income tax rate from R80 000 instead of R60 000. "While this,"

MTC: THE LETTER OF THE LAW

P.T.O.

(1) In this section, unless the context otherwise indicates, any word or expression to which a meaning has been assigned in the principal Act bears the meaning so assigned thereto, and "company" means a company as defined in paragraph (a) of the definition of "company" in section 1 of the principal Act if such company is a South African company as defined in that section; "tax year", in relation to any company, means the financial year of that company which ended on 29 February 1988 or, if the company's financial years end on a date other than the last day of February, the latest financial year of that company which ended before the said date.

(2) Subject to the provisions of subsection (5), there shall be paid for the benefit of the State Revenue Fund by every company which has in relation to the tax year of the company derived a taxable amount, as determined in accordance with the provisions of subsection (3), a tax (referred to in this section as the minimum tax) in respect of such tax year, calculated at the rate of 25% of such taxable amount.

(3) For the purposes of this section a company shall be deemed to have derived a taxable amount in respect of the tax year of that company if the sum of the dividends distributed by it during that year exceeds the sum of:

(a) any normal tax for which the company has or will become liable on its taxable income for the tax year and any taxation levied by any country or territory other than the Republic on any income, profit or gains derived by the company during the tax year from a source outside the Republic; and

(b) any dividends received by or accrued to the company during the tax year, whether from a source within or outside the Republic, and the excess shall be deemed to be the company's taxable amount for the tax year.

(4) For the purposes of this section a dividend shall be deemed to have been distributed by a company on the date on which payment of the dividend was approved by the company, its directors or some other person acting under authority conferred by the memorandum or articles of association of the company or otherwise, whether the dividend was payable on that date or on any subsequent date.

(5) There shall be exempt from the payment of the minimum tax:

(a) any company which has during the tax year distributed dividends amounting in total to less than R250 000;

(b) any company the receipts and accruals of which from sources within and outside the Republic during the tax year, excluding receipts and accruals of a capital nature and dividends, amounted in the aggregate to not more than R100 000;

(c) any company (hereinafter referred to as the distributing company) which has during the tax year distributed any dividend to one or more shareholders who on or before 24 June 1988 ceased to be shareholders in the distributing company, if the aggregate of the dividends so distributed amounted to not less than 75% of the sum of all the dividends distributed by the distributing company during the tax year — Provided that:

(i) the said aggregate shall not include any dividend distributed to a company, close corporation or body corporate (such company, close corporation or body corporate being hereinafter referred to as the shareholder company) which ceased to be a shareholder in the distributing company by reason of the fact that the shareholder company disposed of its shareholding in the distributing company to another company which was the holding company or a subsidiary of the shareholder company or to a subsidiary of such holding company;

(ii) for the purpose of paragraph (i) of this provision "holding company" in relation to the shareholder company means a company which was the holding company of the shareholder company as contemplated in subsection (4) of section 1 of the Companies Act, 1973 (Act number 61 of 1973), and "subsidiary", in relation to the shareholder company or such holding company, means a company which was a subsidiary of the shareholder company of such holding company (as the case may be) as contemplated in subsection (3) of the said section;

(iii) where any close corporation or body corporate is a member of or holds equity share capital in a company such close corporation or body corporate shall in applying the provisions of the said subsections (3) or (4) for the purpose of this proviso be deemed to be a company;

(d) any fixed property company referred to in section 11(e) of the principal Act;

(e) any company the receipts and accruals of which are exempt from normal tax under the provisions of section 10(1) (t) of the principal Act;

(f) any company the winding up or liquidation whereof has commenced not later than 30 September 1988: Provided that if at any time after the end of the period of 12 months reckoned from the commencement of the winding up or liquidation of steps necessary for the winding up or liquidation not been actively taken, the Commissioner, having regard to the circumstances of the case, may notify the company that the exemption under this paragraph is withdrawn and in such case the exemption shall for the purpose of this section be deemed to have been withdrawn with effect from 30 September 1988.

(6)(a) Every company which is liable for the minimum tax and every other company when required by the Commissioner shall, not later than 30 September 1988 or within such period ending after that date as the Commissioner, having regard to the circumstances of the case, may allow, furnish to the Commissioner a declaration in such form as the Commissioner may prescribe, giving such information as may be required for the purpose of this section.

(b) Any company, whether or not liable for the minimum tax, to which a notification has been issued by the Commissioner that it is required to submit such a declaration, shall furnish such declaration to the Commissioner not later than the said date or within such period as the Commissioner may allow.

(7) The minimum tax for which any company is liable shall be calculated by that company on the declaration referred to in subsection (6) and payment thereof shall accompany such declaration and be made not later than 30 September 1988 or within the period allowed by the Commissioner under the said subsection: Provided that where the amount of normal tax or taxation referred to in subsection (3) (a) has not yet been finally determined, the company shall estimate such amount.

(8)(a) If any company fails to pay the minimum tax for which it is liable in full on or before 30 September 1988 interest shall be paid by the company on the outstanding amount of such tax for the period from 1 October 1988 to the date of payment of such amount at a rate equal to the rate applicable for purposes of the principal Act under paragraph (b) of the definition of "prescribed rate" in section 1 of that Act.

(b) If a payment of minimum tax is made by any company in excess of its liability for such tax the excess shall on application be refunded to it and interest shall be payable to the company on the excess for the period from the date of payment of the excess to the date on which the refund is made at a rate equivalent to the rate applicable for purposes of the said Act under paragraph (a) of the said definition.

(9) Where it appears to the Commissioner that the amount of minimum tax due by any company has not been paid in full when required by this section the Commissioner may raise an assessment in respect of the amount due and any interest payable thereon.

(10)(a) Any assessment raised by the Commissioner under this section shall be subject to objection and appeal.

(b) The provisions of the principal Act relating to objections and appeals concerning assessments under that Act shall *mutatis mutandis* apply in respect of objections and appeals concerning assessments under this section.

(11) The minimum tax and any interest thereon which is due by any company shall be a debt due to the State and shall be recoverable by the Commissioner in the manner prescribed in the principal Act for the recovery of any tax or interest due under the Act.

(12) The amount of minimum tax paid by any company (less so much thereof as became refundable in terms of subsection (8) (b)) shall be available as a credit to be set off, an application, against any unpaid amount of provisional tax payable in respect of any period ending on or after the date of commencement of this Act or any unpaid amount or normal tax which has become payable on assessment, the amount of minimum tax so available as a credit being reduced by the amount so set off.

(13) Where on 1 October 1991 any balance of the minimum tax paid by a company remains available as a credit as contemplated in subsection (12), so much of such balance as the Commissioner is satisfied is not required for set off against provisional tax or normal tax which is due and has not been paid on the said date, shall be refunded to the company.

(14) Where the winding up or liquidation of any company commenses on or after 1 October 1988 and before 1 October 1991, the Commissioner may, if he is satisfied that all the formalities for such winding up or liquidation will be complied with within a period of 12 months after the commencement of the winding up or liquidation, make a refund to the company of so much of any balance of the minimum tax paid by the company as remains available as a credit as contemplated in subsection (12) and is not required for set off against provisional tax or normal tax which is or will be payable by the company.

(15) Sections 4, 75, 78, 79, 82, 88, 104 and 105A of the principal Act shall *mutatis mutandis* apply in relation to the provisions of this section as though such provisions were provisions of the said Act.

said Marais, "does not provide full relief from inflation, it will, nevertheless, provide a meaningful reduction in the amount of tax payable at any given level of income."

It is not difficult to scoff at this. Exchequer's own estimates show that individuals will pay R13,6bn personal income tax in 1988-1989 — 14% more than last year. They will also pay 14% more in GST; in total, individuals will pay R45,2bn income tax and GST, equal to 59% of Exchequer receipts.

It is too early to assess many new sections in the Act. A new S20(1), for example — "taxable income of toll road operators" — appears, at first blush, to lay the ground rules for discretionary treatment of such taxpayers. If it amounts to a tax break to encourage "privatisation" of roads at the cost of taxpayers, it is, of course, totally unacceptable.

Marais said that because government had rejected Comprehensive Business Tax (CBT), "it was not possible to proceed with certain other proposals made by (Margo), in particular, the complete separation of husband and wife for income tax purposes and the substantial reduction in the rates of individual and corporate tax." ■

1/7/88 (320 Fm)

AA Mutual collapse aftermath

(320) S/Times 3/7/88.

Tax, currency dodge clean-up

THE Kirsh group's alleged use of its Bermuda-based captive insurance company as a tax and foreign-currency dodge is likely to spark off an investigation by the Government.

Many corporations with major insurance risk exposure have established captives with the assistance of brokers for the legitimate purpose of reducing risk.

But the Melamet Commission, which investigated the collapse of AA Mutual's short-term division, fears that some captives may be open to abuse and calls for an inquiry into them.

Protection

The commission's report was tabled in Parliament this week.

Many recommendations in the 271-page report deal with protecting policyholders and putting the insurance industry — as well as other financial institutions — on a sounder footing.

The commission says the Registrar of Financial Institutions, the Commissioner for Inland Revenue and the foreign-exchange authorities should investigate captives.

It says the Kirsh captive was part of a scheme administered by AA Mutual and appeared to be a sham be-

By Udo Rypstra

cause it was designed for tax evasion and defeating foreign-currency control regulations.

Chiswick Reinsurance Company (Bermuda) was established by Warren Plummer, former managing director of AA Mutual's short-term insurance arm, in conjunction with subsidiary AA Mutual International, of London. It was taken over by the Kirsh trading group.

Mortgage bond

The commission queries payments of £50 000 authorised by AA Mutual short-term division chairman Natie Kirsh to Mr Plummer for "services rendered". Some of the money was used to pay Mr Plummer's mortgage bond on a house in England.

The commission says Chiswick Reinsurance was originally to have undertaken certain reinsurance for AA Mutual International, but became a wholly owned subsidiary of KI Corporation, Liberia, in which Kirsh family trusts are shareholders. Certain companies in the Kirsh group decided to take part in a scheme by which they would carry a "deductible" first portion of their respective insurance risks themselves. This was for certain amounts restricted to R1,25-million.

A fund was set up for this amount and administered by AA Mutual. The rest of the risk — above the individual deductibles and total — was reinsured with Lloyd's and other companies for a premium of R770 000.

The commission says the brokers who advised on the scheme received R200 000. AA Mutual was paid R225 000 for administration.

"The fund was, however, loaded with a further R500 000 which was collected from the trading companies in the Kirsh Group. This amount was paid over by AA Mutual in the guise of a reinsurance premium to Chiswick Reinsurance Company (Bermuda). Of the R500 000, R288 000 was paid as a commission free of tax (no reason could be advanced as to how this was earned) to Metcorp (Bermuda) which, in turn, distributed this amount to its sole shareholder, Jandu Investments."

Free of tax

The commission says Jandu is a South African registered company which, in turn, declared all its income by way of a preference dividend at a variable rate to the shareholders who were the trading companies which contributed the R500 000 loading.

It says the directors of Metcorp were Mr Kirsh, a Mr Dill and a Mr Cooper. A Mr Levy and Mervyn King were directors of Jandu.

The balance of the R500 000 (R212 000) was retained in Chiswick.

The income-tax implications, says the report, were that the trading companies had a deductible expense for premiums paid and they received a tax-free dividend, this being similar to the after-tax cost of the loading. No exchange-control permission was required to transfer the amount to Bermuda as it was presented as a reinsurance premium.

Exposed

Explaining why the scheme appeared to be a sham, the report says Chiswick had to give an undertaking to the registrar in Bermuda that it would never be at risk for a bigger amount than funds retained after paying commission.

"The whole risk was already reinsured with Lloyd's and other companies, and although there were claims against these companies, no claim was ever made against Chiswick Reinsurance Company.

"Although this venture did not cause any loss to AA Mutual, it could have exposed it to action from the authorities as a participant in a scheme designed to evade payment of income tax and defeat the exchange-control regulations."

The report deals with other issues apart from the collapse of AA Mutual short-term insurance division,

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Insurance report (58)

☐ From Page 1

which is estimated to owe policyholders and creditors more than R200-million.

It criticises individuals and organisations involved in or with the insurance industry for ignoring or not fulfilling several tasks or obligations properly.

Finance Minister Barend du Plessis has ordered his department to get to work on the recommendations in conjunction with members of the industry.

The commission lays much of the blame for the AA Mutual collpase on a "very autocratic" Mr Plummer and his board, which the commission describes "as a rubber stamp for the MD".

"The company in South Africa with a very rapidly expanding and increasingly complicated business was left rudderless with no coordinated control. It is difficult to understand how a board of directors, consisting of experienced businessmen, allowed such a position being created and to continue."

Its major criticisms include:

- The practice and encouragement given at AA Mutual to increasing premium income — by 403% between 1980 and 1985 — without sufficient strengthening of the capital base.
- The financing in part of acquisitions and expansion by the issue of preference shares.
- Several strategems "all seemingly to avoid the injection of cash by the Kirsh Group".
- The contention that premium income could be used to remedy cash-flow problems.
- The "reckless" financing of the division's R40-million headquarters from funds that should have been available to meet claims and other expenses.
- The division's entry into commercial and industrial insurance without having adequate experience.
- The role the media, including TV, played in helping building up Mr Plummer's image as "the doyen" of the industry when some competitors regarded the AA Mutual as a maverick and predicted its collapse.
- The failure of the insurance industry as a whole and the SA Insurance Association to report AA Mutual's alleged difficulties to the Registrar when the market came to know about it.

The commission says that, in view of Mr Plummer's autocratic running AA Mutual, all financial institutions should have at least two executive directors or senior management should attend board meetings. The Registrar should have the right to see that directors are "fit and proper" persons.

(320) S/Times 3/7/88.

GST beats creditors

MANDY JEAN WOODS 6/7/88

CREDITORS of ad agency Freedman Rossi/BBDO will not be paid because of a R1,2m outstanding GST debt, joint provisional liquidator Neil Bowman of Westrust said yesterday.

"The company is bankrupt and unless there is some dramatic change in the situation as it is, concurrent creditors will not be paid."

Preliminary investigations indicated a minimum R6,5m difference between the agency's liabilities and assets. He said the agency's liabilities amounted to about R9m while assets at book value totalled about R5m.

"Realistically we will probably only get about R2,5m. Auctioneers estimate the sale of movable assets will realise only about R200 000."

Main creditors include the SABC — to the tune of about R2m — the Nasionale Koerante group, M-Net, various newspaper companies and Santam Bank, which claims it holds a cession of Freedman's book debts, he said.

A preliminary inspection of the agency's books showed no clear reason for its collapse.

"Proper records were kept but there is no indication of what went wrong."

320 B/day 8/7/88

Cost of new urban black councils

Initial bill of R400m faces SA taxpayers

Political Staff

CAPE TOWN — Building costs alone for the debating chambers and administrations of urban black regional councils could run to R400m.

The taxpayer also has the prospect of carrying the burden of some 45 new ministers, perhaps as many as 450 members of the councils and the whole administrative back-up for the system, as well as perks for the members.

The Extension of Political Participation Bill, which empowers the President to create the own affairs Parliament for urban blacks, was published here yesterday by Constitutional Development and Planning Minister Chris Heunis.

The councils will be empowered to make laws for the black inhabitants of a region regarding social welfare, education, art, culture and recreation, community development, local government and the appointment of marriage officers.

It is understood at least nine councils, one for each development region, are envisaged.

Recent government figures on the costs of providing four "non-independent homelands" with debating chambers and administrative offices showed average expenditure was R35,3m.

Multiplied by nine and allowing for inflation, the total bill could be in the region of R400m.

Taking into account the homelands, SA already has 144 Cabinet ministers and 1 369 MPs.

The new councils could push these tallies to 189 and 1 774, if the nine councils have 50 members, five of them on the executive.

With ministers required to head various departments, SA could, with the homelands, have, for example, 23 finance ministers.

If ministers receive the same as their parliamentary counterparts, they will get R137 000 a year, while if they are paid on the same scale as deputy ministers, they will receive R96 000 a year.

That would put the bill for the 45 ministers alone at R3,3m a year.

But, as Heunis said this week: "Democracy is an expensive business."

GRANNY BOND FLOW SLOWS

More than R1bn has been invested in Senior Citizens' Saving Deposits available to people over 65 — on which a State-subsidised 15% interest rate is paid.

Institutions prepared to give details report the following deposits:

- ☐ The Perm, about R162m;
- ☐ Allied, more than R134m;
- ☐ Volkskas, about R100m;
- ☐ First National Bank, about R100m;
- ☐ Post Office (PO), R94m-plus; and
- ☐ NBS, about R79m.

Figures from other major institutions are not available, but industry estimates put total deposits with other institutions at over R400m.

Indications are that the upward trend is slowing — R500m was received in the first two weeks and slightly more in the next four weeks. Much is new money; the rest has been rerouted from other types of investment. However, analysts believe as much as three-quarters of new money is derived from the transfer of short-term interest-bearing deposits between institutions and does not represent new money to the industry.

But the move from shorter term funds has led to an overall increase in investment time — a benefit to the industry.

The edge that deposits give elderly investors has, however, been short-lived.

From July 1, 15% investments for all have been available from at least one institution — NBS. However, they are in the form of five-year participation bonds, while Senior Citizens' Saving Deposits are locked in for only a year.

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TAX PLANNING

320

Ashes to ashes

In tabling the Income Tax Bill last week, Deputy Finance Minister Org Marais took tax planning to its depths. The new move, which follows numerous precedents, involves hitting "new tax avoidance" schemes with retroactive law.

The move, unusual in any tax jurisdiction, is a striking example of how officialdom attempts to cope with the symptoms of defective law, rather than reform the cause.

8/7/88 FM

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Despite the Margo Commission's reformist recommendations, most significant changes in the Bill introduce new, complicated taxes, reduce tax allowances, or attempt to end "tax avoidance" schemes.

"Any undiscovered tax avoidance scheme coming to light before next March" will be dealt with by retroactive amending legislation, backdated to the day of the relevant announcement, which will evidently also be printed in the *Government Gazette.*

Marais, like so many before, did not even attempt to draw a line between tax planning and tax avoidance.

In most countries, tax avoidance involves a transaction, operation or scheme which has the effect of avoiding or reducing tax and is entered into with the sole or main purpose of avoiding tax and containing an identifiable degree of "artificiality."

These characteristics are identified in the general anti-avoidance legislation of SA and many countries. It is arguable that any transaction which cannot be struck down by Section 103 of the Income Tax Act is acceptable tax planning. S103 is extremely broad, and easily invoked by the authorities.

Marais' inclusion in the Bill of new sections hitting the motion picture industry, patents/copyrights and *en commandite* partnerships were, presumably on the advice of Revenue, schemes that could not be struck down by S103. They were legitimate, properly conceived, if somewhat "artificial" schemes that led, in the view of the authorities, to the loss of significant revenues.

If this is how Marais sees "tax avoidance" schemes, the future is bleak.

By analogy, if an industrialist enters into a scheme which includes a material tax concession for investment in plant and machinery, he will be indulging in "tax avoidance."

Marais' pronouncement is another milestone in the deteriorating relationship between taxpayer and tax collector. What can Revenue do, given the ham-fisted approach of the executive and legislature?

It should take immediate steps to ensure that it is seen as nothing but a fair and impartial collector of taxes due in terms of the law in force from time to time. It should cease to improvise where the legislature has provided defective law.

This means it should confirm a deduction, allowance or exemption properly claimable rather than declining confirmation in the hope that a taxpayer will be sufficiently intimidated to refrain from the transaction that would qualify him for the deduction. ■

320 8/7/88 FM

B320 B/day 11/7/88

COMPANIES

Caution needed until clarity on MTC

COMPANIES should exercise caution in declaring dividends until the impact of the Minimum Tax on Companies (MTC) is clarified, accountants Aiken & Peat say in the latest issue of Tax Memorandum.

"The government's MTC needs so much further clarification that companies should exercise caution in declaring dividends.

"There remain some major issues and uncertainties regarding MTC which need to be clarified so as to make forward financial planning for companies more meaningful," the

Business Day Reporter

journal says.

MTC is payable not later than September 30, 1988. The journal notes that it is not intended to be a finally imposed tax but will be retained as a credit against the company's future liability for normal and provisional tax for any year of assessment ending on or after March 1, 1988.

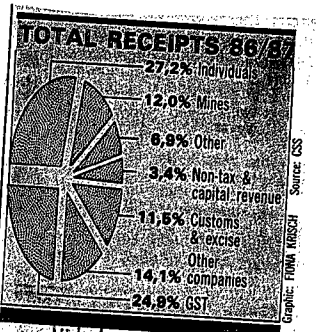
MTC applies to dividends declared during the latest year of assessment ended on or before Feburary 29, 1988.

This encompasses dividends declared before the budget speech, thus demonstrating the retrospective nature of MTC. Retrospective legislation can only result in commercial and financial uncertainty, the journal says.

There is also some confusion about payment of MTC on capital profit normally exempt from taxation. The journal cites the case of a company in receipt of tax exempt capital profit, which it may declare as a dividend.

"If such a dividend exceeded the normal tax liability, and MTC was paid on the excess, this effectively represented a tax payment in respect of a capital profit."

Tax exempt income from abroad would similarly be taxed, where an investment holding company earned only dividend income and it declared dividends exceeding the dividends it received.



14/7/88

Sharp rise in tax on individuals

KAY TURVEY

TAX paid by individuals has more than doubled over the past four years and they now contribute 27,2% of revenue, the largest single contribution, latest figures show.

Central Statistical Services (CSS) data for the 1986/87 tax year show income tax paid by individuals between 1982/83 and 1986/87 rose by 127,3% to R9,7bn. Companies tax increased by 69,5% while its contribution to revenue declined from 30,6% to 26,1%.

Fisher Hoffman Stride partner Anthony Chait says these figures illustrate the need for meaningful tax reform to provide relief for the individual, whose pay packet is being eroded by high tax and inflation.

One of government's stated goals withtax reforms to be introduced after the Margo commission's recommendations is to shift the weight of tax from the individual to the corporate sector.

The 1988 budget contained some relief from fiscal drag in the increase in the maximum marginal rate, while individuals also stand to benefit from the introduction of the standard income tax on

● To Page 2

Tax on individuals doubles over 4 years

● From Page 1

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employers (SITE) at the start of this month.

In line with the move away from direct taxes to indirect taxes, the contribution from GST rose from 17,7% to 24,9% making it the second largest contributor to revenue. GST receipts rose by 180% over the four years.

Chait says with the introduction of VAT set for next year, the contribution from an indirect sales tax should rise even further.

CSS figures show the 8,9% contribution from gold mines remains virtually unchanged from the 9,1% for the comparative period, despite the 93,1% increase in tax paid to R3,2bn.

The contribution to revenue from diamond and other mines climbed from 1,1% to 3,1%.

CAPE TIMES 14/7/88

Mr Average pays most to Receiver

Own Correspondent 320

JOHANNESBURG. — Individuals continue to carry the heaviest tax burden, contributing 27,2% of revenue, according to Central Statistical Services figures for the 1986-87 tax year.

Income tax paid by individuals between 1982-83 and 1986-87 rose by a huge 127,3% as against a 69,5% increase in companies tax. The contribution made by companies to revenue declined from 20,3% to 14,1%.

Tax expert Mr Anthony Chait said these figures illustrate the need for meaningful tax reform to provide relief for the indivual, whose pay packet was also eroded by inflation.

CSS figures show the contribution from gold mines at 8,9% remains virtually unchanged from the 9,1% for the comparitive period, despite the 93,1% increase in tax paid to R3,2 billion.

● Personal tax receipts up — Page 7

CMT Times 14/7/88

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Personal tax receipts up by 127%

Own Correspondent

PRETORIA. — Income tax paid by individuals between 1982-83 and 1986-87 increased by 127,3% to R9 746,5m, according to an analysis by Central Statistical Services (CSS).

In the same period tax paid by gold mines increased by 93,1% — from R1 646m to R3 179,9m; by diamond and other mines by 441% — from R206,4m to R1 116,6m; other companies by 37,9% — from R3 664,6m to R5 053,5m; and "foreigners" by 67,5% — from R263,7m to R441,6m.

In the four years, too, revenue from GST rose by a huge 180%.

Overall state revenue fund receipts increased by 98,7% — from R18 033,6m to R35 837,8m.

Total tax revenue over the four years, according to CSS, showed an increase of 97,9%, taxes on income and profits an increase of 94%, and "other" taxes an Increase of 103,6%.

Company taxes increased by an overall 69,5%.

CSS says the contribution of tax revenue to total receipts remained more or less the same over the four years — 93,6% in 1986-87 and 94% in 1982-83.

The contribution of taxes on incomes and profits decreased marginally from 55,8% to 54,5% in 1986/87.

Other taxes increased slightly from 38,2% to 39,1%.

Contributions of individual income tax payers increased from 23,8% in 1982-83 to 27,2% in 1986-87.

Taxes on company profits decreased from 30,6% in the four years to 26,1%.

Customs duties in the four years increased by 48,2% to R2 205,6m and excise tax by 13% to R1 911,7m.

Total receipts of R35 837,8m in 1986-87 included the customs and excise duties collected in terms of the customs union agreement with Namibia, Botswana, Lesotho and Swaziland, and the TBVC states.

THE TAX SYSTEM

A rush of fiscal panic

■ Reform of the tax system is good: what we have is arbitrary and confusing



There has probably not been a time, in this country, during at least the past 15 years when tax laws, regulations and practice have been in a greater muddle. And this is *despite* two comprehensive and weighty reports by commissions of inquiry — Franzsen in the early Seventies and Margo in the Eighties — which set out to rationalise and bring equity to this complex and important matter.

The problem does not lie with what needs to be done. That was well enough known before the commissions began their work and has largely been reinforced in their recommendations — Margo reporting as recently as August last year.

It *is* the fact that government has accepted and implemented those reforms that will increase its income quickly, while ignoring both the economic consequences and the philosophy behind the recommendation.

By implementing retroactive laws and stating, blatantly, that its policy is simply to change the law retroactively when the Exchequer can be seen to be losing substantial potential income, government itself is responsible for this confusion.

Simply put, the Department of Finance is moving the goalposts whenever it perceives itself to be at a disadvantage. This makes sensible tax planning difficult, if not impossible, and raises the level of uncertainty in investment to such a degree that business confidence is being undermined. No wonder Assocom's business confidence index has peaked.

The plain fact is that tax reform has given way to what amounts to extortion. For many of the concessions now being removed were themselves creatures of government: some were for sound, others for more dubious reasons. Their summary removal or adjustment — too often first revealed in a press release after scant, if any, consultation — is more than inconvenient. They are economically disruptive in their very essence.

As if our beleaguered economy did not have enough to bear in the form of the foreign capital boycott and debt repayment problems; *and* the growing threat of more sanctions and an inflation rate that is accelerating once more. Added to that is fiscal frustration — which all smacks of panic.

Certainly, the mild stimulus that the March Budget should have imparted — as resources were edged from the public to the private sector — have been negated. Ever since the Budget, by removing and adjusting various allowances, the level of taxation has been substantially increased.

Here is the sad chronicle of the main increases:

In the Budget, a retroactive 25% Mininum Tax on Companies (MTC) was imposed. Its complexity has yet to be adequately addressed by the tax authorities, who are themselves confused.

A similar tax was certainly mooted by the Margo Commission. To the extent that certain allowances could not be quickly eliminated, their continued use by companies could be countered by a minimum tax based on dividend payments out of current nondividend income after preparation and investigation.

Well, there was neither preparation nor study. A crude form of what Margo recommended, the MTC, was simply slapped on regardless, *and* the allowances in question were summarily removed or reduced, sometimes with such little forethought that they had to be partially reinstated when the potential damage of the Act was pointed out.

Also in the Budget, company car perks tax values were increased; the tax on life assurers was effectively raised by 75% (and that amounts to a tax on savings as well as on widows and orphans); medical cost deductions were abolished; and the taxes on beer, spirits and cigarettes were raised.

Next we come to taxation by press release — measures that were subsequently confirmed in the Income Tax Bill or the Taxation Laws Amendment Bill.

Hotel allowances on the cost of buildings and improvements were cut. These were on a graduated scale, but the big one was a 10% one-off investment allowance. Finance Minister Barend du Plessis wanted this cut to 2%. But, after the inevitable consequences of his actions were pointed out by the hotel and tourist lobby, he raised it again to 5%.

Tax policy has come down to the hit-or-miss principle. The message from that cock-up is that the Treasury doesn't know — or doesn't want to know — the consequences of its summary tax changes.

This cut in allowances was announced on June 3, effective the next day. To the extent that projects in the pipeline were affected, the measure was retroactive.

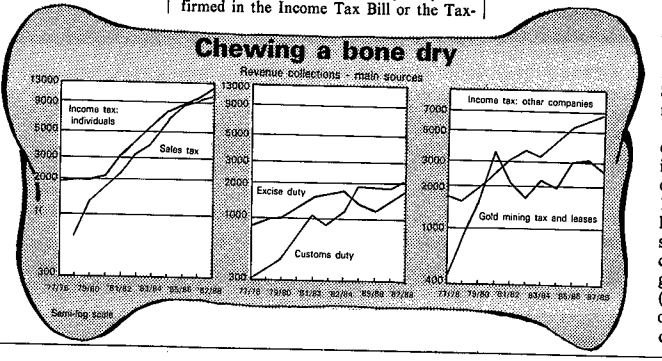
Other changes at about this time were that livestock losses could only be written off against farming income. We have no quarrel with the principle. It's the manner of implementation and disregard for the immediate impact on taxpayers that is distressingly apparent.

Next came *en commandite* partnerships: retroactive to March 1; the only deduction a taxpayer may claim will be equal to the amount of his liability should this type of scheme fail.

The initial allowance on industrial buildings of 17,5% was abolished from January 1 1989, from whence only 2% may be claimed. There were further limitations on S 24 of the Income Tax Act with regard to motion pictures and patents and copyrights are to be subject to a far more restrictive write-off.

There were, we hasten to point out, some elements of tax relief in the Budget. Top marginal income tax rates were raised, but not by enough to eliminate fiscal drag (a faster rise in tax payments than in real incomes caused by tax being levied on inflated or money incomes). Exchequer trends are already indicating that personal tax contributions will be substantially higher this year. So much for that relief.

At R13,6bn, income tax receipts in the current fiscal year will be 14% higher than last year and personal taxpayers' contributions to general sales tax (GST) will be 59% of estimated Exchequer receipts.



Financial Mail

TAKEOVER PANEL

A tiny step for mankind

We have a government which seems to be capable of either proposals of mind-boggling incomprehensibility (mostly on the constitutional front) that are pushed through willy-nilly, or anodyne platitudes that all can accept but are seldom followed by rapid action — but nothing in between.

The latest proposals on a takeover panel (see ***Fox***) fall into the latter category.

It is sad but true that the Johannesburg Stock Exchange has never yet probed a case of insider trading that the police have felt was sufficiently backed up by evidence to be worth a prosecution.

And when the JSE itself has tried to intervene in a takeover where there has been a risk of oppressive treatment of minority shareholders, it usually retreats with a bloody nose. The JSE's ultimate sanction is nothing more serious than delisting a company's securities — which is seldom much deterrent to guilty parties and much more often would be far more damaging to the injured innocent.

In fact, the arguments against insider trading are not as clear as is sometimes made out. There are major international markets where it is part of the normal way of life, and investors don't seem much the worse for it.

Indeed, watching what insiders do and following them can amount to a quick and effective way of disseminating information through the market.

That, however, is not part of our culture. In SA it has been common cause for decades that insider trading is a bad thing; and, on the other hand, the fact that so many SA companies are tightly held means that effective control can (and often does) change without recourse to the market — or any heed for the interests of the small investor.

This was apparent as long ago as the great market boom and bust of the late Sixties, which saw many questionable happenings. The fallout of the boom of the late Eighties is already starting; yet in effect investor protection is no more developed than it was 20 years ago.

There is another factor worthy of consideration: the need for investor protection may well be greater in a society which is still struggling to develop a share-owning democracy than in one which has reached the next stage of development.

So what do we have now? A recommendation from the standing advisory committee on company law for a panel to monitor insider trading and the unfair treatment of minority and other shareholders in merger or takeover situations.

Government is "considering" the proposal. If it is accepted, legislation will be brought to parliament next year.

If it is accepted? Legislation *next year*? Chris Heunis could create another whole tier of government in less time than that.

Cynics may feel that, after 20 years of doing nothing, another year or so is of no great moment. Others will find it in line with heel-dragging on tax reform (see P30), deregulation and privatisation, and all too typical of a government that has got so embroiled with fairyland constitutional proposals that it has lost touch with reality and the nuts-and-bolts business of keeping an economy functioning. ■

THE DIPLOMATIC CLIMATE

March of folly

When the man who may be America's next president says that as a logical consequence of SA's being a "terrorist state," the use of military force against its territory could become necessary, should one (a) prepare for street fighting in the CBD or (b) negotiate the terms of surrender?

The better answer is "neither" — Michael Dukakis was sparring with Jesse Jackson at the time and his brain may have been overheated.

It does say something, though, for the immensity of the worldwide phobia about SA that such wild rhetoric receives any credence at all. SA is a Big Issue, perhaps the biggest available, if not to Dukakis, then to Britain's little Neil Kinnock who this week made a point of meeting ANC leaders in his waft through the Frontline states.

In such a climate — as schoolboys learn when they dutifully write down the Causes of the Great War — certain key events can be a fatal precipitating factor. The emotionalism surrounding Nelson Mandela's 70th birthday (July 18) is a factor in itself and if (as at the time of going to press) the Sharpeville Six's stay of execution expires the very next day, then the forces driving Dukakis and Kinnock alike will become unsusceptible to reason.

We have before argued that there are sound legal grounds for altering the sentence of death upon the Six (*Leaders* July 1); but, in a sense, that is not the point. If the worst is averted this time round (embassies are not attacked, and so on) there will always be another time.

The International Brigades of the moral high ground are mustering.

This would be the worst argument of all for rational and liberal-minded people now to throw in their lot with government. Rather they should keep cool and continue to criticise evil deeds and commend correct choices, economic or otherwise. That is what a man like Alan Paton would have done.

Faced with unreason, there is certainly no need to give over one's mind and energy to the irrational. ■

There was a moratorium on companies' stamp and transfer duties from July until next June, and there was substantial estate duty relief ahead of the introduction of a capital transfer tax and non-residents tax on interest was abolished.

These were followed by the press release "enactments." Plant and machinery can now be written off 50% in the first year, 30% in the second and 20% in the third from January 1 — instead of a one-off 17,5% initial allowance and wear-and-tear allowance, despite the fact that the Margo White Paper rejected this more advantageous depreciation formula.

Hotels will benefit, too, from a similar 50-30-20 depreciation formula over three years (again rejected by the Margo White Paper) instead of an initial 15% allowance and a 20% one-off wear-and-tear allowance over a negotiated period.

The unfortunate fact is that these press release "enactments" illustrate government's indecision (it rejected them in a White Paper and then implemented them). And they are small beer when compared to the imposts outlined above.

But we haven't yet finished this chronicle of fiscal bungling. Both the Margo Commission and the government's own White Paper on it supported the gradual phasing out of the tax-free and partially tax-free investments of building societies, the Post Office and Treasury. Yet, in May, the interest on these investments was increased.

Deputy Minister Org Marais stressed at the time that the commitment to phase out these concessions remained — but said the increases were needed to meet an immediate situation. By that we understand him to mean that these concessionary institutions would have lost funds to the banks and life offices in view of the rise then in the general interest rate pattern. That may be so. But the action was inconsistent with government's declared objectives and indicative either of its lack of will to implement them, or its own internal confusion in tax matters.

The inevitable question after this list of fiscal depredations and official fumbling, is whether tax reform has been abandoned in the face of Pretoria's urgent need for cash to finance its constitutional tinkering. After all, Constitution Minister M-Net (Chris) Heunis (you need a decoder to understand him) has said that democracy is expensive.

Kessel Feinstein's Raymond Fine comments: "The 1988 Income Tax Bill contains little tax reform. The concern of the private sector is that government has accepted the recommendations of Margo that result in additional revenue being collected and those recommendations that close patent loopholes in the Income Tax Act."

State spending R10b '78/79

The answer?

He looks to the newly-established Tax Reform Committee to provide the answer to whether government is actually committed to ongoing tax re-



Judge Margo ... from philosophy to press release

form. Obviously, the committee will have to face some of the issues ducked by the Margo Commission: the taxation of mines, pension funds and life assurers; the treatment of benefits consequent on retirement; and big-ticket property leases about which there have been allegations of widespread avoidance as well as the implementation of value added tax (VAT).

The committee's vice-chairman, Michael Katz (a former Margo commissioner), says that it will look too at the hoary income versus revenue issue and fiscal harmonisation with neighbouring territories, particularly with the TBVC. This matter is of special importance in view of forthcoming VAT. It hinges on the fact that some territories, such as Ciskei, have lower personal tax rates and, in this case, no company tax, despite their being in the Rand Monetary Area.

The committee, which has a permanent secretariat, will seek broad advice on the removal of tax matters from the economic decision-making process. Simply put, it will aim to make tax decisions irrelevant to the allocation of resources; the selection of business vehicles to be used when making investment decisions; and to the activity to be undertaken.

Also on the agenda is the question of manipulation of the tax base, which is related to neutrality. For example, pension funds, which are not taxable, are in theory likely to accept lower rentals in a property deal than a tax-paying enterprise. This leads to complex schemes aimed at inserting pension funds into transactions to limit tax obligations.

Another major issue is the matching of income and expenditure. Certain items of income can be deferred for tax purposes and some expenditure accelerated which, when used to limit tax, could be prejudicial to the fiscus. Katz suggests that one way of dealing with this is to calculate taxable income on the same basis as accounting income.

In view of the fact that retroactive law has become an accepted part of tax policy, depending on the extent of concessionary income streams that miss the Exchequer, the committee should also seek clarification on when a tax avoidance scheme can be regarded as a potential target for retroactive banishment.

Precedents indicate that Inland Revenue is aware of potential schemes to be hit by retroactivity long before official action is taken.

Looking back at government's treatment of the Franzsen proposals and the scant regard being paid to the Margo ones, we have no great hopes that this committee is going to be able to restore sanity and certainty to tax matters. Perhaps it is too cynical to write it off as just another hot-air device to enable government to delay issues that would limit its rapacity. But then, perhaps it is not.

An efficient tax system requires co-operation and trust between taxpayers and the taxing authority. For no tax system yet devised has been able to eliminate the cunning ingenuity of those who seek tax avoidance schemes. This endeavour is heightened if tax rates are high and the system lends itself to ambiguity and uncertainty.

The actions of the Treasury over the past five months will do nothing to improve its relationship with taxpayers. It is not so much the allowances which have been removed or reduced; there is widespread agreement that they should go. The problem is the disruptive, indecisive and inconsistent manner of the changes and the lack of compensatory matters.

In summary, six new taxes have been implemented: RSC levies, Standard Income Tax on Employees (SITE), a new form of PAYE, MTC, VAT and CTT. Three taxes — estate duty, donations tax and GST — are on the way out. Not much has come out of the Margo recommendations. More is being squeezed out of the existing system by reducing allowances and a major new uncertainty — tax collection by retroactive law — has been introduced.

What government has done is increase taxes by what amounts to sleight of hand — that is, under a cloak of reform. This has undermined its credibility not in tax matters alone. If this is how it negates a national Budget, how seriously can its protestations be taken that it intends curbing inflation and avoiding a prices and incomes policy? Taken with the Harmful Business Practices Act, these masked tax increases place in serious question its financial integrity.

Of course, tax collectors have always been treated with great suspicion by ordinary folk. The suspicion is usually in direct proportion to the amount of tax that has to be paid. Not all tax collectors are rapacious — and they perform a difficult but important task. But it is impossible to be sanguine about Pretoria's recent tax imposts.

Its supposed "reforms" have crunched the taxpayer with what amount to the powerful jaws of a Doberman, a fierce breed of dog named (if you do not already know) after Herr Dobermann, a dignatory about 100 years ago of Apolda, Thuringen, in Germany. He had the honour to be the municipal knacker, dog-catcher and tax collector.

If the collar fits ... ■

Individuals still top tax contributors

Figures released by the Central Statistical Service (CSS) show that income tax paid by individuals contributed 27,2 percent of state revenue — the largest single contribution.

According to the CSS, income tax paid by individuals has increased by 127,3 percent to R9,746 billion from the financial year 1982/83 to the year 1986/87.

Revenue derived from the General Sales Tax increased by 180 percent amounting to 24,9 percent in 1986/87, making it the second largest contributor.

Companies tax increased by 69,5 percent but its contribution to revenue declined from 30,5 percent to 26,1 percent from 1982/83 to 1986/87.

Gold mines' contribution to revenue declined from 9,1 per cent to 8,9 percent, diamond and other mines increased from 1,1 percent to 3,1 percent and the contribution from other companies declined from 20,3 percent to 14,1 percent.— Sapa.

Govt no to SPCA appeal on tax

320

Star 15 7 88

By Jean Waite

Johannesburg SPCA has appealed to the Government for GST exemption — and has been turned down.

Manager Mr Archer Wilson said: "We have appealed to the Government for exemption, in line with their policy for human welfare organisation, as this costs us some R80 000 a year. But the exemption has been refused.

"Every year we pay over R180 000 to the Receiver for PAYE. Thus, from donations we receive, which are not deductible for tax purposes by the donors, we pay an additional R260 000 towards Government revenue; in effect a double tax payment.

"In the past, we have received a direct Government grant of R26 000 a year — approximately 10 percent of our contribution of money that has already been taxed.

"By their nature, our services are labour intensive. We employ over 70 people who are directly involved in caring for animals.

"We cannot increase the fees for our services as they are directed towards the economically underprivileged," Mr Wilson added.

SITE problems under spotlight

Business calls for greater clarity on tax

(320)
B/day
15/7/88

KAY TURVEY

THE private sector has called for greater clarity and changes in standard income tax on employees (SITE) legislation, after the introduction of the new tax tables from the start of this month.

Problems experienced in the implementation of SITE had led Inland Revenue to set up a committee at the request of the SA Institute of Chartered Accountants (SAIC) to discuss, and to iron out, difficulties, said Ronnie Stadler who will chair the working group.

Existing

Bodies such as Assocom, Chamber of Mines, Federated Chamber of Industries, SAIC and the Institute of Chartered Secretaries will meet with Inland Revenue on a regular basis to work out any difficulties.

SITE, announced by Finance Minister Barend du Plessis in his budget, was introduced as a step towards replacing the existing final deduction system in a move away from joint taxation and the so-called "marriage penalty".

In particular, the private sector is concerned with the anomalies which exist over the taxation of casual workers.

Deloittes partner Anne Pappenheim said anybody not employed for the major part of the year would now be prejudiced as they would be taxed under SITE at a rate as if they earned those wages for the entire year, but were unable to obtain a refund.

Further, the requirement that employers issue an IRP5 for every casual, who may have been employed for just a few days, was "an unacceptable administrative burden".

SITE has already significantly increased the administrative load of employers, whose responsibility it is to deduct employees' tax from their remuneration to the extent that the employer will be held responsible for losses from under-deductions.

Students, who could previously earn less than about R4 500 a year for holiday jobs, will now be subject to SITE, and their parents will forfeit their child rebates as the student will pay tax.

Clarity

Fisher Hoffman Stride partner Anthony Chait, who will represent the SAIC in the working group, said apart from the lack of clarity the ceiling was too low.

SITE will apply up to a level of R20 000 for marrried women and R12 000 in all other cases.

● Comment: Page 4

Cape Times 16/7/88

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Private sector calls for changes in SITE

JOHANNESBURG. — The private sector has called for greater clarity and changes in standard income tax on employees (SITE) legislation, after the introduction of the new tax tables from the start of this month.

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(320) B/day 19/7/88

Stamp duty moratorium: warning on tax problems

KAY TURVEY

COMPANIES taking advantage of the moratorium on stamp and transfer duties to rationalise could expose themselves to potentially serious tax implications.

These could arise from the declaration of dividends and possible undistributed profits tax problems, says Lacon Stanton in the latest Deloittes newsletter.

The legislation provides that all rationalisation schemes entered into between June 17 1988 and June 30 1989 and approved by the Commissioner of Inland Revenue will be free of transfer and stamp duty.

When any business operation is sold by one company to another within a group, the commissioner is also given discretion to negotiate the transfer of other allowances and tax benefits between the companies involved.

Planning

The legislation providing for temporary duty exemption provides rules to facilitate the implementation of schemes without immediate negative tax consequences.

However, what is not clear is whether the commissioner's discretion can be used for those tax considerations which arise on the deregistration or liquidation of newly dormant companies resulting from the rationalisation.

For this reason he advises detailed planning before any rationalisation scheme is implemented to avoid "potential major pitfalls".

The commissioner is empowered, in conjunction with the controlling company, to agree that companies involved in rationalisation schemes be treated as one for tax purposes.

Stanton says: "This unexpected general discretion will enable many previous tax hurdles to be overcome, and groups should pursue the opportunity now presented them."

'Selective' tax increase on heavy trucks attacked

Transport deregulation proposals 'insincere'

Star 21/7/81 320

By Inga Molzen

The Witwatersrand Chamber of Commerce and Industry (WCCI) has questioned the Government's sincerity on transport deregulation.

The WCCI would make representations to the authorities on behalf of both business and the consumer on the Witwatersrand, said the organisation's transport committee chairman, Mr Peter Haines.

Referring to the proposed new licence fees for heavy duty vehicles published in recent provincial gazettes, Mr Haines said it was apparent the Government wanted to encourage decentralisation away from the Witwatersrand.

The proposed increase of up to 420 percent in licence fees on heavy trucks, which went hand in hand with the burgeoning toll road charges, "brings into question the Government's sincerity on transport deregulation".

In a white paper on national transport policy released last year, the Government said R253 million would have to be recovered annually from road users.

Mr Haines said road users should contribute towards the provision and maintenance of the road system, but he suggested that an increase in the levy on diesel fuel would be a more equitable way of applying the principle.

The proposed new tax increases as well as the impact of toll road charges — amounting to between R400 and R600 a load on a return trip to Durban from Johannesburg — would be borne by the consumer, thereby adding to inflation.

"The consumer in effect pays several times towards the maintenance of roads. He is taxed on the fuel he pays at the pump, he will end up paying the hauliers' toll road levy and he will ultimately pay for the proposed increase in licence fees.

"The Government has for the past four years reallocated increasing amounts from the existing fuel levy for other purposes.

"It should be noted that the current portion of the fuel levy of 8c a litre, originally intended for road construction and maintenance, is now no longer allocated for this purpose and there is no guarantee that adequate funds will be provided for future road development," said Mr Haines.

TAX REFORM (320)

A world round-up

Tax reform has gone global, following the initiatives of the Reagan administration, says Joseph Pechman in *World Tax Reform: A Progress Report*, issued by the Brookings Institution.

A major finding is that top individual tax rates have fallen sharply in the past four years or so.

In the 11 richest nations, the lowest top personal rate for 1988 is recorded in the US, at 33% (1984: 55%). Next best is Britain at 40% (60%). Six nations slot in between 45%-68%, with three at 70%-plus. Japan has the highest rate of 76% (88%, also highest then).

Of course, comparisons of top personal marginal rates are of limited value.

The rates start to operate at different thresholds; rebates and other tax reliefs tend to lower the rate and each country provides different welfare services, whose quality should be seen as discounting the top rate.

Pechman says several trends are visible in world tax reform:

☐ Most countries have reduced or will reduce individual income tax rates, particularly the top rates and will compress the number of brackets;

☐ Corporate tax rates are coming down;

☐ Tax preferences for investment are going out of favour, having been seen as ineffective and tending to promote tax shelters;

☐ Other base broadening is going on, though so far, revisions in this direction have not been as far-reaching as in the US; and

☐ Most countries tend to "integrate" individual and corporate income taxes by providing some form of dividend relief. Exceptions are Sweden, the Netherlands and the US — and, we may add, SA.

While Margo recommended that dividends should not be taxed as a personal receipt, this was rejected by government.

Interesting also is that while most European countries have adopted VAT, the idea has been eschewed in the US (up to now) and was recently rebuffed in Australia.

SA is set to introduce VAT in 1989, mainly because it is less "visible" than GST. It is, therefore, seen as more suitable to SA's First-Third World structure; also, the vast bulk of the administrative burden does not fall on the tax authorities.

Pechman says rapidly changing tax structures in the industrialised countries reflect awareness of US reforms, and "almost universal recognition of the distortions and inequities created by high tax rates, years of inflation and ineffective tax preferences."

Internationally, there are still major differences in many areas. Another example: only the US and Australia tax capital as ordinary income. This issue remains controversial.

Pechman says that, depending on economic and political developments, further revisions of capital gains treatment could be seen in the US.

The US seems to be the spotlight for significant moves in tax reform, which was made law by President Reagan in 1986.

In Pechman's view, US tax reform has turned out to be reasonably neutral in effect, showing claims that it would "de-industrialise" the US and cut international competitiveness to be exaggerated.

The trend of each country using its tax system to promote perceived social and economic objectives has changed — for the better. In the result, there are fewer serious inequities and misallocations.

The main neutralising effect of US tax reform was seen, in the short term at least, in the slashing of business concessions, which broadened the base and allowed personal rates to be cut.

Overall, Reagan's tax policy is seen as having achieved most of its goals, which include increased economic efficiency and growth, fairness and simplicity.

From *The Economist*

A simple, but reliable macro-economic rule is to aim for slow and stable growth in total demand, with long-term success judged by the resulting inflation rate. However inconvenient it may be, the lesson of the Seventies was that macro-policy has no lasting effects on growth, employment or investment; governments that think otherwise, jack up inflation rates, but have nothing else to show for their endeavours.

BOUNTY HUNTING: MONEY FOR JAM?

Looking for a new source of income? Informers of tax evasion cases stand to earn up to 10% of the tax *collected*. While this is not dealt with in the Income Tax Act, the Commissioner for Inland Revenue, Clive Kingon, confirms that it is indeed the case.

Unhappy with the description of "bounty hunters" for such people, Kingon says it's much more difficult than it looks. "Precise, detailed information is needed. If we're already investigating the particular taxpayer for tax evasion, too bad for the informer."

Kingon says that for three decades or more, Treasury has been authorised — within limits — to pay informers up to 10% of tax evaded; but only if information volunteered leads *directly* to the collection of tax.

Says Kingon: "Precise requirements must be met before the informer qualifies for any fee. It's not just a matter of 'phoning Revenue and saying that so-and-so down the road is not paying tax."

Kingon adds that it is crucial to understand that the fee is in "no circumstances whatsoever" available to Revenue employees. "Only outsiders qualify."

Asked how many cases have been handled in the last year, he answered "very few." The *FM* was told last week of a case where a bounty hunter stood to collect R60 000.

Senior tax consultants say that most investigations by the special divisions of Revenue result from tip-offs.

Why bounty hunters are not covered in the Act remains moot.

It is comforting to know that if tax evaders are caught and cough up, other taxpayers in theory pay less. But even though information supplied has to be precise and lead to direct results, it seems unfair that a few snippets can be worth (say) R60 000. ■

FINANCIAL MAIL JULY 22 1988

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... CAPE 80c (71c + 9c tax) (320) B/day 22/7/88 A TIMES MEDIA ...

Life assurers angered by fresh call for increasing tax on the industry

GRETA STEYN

THE life assurance industry is angry at a report, commissioned by UBS Holdings and now before a parliamentary committee, calling for their taxes to be increased.

Industry spokesmen yesterday described as utter nonsense a claim in the report that life assurers were paying between 6,78% and 2,24% effective tax and said it used dubious definitions of income for its calculations.

A major life assurer said yesterday a member of the parliamentary standing committee on finance had sent his company a copy of the report, completed earlier this year, for comment.

There was no doubt who had commissioned the confidential report as it was marked UBS Holdings, he said. It was done by MacGregor's, authors of Who Owns Whom.

It had not been sent officially to the Life Offices Association (LOA).

The report concluded "as much pressure as possible should be exerted on the state to revise the tax laws and the Acts governing the mutual insurance companies". It said company profits and effective tax rates needed closer objective scrutiny and steps should be taken to deconcentrate control of the economy.

One of the objectives of the report was to establish the effective tax rates paid by different companies in different sectors. It found the insurance sector had paid an effective rate of only 6,78% last year, compared with an effective rate of 52,4% for building societies.

If all companies paid the full 50% company tax, the additional revenue accruing to the state would have been R3,2bn or 26,1% of expected individual tax.

"If the two mutuals, Old Mutual and Sanlam, were included in this sector, the average tax paid would be reduced from 6,78% to 2,24%. The additional contribution to the state from the insurance sector alone, if the two mutuals were included and if the full 50% tax were paid, would be R2,9bn or 24% of individual tax," the report said.

Life assurers branded the report as "utter nonsense" and questioned the way in which their income was defined.

Old Mutual chief actuary Theo Hartwig said: "These figures were arrived at by including premium income as part of the definition of life assurers' taxable income. It overlooks the fact that premiums are similar to deposits, and that those funds should be regarded as money held in trust and not as taxable income."

LOA spokesman Jurie Wessels said: "It is tantamount to saying deposits with building societies should be regarded as income and taxed."

(300) B/day 25/7/88

FINANCE

'No' to VAT on financial services

KAY TURVEY

GOVERNMENT'S plan to follow the European and New Zealand system for levying VAT on financial institutions is not ideal for SA with its double digit inflation, as it could fuel inflationary pressures.

Bankorp Management Services Senior Manager Robert Emslie, who recently returned from a European tour to study the application of VAT on financial services, says such a system could result in higher interest rates, which would have a dampening effect on the economy.

The European and New Zealand systems have four types of supplies for financial institutions — taxable supplies, exempt supplies, zero-rated supplies and those which fall outside their VAT Acts, such as foreign currency transactions.

Emslie argues that having four different types of supply complicates the application, adds to the compliance cost and would make it more difficult for Inland Revenue to monitor.

Margo specifically called for the simplification of the tax system, yet the accounting system required to allow four separate outputs to tally with total outputs would be massive, claims Emslie.

Given these four types of supplies, financial institutions in the EEC have adopted what is known as the "Standard Pot Method," where they take out the input VAT (non-recoverable) and build it into their costs.

The inclusion of non-recoverable input VAT in final prices results in a cascading effect along the distribution channel and prejudices the final end-user, such as a private client, who can't then pass on the cost.

Emslie proposes that zero-rating all financial transactions would be the simplest and tax neutral, as well as the least inflationary. Zero-rating supplies would mean no VAT would be payable on financial services transactions, while at the same time a credit may be claimed for VAT included in the input prices.

However, he says it is "naive" to believe that a growing government looking to greater revenue would accept this potential reduction in revenue.

Countered

Yet he argues that this loss of income could, to a certain extent, be countered by a debit transaction tax, as imposed at present in SA and in Australia.

Reserve Bank figures show debit transactions valued R3 596bn in 1987. Emslie says were such a tax applied at a rate of just 0,1% this could potentially lead to collections of R3,6bn based on present circumstances.

If such a tax were to be applied, this amount would probably be lower, he says, as users would switch to cash transactions.

Alternatively, charging VAT on all transactions, although alleviating appliance costs and resulting in substantial gains to fiscus, would not be a desired method for non-tax reasons.

The levying of VAT on interest payable would lead to a rise in interest rates and fuel inflation. Hardest hit would be industries involved in consumer finance. However, if all financial transactions were exempt, financial institutions unable to pass on their input tax to clients would build it into their costs — ultimately leading to an effective rise in interest rates.

This escalation would ultimately be worse than if VAT was added to interest charges, says Emslie, as its rise would not be visible.



Pension taxes idea queried

ELSABE WESSELS

THERE was a growing uncertainty in the insurance industry about the direction legislation is taking considering the taxing of pensions, Charter Life senior manager, legal services, Martin Sweet said yesterday.

Sweet, PFP municipal election candidate in Yeoville's Ward 32, said Finance Deputy Minister Georg Marais' announcement earlier this year that government was considering taxing pensions, had caused confusion in the insurance industry and unease among pensioners.

He said the insecurity was sparked by the recommendations in the Margo Commission that the generous tax concessions previously found in the second schedule to the Income Tax Act be withdrawn.

The uncertainty was added to by Marais when he announced that government was seriously considering taxing pensions.

People who had planned their retirment under the existing system were entitled to seek reassurance that their tax position would be not be altered. "Ultimately it must be remembered that it is not pensions funds but actual and potential pensioners who will bear the cost," Sweet emphasised.

"If the consequence is to make savings via investment funds less rewarding, there is a distinct risk that an ever-increasing number of elderly people will become more of a burden on the state, rendering the exercise counter-productive."

This attempt to tax pension funds was just another way of mugging pensioners to obtain more cash to fritter away on government expenditure, he argued.

Sweet questioned whether taxing savings favoured economic growth. He said the Department of Finance "is forever re-situating its goalposts whenever it perceives itself to be at a disadvantage".

This had made sensible tax planning almost impossible and raised the level of uncertainty in investment to such a degree that business confidence was undermined.

As a result of the recommendation to abolish lump sum benefits from retirement funding instruments, the economy could now suffer from people taking early retirement in order to avoid paying more taxes, Sweet concluded.

Tax rate concerns assurers

320 HELENA PATTEN B Daily

UNCERTAINTY about the future of the life industry's tax rate, has become the single most serious issue facing the industry.

The uncertainty has arisen from a building society campaign to have the rate increased and conflicting signals from government.

Leading figures in the life industry have come out in strong condemnation of the UBS-commissioned McGregor report on the industry's tax rate and say they are seeking a satisfactory solution from government.

Life companies argue the building societies lack foresight and are risking the nation's savings.

Liberty Life joint-MD Dorian Wharton-Hood said the building societies misrepresented the life industry's position.

"It is misleading to express our tax as a percentage of our total income, 70% of which is untaxed pension business. Pensions are taxed in the hands of the pensioner, not in our hands."

Wharton-Hood said the uncertainty surrounding the tax issue was serious. "We can't declare bonuses for policy-

27/7/88

To Page 2

'Building industries would boom'

Tax rebates for housing punted

By AUDREY D'ANGELO
Financial Editor

TAX rebates of 200% on expenditure incurred in providing housing for employees would have a "mind-boggling" economic impact, city businessman Philip Krawitz said at the annual dinner of the University of Cape Town Graduate School of Business Association last night.

Apart from providing badly-needed housing, which was the key to sociological stability, "there would be an enormous fill-up in the field of job creation. All the industries associated with home-building materials would boom".

"In time to come, all these new homes, and the income generated in their creation, would provide purchasing power for consumer durables such as furniture and appliances. Certainly, such a step could be the key to a 5% growth rate, placing little demand on our balance of payments as most of the materials and labour are local."

The suggestion was one of several Krawitz made to help improve SA's situation.

He said this was not hopeless, in spite of double-digit inflation, the state of emergency, rising unemployment, world hostility and the need to restrict the growth rate to below 3% in order to maintain a balance of payments surplus.

SA still had strengths. The chief of this was "the immense, untapped fund of goodwill, prevalent amongst millions of our fellow citizens who simply want to live side by side without taking up arms".

Since those holding power must take the first step, Krawitz suggested the government should:

- Remove the Group Areas Act "and every remaining statute which offends the dignity of man and divides our peoples";
- Abolish preconditions and petty posturing and sit down round a very large table with a blank sheet of paper;
- Convince those present that, while many hurdles have still to be jumped, no-one should quit the race as long as the finish line remains in sight.

Discussing the need to redistribute as well as create wealth if capitalism is not to give way to socialism, Krawitz said: "With 5,5m black people currently unemployed and a need to provide 1 000 homes every day between now and the year 2 000, the free-enterprise system could hardly wish for a better opportunity to prove itself."

320 B/day 28/7/88

Tax reform band misses the marching beat

Has SA's tax reform programme ground to a halt — or has the media raised false hopes? Tax consultant COSTA DIVARIS goes to battle

NOTHING wrong with tax reform. When only a handful of men in the battalion are marching in step, the fault might lie more with the band than with the officers or the men.

Tax reform's band is the media, which have consistently been missing the beat. But a few of its officers — in government — nevertheless deserve quick retirement, and many of its men — taxpayers large and small — no longer believe in fiscal conscription, and so march dispiritedly.

Trundling along behind them is a group of civilians — the Margo Commission — in a battered command car, which encourages them to entertain the conceit that they are cutting the marching orders and to wonder why their troops fail to obey.

But if the parade seems ragged, its line of march is pointed in the right direction.

It was largely the media that, prior to the publication of the Margo report, equated "tax reform" with lower taxes. While he still suffered from wall-to-wall rough edges, the Minister of Finance, it is true, did make some silly remarks on this score, but they should have been discounted, and were in any event swamped by the hysteria of the media, which — lacking a reliable leak from the commission — elevated the wildest dreams of peripheral vested interests and armchair reformers to the subject-matter of imminent tax cuts of all kinds.

The shock presented by the conservatism of the report when it finally emerged was nevertheless insufficient to induce any part of the media to announce: "We erred." And even though this was not the report they wanted, they now choose to celebrate it, portraying government's supposed failure to follow it as a blow to reform.

They are encouraged by members of the commission itself, who first insisted on blanket acceptance or rejection of their report and now complain because government refuses to accept it holus bolus, and is "picking out its eyes". Their hubris is undisturbed by the reality that even the most despotic head of state could never hope to carry out an entire policy-prescription as conceived to the letter.

Surely it is obvious that, even with all its supposed power, government is unable simply to impose an arbitrarily changed tax system upon its many constituencies — voting and non-voting, tax-paying and non-paying — and suffer no consequences.

Those who accept that politics is the art of the possible should not have to be reminded that it is taxation, in its many guises, that in a fundamental way determines both what is possible and what makes it so desirable.

But even if it had the power and the inclination, government would have been hard-pressed to follow the literal dictates of such a dreamy document as the report.

Much as it deserves praise for its conservatism, scope and identification of many real problems, the report remains a poor guide to actual legislative changes, uneven in its application of supposed principles and, on the brooding political content of taxation, either ignorant or unspeakably coy.



□ DIVARIS . . . ragged parade

This is perhaps why government was at least constrained to follow the commission's major recommendation: that the commission itself be perpetuated.

Nor does a government owe a commission of inquiry any honour save thanks and remuneration. Unfashionable though it may be to treat taxation as a political issue, it is one — and the fact remains that governments appoint commissions on political issues in order to gain political ends.

The resounding success of our government in winning time, in passing safely through a general election during a period when tax and economics assumed uncharacteristic political importance, and in quietly taking tax rates to their limits — all at the measly cost of a commission of inquiry — deserves recognition.

Also worthy of recognition is government's clear realisation that it is at the acceptable limits of taxing and spending, its innate fiscal conservatism, its courage in countenancing and even encouraging the underground economy and its brilliantly simple formula for providing for the unavoidable burdens and problems of the future through privatisation and VAT.

In my opinion, privatisation and VAT are the sole and sufficient content of present tax reform, and nearly everything else currently being done amounts — rightly — to temporary expediency.

Simplicity is not a realisable or even a worthwhile goal for a tax system operating in a sophisticated financial environment. I suspect that government spending and the size and benefits of the public sector are no longer serious problems relative to the real economy.

And the much-celebrated imbalance between personal and corporate tax collections is not of itself harmful to anyone *as long as it does not change*. In any event, government is taking its first halting steps on the long, hard road to curbing the fiscal appetite of the vested interests.

Given the chance to dream myself I would add to the immediate programme an end to the committee based managerial system that is destroying fiscal decision-making; a real fiscal public-relations effort, including some intelligent use of the immense power of the media, instead of silly advertisements; and an elevated authority and public accountability for Inland Revenue.

For the longer-term, I would dream of identifying and trashing tax-driven redistributions yielding on-going — as opposed to once-off — benefits; encouraging more participation by the underground sector in the tax system; and holding an indaba with the great vested interests with a view to sealing off tax leaks and effecting cosmetic changes.

But perhaps it is too late for such gentle dreaming. Thanks to recent economic hardship, offensively blatant and inopportune redistributions by our statist politicians, the administrative limitations of Inland Revenue and the appalling public relations of our fiscal authorities, we might be saddled with what could be massive, debilitating tax evasion — both of the conventional type and of the type that is vehemently claimed to amount to legitimate tax avoidance, which encourage each other.

If so, only dramatic, original and imaginative measures will suffice.

Happily for those who prefer limited government, no such measures are likely to emanate from Pretoria.

(320) B/day 29/7/88

New deal required for farmers

BLOEMFONTEIN — The amount realised from the sale of livestock when a farmer retires from farming because of poor health or advanced age should not be taxable, J Neethling of Smithfield told the 59th congress of the National Wool Growers' Association of SA in Bloemfontein yesterday.

If this was not possible, the amount realised should be treated in the same way as the gratuity of a salaried person: that the first R30 000 is tax deductible and the balance taxed the next year at the average rate applicable to the taxpayer over the previous three years.

Neethling said when a farmer reached the end of his career he usually did not incur noteworthy expenses in the last year. Thus, his taxable income was relatively high.

With the realisation of the livestock, he possibly wished to buy a house or flat in which to retire or to invest the money to provide an income from the interest.

At present he had to pay income tax at the maximum rate, which meant that he would only receive 55% of the amount realised at present tax rates.

The stock with which a farmer was farming when he retired — or the average over the last three years — should be regarded as a capital asset, not taxable when farming ceased. — Sapa.

Rebate on Turkish | SADF ready for ...

B/day 29/7/88

NEWS FOCUS

Life insurers don't have a tax advantage

DORIAN WHARTON-HOOD
Joint MD of Liberty Life

RECENT reports about the supposed tax advantages enjoyed by life insurers have brought to light serious misconceptions about the nature of life insurance business and, consequently, about the appropriateness of various tax bases. Clearing up these misunderstandings should help put an end to a futile debate about life office taxation.

Everyone agrees that there should be tax neutrality between different savings media. Tax neutrality implies consistent application of tax principles to the savings of the individual, regardless of the savings medium. However, if some institutions are more successful than others in competing for funds, and their success stems from factors other than tax, then it is inappropriate to use the tax system to handicap the successful in order to achieve overall neutrality.

Incorrect

There have been repeated complaints, especially from the building societies, that the amount of tax paid by life insurers — R256m in 1987 — is small in comparison with the billions of rands handled by the industry. In a recent document which a building society circulated to a number of Members of Parliament, it was even calculated that the life insurance industry pays tax at an average rate of 2,24% of "operating surpluses". This claim is totally incorrect, for two reasons.

The first is that only approximately 30% of the total assets held by the life insurance industry relates to ordinary taxable life insurance business. The balance is attributable to pension fund and retirement annuity business, which is taxable in the hands of beneficiaries, not in the life assurers' hands.

The tax treatment of life insurers has no influence on this business. It is obvious that calculating tax percentages on the basis of the total amount of money handled by the life insurance industry is therefore entirely incorrect.

The second point is that the calculations referred to were done by simplistically deducting expenses from total income (including premium income) and viewing the resultant net figure as the "operating surplus". This is tantamount to charging depositors tax on the money they deposit with a bank or building society!

If the alleged "tax favoured" status of life insurance had contributed towards a concentration of power in the economy, then one would expect the taxed portion of life insurers' business to have gained a disproportionate share of the public's savings. However, the accumulated assets of life insurers attributable to taxable business are significantly smaller than the assets of banks and building societies.

Less savings have flowed into ordinary taxable life insurance than to banks and building societies, quite apart from other major savings media (unit trust, etc).

The growth in pension and retirement annuity business is irrelevant to the taxation issue since, as explained earlier, the beneficiaries of the policy proceeds pay income tax on the emerging benefits when they receive them in the form of pensions.

Real reasons

If the building societies believe they are losing business to the life assurers, they should focus on the real reasons and not distort the tax situation, which has nothing to do with the issue.

Building societies may be over-regulated and legislative changes may be needed to enable them to compete with life assurers, so why not focus on this issue?

Perhaps the building societies are afraid to pursue this route in case they are allowed to compete with life assurers who have demonstrated their ability to produce appropriate products which satisfy the needs of the investing public and have consistently produced investment returns on taxable business in excess of the inflation rate, despite the disadvantages.

BUSINESS TIMES surveys INVESTMENTS FOR THE OVER 50s

Pension buy-backs bring tax breaks

ONE of the best ways to improve your eventual pension out of tax concessions is to buy past service benefits in your company pension fund.

By RICHARD VAN DIJK, asstistanmt manager, pensions, Liberty Life, Port Elizabeth. He is a fellow of the Institute of Life and Pension Advisers and was ILPA Award winner in 1987 (fund financing pensions).

Use of company pension funds to acquire additional pensionable service is becoming increasingly popular as more and more fund members realise the importance of retirement planning.

Favourable tax treatment and the ultimate benefits achieved make voluntary past service contributions an excellent investment. There are many other advantages.

The Income Tax Act enables pension fund members to claim tax deductions on their contributions toward purchasing past service up to a maximum of R1 800 a member in each year of assessment. Husbands and wives may each separately claim R1 800 if they both make the additional arrear service.

Contributions of more than R1 800 may be carried forward as tax deductible in the next tax year.

Arrear service contributions constitute a valuable tax break over and above the deduction limit applicable to the sum of current pension and retirement annuity contributions.

The tax deductibility of arrear service contributions is at marginal rates, and is not limited to income derived from trade. Therefore, total income may be reduced by the R1 800 deduction.

Contrast

However, arrear service tax deductions do not apply to provident funds or retirement annuities, but in the case of retirement annuities reinstatement contributions are allowed as tax deductions up to a maximum of R1 800 in each year of assessment. This R1 800 deduction is applied in aggregate to husbands and wives in contrast to pension fund arrear contributions which are treated as a separate and additional deduction.

Pension fund members can make arrear service contributions and enjoy the tax-deductibility only if their fund rules provide for them. But fund rules that do not cater for arrear service can be amended easily enough.

Apart from providing immediate tax relief, arrear service contributions are also beneficial in these ways:

- They provide a higher pension income in retirement.
- Past service within the fund is recognised, which increases the tax-free portion of the one-third pension cash commutation.
- Regular arrear service contributions make for a structured and disciplined approach — a critical element in successful retirement planning.
- The "past service" purchased need not be restricted to service with the current employer.

Whichever funding method is used, members are secure in the knowledge that their worth in their funds is progressively increased. A record is kept of the contributions, and the full benefit of the funds' investment performance is applied to their benefits.

The value of additional contributions can be assessed at any time, and of course the proceeds are available on withdrawal, death or disability.

There are two ways of applying arrear service contributions towards pension fund benefits, the more popular method being the accumulation approach. With this approach, arrear contributions are simply invested in an account kept apart from the main fund, and the resultant accumulation of contributions plus fund earnings is available to buy pension benefits.

The other funding method is to credit members with actual backdated service, and this is used in some earnings-related plans. With this method the employer has to accept an open-ended committment to finance any possible shortfall which may arise when inflation brings about steep salary increases.

Pension funds are a valuable vehicle for members to make past service contributions, enjoy immediate tax relief and enhance the quality of their lives in retirement.

TAXATION

Law Lords *vs* Marais

Last week, as Deputy Finance Minister Org Marais was delivering a speech on tax avoidance, the House of Lords was handing down three milestone cases. The five law lords split 3-2 in one case, but were unanimous in the other two, all for the taxpayers.

The UK Revenue was seeking to extend the principle of the infamous 1984 Furniss *vs* Dawson, which consolidated the House of

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Lords' approach to tax avoidance. Two principles had to be satisfied for a scheme to be struck down:

☐ A series of *pre-ordained* transactions, that is, a single, composite transaction; and

☐ Steps inserted into a scheme with no commercial purpose apart from a tax advantage.

Dawson's case, which followed Ramsey's case in 1982, "struck terror into the hearts of companies and individuals seeking to reduce their liability to tax," in the words of the London *Financial Times*.

In the three latest cases, a series of transactions resulted in tax being mitigated. But the companies concerned claimed they did not enter into a "pre-ordained" series, as determined in Dawson. On the other hand, they agreed that one of their intentions was to reduce tax liability.

Lord Templeman ruled: "Parliament intends that a taxpayer shall be free to place an asset out of reach of the taxing provisions. The courts have neither the power nor the desire to interfere." The effect is clear: if a taxpayer expects to engage in a transaction that would give rise to a tax liability, he may now arrange his affairs in advance in a way that will reduce the liability.

The three cases, which have been described as "a revival of the tax avoidance industry" in the UK, are in sharp contrast to recent years in SA, where both the courts (for example, the Nemojim case), and legislature (in many retroactive laws) have been busily stamping out tax avoidance.



Marais ... delivering speech

In essence, the rule which has evolved in SA seems to be that a tax avoidance scheme will be ignored until government deems it unacceptable — because the tax gatherer is forgoing large amounts. Then, the scheme will typically be hit by imprecisely worded retroactive law. The effect is that tax avoidance is transformed into tax evasion.

Marais, in discussing the vexed definition of tax avoidance, interestingly stated that it "is clearly defined in many countries."

Ironically, Marais quoted Templeman in Dawson: "While tax avoidance is not, by definition, an illegal activity, a tax avoidance industry of the scale that developed in the Seventies had to be destroyed. The origins of the new approach by the courts had to be seen as a reaction to the growth and activities of this industry."

This, of course, is in sharp contrast to Templeman's latest ruling. The significance of the new cases is that the House of Lords is not prepared to extend the Dawson principle, which many read as meaning that the UK Inland Revenue had the power to overturn any transaction or set of transactions designed to mitigate tax.

It is fascinating to try to reconcile the new approach in the House of Lords with Marais' statement: "Perhaps it is sufficient to say that we do not take kindly to schemes that are artificially structured around good and proper provisions in the law and do not produce the results which those particular provisions were intended to achieve."

For the House of Lords has now defined the difference between artificial tax avoidance and legitimate tax planning. ■

GARTH COPPIN

Drawing up an ethi

TAX AND LIFE OFFICES

Play it again, Piet

Should any savings institutions pay tax? That's the real question

Never before has the issue of the taxation of financial institutions been more confusing. In particular, the current public debate generated — yet again — by the UBS's Piet Badenhorst has triggered fairly acrimonious responses, particularly from sundry life office spokesmen.

And now the SA Actuarial Society has said that the results of a study by McGregor Research Services, commissioned by the UBS, "are evidence of a total lack of understanding of the fundamental principles on which life assurance is transacted ... "

Stirring stuff. What's really going on? The truth is that the debate about financial institutions' tax liabilities is littered with misconceptions. Lobby groups are at work, one arguing that the taxman favours the other to its disadvantage, and so on.

Liberty Life joint MD Dorian Wharton-Hood thinks it's time to "clear up the misunderstandings, to put an end to the futile debate about life office taxation."

The crux of the matter — not clearly articulated in any of the debates — is the difference between what may be called one-tier and two-tier investments. A one-tier investment is one that earns only *income*: for example, a building society's grant of a mortgage bond to a client. The society receives a monthly payment which is a part-repayment of the capital amount, and partly interest or the "cost" of the bond to the consumer. If the bondholder sells the bonded house, any capital gains are entirely for his account.

In other words, shareholders of, or depositors in, a building society stand to make only one kind of profit: net interest earned (after building society expenses) on bonds granted.

A two-tier investment is one that earns income *and* a capital gain. Here the classic example is a listed share: the shareholder stands to pocket dividends (income) over the years, and gains, hopefully, from the increase in the share price when he finally sells out (capital gain).

Income, of course, is fully taxed at the taxpayer's marginal rate, currently a maximum of 45%; capital gains are zero-rated for tax purposes. (Of course, many forms of "capital gains" may in fact be income, which is why more than 90% of SA's tax cases dwell on the point.)

As for SA's financial institutions generally, regulations remain compelling a certain per-



UBS's Badenhorst ... playing fields should be level

centage of total assets to be held in prescribed assets. These blue-chip public-sector gilts give the appearance of one-tier investments but in reality are almost certainly in the two-tier category. The biggest holders of prescribed assets are the life offices.

Financial institutions are subject to regulation on compulsory and discretionary investments. Building societies are the most restricted: 80% of assets must be held in mortgage bonds (one-tier investment). Indeed, at end-1987, 93,7% of building societies' R22,7bn funds on loan were with personal borrowers.

Historically, since building societies offer deposit rates at, or often below, the general deposit rate, government has had to offer a subsidy. This is still in the form of certain tax-free or partially tax-free deposits.



Liberty's Wharton-Hood . . . end the debate

The tax benefits, due to be phased out within three years, meant that 77% of deposits in building societies — R15,9bn at end-1986 — were held by individuals.

The two-tier investment profile of life offices, along with more relaxed regulations, has led to a substantially different industry investment structure. Of R65,8bn life office assets at end-1987, R25,7bn were represented in public-sector securities and R26,1bn in shares and unit trusts. *Both* assets are classified in the two-tier category, offering income and capital growth.

Here the most confusing issue is the relative proportions of life offices' life insurance and retirement business. All life offices peddle two basic products — life insurance policies (which have tax consequences for the institution and the individual) and retirement benefits (with tax consequences only for the individual).

In 1987, life office investment income for both life and retirement business was R4,9bn.

Tax paid by the industry is computed only on life, and not retirement business; and it amounted to R256m in 1987. This, calculated in 1987 at 40% of the corporate tax rate of 50% (that is, 20%), meant that R1,3bn (26%) of life office investment income was earned from life business.

The balance of R3,6bn, earned on retirement business, is not taxable. But it is widely believed that the R256m tax paid by life offices *should* be calculated as a percentage of total investment income earned of R4,9bn, producing 5%. The nature of life assurance has so changed towards investment and away from assurance that there are really no compelling arguments for treating one part of life offices' business differently from another. Those who do so tend to fall back on precedent which is probably outdated.

In computing their tax, life offices may not deduct any expenses. It may be assumed, conservatively, that 26% of life office expenses (including commissions) of R2bn were attributable to life investment income. Allowing the deduction of expenses in 1987 would have meant that R756m was taxable. At the full 50% corporate rate this produces an amount of R378m tax payable — more than the actual R256m paid in 1987.

In 1988, life offices are due to pay tax of R472m (crudely annualised) after their tax rate was upped 75% to 35% in the Budget. Even with an increase in life investment income, life office tax payable of R472m in 1988 is more than would be paid if expenses were deductible and life offices paid the full 50% tax rate.

But some question whether life offices should pay tax at all on their life business investment income. The tax paid on such income, in theory, is an "advance tax" paid by the life office on behalf of the policyholder. This disadvantage for the policyholder is countered by the advantage that all proceeds on maturity of the policy are tax-free in the hands of the policyholder.

The argument that life offices pay tax on behalf of policyholders continues by holding out that the tax paid should be at the average tax rate of all its policyholders. "The new rate of 35%," says Wharton-Hood, "is, without any question, higher than our average policyholders' average tax rate."

This is not difficult to accept with a top personal marginal rate of 45%, for which a low percentage of taxpayers actually qualify. On this argument too, life offices are paying too much tax.

This raises the question of fiscal privilege. At what marginal tax rate does it *now* become more profitable to invest in a tax-free building society deposit, rather than a life office product with a high investment value? While precise figures require in-depth computer analysis, the life offices tell us the answer falls somewhere between 20% and 30%.

In other words, for some taxpayers who save, it is now more profitable to invest in a building society than in a life office product. What is the answer? Firstly, we believe that it's pointless citing anomaly after anomaly; the tax system is replete with them (just look at the mining industry). Tax anomalies can be found throughout the financial institutions. In banking, for example, it was only recently that certain banks emerged from years of paying an effective 0%-5% tax rate thanks to huge industry tax allowances exploited by them. Defenders of banks constantly remind us that — as tax breaks have been steadily eroded — the sector is returning to paying closer to the nominal 50% rate every year.

With life offices, one of the major anomalies is that corporate, or listed (as opposed to mutual) institutions pay dividends to shareholders — on income that is 74% tax-free because it is derived from non-taxable retirement business.

The intervention of Margo has done little to change the tax formulas applicable to different financial institutions. No final recommendations of a fundamental nature were given. The permanent tax advisory committee, a Margo byproduct, is now looking at the question of life office taxation — but not that of other institutions. This in itself lends perhaps undue credence to those who argue that life offices pay too little tax.

In an inflationary climate, building societies' one-tier mortgage investments will never be able to compete with two-tier life office investments. This is true even with the current government subsidy enjoyed by building societies.

The answer, as we see it, is twofold.

First, there should be further deregulation of building societies, so that they can offer products which compete on equal terms with those of life offices. Second, tax on all forms of savings should be abolished.

On the question of tax-free capital gains — where, on the evidence, life offices make their big growth numbers — the industry is not averse to a capital gains tax (CGT). Says Wharton-Hood: "A CGT that applied across the economy would not alter the competitive situation. Most important



McGregor . . . high-profile charges

SITE hits labour market

CAPE TOWN — Government's introduction of Standard Income Tax on Employees (SITE) was going to discourage part-time workers and wives from entering the labour market, a symposium of chartered accountants and tax consultants, was told on Friday.

The symposium was organised by accounting firm Aitken Peat, whose Cape Town partner Franco Vignazia explained SITE and the complicated breakdown of tax liabilities facing, in particular, married women earning more than R20 000 pa.

He said that SITE was a non-refundable flat-rate 25% tax applicable to all part-time workers and working wives who earned under R20 000. This contrasted with the previous 10% rate and would discourage such people from working.

When it came to wives earning even one cent over R20 000 per annum, careful tax planning was required — and even a salary reduction considered, because the whole sum then became taxable at PAYE rates in the hands of the husband.

Shifted

The burden of responsibility for ensuring the correct tax was paid had also shifted from the Receiver and individual to the employer, who now had to calculate accurately the portion of salaries due to SITE and to PAYE earned by any of his employees.

"We, as employers, are effectively becoming the collection agents," said Vignazia. — Sapa.

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Taxman causes share option scheme rethink

ARI JACOBSON

SHARE option schemes for employees have fallen foul of the taxman, causing companies to opt for share purchase programmes instead, says an article published by Deloitte, Haskins & Sells.

Employees face a larger tax burden under share option schemes as taxes are applied to share gains — the difference between the market value of the shares at the time the option is exercised and the price the employees paid for them.

With share purchase schemes an employee buys shares at the market price via a trust fund set up to lend money for the purchases.

Fringe benefit tax is payable on any deemed interest on the loans granted to buy shares under the share purchase scheme, says the article.

Share options were popular before the JSE crash because fringe benefit tax under share purchases scheme discouraged employees paying for future benefits from rising share prices.

After the crash shares went up more rapidly to make share purchases more viable because of the tax bias.

Employees now in share option schemes could limit the tax payable on the gains on shares by converting share option schemes to share purchase schemes.

There is the added benefit of the Margo Commission's recommendation that no fringe benefit tax should be paid on share purchases as the scheme is beneficial to the whole economy, says Deloitte, Haskins & Sells partner Clive Sharwood.

(320) B/Day 10/8/88 FEDHASA (

Crafty traders taking froth off liquor sales

DURBAN — Government was losing millions of rands in sales tax due to some traders bringing in vast amounts of liquor from neighbouring states, outgoing Federated Hotel, Liquor and Catering Association of SA (Fedhasa) president Mike Kovensky said yesterday.

In his presidential report, presented to more than 300 delegates at the Fedhasa annual conference in Durban, Kovensky said liquor from neighbouring states was not taxed and this enabled some traders to sell at low prices and at times even below the wholesale cost price in SA.

He said the new VAT system would improve the situation it was not foolproof.

"Fedhasa has made, and will continue to make, representation to government in an attempt to find a solution to this problem, which allows delinquent traders to defraud government of millions of rands in sales tax.

"At the same time the situation creates major financial difficulties for their competitors, as the delinquent trader is able to retail liquor at below the wholesale cost price in SA," Kovensky said

He also pointed out that the liquor sector had been hard hit with an unprecedented round of price increases.

"Whereas it was usual to have only one price increase a year, there has been six since 1986."

Added to this, Kovensky said, there had been an increase in the price of containers which had added to the pressure on the industry as a whole. — Sapa.

'Delinquent traders' cause losses

DURBAN. — The Government is losing millions of rands in sales tax as "delinquent traders" bring in vast amounts of liquor from the neighbouring states, according to the outgoing Fedhasa president, Mike Kovensky.

In his presidential report presented to just over 300 delegates at the annual conference at Fedhasa at the Royal Hotel, Durban, Kovensky said yesterday that liquor from neighbouring states was not taxed and this enabled traders to sell at low prices — even below the SA wholesale cost price.

He said the new VAT system would improve the situation, but it was not fool-proof.

"Fedhasa will continue to make representation to Government in an attempt to find a solution," he said. — Sapa

Tax changes 'inhibiting'

DURBAN. — The hospitality industry stands to lose about R250 million worth of new projects because of the government scrapping attractive tax incentives and introducing a system which is not that beneficial, according to the incoming president of The Federated Hotel, Liquor and Catering Association of South Africa (Fedhasa), David Wigley.

Tomorrow morning he takes over officially as president of the country's major private sector movement in the hospitality business which is a R3bn a year industry in the SA economy.

Durban, as SA's premier holiday resort, enjoys a "big piece" of this industry.

He said that in the past, the government made attractive tax concessions and up to last month R750m worth of new projects were planned when the authorities decided to scrap the incentives.

Of this figure, about R250m worth of new projects could be scrapped by developers, most of them newcomers to the industry.

"The hotel grant scheme was based on the rating system which enabled the hotelier a tax grant. However this has been scrapped. Fedhasa then made submissions to the Minister of Finance to replace it with a scheme. While it has been less beneficial, we do believe that it is at least something.

"The new tax benefits will inhibit the growth of more four and five star hotels," said Wigley. — Sapa

TAXATION

More horrid retroactive law

Wealthy taxpayers were dealt a crushing blow this week, when Inland Revenue confirmed practice that amounts to severe retroactive law. The matter concerns *en commandite* partnerships, for some years one of the main tax shelters for the rich.

Schemes with such partnerships have been structured around the "double deduction" allowed for exports. The effect is, generally, that regardless of the commercial success of a scheme, the taxpayer ends up with a guaranteed tax loss, reducing tax payable.

Such schemes have involved products with at least a potential export content — motion pictures in particular, but also publishing and recording ventures. Inland Revenue mentions more obscure schemes involving sports cars and chainsaws.

Guaranteed returns on such schemes have often exceeded 100%. Clearly, while this radical erosion of the tax base was unwelcome, it was desirable to find an amicable way to counter such schemes.

Attempts have been made to restrict blatant abuses of the double deduction, particularly last year's insertion of Section 24 in the Income Tax Act, regarding motion pictures.

But abuses continued. On June 1 Finance Minister Barend du Plessis, following a February statement by then Deputy Finance Minister Kent Durr, said further legislative changes would be made to regulate *en commandite* partnerships.

"The schemes have been structured," said Durr, "in such a way that no liability rests on the partner should the scheme fail.

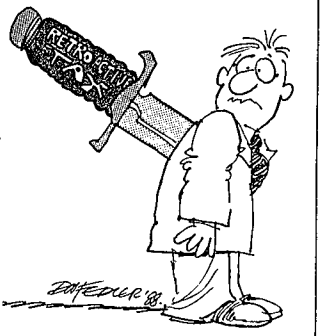
"It is, however, contended by consultants who market the schemes that the partners are entitled to a tax deduction substantially in excess of their contribution to the partnership and to what their true liability would be should the scheme fail."

Du Plessis said that since Durr's announcement, there had been increasing evidence of the scale on which tax has been avoided by *en commandite* partnerships. He proposed that to "place the matter beyond all possible doubt," the Act will again be amended so that "the deduction which a taxpayer may claim in respect of any scheme of arrangement will be limited to his true liability should the scheme fail."

In other words, a taxpayer will only be able to claim tax losses against income to the extent to which he is *at risk* — a concept increasingly used in SA tax law to counter artificially contrived tax losses.

A taxpayer is at risk when, on the commercial failure of the scheme, he is liable to cough up and square his accounts.

But the vital part of Du Plessis' statement came at the end: "These amendments will apply to any scheme or arrangement entered into on or after March 1 1988."



The relevant part of the amending legislation, S24H, introduced the at risk. But it mentioned no date. The Income Tax Bill, however, has a blanket provision that, unless otherwise provided, all amendments come into operation for years of assessment ending *on or after* January 1 1989 — that is, during the current tax year.

This, of course, is totally in conflict with Du Plessis' reference to March 1 1988.

Inland Revenue's answer is simply to apply the law. This has a radical effect. As said by Du Plessis, *en commandite* partnerships — "any scheme or arrangement entered into on or after March 1 1988" — will be treated on the new, restricted basis.

But, says Inland Revenue, parts of schemes signed in previous years, operative this tax year, will also be treated on the new basis. *En commandite* partnerships, particularly those for motion pictures, invariably have a life of four or five years.

Inland Revenue's treatment of the conflict between Du Plessis' statement and the law is, to put it mildly, retroactive. Schemes signed any number of years ago on the law in force will now be judged under the new law.

The retroactive effect is twofold:

- ☐ Any event in the current tax year which has the effect of eliminating the investors' risk (such as a minimum sales agreement for a motion picture) will be ignored; and
- ☐ Taxpayers who do not have sufficient income to absorb losses from the scheme will lose the excess of the loss over such income.

Revenue has not advanced any satisfactory reason for the conflict between Du Plessis' statement and the law. It argues that Du Plessis' reference to "any scheme or arrangement entered into on or after March 1 1988" can be read as referring to tranches of "old" schemes that become operative this tax year.

This, it may be said, does not reflect Du Plessis' intention as embodied in his state-

THOSE HORSES FOR COURSES

Where taxpayers who used *en commandite* partnerships structured around the exporters' allowance have lost out, bloodstock investors have gained. Bloodstock schemes allowed "armchair farmers" access to massive tax shelters because of the "standard value" of livestock.

For a horse, this is a few hundred rand. So if a syndicate buys a horse for, say R1m, almost R1m can be written off; technically, the difference between standard value and cost is a tax loss.

In the good old days, this could be written off against *any* kind of income. Margo recommended ring-fencing. Nothing would change regarding livestock, save that the tax loss could only be claimable against *farming* income.

This was accepted by government and Finance Minister Barend du Plessis announced on June 1 that the change would be effective for years of assessement beginning on or after January 1 1988. Alas, for the Exchequer, this was not to be.

The Thoroughbred Breeders' Association of SA (TBA) announces with "pleasure" that it has persuaded Du Plessis to postdate the operation of the new ring-fencing law to May 31 1988. Bloodstock tax losses acquired before that date can still be written off against any kind of income — the "old" method.

Reason for this appears to be that the TBA was assured, after a delegation met Inland Revenue in April, that despite the proposed changes, the old method would be applicable to purchases of bloodstock made at the National Yearling Sales, in April.

This undertaking conflicted with Du Plessis' date in his June 1 announcement. The misunderstanding was cleared up when an Inland Revenue official was told to extend the changeover from January 1 to May 31.

Does this mean that more Cabinet ministers invested in horses than in motion pictures?

320 May 12/88

ment. Du Plessis' statement, on any use of the English language, referred to *en commandite* partnerships signed after March 1.

From any viewpoint, Inland Revenue's practice prejudices all taxpayers involved in *en commandite* partnerships structured around the export double deduction.

Du Plessis' original statement was retroactive anyway, made on June 1 but applicable from March 1. Subsequent developments, it seems, have provided a whole new way of creating retroactive tax law.

While the gains for the Exchequer will be significant, this "back door" method of effecting legislation is mischievous and undesirable. Du Plessis should realise that the taxpayers' regard for the tax gatherer will deteriorate further. If that is possible. ■

New tax laws are 'onerous'

12/8/88 B/Day (320)

MERVYN HARRIS and PETER BROWN

TAX regulations — which became effective from July 1 — will not only hit certain classes of taxpayer but place onerous burdens on employers, an accountancy firm study has found.

While Inland Revenue officials dispute some of the claims in the study, indications are that there is going to be a general tightening up in the way the regulations are enforced.

Particularly affected will be casual or daily-paid workers previously classified as part-time employees.

Daily-paid workers such as labourers and students will now have to pay non-refundable SITE tax calculated in accordance with the tables, which assume the worker will be employed for six days out of every seven, or for 312 days of the year.

Employers will have the responsibility of determining the final tax liability of workers who are subject to SITE.

The study — by Norman Leveson and Pincus Leib, of accounting firm P Leib & Co — says daily-paid workers such as models, who pay PAYE because they incur expenses in the production of their income, will be prejudiced if they fail to obtain directives from the Receiver recognising these expenses.

A Revenue official yesterday denied a claim in the study that the policy on granting directives had changed. But directives were, in fact, recently refused by the Johannesburg Receiver's office to models Sandra Scholtz and Justice Ramahlola of The Model Company. On the face of it, they will thus have to pay tax based on their gross earnings and wait for rebates at a much later date.

The official said the refusal of directives in this case must have been due to a misunderstanding if the models were in fact able to show they incurred deductible expenditure.

Apart from SITE, the regulations also include the redefinition of a daily worker, the redefinition of a married person and much greater detail on the question of classifying part-time workers.

But instead of making the legislation clearer, they appear to be creating confusion.

Problems

Leveson said: "The new regulations are unworkable and will only cause problems for taxpayers and Revenue by creating an unthinking bureaucracy with no initiative."

Casual workers, who were previously classified as part-time employees and who paid a flat 25% in tax, which was often refundable, will now pay non-refundable SITE tax, though at a lower rate.

The study says the new regulations will discourage students from working as they will now be taxed. A student

● To Page 2

New tax laws are onerous — study

(320) B/Day

● From Page 1

earning R38,45 a day and working 52 days a year will earn a total of R1 999. Where previously he paid no tax he will now pay non-refundable SITE tax of R159.

It suggests daily workers' rates should be calculated on a working year of 180 days instead of 312 days and that, in exceptional cases, such as with students, the Receiver should be entitled to call them part-time workers and not charge them tax at all.

A Revenue official said it had been realised there were problems with regard to students, housewives who worked only on Saturday mornings and casual workers. A revised procedure for dealing with these cases would be issued shortly.

12/8/88

New SITE causes work stoppages

W/E ARGUS 13/8/88 (320)

Business Staff

THE introduction of new tax scales set up a ripple of industrial relations problems in the Western Cape garment industry as employees at some plants demanded immediate refunds.

Problems arose because, with the introduction of Standard Income Tax for Employees (SITE), many lower-paid workers were taxed at a lower rate than previously.

SITE became effective in March, but tax tables were effective only from July and so employees, taxed at the old rates in the interim, became due for refunds.

Threatened

Mr Colin McCarthy, director of the Cape Chamber of Industries (CCI), said there had been stoppages or threatened stoppages at several factories over the refunds.

Employers were told by the Receiver of Revenue to make refunds and subtract this from their returns to the receiver.

"But this meant that we were acting as bankers for the Receiver," said one employer.

"It's all very well the Receiver telling us to deduct the refunds from our returns and saying that we had until September to make refunds.

Pay refunds

"But when you've got 100 workers threatening to stop work if they don't get their money back immediately you've got to do something quickly.

"To pay the refunds some employers have had to borrow money from their banks, on which they're paying interest."

Mr McCarthy said it was an example of the government using employers as tax agents and changing systems without considering problems it could create in other areas.

The CCI is holding a morning seminar on August 17 at the Arthur's Seat, Sea Point, to inform employers about the SITE system.

Clampdown on use of tax loopholes

By Sven Forssman

The government intends clamping down on companies and individuals seeking loopholes to avoid paying tax, Deputy Minister of Finance, Dr Org Marais, said yesterday.

Speaking at an Old Mutual function to publicise a new financial handbook entitled "Estate and Financial Planning", Dr Marais said there was very little difference between tax avoidance and tax evasion.

"Obviously, we have no argument with companies and individuals claiming allowances they are entitled to, but when they look for loopholes in the system to avoid paying tax that is a different matter."

Mr Marais said estate planners went to great lengths during the 1970s and 1980s to find ways to avoid or minimise estate duty.

"People feared that the wealth they built up would be destroyed by estate duty, but in finding ways to avoid estate duty, they often ended up paying more money on the avoidance schemes."

Turning to estate planning, Dr Marais said it was an ongoing process stretching over the planner's life span. And, unlike in the old days when people had no access to expert advice, informed advice was now readily available.

He said the country entered a new phase in March. Under the new dispensation, the first million rand of any estate is exempt from estate duty and the reduction in the maximum rate of 35 percent to a standard rate of 15 percent took the sting out of estate duty.

Tax crackdown criticised

By Roy Cokayne

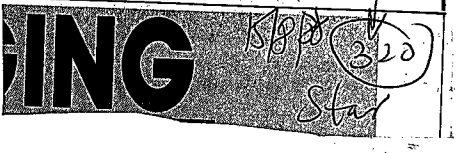
Tax specialist Mr Costa Divaris has lashed out at statements made by the Deputy Minister of Finance Dr Org Marais that the government intends clamping down on companies and individuals seeking loopholes to avoid paying tax.

Mr Divaris was particularly critical of the statement by Dr Marais — made at an Old Mutual function to publicise a new financial handbook — that there was very little difference between tax avoidance and tax evasion.

Mr Divaris said it would be very damaging to blur the distinction between tax avoidance and tax evasion.

In addition, Mr Divaris said it was wrong for the Government to try and tackle the problem of tax evasion and tax avoidance with a crackdown on both because it meant they were ignoring everything that had been said on the issue in the past.

Mr Divaris stressed the difference between tax avoidance and tax evasion was that tax avoidance involved taxpayers legally making sure and avoiding paying too much tax while tax evasion was illegal and fraudulent.



Anger over raised duties on electronic components

By MARTIN WELLS
Business Staff

THE increased import surcharges announced by the government at the weekend have incensed electronic goods manufacturers.

The surcharges have been increased from 10 percent to up to 60 percent in some cases.

Mr Chris de Bruin, managing director of Sharp Electronics, said yesterday his company was trying to keep the "technology pipeline" open.

But the government was making this impossible by placing 110 percent duties on electronic goods such as video-recorders — a 15 percent tariff duty, 35 percent excise duty and 60 percent surcharge.

Electronic products, in which South Africa does not have a strong manufacturing capability, are the worst hit by the move.

Although they are are still assessing the legislation, dealers believe wholesale prices could increase by as much as 27 percent.

Essential

Mr de Bruin said the government always sought to tax "luxury goods" when in fact these goods were now no longer perceived by people as luxuries but as essential in day-to-day living.

"Of the country's R30-billion import bill more than 80 percent is taken up by machinery and raw materials, on which surcharges are not increased."

And yet electronic goods, which made up a relatively small percentage, were being hard hit.

"They are hitting products which are sensitive, which will continue to be sensitive and which we can't manufacture here.

Huge impact

"Through an efficient and sensitive monetary policy imports can be reduced just as effectively."

Mr Terry Millar, managing director of National Panasonic, said importers of electrical equipment were bracing themselves for a dramatic downturn in business activity.

"The measures will have a huge impact on our industry. The sale of electrical equipment, especially video recorders, could come to a grinding halt, as it did in 1984, and our company stands to lose millions every month.

"We're still deciding on a strategy, but one thing is sure — our turnover is going to dip dramatically."

He said his company and other importers had been expecting the authorities to introduce tougher hire purchase clamps because the economy was overheated, but not on the scale of those announced by the Minister of Finance Mr Barend du Plessis.

The new hire purchase sales curbs will increase the minimum deposit required for electrical equipment. For video recorders consumers will now have to pay 25 percent down and the remainder within a year.

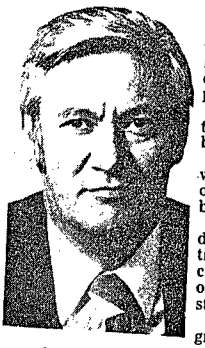
For domestic appliances, TV sets, jewellery, clocks and camping equipment a minimum deposit of 15 percent will have to be paid, while the maximum repayment period has been reduced to 18 months.

Mr Alan Lighton, director of the Cape Chamber of Commerce, said the increased surcharges, coming as they did on the already depressed rand, would hit certain items especially hard.

Surcharges not the answer — Du Plessis

By AUDREY D'ANGELO
Financial Editor

IMPORT surcharges which will force up prices, making inflation worse, are the wrong way to tackle SA's balance of payments (BoP) problem says Sanlam chairman Fred du Plessis.



Fred Du Plessis

Instead of "dampening the economy to a no-grow situation" the government should have introduced a quota system limiting the expenditure of SA's scarce foreign exchange to essentials, he said last night.

And it should do more to encourage exports, particularly gold. Du Plessis believes the gold mining industry should be offered a more favourable tax deal.

In an outspoken interview, Du Plessis disagreed with economists who say SA is in a Catch 22 situation because it needs more growth to provide jobs for the expanding population but cannot afford it because imports must be limited.

"We should distinguish between what we need to solve our BoP problem and what we need to have more growth," he said.

"Our problem is a shortage of foreign exchange. That does not mean we have to dampen our economy to a no-grow situation.

"There are a number of other things we can do. The most logical thing is to improve our foreign exchange earning capacity by encouraging further exports."

Du Plessis said that in spite of the threat of sanctions SA would always be able to export gold.

"It is one of a number of things the world cannot do without. Yet instead of encouraging gold exports we have been discouraging them.

"The gold industry is in the doldrums because of its onerous tax position. If this were eased it would encourage more output and the opening of further mines. We must build on the strengths we have."

Du Plessis said another source of growth would be to build more low-cost housing, increasing demand for building materials and other commodities which were not imported.

"We have increased the price of imports through surcharges instead of acknowledging that we are short of foreign exchange because of abnormal circumstances and not because of the market," he continued.

"We should have looked at the introduction of foreign exchange quotas for essential goods instead of pushing up the prices of imports which will affect other prices.

"We should use our foreign exchange in a very delicate and specific way to buy only the things we need."

Du Plessis said this would not contravene the provisions of the General Agreement on Tariffs and Trade (GATT). That had a special provision to help countries with foreign exchange difficulties.

Delinquent traders

Tax evasion stole more than its share of headlines this week. Mr Justice Cecil Margo told a meeting that GST and income tax rates could be substantially reduced if tax evasion was given the attention it deserved.

And Mike Kovensky, outgoing president of Fedhasa, said that "millions of rands in GST was being lost as 'delinquent traders' brought in vast amounts of liquor from the neighbouring states." Judge Margo, whose tax commission reported last year, noted that in the UK 1,5% of total revenues was spent on recovery of tax and 1,2% of federal revenue in the US, against a piffling 0,3% here.



Kovensky

While spending on improving skills and abilities of 6 000 revenue officials may improve policing, finding solutions to cross-border tax evasion is still in a virginal state.

Ciskei's exemption of companies from tax has produced a fair battery of SA counter and avoidance measures. But with value added tax (VAT) due next year, negotiations with SA Customs Union (SACU) countries have taken on a new urgency.

Finance officials believe it'll be much more difficult for BLS (Botswana, Swaziland and Lesotho) to agree to VAT than TBVC (Transkei, Bophuthatswana, Venda and Ciskei). Of course, BLS are fully independent, TBVC only nominally so.

Nevertheless, total BLS current income in 1981-1982 to 1983-1984 relied 34%, 62% and 60%, respectively, on SACU payments. The agreement, which has been ripe for renegotiation since the early Eighties, falls under the Commerce and Industry Ministry.

Possible implementation of VAT is being negotiated by the Department of Finance, involving mainly officials from Inland Revenue. It is vital to persuade SACU countries to implement VAT, or systems that recognise its existence in SA.

SA has never charged GST on "exports" to SACU countries, which is part of the problem that Kovensky referred to. The other main problem is that SACU countries do not all charge GST (if it exists) at SA's 12%.

Bophuthatswana, closest to the PWV, has no GST. Clearly, its traders pose the biggest problem under Kovensky's classification of "delinquent traders." Many receive GST-free goods from SA and "re-export" them again free of GST, with some goods sold profitably at "less than wholesale" prices.

The implementation of VAT in SA will provide enough headaches as it is. Its role in the harmonisation of fiscal southern Africa seems to add a nightmare to the headache. It remains a moot point why renegotiation of SACU, which a finance official says has been placed on the backburner, is not being used in the VAT weaponry.

One possible solution is to charge VAT on all "exports" to SACU countries. Those which use VAT could, for example, receive credits for VAT paid, both in the VAT and the SACU payment equations. Of course, cynics would charge countries that implement SA's VAT system with providing another example of puppetry.

But for VAT to succeed, some solution has to be found. Pray that it'll be simple. The newly formed Tax Advisory Committee, which has a permanent secretariat in Pretoria, is perspiring over the problem. ■

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TAX MORATORIUM (320)

The details

Inland Revenue has issued a practice note, No 7, on the stamp and transfer duty moratorium. This, applicable July 1 1988-June 30 1989, was announced in the Budget at an estimated loss of R5m revenue.

It is believed that a main reason for the moratorium was that some large groups showed that the RSC turnover levy would affect the same goods up to 14 times within a group. There are also many historical reasons why companies have not rationalised, not least undistributed profits tax.

While the moratorium has been heavily criticised, it is better than nothing; if it is worth doing at all, though, it should include far more than just stamp and transfer duty.

The relevant legislation lacked practical details. Practice Note No 7 attempts to redress this by describing what the taxpayer must provide to justify his case, for the moratorium is not a matter of right.

For a start, applications must be made to the Regional Receiver's office in which the company or companies are registered. Apparently if a number of companies registered in different offices are involved a choice may be made between them.

Advance rulings will *not* be given — but it should be possible to receive at least an indication of the likelihood of success.

In assessing a reorganisation, Revenue will look essentially for a valid *commercial purpose*, bearing Section 103(2) — an anti-tax evasion provision — in mind.

The word "holds" in the definition of "controlling company" regarding the moratorium means *beneficial* ownership. In the supporting case, Revenue will want at least:

- ☐ Flow charts showing the structure of the group on June 17 1988; at the date of the agreement in question; and what the group will look like after reorganisation, showing percentage shareholdings, details of classes of shares in issue, by whom the shares are held and voting rights on each class;
- ☐ Reasons why the scheme should be regarded as valid for rationalisation;
- ☐ Details of savings or operational and administrative advantages that will result;
- ☐ Nature of consideration paid and how it was determined; and
- ☐ Full details of the tax position of each company before and after rationalisation.

When tax returns for the relevant companies are submitted, it will be necessary to detail allowances transferred from other companies in the moratorium.

Revenue intends keeping a close watch for deals made after June 17 1988 in a specific attempt to qualify for the moratorium. It is clear that companies acquired after that date must be left out of the exercise.

It is intended to permit the transfer of tax allowances, but not assessed losses. No donations tax will be imposed on a moratorium transaction. The Regional Establishment Levy will not be applied to a "lock, stock and barrel" sale of assets as a going concern on the basis that this sale is not in the ordinary course of the transfer of a business.

Apparently, any difference between market and tax values of assets transferred will not be treated as a dividend.

The "mandate" referred to in the legislation is a formal power of attorney. It will also be necessary to provide minutes of relevant directors' or shareholders' meetings and a copy of the relevant agreement.

The Practice Note deals with many other details and should save many telephone calls to Inland Revenue. ■

SHARE TAXATION

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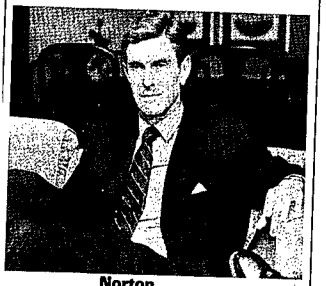
A capital idea?

The JSE's Tony Norton has appealed for a temporary solution to the income-capital distinction, which he feels is a major problem for shareholders. Profits on shares are taxed either as income, or, if the gain is capital in nature, not at all.

He wants a one-year tax moratorium on sale profits "when it can be proved that



Norton ... appeal

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shares (have been) held for two years."

Shareholders are refused advance rulings by the tax authorities. Because of the risk of tax at the personal top marginal rate of 45% (or company rate of 50%), shares are often not sold.

This in turn has led to what Norton has described as "share prices that lack integrity." Trading in some shares is so infrequent that the indices do not give a true picture of equity markets.

Norton's suggested objective test would replace the current subjectivity. If Inland Revenue disputes the nature of a gain, it refers to extremely complicated tests of a taxpayer's intention. Generally, speculative intention produces (taxable) income gains; an "investment" intention produces zero-rated capital gain.

The courts, desperate to find analogies, have likened a fruit tree to capital and its fruits to income. The sale of the tree would produce a zero-rated capital gain; the sale of the fruits income taxable at the full rates of income tax.

But if the taxpayer acquires fruit trees to speculate in the trees, profits from both the fruit and the tree sales would be taxable. The "fruit" of shares, dividends, is (two-thirds) taxable.

Norton's suggestion for a two-year cutoff, as in the US, would in some senses be an extension of the company stamp and transfer duty moratorium (see ***Tax Moratorium***).

Norton also wants the 1,5% Marketable Securities Tax (MST) cut to 0,75%, claiming this would give capital markets a much-needed boost "pending long-term developments."

Norton says his proposal to cut MST "would not cost the fiscus anything." The two-year cutoff to distinguish capital from income gains *would* cost. The longer the issue remains tested by subjectivity, the *more* it'll cost.

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TAXATION (320)

A storm in a week

There has been a storm of protest after last week's *FM* disclosure that Inland Revenue is applying a new form of retroactive law. The problem, regarding *en commandite* partnerships, arises from a contradiction between a statement by Finance Minister Barend du Plessis, and the law as enacted.

On June 1, Du Plessis said that "any (*en commandite*) scheme or arrangement entered into on or after March 1 1988" would be treated on an effective at-risk basis — meaning, essentially, that a taxpayer must be at commercial risk should the scheme fail.

Subsequent legislation (S24H of the Income Tax Act) did not use this date. The effect is that all *en commandite* schemes, regardless of date of formation, could be hit. That, at least, is the interpretation being applied by Inland Revenue.

Since the *FM* pointed this out, professional tax advisers have been inundated with calls from clients asking for clarification.

The at-risk rule provides that the partner's tax deduction may not exceed the amount for which the taxpayer is "at risk" of losing or having to contribute should the partnership suffer an economic loss.

At risk rule

The at-risk rule, while not specified in S24H, has effectively been used in determining what the taxpayer may deduct. In S24H, the formula for determining what the taxpayer may deduct expressly excludes the exporter's allowance — S11*bis*, known as the double deduction. In other words, this benefit, the foundation of so many *en commandites*, will be disregarded in determining the restrictions inherent in S24H — which, of course, is beneficial to the taxpayer.

The at risk rule was introduced for motion pictures in S24F, last year. Schemes formed with due reference to the law after that time will not be adversely affected by the new retroactive problems. Schemes formed at any time before, or after, that date which do not comply with the at-risk formula will be treated retroactively.

Motion pictures are affected by an amendment to S24F, which limits the amount that may be claimed under S11*bis* to 2,5 times the amount spent on local production costs, less any non-SA costs.

The amendment applies to film contracts concluded on or after February 23 1988. The change effectively limits the benefit of the exemption of the exporter's allowance (under S24H) for *en commandites* which have invested in motion pictures.

This all sounds confusing.

In a nutshell, Inland Revenue is applying, retroactively, the at-risk rule, as *defined* in S24H, to all *en commandites* formed at *any* time. The corollary is that any *en commandite*, formed at any time, which complies with the at-risk rule, expressly or tacitly, is not affected.

What needs to be done now to end this confusion, is for the March 1, 1988, cut-off date to be enacted in amending legislation. Otherwise Inland Revenue will have to apply the law as it stands.

En commandites formed or signed before that date should be left alone. That is, unless Du Plessis intended the legislation to have a mischievous backdoor effect. ■

19/8/88 FM

DAVID CLEGG

Does VAT add up?



David Clegg is a partner in Arthur Young & Co.

Being all things to all men is rarely satisfactory. That, unfortunately, seems to be the task and fate of VAT. There is nothing wrong with the system — it is good — but we must understand its limitations and the consequences of its introduction if we are not to be greatly disappointed some time next year.

There were several reasons for the introduction of VAT. One of the most widely accepted was that "VAT will have a broader base than GST." This meant it would tax more transactions than GST and, therefore, collect more tax than GST, or give the same take at a lower rate.

It was also said that VAT was simple and would avoid the myriad of exceptions and exclusions that marked the GST system.

Unfortunately these two major advantages are mutually exclusive in the SA context. The reason is not difficult to appreciate provided one properly understands the mechanics of pure (or "simple") VAT systems. The critical problem — which does not seem to be widely appreciated — is that a pure VAT system will narrow the GST tax base as well as widening it.

One easy example will suffice. In 1984, to expand the GST tax base, advertising services were made subject to tax. GST on advertising expenditure, therefore, constitutes an absolute cost of doing business. Under VAT, however, the VAT on an enterprise's advertising expenses is deducted from the VAT charged on its sales, so VAT on advertising does not constitute an absolute cost.

One can, therefore, see that VAT narrows the GST tax base, as it is not only VAT on the direct costs of production or sales that is subject to credit, but VAT on overheads and indirect costs generally.

However, government has already announced one exception to this input credit rule, on purchases of "capital goods." The reason is simple. GST on capital items constitutes about 25% of the GST base. If a VAT credit was permitted, the nominal rate of VAT would have to be least 15% to compensate. But though the capital goods problem has been identified, nobody, it seems, has quantified the tax effect of narrowing the base on such transactions as advertising, stationery overheads, repairs to non-productive plant, production consumables, and so on.

It is true that VAT will nominally broaden the tax base through the inclusion of construction contracts, professional services and a large number of other transactions not presently subject to GST.

But the only net broadening of the base will be where a non-registered entity (the man-in-the-street and certain financial institutions) is the customer, or the transaction is defined as a "capital" input. In all other cases, the newly taxed transactions will be subject to VAT credit and will not result in an absolute increase in tax revenues.

All this gives rise to some doubt that VAT will succeed in raising sufficient additional revenues to permit any reduction of the rate below 12%.

In fact, even broadening the base by taxing foodstuffs may be insufficient to permit a reduction below 10%.

One shudders to think of the implications of a 10% rate on these commodities — GST was 7% when they were exempted. The concern is that when all these problems are properly quantified, government will find that it is forced to include a vast number of additional exceptions to the VAT credit rule to reduce the VAT rate.

If that happens, we would end up with all the worst features of both VAT and GST. The only other way out will be for government to accept that it must spend less and reduce the rate in that fashion. Maybe this is a blessing in disguise.

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VAT AND PROPERTY

Time to take stock

While value-added tax (VAT) and its possible effects on the property industry are largely uncharted waters, it does seem likely that any new tax, added to rising interest rates and spiralling building costs, would trigger a severe downturn.

The reason for the uncertainty is that although VAT is due for implementation next year, the Department of Finance is only now due to release a draft Bill for comment and discussion with commercial, industrial and other representative bodies (*Economy* August 12).

It is also a little surprising that the major players in the property industry, represented by the SA Property Owners' Association (Sapoa) and, with a combined portfolio value of more than R17bn, have not been listed among those with whom discussion is to take place.

However, there are several matters of concern to the industry, specifically in the commercial sector. Not least of these is that property transactions are already subjected to tax in the form of transfer duty and that the imposition of VAT would effectively mean a second, inflationary, tax on these dealings.

Sapoa points out that the VAT system in the UK zero rates new buildings and the granting of any interest in, or right over land (sales, leases, tenancies), is exempt from VAT. Although this is about to change, it has been brought about by common market pressures and not by any change in UK tax policy.

Another problem is the government proposal that initially, VAT paid on purchases of capital goods (input tax) will not be credited against or deductible from VAT charged on sales or services (output tax).

This, says Sapoa, will have an adverse effect on a building owner, who will have to pay the VAT on the purchase price to the contractor on a new building and then either have to accept lower profit margins or charge higher rentals to recover the cost and pay output tax.

In the case of the rental of a commercial building, Sapoa accepts that this should be treated as a taxable supply. However, it says that unless the owner is allowed to deduct his input tax on the cost of the building from the output tax on the rental, the system will set up a tax-on-tax inflationary spiral.

The third major problem is the question of VAT as it applies to the sale of a building by an owner other than the original builder or contractor. Sapoa reckons such a sale should not be subject to VAT because the seller will not have added any intrinsic value during his ownership. Although the selling price will most likely be higher than the original purchase price, this, says Sapoa, invariably results from inflation. Of course, VAT would have to apply in the case of extended or refurbished buildings.

The major additional concern of Sapoa is that a new tax on the industry, given the present economic circumstances, would put immediate inflationary pressure on rentals as well as a damper on new projects. This, in turn, would have a negative effect on the already hard-pressed construction industry and employment. ■

(320) SAML 20/8/88

Is she crazy to stay on at work?



FINANCE MINISTER: Barend du Plessis.

PMH of Bryanston writes: Is Finance Minister Barend du Plessis trying to totally disrupt the country's female workforce, or does he just want women pregnant, barefoot and in the kitchen?

With his new SITE tax, it appears that all part-time workers and employed wives are to be taxed at a flat rate of 25 percent non-refundable, but if wives earn over R20 000 a year the whole salary becomes taxable in the hands of her husband.

This would appear to discriminate between a self-employed wife and her counterpart in employment if her salary is above R20 000.

Take the case of a wife earning R47 742, with a husband earning R28 000, a total of R75 742 (using Tax Tables for Provisional Taxpayers Vol 26 July 1 1988).

1) If the wife is self-employed, 22,5 percent of her R47 742 is tax deductable, therefore total taxable income is R65 001 (wife R37 001 and husband R28 000) and tax due is R20 720.

2) If the wife is employed, 25 percent tax is deducted at source (11 935,50) but because her income is over R20 000, the salary, less 22,5 percent, becomes taxable in the hands of the husband. The taxable income is still R65 001 because there is no Joint Assessment allowance if wife's taxable income is over R37 000, so tax of R20 720 is still paid, but she has already had R11 935,50 deducted. They therefore pay a staggering R32 655,50! If the married man alone were to earn R75 742, his tax would be R25 379.

I am an employed married woman with a salary just over R20 000. I have just had 25 percent deducted from my July salary for SITE. If I earn the same this year as last, our tax to be paid will be more than R3 000 above last year's figure! I must be crazy to continue working!!

ANSWER: A tax expert comments that it is not true to conclude as PMH has done.

She overlooks the fact that in her second scenario the SITE that has been paid will operate as a credit against the final tax liability — the SITE (like PAYE) is an advance payment of normal tax.

Negotiating SITE tax hurdle

Administration onus shifts from Inland Revenue to the employer

SINCE July, tens of thousands of people have been paying tax according to the Standard Income Tax on Employees (SITE). The introduction of SITE has caused considerable uncertainty among employers and employees. Mr Theo Shapiro, a consultant with Ernst and Whinney, clarifies some of the problems.

What is SITE? SITE is not a separate tax in itself but a method of determining an employee's normal tax libility. It is not charged in place of normal tax but SITE and PAYE deductions together constitute advance payments towards an employee's normal tax liability. SITE is effective from March 1, 1988.

Who pays SITE? SITE applies to "net remuneration" not exceeding R20 000 a year paid to married women and R12 000 a year to others. Net remuneration is, briefly, salary plus bonus less contributions to pension and retirement annuity funds. There are some exclusions from this definition.

Where an employee's net remuneration exceeds the figures above, PAYE is levied on the excess.

When is SITE determined? Under the new SITE system employees will continue to have tax deducted from their remuneration in the usual way according to the IRP 10 tables. It is only at the end of an unbroken "tax period" that the employer will determine the employee's SITE liability and apportion the tax already paid between SITE and PAYE on the employee's tax certificate.

The term tax period is defined and means that SITE is usually determined at the end of the tax year, or when the employee resigns or when a female employee marries, divorces or is widowed.

Refunds. SITE is not refundable by Inland revenue except in two situations. One is where the employer has determined the employee's SITE liability without taking the employee's allowable medical expenditure or retirement annuity contributions into account and has deducted too much tax. The other is where a married woman is found to be the sole bread winner. The refund is payable only on application.

Any other overpayments of employee's tax must be refunded by the employer, provided the employee's net remuneration does not exceed the applicable limits of R12 000 and R20 000 a year and provided the overpayments are identified before the employee's tax certificate (IRP5) is issued. The amount refunded by the employer may be recovered from a subsequent payment of PAYE to Inland Revenue. Where the employee's net remuneration exceeds the figures above, the employee needs to submit a tax return before receiving the refund (of the PAYE portion).

Salient features.

a) Employees paying SITE will pay less tax than on the same amount last year. A single person with net remuneration of R10 000 will pay R650 in this tax year against R820 last year.

b) Some divorce, others marry for tax reasons. The tax position of married women is:

Where a married woman earns net remuneration and this is less than R20 000 a year, her income will be taxed separately and not added to her husband's income. Where her net remuneration exceeds R20 000 the full amount will be added to her husband's for tax purposes.

A married woman with no children with a net remuneration of R20 001 and a husband earning R60 000 would together pay in tax R22 135. If the wife's remuneration was R1 less, that is R20 000, their tax bill would be R21 385 (husband, R17 460, wife R3 925) which is R750 less.

A married woman with net remuneration of R16 000 and a travel allowance of R5 000 will have only the R5 000 included in the husband's taxable income. The husband will be entitled to claim any travel expenditure against the allowance in his tax return. The wife will pay tax separately in the form of SITE on the R16 000.

Where a married woman has two separate jobs (both independent of her husband's trade) it seems she can receive up to R20 000 net remuneration a year from each employer — a total of R40 000 a year, and still be taxed on the basis of SITE and not have her income included with her husband's for tax purposes. Inland Revenue may change this situation.

c) Employees who pay SITE only — those who do not earn more than the SITE limits — need not submit an annual tax return. However, when an employee earning R11 000 net remuneration a year has a trading loss in the same year from a separate trade he should submit a tax return. He will not receive a refund of SITE but an assessed loss may be recorded for set-off against trading income in future years.

d) Where the employee works for part of the year it is necessary to determine the "annual equivalent" of the net remuneration paid during the tax period in order to compute SITE liability. The principle of annual equivalent also affects the calculation of SITE on annual payments such as bonuses.

It is important that employers understand fully the implications of SITE as they will be held liable for under-recoveries (to Inland Revenue) and over recoveries (to employees). Employers will have to process changed employee details more quickly to ensure that the correct amount of tax is withheld. The employer is essentially responsible for policing and administering a system which in the past was the responsibility of Inland Revenue.

R20 000 a year is key figure

WORKING wives who earn less than R20 000 a year are subject to SITE. As a result their income from employment is not aggregated with that of their husbands' for the calculation of their joint tax bill.

But this is not the case if they are earning more than R20 000. In this event their income is added to their husband's and their tax bill inevitably rises.

The tax authorities have devised a complicated formula to ease the transition. Nonetheless, an R1 increase in a working wife's annual pay from R20 000 to R20 001 can increase the family's tax burden by R750, says Mr Theo Shapiro of Ernst and Whinney.

Other examples of how changes in income affect the family's tax position are:

a) Existing situation: Husband earns R60 000, wife R20 000. Net income R80 000, tax R21 385, income after tax R58 615.

b) Wife gets R1000 a year rise: Husband's income R60 000, wife's income R21 000. Net income R81 000. Tax R22 499. Income after tax R58 501. Decrease in after-tax income R114.

c) Wife gets R2000 a year rise: Husband's income R60 000, wife's income R22 000. Total income R82 000. Tax R22 908. Income after tax R59 092. Increase in taxed income (from a) R477.

d) For comparison, wife self employed: Husband's income R60000, wife's share of profits R20 000. Total income R80 000. Tax R22 135. Income after tax R57 865. Decrease from a. R750.

The higher the husband's income, the greater the increase in the wife's salary has to be to offset the extra taxation. Where the wife's income is above R20 000, the tax paid is the same whether she is self-employed or in employment.

However, a pay rise may not mean a working wife subject to SITE has to pay more taxes.

If she contributed her payrise to a pension fund or retirement annuity fund, her tax would remain the same. The maximum tax deduction for retirement annuity funds has been changed to cater for married women who are subject only to SITE. The previous limits of "the greater of R3500 (less all qualifying pension fund contributions) or R1750 and R1800 in relation to a past period" have been halved and applied to both spouses equally.

However, if the RA deduction is not fully utilised, it can be transferred to the other spouse.



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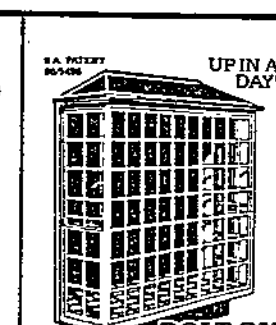


...have the best of both worlds."

Business Times Reporter

Dangers in SITE

Sitre 320
2/8/88

EMPLOYERS should be careful when filling out tax forms for workers to avoid loss on both sides, says Arthur Young partner Ian McKenzie.

He said at a tax conference this week that the new standard income-tax on employees (SITE) was basically a minimum tax on individuals, similar to the once-off MTC on companies.

Penalties

"The difference is that SITE is here to stay, so employers will have to get used to it quickly to avoid loss and misunderstanding," he says.

SITE applies to married women with an annual net remuneration up to R20 000 and others with up to R12 000.

Underdeduction of tax would leave employers open to possible penalties from the Receiver of Revenue, and overpayment would not be refunded, but credited against future payments, he said.

Black townships: population

1242. Mr C J DERBY-LEWIS asked the Minister of Constitutional Development and Planning:

What was the population of (a) Nyanga, (b) Langa, (c) Tembisa, (d) Thokoza, (e) Khayelitsha, (f) Tsakane, (g) Daveyton, (h) Kagiso, (i) New Crossroads, (j) Old Crossroads, (k) Vosloosrus, (l) Soweto, (m) Guguletu, (n) KwaMashu, (o) Mamelodi and (p) Dobsonville as at 31 December 1982 and the latest specified date for which figures are available, respectively?

The MINISTER OF CONSTITUTIONAL DEVELOPMENT AND PLANNING:

This matter vests in the Administrators of Transvaal and the Cape Province respectively and they furnished the following information:

Transvaal:

Figures as at 31 December 1982 are not available. Estimated population figures as at 31 December 1987 are as follows:

(c) Tembisa	300 000
(d) Thokoza	140 000
(f) Tsakane	75 000
(g) Daveyton	150 000
(h) Kagiso	76 140
(k) Vosloosrus	112 500
(l) Soweto	1 200 000
(o) Mamelodi	250 000
(p) Dobsonville	86

Cape Province:

	1987
(a) Nyanga	93 500
(b) Langa	72 500
(e) Khayelitsha	97 000
(i) New Crossroads	Included in (a)
(j) Old Crossroads	35 000
(m) Guguletu	151 000

Figures as at 31 December 1982 are not available.

(n) KwaMashu (This town is in KwaZulu and therefore not under the jurisdiction of the Administrator of Natal.)

Income tax

1244. Mr C J DERBY-LEWIS asked the Minister of Finance:

What total amounts were paid in income tax by (a) Whites, (b) Coloureds, (c) Indians and (d) Blacks in each province in the latest specified tax year for which figures are available?

The MINISTER OF FINANCE:

POPULATION GROUP	PROVINCE				TOTAL
	CAPE	NATAL	OFS	TRANSVAAL	
WHITES	2 403 962 178	1 236 736 743	592 135 848	6 441 386 712	10 674 221 481
ASIANS	21 565 158	222 672 796	61 842	104 760 118	349 059 914
COLOUREDS	309 653 553	21 063 643	3 772 354	67 345 790	401 835 340
BLACKS	29 582 973	24 072 735	22 448 597	189 112 420	265 216 725
TOTAL	2 764 763 862	1 504 545 917	618 418 641	6 802 605 040	11 690 333 460

NOTES:

(1) The above analysis of the collections for the 1987/88 financial year was done on the basis of the value of assessments issued in respect of the 1987 year of assessment.

(2) The amounts reflected under the Orange Free State in respect of Asians do not necessarily mean that they were resident in that province. It would appear that they find it more convenient to conduct their tax affairs at the nearest Revenue Office which happens to be in this province.

(3) The above analysis does not ake into account taxpayers who fall under the final deduction system.

Tax revenue from mining sector

1249. Mr C J DERBY-LEWIS asked the Minister of Finance:

What was the amount (a) budgeted for and (b) actually received in respect of tax revenue from the mining sector in the 1980-81, 1985-86 and 1987-88 tax years, respectively?

The MINISTER OF FINANCE:

Financial Year	Type of Mining	Actual Collections	Printed Estimate	Difference
		R	R	R
1980/81	Gold	2 794 756 027	1 850 000 000	944 756 027
	Diamond	38 625 802	80 000 000	(41 374 198)
	Other	172 979 750	160 000 000	12 979 750
	Total	3 006 361 579	2 090 000 000	916 361 579
1985/86	Gold	2 453 441 776	1 990 958 000	462 483 776
	Diamond	726 045	1 042 000	(315 955)
	Other	483 897 210	283 000 000	200 897 210
	Total	2 938 065 031	2 275 000 000	663 065 031
1987/88	Gold	2 074 632 185	2 500 000 000	(425 367 815)
	Diamond	98 215 887	200 000 000	(101 784 113)
	Other	664 861 980	750 000 000	(85 138 020)
	Total	2 837 710 052	3 450 000 000	(612 289 948)

NOTE: The above figures relate to normal tax only and do not include State share of profits (leases) or export duty on diamonds.

Fire-arm licences

1254. Mr J S PRINSLOO asked the Minister of Law and Order:†

(1) How many new licences to (a) possess fire-arms and (b) deal in fire-arms and ammunition were issued to persons in South Africa (i) in each calendar year since 1982 and (ii) during the period 1 January to 30 April 1988;

(2) whether the South African Police has figures in this connection in respect of each race group; if not, why not; if so, what are the relevant figures for each of the above-mentioned periods?

The MINISTER OF LAW AND ORDER:

(1) (a) (i) 1982 — 147 740 licences
1983 — 122 139 licences
1984 — 120 558 licences
1985 — 135 382 licences
1986 — 220 221 licences
1987 — 140 537 licences

(ii) 1 January until 30 April 1988 — 38 610 licences

(b) (i) 1982 — 646 dealers' licences
1983 — 682 dealers' licences
1984 — 672 dealers' licences
1985 — 644 dealers' licences
1986 — 616 dealers' licences
1987 — 619 dealers' licences

(ii) 1 January until 30 April 1988 — 652 dealers' licences.

I wish to point out to the honourable member that once a dealers' licence has been granted, it is renewed annually. Only 33 new applications for dealers' licences were approved from 1 January until 30 April 1988. It may also occur that a dealer does not renew his licence and that licence then automatically expires.

(2) Section 42 of the Arms and Ammunitions Act, 1969 (Act 75 of 1969) read with Regulation 19 in Government Gazette 3238 dated 27 August 1971 stipulates which information the Commissioner of the South African Police must enter in the Central Arms Register. These prescriptions do not require that information regarding race of licence holders should be kept.

SAP: posts

1275. Mr C J DERBY-LEWIS asked the Minister of Law and Order:

Whether all posts in the South African Police Force are filled; if not, (a) what percentage of such posts is unfilled and (b) what action is he taking to fill these posts?

Syria	—	1	—	—	—
Thailand	—	1	—	—	1
Turkey	7	4	12	12	3
United Arab Emirates	—	—	—	2	—
Total	333	218	480	559	447
America					
Argentina	46	51	76	106	68
Bahamas	1	1	2	—	2
Barbados	—	—	—	—	3
Bermuda	4	—	4	—	—
Bolivia	1	4	11	11	5
Brazil	21	24	64	87	51
Canada	58	64	189	262	231
Chile	14	9	16	29	8
Columbia	1	5	—	8	2
Costa Rica	—	—	—	1	—
Cuba	—	—	—	—	1
Dominican Republic	—	1	—	—	—
Ecuador	—	—	—	2	—
French Guiana	—	—	—	1	—
Grenada	—	—	—	—	1
Guatemala	1	—	—	—	—
Jamaica	1	—	—	—	—
Mexico	2	—	2	—	5
Paraguay	—	7	19	—	6
Peru	4	2	4	5	1
Surinam	—	—	—	1	—
USA	202	170	279	389	305
Uruguay	6	4	7	12	3
Venezuela	13	15	11	12	3
West Indies	—	—	—	—	2
Total	375	357	684	926	697
Oceania					
Australia	101	78	198	354	298
Christmas Islands	—	—	—	—	2
Fiji	—	—	—	1	—
New Hebrides	—	—	—	1	—
New Zealand	45	39	97	113	107
Total	146	117	295	469	407
Unspecified	28	46	—	—	1
Grand Total	7 459	6 947	17 195	28 691	30 385

(b) (ii) to (iv) Statistics according to country of origin in the case of Coloureds, Indians and Blacks are, due to the small numbers involved, not being maintained on this basis. Such statistics are therefore not readily available.

Pavement vendors: policy of deregulation:

1330. Mr C J DERBY-LEWIS asked the Minister for Administration and Privatisation:

(1) Whether the Government's policy of deregulation applies to pavement vendors; if so, to what extent;

(2) whether the activities of these vendors are monitored in terms of (a) general sales tax payments and (b) health requirements; if so, in what manner;

(3) whether this type of deregulation is applicable to vendors of all race groups; if not, (a) why not and (b) to which race groups does it apply;

(4) whether there are any restrictions on the areas in which this type of deregulation is applicable; if so, what restrictions;

(5) whether there are any restrictions on the items which can be purchased through these vendors; if so, what restrictions?

The MINISTER FOR ADMINISTRATION AND PRIVATISATION:

(1) Yes; to the extent that commercial activities of vendors are reconcilable with the existing statutory regulations.

(2) (a) Yes; in so far as it is practically implementable;

(b) Yes; in so far as it is practically implementable.

(3) Yes.

(4) Yes; those restrictions normally imposed by the licensing and local authority concerned.

(5) Yes; those restrictions normally imposed by the licensing authority concerned.

Income tax paid:
Income tax paid: Orange Free State

1338. Mr S S VAN DER MERWE asked the Minister of Finance:

(a) How many (i) Whites, (ii) Blacks, (iii) Indians and (iv) Coloureds paid personal income tax in the Orange Free State in 1986 and 1987, respectively, and (b) what was the total amount paid by each of these race groups in this province in each such year?

The MINISTER OF FINANCE:

1987 FINANCIAL YEAR

Population Group	Number of Taxpayers	Collections
		R
Whites	107 374	500 002 548
Asians	24	27 938
Coloureds	2 998	2 803 397
Blacks	18 143	11 783 807
Total	128 539	514 617 690

1988 FINANCIAL YEAR

Population Group	Number of Taxpayers	Collections
		R
Whites	105 117	592 135 848
Asians	21	61 842
Coloureds	3 081	3 772 354
Blacks	19 634	22 448 597
Total	127 853	618 418 641

Notes:

(1) The analysis of the collections for the 1986/87 and 1987/88 financial years was done on the basis of the value of assessments issued in respect of the 1986 and 1987 years of assessment.

(2) The amounts reflected in respect of Asians do not necessarily mean that they were resident in the OFS. It would appear that some Asians residing in an adjoining province find it more convenient to conduct their tax affairs at the nearest Revenue Office which happens to be in the OFS.

(3) The above analysis does not take into account taxpayers who fall under the final deduction system.

Marburg/Margate industrial areas

1340. Mr C J DERBY-LEWIS asked the Minister of Constitutional Development and Planning:

(1) To what extent have sites in the Marburg industrial area in Natal been allocated;

(2) whether consideration has been given or is to be given to declaring the Margate industrial area to be a decentralized area; if not, why not; if so, when is it anticipated that the area will be so declared?

The MINISTER OF CONSTITUTIONAL DEVELOPMENT AND PLANNING:

(1) Plots in the *Marburg industrial area* have been allocated as follows:

Rush bids to beat import surcharge

CPT Times 25/8/88

Finance Staff

SO MANY applications have been made for exemption from the new import surcharges that the director of imports and exports, Mr Piet Barnard, has had to postpone a talk he was due to give the Cape Town Chamber of Commerce tomorrow morning.

"He explained he was so busy dealing with the flood of applications that he could not take time away from his office for the meeting," a chamber spokesman told the Cape Times yesterday.

"He said he thought it would be October or November before he would be free ..."

Meanwhile the government said it will not grant exemptions from the new surcharges to importers whose goods are on the water.

Economic Affairs and Technology Minister, Mr Danie Steyn, stressed this point to a delegation representative of organised commerce and industry during a meeting held at their request in Cape Town this week.FULL REPORT, PAGE 8

LIFE ASSURANCE TAX

No to Badenhorst

The premise, method of analysis and conclusions of the McGregor report on the taxation of life assurers have been rejected by two large auditing firms. Deloitte Haskins & Sells and Theron Du Toit were appointed by the Life Offices' Association (LOA) to critically analyse the report, which was commissioned by UBS Holdings.

In short, the auditing firms describe the McGregor report as a thinly disguised attack on the long-term insurance sector. The background to the dispute is a series of charges regarding life assurers made by the UBS's Piet Badenhorst, who has repeatedly claimed that they have an unfair tax advantage.

The general reaction of life assurers is, in the words of Liberty Life's Dorian Wharton-Hood: "Building societies claim they have been losing funds to life assurers in recent years. They will not face up to the real issue, which is simple — they have been unable to provide investors with real returns above the inflation rate, whereas life assurers have achieved this for many years."

The McGregor report, Badenhorst's latest attack, postulated that tax collections from individuals could be substantially cut by an increased contribution from life assurers — and the corporate sector in general.

Instead of, as now, taxing *gross* taxable investment income at 35%, McGregor said life assurers should be taxed at the corporate tax rate (50%) on:

- ☐ Gross premium income;
- ☐ Plus gross investment income;
- ☐ Less policy benefits actually paid; and
- ☐ Less administration and other expenses.

The fundamental flaw is that McGregor lumps life insurance business together with pension and retirement annuity business. Retirement business is, of course, exempt from tax by law; pensions are taxed when received by the pensioner.

While government is investigating the possibility of taxing pension funds, such an assumption by McGregor confuses the life assurers *vs* building society issue.

"To equate (life assurers') surplus," say the auditors, "to profit or taxable income is incorrect and disregards the fundamental principles upon which life assurance business is based. Such a surplus is held against actuarial liabilities calculated by reference to insurance risks; it does not, therefore, equate to any significant degree to profit."

Moreover, the auditors believe that even if life assurers were taxed on such a basis, they would be entitled to the S24C deduction, in respect of future expenditure on contracts. If so, the auditors believe that "additional tax collections from such a basis of taxation of life assurers would be substantially less than the amount postulated (by McGregor)."

In general terms, a total rejection of McGregor is found in almost every line:

- ☐ "The hypothesis" that individual tax can be reduced by collecting more from life assurers "is somewhat trite;"
- ☐ "... there is little of substance in McGregor ... "
- ☐ "The report ignores the many complex issues raised by, inter alia, the Margo Commission, the Van der Walt Committee and the Meiring Commission ... " and
- ☐ "... its findings and conclusions ... are based on a simplistic analysis ... "

Perhaps the most telling comment is that McGregor's findings and conclusions "are couched in sensationalistic terms in order to 'sell' their message."

Badenhorst's basic argument that life assurers have an unfair tax advantage is dubious. Figures for 1986, submitted to the Margo Commission by the LOA, assumed the *maximum* tax paid by building societies, and the *minimum* tax paid by life assurers.

These assumptions were made because detailed figures are not available on certain things, for example, tax paid on interest. It was assumed that *all* tax paid on interest was paid on interest derived from building societies. Of course, this is not so, as this tax is also paid on interest derived from banks and other fixed interest investments.

On the other hand, stamp duty paid by life assurers and tax paid on non-standard policies by policyholders was ignored. The analysis showed that building societies and their investors paid R615m on gross investment income of R3,9bn (a rate of 15,7%) and life assurers paid R236m on R1,2bn gross taxable investment income (a rate of 20%).

The figure for life assurers, of course, excluded investment income on tax-free pension business. The 1988 position of life assurers will be worse after the 75% increase in the life assurers' tax rate.

What is the answer? According to Wharton-Hood, it's simple: building societies must come out from cover and argue for deregulation. "Building societies are overregulated in that they are not permitted the same investment freedom as we are — 80% of their funds have to be invested in housing.

"They have never gone to government and said they cannot compete with life assurers because they are overregulated — which we would have supported. Instead, they have attacked the basis of taxation of life assurers.



Badenhorst ... series of charges

"Tax has nothing to do with this issue. It is simply a question of the returns we have produced for investors." ■

LIB LIFE/LIB HOLD

Tax effects

Interim results from Liberty Life and Liberty Holdings to end-June give first notice of the expected effect of higher taxation applied to the life assurance group in the 1988 financial year.

After-tax profit at the interim stage is usually offered simply as a reflection of half of the past year's total, owing to the impracticability of undertaking full actuarial valuations other than at financial year-ends.

On this occasion, however, while the same general method has been followed, a provision has been made to take into account the effect of the additional tax. Thus it is merely necessary to halve the previous year's figures and compare the result with the latest interim figures to establish what Liberty expects the additional tax-bite to be for this year to December at least.

The sum shows that Liberty Life's latest net taxed surplus of R59,2m has involved a provision of R2,4m, or 3,9%. At the per share level, and following deduction of preference dividends of R7,5m (R7,7m) and marginally higher share capital in the latest six months, the provision amounts to a 14,3c deduction, leaving the "earnings" figure at 294,9c (250,3).

For Liberty Holdings, interim profit after tax becomes R68,8m rather than the R71,3m that would have been attributed without the provision. Effect of the provision on earnings has been a decrease of 2,9c to 82,7c (69,6c). None of these effects looks too terrifying for shareholders.

The interim dividend of Liberty Life has been increased from 180c to 220c, while that of Liberty Holdings is up from 38c to 48c.

David Ross

State of a specific criminal case. Such cost could, however, relate to the following items:

Case record
2 Assessors
Subsistence and travel allowance for judge and assessors
Witness fees and expenses (for the State)
Man hours of judge and state personnel apportioned to the case.

Mr D J DALLING: Mr Chairman, arising out of the hon the Minister's reply, was any money spent by the State in funding the defence of the accused persons in the case?

The MINISTER: Mr Chairman, not by the Department of Justice.

Mr D J DALLING: Sir, the hon the Minister has not answered the question. Was any money expended by the State?

The CHAIRMAN OF THE HOUSE: Order! The hon the Minister has replied to the question as regards his portfolio.

The MINISTER: Mr Chairman. Apart from the items I have mentioned that could be either allocated or apportioned to this case, nothing else has been expended by the Department of Justice.

Peter Kaye-Eddie: contravention of Group Areas Act

*9. Mr F J LE ROUX asked the Minister of Justice:†

(1) Whether a criminal case, particulars of which have been furnished to the Minister's Department for the purpose of his reply, was heard in the Benoni regional court earlier this year; if so, (a) who was the accused and (b) what was the gravamen of the charges against him;

(2) whether the case has been disposed of; if so, what was the outcome thereof;

(3) whether the case was postponed atany stage; if so, (a) on whose instructions and (b) at whose request;

(4) whether representations for the postponement of this case were received from any persons or bodies; if so, (a) from whom or from what bodies, (b)(i) to whom were these representations made and (ii) what was the nature thereof and (c) why was the case postponed?

†The MINISTER OF JUSTICE:

(1) to (4) I had enquiries made at the Attorney-General and according to him it appears from the case record that Peter Kaye-Eddie is standing trial on a charge of contravening section 26(1) of the Group Areas Act, 1966 (Act 36 of 1966). The case record is a public document and should the hon member require any other information he is at liberty to approach the Clerk of the Court, Benoni, in this regard. The number allocated to the case record is Benoni SH 282/88.

Beer: evasion of GST

*10. Mr C J DERBY-LEWIS asked the Minister of Finance:

(1) Whether he or his Department has been informed of and/or received any complaints about alleged general sales tax (GST) evasions involving beer purchased GST-free in Rosslyn near Pretoria for business undertakings in Bophuthatswana and subsequently transported to South Africa for sale at reduced prices; if so,

(2) whether he has taken any steps in this regard; if not, why not; if so, (a) what steps and (b) when;

(3) whether he will make a statement on the matter?

The MINISTER OF FINANCE:

(1) The Inland Revenue Branch of the Department of Finance is aware of such malpractices.

(2) In terms of regulations made in July 1987 under the Sales Tax Act, 1978, as amended with effect from 1 August 1987, liquor traders from neighbouring states may no longer take possession of liquor in South Africa free of sales tax. It is only where liquor sold in South Africa is delivered or consigned *by the seller* to the purchaser's address outside South Africa and proof of such delivery or consignment is kept by the seller, that the sale of such liquor is exempt from sales tax. Whenever reports of malpractices in that regard have been received by Inland Revenue, an investigation has been launched, resulting to date in payment of well over R1 million in sales tax and penalty being claimed from the liquor traders concerned. Further investigations are still in progress.

(3) In regard to liquor which is exported from South Africa and then finds its way back into South Africa, there is a clear charge to sales tax in respect of the importation into South Africa of such liquor. However, the lack of clearly defined borders and border control measures such as between some of South Africa's neighbouring states makes effective enforcement of the provisions of the Sales Tax Act extremely difficult. This is a problem which is receiving consideration in the drafting of legislation with a view to introducing the value-added tax recently announced by the Government.

Mr C J DERBY-LEWIS: Mr Chairman, arising from the hon the Minister's reply, does he have any idea how much has been lost in GST revenue to date as far as that contravention is concerned?

The MINISTER: Mr Chairman, we obviously do not know how much has been lost, otherwise we would have retrieved it.

Springs: assault of Black person

*11. Mr C J DERBY-LEWIS asked the Minister of Law and Order:

(1) Whether, with reference to his reply to Question No 1, standing over, on 14 June 1988, the South African Police on the East Rand have conducted any further investigations in connection with the alleged assault of a Black person in a street in Springs by a group of White persons; if not, why not; if so,

(2) whether any forensic laboratory tests have been carried out to establish whether evidence of any type of blood was found on the pavement stones at the spot where the alleged assault took place; if not, why not; if so, (a) when and (b) with what results?

†The MINISTER OF LAW AND ORDER:

(1) Yes.

(2) Yes.

(a) 16 June 1988.

(b) The pavement stones which were pointed out to the South African Police and on which blood was alleged to be present, were forensically examined by the South African Police. The examination of these stones indicated no traces of blood.

Mr C J DERBY-LEWIS: Mr Chairman, arising from the hon the Minister's answer, I would like to ask him whether the SAP could find any facts whatsoever either to support the allegations or to verify the accompanying photograph contained in the propaganda based on a report in the *Springs and Brakpan Advertiser* of 8 January 1988, issued on behalf of the NP, the advertisements widely placed in newspapers by the hon member for Springs on behalf of the NP, used to defame the CP during the by-election campaigns.

The CHAIRMAN OF THE HOUSE: Order! The hon member is making a speech. That is not allowed. [Interjections.]

Mr C J DERBY-LEWIS: Mr Chairman, further arising . . .

The CHAIRMAN OF THE HOUSE: Order! There is nothing further arising. I put Question No 12.

†Mr J J NIEMANN: Mr Chairman, on a point of order: After you gave your ruling with regard to the hon member Mr Derby-Lewis, he said that it was "disgraceful". I take it that that was a direct reflection on the Chair, and I ask you to give your ruling in this connection.

†The CHAIRMAN OF THE HOUSE: I did not hear the hon member say that. Did the hon member say it?

†Mr C J DERBY-LEWIS: Mr Chairman, I was speaking to my colleague next to me; it was not meant for the House. [Interjections.]

Mr J J NIEMANN: Mr Chairman, on a point of order: Even if the hon member addressed it to his colleague next to him, he nevertheless spoke loudly enough for me to hear him say it was "disgraceful".

†Mr A L JORDAAN: Yes, we all heard him say that!

†The CHAIRMAN OF THE HOUSE: Order! Did the hon member say it with the intention of casting a reflection on the Chair?

†Mr C J DERBY-LEWIS: Mr Chairman, I was referring to this colleague of mine, as I said before. [Interjections.] That is a lovely choir!

Lower tax to boost production — Sunter

Lower tax rates for individuals in line with a trend all over the world were among conditions spelled out by Clem Sunter this week for a "winning economy" in SA.

Mr Sunter, the scenario planner who put forward the "high road-low road" theory, made his address during the first day of the three-day symposium on "A new world of marketing" in Johannesburg.

He told delegates that as people tended to work harder when they got to keep more of the money they earned, lower tax rates for individuals were an important element in stimulating productivity in SA.

Another vital condition was an increase in savings, which currently ran at 4 percent of GNP compared with 20 to 25 percent in many other countries. Savings also funded investment, which was essential to SA at a time when no foreign capital was flowing in.

Mr Sunter said the only way to stimulate savings was to bring inflation down so that to save would no longer represent losing in real terms.

Savings also had to be spread, with funds accessible to small companies as much as to big companies. Emphasising the role in the economy of the informal and small business sectors, Mr Sunter said another important condition for economic revival was a "dual logic economy" where small business underpinned big business.

'Economic miracle'

As an example, he mentioned the "economic miracle" of the taxi industry in SA and its value to the SA motor industry.

Social harmony and for SA to be a "global player" were also outlined as prerequisites to SA growth.

"Nations which look inward die," said Mr Sunter. "Those which look outwards perform far better. To have a competitive edge, you have to compete".

In SA, said Mr Sunter, apartheid is being eroded by economic pressures. He said that in places like the eastern Transvaal where many retailers relied on black consumers for as much as 60 percent of their trade, a vote to remove that trade would be a vote to close down their business.

He said most reactions to this challenge were pragmatic, showing that people tended to "think about their back pockets more than about ideology".

It was important that SA took the "high road" of a shared political and economic future and a negotiated settlement in preference to the "low road" of continued isolation and eventually war, Mr Sunter said, adding that "war would make the country a wasteland".

"We are all in the same boat here and negotiation means give and take. We could negotiate a tough constitution that has guarantees for everyone", he concluded.

DRAFT VAT DELAY

The release of government's value-added-tax (VAT) discussion paper, due at the end of August, has been postponed until about end-September. Though parliament will not be sitting then, an Inland Revenue source says the paper will be in the form of draft legislation. It will probably also be published in the *Government Gazette*, to be as widely read and discussed as possible.

The delay is due to consideration of numerous controversial issues that VAT will raise. Among the most important are: the distinct possibility of financial institutions paying VAT; the status of capital goods; relief for the poor after food, exempt from GST, is brought into the VAT net; fiscal harmonisation of the subcontinent; and the business burden of collecting VAT.

VAT is due to be phased in from 1989 — itself a controversial issue. European experts who have visited SA say it may be years before even phasing in can begin.

Perhaps the most contentious issue is whether VAT will be "inclusive" by law; that is, whether retailers will have to advertise one price which would (invisibly) include VAT.

2/9/88 (320) FM

Surcharge is a blow to music industry

By Clare Harper

Musicians are up in arms over the 20 percent surcharge on musical instruments which they say are not luxury items, but their bread and butter.

Mr Ivor Back, a drummer, said it was "ludicrous" to pay such a surcharge for "the tools of my trade".

Mr Gene Smith, wholesale sales manager for the biggest supplier of musical instruments, Universal, said the 20 percent surcharge was a "severe blow" to the industry.

The retail price of a keyboard and synthesiser had increased from R4 995 to R6 995, he said.

An acoustic guitar had increased from R395 to R475 in the shops, the cheapest drum kit from R1 195 to R1 450.

Although many musical shops were still selling old stock, the prices would go up as soon as new stock arrived, he said.

Mr Howard Manning, of Manning Charles Music Saloon (Pty) Ltd, said he had already objected to the new prices on the grounds that music was educational.

The Board of Trade, he added, was considering the surcharge on music books and sheet music.

SITE: Some problem areas

Many readers have queries about the new Standard Income Tax on Employees (SITE). CHRIS BENEKE, a Cape Town partner in Pim Goldby, will answer some of them in a series of Monday morning articles.

THE reasons given for introducing SITE were that it would relieve the administrative burden of the Receiver of Revenue by reducing the number of tax returns, and achieve a measure of separate taxation of husband and wife.

Under SITE a married woman earning less than R20 000 "net remuneration" per annum will be taxed separately from her husband.

While the introduction of SITE may hold certain benefits for married women it has created potential problems for both married women and part-time and seasonal workers.

A. Where a married woman earning slightly less than R20 000 pa "net remuneration" (ie gross salary less pension fund/retirement annuity fund contributions) is given an increase which pushes her over the R20 000 threshold, the resulting increase in the total tax paid by her and her husband could be more than the salary increase itself. This can occur where the husband is a high income earner in his own right. The increased tax is as a result of the fact that, once the wife's net remuneration exceeds R20 000 pa, her income is included in her husband's income for tax purposes:

Eg Husband's taxable income excluding wife's salary is R75 000. Wife is given a salary increase such that her net remuneration increases from R19 800 pa to R21 000 pa. (Before and after her increase her pension fund contributions are R1 000 pa — ie her gross salary is increased from R20 000 pa to R22 000 pa.)

Before increase:

Husband pays tax on his income only — tax on R75 000	R25 060	
Less: Rebate — married person	(1 100)	R23 960
Wife — SITE on her net earnings	(R18 800)	3 875
Total taxes payable		R27 835

After increase:

Husband pays tax on their combined income — (75 000 + 21 000)		R96 000
Less: (a) Wife's earnings allowance	Note 1	(4 950)
(b) Joint assessment allowance	Note 2	(4 640)
Total taxable income		86 410
Taxes thereon:		30 144,50
Less: Rebate — married person		(1 100,00)
Total taxes payable		R29 044,50

Note 1: 22,5% x 22 000 (21 000 + 1 000 pension contribution) = 4 950

Note 2: 4 650 — 20% (16 050* — 16 000) = 4 640

*22 000 — 1 000 (pension contribution) — 4 950 (wife's earnings allowance)

Thus the R1 200 pa (or R100 per month) salary increase of the wife will cost the couple an additional R1 209,50 in tax. After tax they are actually R9,50 worse off in spite of a R100 per month salary increase!

B. In certain circumstances, even where the wife's net earnings are on an annualised basis less than R20 000, her earnings are not subject to SITE and must accordingly be included in her husband's income for tax purposes. This occurs where the husband's gross earnings are less than R7 500 pa. In such cases, strange through it may seem, it could well benefit the wife to have her earnings included in her husband's income for tax purposes:

eg Husband earns R6 000 pa (R500 per month)

Wife earns — gross salary of	R19 200 pa
Less: Pension contributions	1 200 pa
Net earnings	R18 000 pa

If wife's earnings are not included in her husband's:

Husband pays tax on R6 000 ie	R840
Less: Rebate	(1 100)
Tax payable	NIL
Wife pays SITE AS A "married woman" on R18 000 ie	3 425
Total taxes payable	R3 425

If wife's earnings are included in her husband's:

Husband pays tax on combined income — ie 6 000 + 18 000	R24 000
Less: Wife's earnings allowance	(4 320)
Total taxable income	R19 680
Tax on R19 680	R3 280
Less: Rebate	(1 100)
Total taxes payable	R2 180.

The couple in this case would thus reduce their total taxes payable from R3 425 to R2 180 for the year if the wife's earnings are not subject to SITE. Accordingly where a working wife's husband has gross earnings of less than R7 500 pa, she should inform her employer. Her employer should then take this into account when preparing her IRP 5 at the end of February each year. The employer would classify, on the IRP 5, her employee's tax as PAYE (ie not SITE). In addition, the married woman should inform her employer even where her earnings are greater than R20 000 pa.

C. The introduction of SITE may well mean that seasonal workers will now be paying tax, whereas prevously they would often pay no tax. Even if PAYE was deducted it was potentially refundable if they submitted income tax returns (if their total earnings for the full year was less than the threshold at which one started to pay tax).

Any SITE which is deducted is, however, not refundable on assessment, it is only available as a credit against any actual tax liability for that year. Thus the amount of SITE which is reflected on an employee's IRP 5 will never be refunded by the Receiver of Revenue.

The reason why seasonal workers, who are not employed for the major part of the year, will be paying tax is that they are taxed at a rate as if they earned those wages for the full year. Thus students, for example, will probably have SITE deducted which will not be refunded by the Receiver. Furthermore, the fact that the student is paying tax will also mean that his parents will lose any child rebate to which they may have been entitled.

(320) STAR 5/9/88

'Hardship' cases to be considered

Some imports exempted from new surcharge

Finance Staff

Finance Minister Mr Barend du Plessis has confirmed some exemptions have been granted from the new import surcharges, which came into effect last month.

Mr du Plessis said, however, it was not possible to grant a blanket exemption on goods ordered before the announcement of the surcharge.

He emphasised that where undue hardships would result from the import surcharges, those importers could apply to the department of customs and excise for exemption.

This was confirmed by the Board of Trade and Industries, which said that surcharge exemptions would only be granted "in cases of extreme hardship" on goods already on their way to South Africa when the surcharge was introduced.

It was reported this morning that details of the exemptions would be released early this week, but that firms would have to prove to the board that the surcharge would threaten its financial existence and that the company had committed itself to the import before August 15.

The AP-Dow Jones news agency writes that board sources had indicated that importers of intermediary goods and capital goods could apply for the exemptions, which would only be considered for an entire industrial sector.

Importers of raw materials would not be granted exemptions.

Govt's VAT plan set to raise prices

CAPE TIMES 6/9/88

Own Correspondent

JOHANNESBURG. — Government's intention to make VAT non-creditable on capital goods would push up local prices, further reducing SA's competitive position with its major trading partners.

Assocom has urged government that tax paid on purchase of capital goods should be deductible from output VAT if SA's exports which are already suffering are not to fall behind in the competitive race, while imports rise.

VAT should be applied with the minimum of exclusions and with avoidance of anything approaching a transaction tax, Assocom has submitted in a report to Commissioner of Inland Revenue.

To disallow deductability of input tax on capital goods — which the authorities have stated is their intention — would transform VAT into a transaction tax and be "foreign" to true VAT systems abroad, Assocom argues.

Further it would exert severe upward pressure on manufacturing, processing and distribution costs in SA. Already the cost of capital and labour per unit in SA is higher than our major trading partners in Europe and North America is substantial, on a cost differential of some 22% and deteriorating rapidly.

"Loss of State revenue through allowing input tax deductability on capital goods would be far eclipsed by the total economic gain in competitiveness and output," the report says.

Government's motive for ruling out input tax credit on capital goods is to hold the VAT rate down, but it may also be a desire to conceal the real impact of VAT to finance high State expenditure the report says.

Tax burden boost cripples everyman

From GERALD REILLY and KAY TURVEY

JOHANNESBURG. — Individual taxpayers' contribution to the exchequer in income tax climbed 21% in the past year, emphasizing the need for relief from the increasing tax burden shouldered by the man in the street.

Latest figures released by the Directorate of Inland Revenue yesterday, show individual's income tax collection amounted to R12,264bn in the financial year to March compared to R10,142bn for the 1986/87 year.

This rise — an increase of about 40% from the 1985/86 year — underscores the effects of fiscal drag, whereby revenue collects more from the income stream as inflation pushes individuals into higher tax brackets.

Tax experts say it is imperative the rapidly rising contibution of individuals is addressed. However the recent introduction of SITE and lifting of the ceiling for maximum tax are expected to provide little comfort in the current year.

Fisher Hoffman Stride partner Anthony Chait says until tax expenditures, are withdrawn and most companies are paying tax of about 50%, the individual's hefty tax burden can not be lowered.

Margo proposed tax expenditures in the form of allowances be replaced with direct subsidies to address this problem, but Government has not responded to this recommendation in this year's income tax legislation.

Companies paid R5,806bn in the year to end-March a hike of 15% from R5,034bn in 1986-87.

Companies contributed 16% to total revenue collections of R34,852bn against individual's 35% contribution.

Whereas individual income tax contribution is rising — estimated at R14,153bn or more than a third of the expected total collections in the 1988/89 year — revenue from the gold mining industry is on a steep decline

The mining industry was the only major category where tax collections actually fell in the 1987/88 financial year.

The fall was nearly R500m to R2,074bn partly as a result of a protracted strike last year and rising costs.

Individuals were hit hard too by GST payments. GST collections increased from R8,94bn to R10,175bn. This 14% rise in GST payments falls below the average inflation rate of 15% last year and would appear to indicate greater evasion, making the proposed introduction of VAT next year, even more attractive to government.

GST is expected to produce about R11,63bn in the current year, whereby once VAT, which has a much wider base is in place the fiscus is looking at generating between R90bn and R100bn.

However Aiken & Peat's Ed Hoffman says the new Minimum Tax on Companies as an advance payment on tax due should go a long way to improving Revenue's cash flow from the mines.

Further, the switch to daily interest charges on outstanding tax owed by the mines as opposed to a monthly interest fee should further swell government's coffers.

Revenue collections for 1987/88 totalled R34,852bn, R2,8bn more than collected in the previous financial year but R5,5bn less than the estimate for the current financial year.

export. And bold deregulation and privatisation will allow growth of far more than 3% a year — no matter how much we export or import and without depending on Bank-induced mini-booms;

☐ The economy won't become productive and competitive by cutting off foreign trade.

Last month's imposition of tariffs as high as 60% is the first step toward promoting slothful, inefficient local industry — as has been achieved elsewhere in Africa. Today, SA businessmen are being criticised for not using double shifts to step up production, including production of exports. Maybe they *are* getting lazy. But tariffs and subsidies won't solve that. The remedy? Reward success, cut corporate taxes. Punish failure, increase competition through imports and deregulation.

In fact, the way to neutralise sanctions is to open up the floodgates of imports. Then, industrialists could take advantage of low input costs and plentiful labour to develop internationally competitive industry.

"By raising the cost of imports, we'll make our exports less competitive," warns Leach. "Then, the interventionists will be clamouring to promote exports. Each new policy breeds new problems"; and

☐ Foreign sanctions get too much blame.

Sanctions are restrictions on trade and investment imposed by foreign governments. They are unwelcome. But Pretoria's restrictions on trade and investment do far more damage and could be eliminated tomorrow. These self-imposed sanctions — tariffs, exchange control, licensing, zoning, building codes, restrictions on property ownership, high taxes, a huge civil service, nationalised industries — curb local entrepreneurship and scare off foreign investment.

It adds up to this: people call for Pretoria to bring about industrial development, when its policies stunted development in the first place. With less planning and more capitalism, we'd have the development everybody is now futilely expecting government to bring about with tariffs and subsidies.

A centrally planned economy is the problem, not the solution. Plans, commissions, boards, subsidies, controls and tariffs got us into this mess. Rather than retreating further into a siege economy, we should give free enterprise a chance to get us out. ■

Why each day is crucial

While the Stals Committee sits on the emotive issue of life office tax, it is also considering mining tax, which is much more important. Perhaps scared to appear that it was bowing to special pleadings, Margo left both topics in limbo. All it could do was recommend further investigations.

The hearings on mining may concentrate on the sharply differing views of the different mining houses on the complex formula tax. But this should not be allowed to overshadow the simple fact that mining is SA's only truly internationally competitive industry.

So any "special" deal for it should be seen as a result not of special pleading, but of negotiations between private sector and State on the future of SA's fountainhead.

Mining employs some 760 000, who earned R5,2bn in 1987, when the industry, including quarrying, contributed 14% of GDP. But perhaps most important, it earned an estimated two-thirds of foreign exchange. Given how sanctions affect non-mining exports, that two-thirds, at least for the foreseeable future, is set to grow by the month.

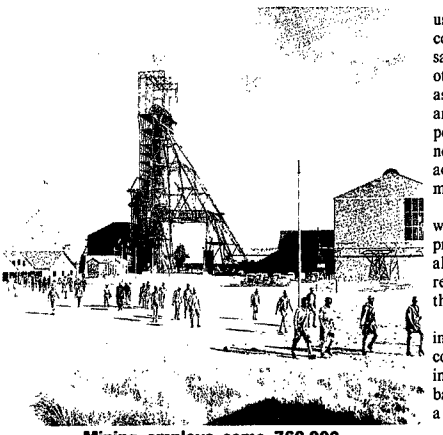
But the sector is under threat from all quarters, not least tax. Output of gold is falling as a percentage of known Western output, and there are constant pressures from trade unions to pay more for what, in physical terms, is declining.

But the most destructive force mines have to face is inflation. As our mines are almost exclusively export-orientated, inflation erodes start-up capabilities, profits and the ability to expand into new areas.

In a recent speech to the Techno Economic Society, Price Waterhouse's Chris Frame gave a stark picture of the tax and mining issue. Seeing tax as "a major point of contact and conflict between the State and private industry," Frame said he had no knowledge of any major investment in mining in which "taxation consequences were not pivotal."

That's not surprising, when some mines pay a marginal rate of 82,5% — including lease payments. Frame sees a "stark choice" in considering the future of the tax system, as regards mining.

"It can be one of total confrontation, where the dominance of the State leads to disastrous effects on long-term investment, or where the dominance of private industry leads to serious financing difficulties for the State. Alternatively, it can be one of co-operation in which both sides recognise each other's interest in an attempt to arrive at a mutually acceptable compromise."



Mining employs some 760 000

Frame sees five main perspectives:

☐ Exploration expenditure;

☐ Beneficiation;

☐ The concept of ring fencing;

☐ Capital expenditure; and

☐ The formula tax.

Though a switch from formula tax to a flat tax may be out of the question, only for exploration does Frame feel SA's fiscal system gives a "fair deal." Otherwise, the system can be said to be in a mess. Ring fencing, which prohibits the writing off of expenditure by one economic entity against the income of another, is a major bugbear.

In mining, ring fencing has been used to isolate expenditure and income to particular mines *within* the same mining group. It is also used in other areas of tax, giving the result, as Frame sees it, of "producing an artificial environment — for tax purposes — which has no natural connection to the factors taken into account in the ordinary course of making a business decision."

The problem with beneficiation is well-known. SA conducts very little processing of primary ores and metals. Often, such products have to be re-imported — to the detriment of the balance of payments.

Broadly, Frame sees the solution in expansion of mineral exports, combined with a gradual expansion into beneficiation, *and* industries based on mining output (jewellery is a crude example).

This use of resources to broaden and expand a section of the economy could lead to a "real comparative advantage compared with the rest of the world." Moreover, it is the "most efficient and swiftest way of solving our BoP problem."

As mining tax is never likely to be neutral, its exact formulation is crucial. The fact that crude, across-the-board fiscal incentives have been ineffective should not blind the Stals Committee to the fact that they can be effective if focused on precise objectives — and subject to constant monitoring.

Exemptions inadequate, says business

Govt clarifies position on surcharges

EXEMPTIONS from surcharges on goods ordered before the introduction of the new import duties would be considered where the existence of any enterprise was threatened, Economic Affairs and Technology Minister Danie Steyn said in Pretoria yesterday.

But he repeated earlier statements that there would not be a general exemption on goods ordered prior to August 15.

The announcement drew sharp reaction from organised commerce and industry which said the exemptions would not be adequate to avoid financial distress among many businesses and would have a serious impact on costs.

Steyn said goods on the water and those subject to irrevocable letters of credit had not been exempted from the

HELOÏSE HENNING

surcharges imposed on August 15 — however, cases of "extreme hardship" would be considered.

He said the Board of Trade and Industry (BTI) would decide the merit of particular enterprises. If their existence was threatened by the increased surcharges then the lowering or exemption of the duties would be considered.

Proof would have to be provided that the goods had been irrevocably ordered before August 15 and would have been cleared before October 31.

Steyn said importers had until September 30 to apply for exemptions on capital goods, raw materials and goods on the water.

Clearly identifiable agricultural im-

● To Page 2

Surcharges: govt clarifies its position

ports, except for machinery, had been exempted because of that sector's weak financial position.

Exemption permits from surcharges on capital goods and parts could be obtained in respect of the Customs and Excise Act 1964 and must be applied for from the Trade and Industry director-general.

Assocom president Alec Rogoff expressed regret that the relief was not granted where foreign exchange had either already been paid or was irrevocably committed.

He appealed for the generous treatment of applications for relief.

Rogoff said: "Assocom fears the provision for extreme hardship will not be adequate to avoid financial distress among many businesses which could, in some instances, even lead to increased unemployment."

● From Page 1

An FCI spokesman said that, in terms of the Act, importers could apply in advance for exemption permits on goods and components they intended to keep importing.

Sapa reports that Durban Chamber of Commerce members expressed outrage at government's latest announcement on the issue at a special meeting yesterday.

Outlining the feelings at the meeting, the chamber said there had been severe criticism of government's "virtual total disregard of the adverse effect the surcharges will have on business, especially small business".

Either SA was in even more dire straits than the public had been led to believe, or government was completely insensitive to business realities.

Audits essential for MTC — accountants

Bldwy 14/9/88 (320)

KAY TURVEY

THE newly legislated minimum tax on companies (MTC), payable not later than the end of this month, means it is essential that affected companies undertake a thorough audit to ensure the quantum of the dividend declaration is correctly computed, says Deloitte Haskins & Sells.

In its latest tax letter, the company advises on problem areas to be considered for MTC payable on accounts for the latest year of assessment ending on or before February 29, 1989.

The date on which the dividend is approved for MTC purposes is not necessarily the same date as the accrual date used for checking any potential undistributed profits tax (UPT) liability, the report says.

The amount of the dividend which is subject to MTC is also not necessarily the amount appearing in the financial statements for the relevant year.

It is possible for dividends accrued in the annual accounts over two different financial years to have been approved for MTC purposes in the same year.

This would arise when the dividend in the earlier year had been agreed by directors after the end of the financial year, while in the subsequent year the dividends were approved at a board meeting held before the end of the financial year.

Scrap SITE, say experts

15/9/88 (320) B/day

CHRIS CAIRNCROSS

CAPE TOWN — The new SITE method of taxing married couples, introduced this year, was so seriously flawed and would create so many problems it should be scrapped and a new start made to address the issue of equity in joint assessments.

This was the overwhelming view of tax specialists who have been addressing a series of seminars in Cape Town dealing with new tax legislation.

Major critics have included John Morris, prominent among the Margo commissioners, and tax specialists such as Pim Goldby and Deloittes.

They said the legislation was substantially different to what was outlined in Finance Minister Barend du Plessis' Budget speech.

In keeping with similar comments by Morris, Pim Goldby tax partner Chris Beneke regarded the system as a mess which should be suspended, and possibly replaced with an arbitrary flat rate withholding tax which employers could deduct from their employees' earnings.

Commissioner for Inland Revenue Clive Kingon said yesterday teething problems were expected and he believed the problems had been thrown out of all

● To Page 2

SITE should be scrapped, say experts

● From Page 1

proportion.

"There is no ideal solution to the question of taxing married couples."

SITE remained an essential step on the road to seeking a large measure of equity and further adjustments would be made as problem areas were uncovered, he said.

It was apparent that tax specialists and businesses remained concerned over the nature of new tax legislation, aside from SITE, particularly that which concerns VAT, which was still in the initial drafting stage.

While this uncertainty existed, businesses were experiencing considerable difficulty in planning the future.

Kingon promised that every effort was being made to deal with the VAT legislation as speedily as possible.

320 B/day 15/9/88

Taxman's loss 'substantial'

Receivers battle to catch up with taximen's R3bn

PRETORIA — The leak of tens of millions of rands in potential income tax payments from the thriving black taxi industry continues as Receivers of Revenue battle to find solutions.

It is estimated that the 45 000 taxis affiliated to the SA Bus and Taxi Association (Sabta) carry more than 5-million passengers a day.

Total figure

On a basis that each pays R1 — and that is an extremely conservative estimate, economists say — the total take would be close to R2bn and income tax on that would go a long way to easing government's financial distress.

And, it is pointed out, there are many more taxis than those affiliated to Sabta.

So the total income figure would probably exceed R3bn.

GERALD REILLY

Commissioner for Inland Revenue Clive Kingon said: "Yes, it is a problem, but our receivers are working on it.

"There is obviously a significant tax loss going on."

Kingon said one of the difficulties was the transition of many taxi-owners from the informal to the formal sector.

Most, probably, kept no books or records of income and expenditure.

However, he added: "We are gradually getting more of them into the tax net."

Tax consultant Costa Divaris said part of the challenge facing Inland Revenue was to try to get taxi-owners to believe they ought to pay.

He added that indirectly through tax on their inputs — petrol, spares and maintenance — owners were paying substantial amounts anyway.

VAT likely to push up cost of homes

THE imposition of VAT on new construction could raise the cost of homes, with detrimental effect to low-cost housing in particular.

Bifsa economist Charles Martin said the imposition of VAT at a standard rate would up the price of new homes and could cause socio-political problems if there were no other fiscal measures to soften the blow.

The cost of a new home — taxes make up an estimated 6% to 8% of the cost of a house — would rise if all building activities were standard rated.

Only private buyers would be prejudiced. If the work was for a registered person, or for business purposes, an input tax credit could be claimed.

KAY TURVEY

However, in the case of residential property bought by a private individual, there would be no credit and the full final tax would have to be paid.

Government's intention to make capital goods such as plant and equipment non-creditable for input tax purposes would also see an escalation in prices, as contractors would probably build these additional costs into the price of their goods and services.

This week the construction industry, represented by among others Bifsa, Selfsa, National Home Builders and the SA Federation of Civil Engineering Contractors (Safcec) met Inland Revenue to put forward a case for zero-rating under VAT.

Zero-rated goods and services attract no VAT on the supply.

Safcec contractual affairs manager Ted Brown said he doubted whether the industry would get the go-ahead for zero-rating.

VAT draft legislation is expected next month.



DR JAPIE JACOBS

Reserve Bank hints at relief

Societies may soften tax blow

DEREK TOMMEY

HOLDERS of tax-free investments may not be so hard hit after all when Government begins to phase out tax concessions next year.

Dr Japie Jacobs, senior deputy governor of the Reserve Bank, said in an interview this week that the building societies needed the money that had been brought in by the tax concessions.

Therefore, they were likely to make good any loss the investor might experience from the reduction in tax concessions by increasing the total interest paid. This was likely even if it led to an increase in the mortgage rate.

Dr Jacobs said it was planned to phase out the tax concessions by reducing by a fifth every year for the next five years the tax-free amount in interest and dividends paid.

At present a third of the interest on building society dividends were tax free. It was intended that this tax-free proportion should be reduced to 26,4 percent in the first year, to 19,8 percent in the second year, and so on, until the tax-free element disappeared entirely.

As a result of this procedure, it would still be possible to put money in investment with some tax concessions for the next five years.

Dr Jacobs said it that the reduction in tax concessions would reduce the competitiveness of these investments. Therefore, the rate of interest offered would have to be increased.

He believed the elimination of the tax-free investments should boost Government revenue by at least R250 million a year.

Agreement on VAT will combat evasion

(320) B/day 23/9/88.

KAY TURVEY

THE independent homelands' intention to adopt the new value added tax (VAT) system — once introduced next year — was expected to end much of the sales-tax evasion which occurred under GST.

It was reliably understood the TBVC states had accepted the VAT system in principle, which will result in the harmonising of VAT in the rand monetary area.

The Department of Revenue would consult with these states once draft legislation on VAT, due at the end of October, was released.

The Margo report made special mention of the need for harmonisation because of the peculiar tax dispensations of the homelands, which open the door to abuse.

Fisher, Hoffman Stride partner Anthony Chait welcomed the homelands' intention. It was important to have harmony to avoid abuse as there were no formal borders between SA and the TVBC states.

Evasion of GST was rife in SA by way of scams through Bophuthatswana, where no GST was charged on goods sold. This abuse was facilitated through the lack of any formal customs clearance.

Scams in the sale of liqour had resulted in Pretoria liquor wholesalers on Bophuthatswana's borders collecting more empties than they sold. This was because bottles of beer bought in Bophuthatswana free of GST were being returned in SA, where the 12% GST refund and deposit was collected, Chait said.

GST hike may follow pay rise

(320) B/day 28/9/88

AN increase in GST threatens after the announcement this week that the public sector is to get 15% more pay from January.

SA economists and businessmen here say it is the only option the Finance Minister has, as raising additional finance on the capital market would make a mockery of economic policies followed this year.



● GOUWS

Rand Merchant Bank economist Rudolf Gouws said he accepted the increase was inevitable, but it was a pity it had to come before next year's Budget.

It would probably be financed through an increase in GST, which would make the best sense economically.

"In terms of the broad economic policy aims to dampen domestic demand, the only way to finance the additional expenditure is through increasing Revenue rather than borrowing — so we can expect higher indirect tax."

If, on the other hand, government chose to raise the deficit, it would be in complete contradiction of the economic policy stance this year.

"In the longer term, the additional expenditure on civil servants' salaries would complicate government's five-year plan to re-vitalise fiscal policy."

GRETA STEYN
in West Berlin

The increase was a little higher than he had expected, but not earth-shattering.

"What this illustrates is that we need a smaller, well-paid civil service.

Other economists here said it was unfortunate that fiscal policy, which had been appropriate given the economic situation, was now in danger of getting out of kilter.

Senior bankers were worried about the possible impact on the capital market, where the lower gold price had already caused interest rates to rise.

PFP finance spokesman Harry Schwarz said the timing of the announcement had political overtones.

"It certainly looks as if government has given up hope that an election for the House of Assembly next year can be avoided.

"And, of course, one can't but think of the municipal elections next month," Schwarz said.

The announcement had serious implications for next year's Budget.

"Tax reform could be put on ice and I

● To Page 2

GST hike to follow public-sector pay rise

● From Page 1

B/day 28/9/88 (320)

have no doubt that the implementation of VAT will be postponed," Schwarz said.

KAY TURVEY reports tax experts said yesterday a massive outcry could be expected if government were to raise GST by 3%.

Aiken & Peat's Ed Hoffman said it was ironic that at a time when SA was meant to be undergoing tax reform to provide relief for the individual, government raised taxes to finance deficiences in the fiscus.

Some tax experts believe government is planning to introduce VAT at 15% and say therefore, the lifting of GST to the same level before the introduction of VAT could make the transition more palatable.

● See Page 3

Fiscal drag can foot bill

'No need to raise taxes for pay hikes'

Cape Times 30/9/88 320

From KAY TURVEY

JOHANNESBURG. — Government should not have to raise taxes to fund the 15% hike in civil servants' salaries from January next year, tax experts said yesterday.

They said new and unbudgeted taxes coupled with fiscal drag could be expected to swell Revenue coffers.

Costa Divaris of Divaris Stein said government's best generator of revenue was inflation and fiscal drag would automatically add about R1,5bn to collections from individuals next year.

He pointed out that 30% of the R4bn increase in civil servant's wage bill would go directly back to government in the form of taxes.

Of the R4bn pay rise only R1bn will be paid for in this fiscal year to end-March 1989. Tax experts said there should be plenty of additional revenue to pay for this, were government not to overrun budget as it consistently does.

Government has budgeted a deficit before borrowing of R9,86bn this year.

Arthur Andersen's Leo Fincham says the raising of the import surcharge in August should help foot the wage bill.

Import surcharges were budgeted to bring in R700m in the current year, but should now generate over double this, he estimates, as the higher surcharge also covers non-luxury items.

The recent 3c rise in the fuel levy would add to government's unbudgeted revenue in the current year said Kessel Feinstein partner Ernest Mazansky.

In addition the phasing out of the debtors allowance granted to retailers selling on credit terms by April next year will provide revenue not foreseen in the budget.

Revenue's chief director of sales tax Raymond Langley said this allowance which is being phased out prior to the introduction of VAT is estimated to bring in over R600m in the current year. However, Langley points out this figure was prior to concessions granted to ease the strain on credit retailers' cash flows.

Ernst & Whinney partner Roger Bramwell said the retrospective minimum tax on companies (MTC) was also anticipated to bring in lot more than the R300m budgeted.

This upfront payment of a tax to be offset against future tax liabilities was in effect a loan to government, which it could keep until 1991 if not absorbed by the tax paying companies.

Interest rates set to...

TAX

Raking in revenue

The end of the month will see substantial flows to the Exchequer. First payments of minimum tax on companies (MTC) are due on September 30; estimates as to their size range from a conservative R300m to well over R1bn. One view is that amounts due from companies with assessed losses or not paying the full tax rate will be much larger than originally estimated.

Provisional tax

Swelling the flow will be provisional tax payments from companies with September year-ends — among them Barlow and its subsidiaries — and March year-ends — including the Premier Group. To this can be added Customs & Excise payments (which include fuel levies and the differentiated import surcharge).

The fiscal year so far has seen cumulative receipts rising faster than government spending. Recent figures from Central Statistical Service show that, to end-August, revenue collected was 38,9% of the vote for the financial year (compared with 36,5% for the corresponding period in 1987) and 20,9% up on the comparable period last year.

Arthur Andersen's Pierre du Toit identifies two other "abnormal sources of income: accelerated GST collections during the current phasing-out of GST debtors' allowance over nine months and steadily increasing collections of additional tax and penalties resulting from improved enforcement."

In view of these cash flows, he questions the need for MTC — "a tax ill-conceived, disruptive to the system and destructive of taxpayer confidence in the tax regime."

Spending, though increasing in tempo, has still been restrained compared to last year. Exchequer issues (after adjustment for changes in the balance on the Paymaster-General's Account) amounted to 40,5% of budget (39,7%) and were only 14,5% over last year's issues in the period.

The result is a cumulative deficit of R4,7bn, 5,3% lower than for the same period of the previous year. However, as Frankel Kruger economic consultant David Solomon points out, the trend has moderated "dramatically" in the past month. "The cumulative deficit at the end of July was 10% lower than at the same point last year."

Receipts at month-end, which siphon liquidity out of the system, are likely to put pressure on the money market. Speedy relief, however, will come from six-monthly interest payments on government stock on October 1. By mid-month, government salaries will be putting money back into the system. Also at mid-month, government stock, with nominal value of R1,2bn, will mature. But the Reserve Bank is expected to roll this over, selling stock in advance of maturity date. ■

Embassies, Pretoria: funds channelled

1440. Mr C J DERBY-LEWIS asked the Minister of Foreign Affairs:

(1) Whether he or his Department has been informed of reports alleging that funds for anti-South African activities are being channelled through certain overseas embassies in Pretoria; if so,

(2) whether he intends taking any steps in this regard; if not, why not; if so, what steps?

The MINISTER OF FOREIGN AFFAIRS:

(1) I and my Department are aware of such reports and rumours.

(2) If it can be proved that the allegations are true, suitable steps will be taken.

320 **Tax legislation: protection of businessmen**

1441. Mr C J DERBY-LEWIS asked the Minister of Finance:

Whether he is considering introducing legislation making provision for protection for businessmen against penalties incurred by them under tax laws as a result of negligence and/or unprofessional conduct on the part of their accountants and/or bookkeepers; if not, why not; if so, when?

The MINISTER OF FINANCE:

Such legislation is not now being considered.

The taxpayer, or vendor under the Sales Tax Act, is personally responsible for the timeous rendition of and the correctness of information in his returns.

If, as the result of negligence and/or unprofessional conduct of his accountant or bookkeeper, he incurs penalties under the tax laws he will have a civil claim for damages under common law against such person. In fact, accountants are covered by professional indemnity insurance against such claims.

Tax credits

1443. Mr C J DERBY-LEWIS asked the Minister of Finance:

(1) Whether any taxpayers have credits as far as their tax obligations to the State are concerned; if so, (a) what is the total amount involved, (b) how long have these credits been outstanding and (c) in respect of what date is this information furnished;

(2) whether such taxpayers receive interest at the same rate as that applicable to taxpayers who are indebted to the Receiver of Revenue; if not, why not; if so, what are the relevant details?

The MINISTER OF FINANCE:

(1) It has been the practice since 1986, in the case of companies, and 1987, in the case of individuals, to refund all tax credits. Credits relating to prior years have either been used to reduce provisional tax payments due in respect of subsequent years of assessment or have been consolidated and set-off against outstanding taxes.

The following credits representing advance payments by way of employees tax and provisional tax for the 1989 year of assessment are being held for set-off against assessments (debits) still to be raised:

Individuals:
Employees tax.... R3 474 685 563
Provisional tax R106 730 575

Companies:
Provisional tax..... R2 826 975 473

(2) Interest is payable on provisional tax credits at a rate of 12 per cent per annum to taxpayers with taxable incomes in excess of R50 000 in the case of individuals and R20 000 in the case of companies. This rate was fixed at 15 per cent up to and including 30 September 1987, but, to prevent any abuse, the Act was amended last year to bring it into line with market-related rates in the private sector.

In the case of outstanding debits, taxpayers are charged interest at the rate of 15%. This rate was not also reduced, the reason being that it should serve as a disincentive to those who seek to delay the payment of their taxes unnecessarily.

Defence headquarters building

1455. Mr D J N MALCOMESS asked the Minister of Public Works and Land Affairs:

(1) What was the total cost of the new Defence headquarters building in Pretoria;

(2) whether tenders were invited in respect of this building; if not, why not; if so, what was the lowest tender received;

(3) whether the lowest tender was accepted; if not, (a) why not and (b) what are the relevant particulars of the tender that was accepted?

The MINISTER OF PUBLIC WORKS AND LAND AFFAIRS:

(1) The present estimated cost of the building is R191 770 000.

(2) Planning of the building is presently still in progress and tenders will only be called for after completion thereof. Minor preparatory site works have been done for which tenders were awarded.

(3) Falls away.

Cairo: talks

1459. Mr P G SOAL asked the Minister of Foreign Affairs:

With regard to the talks held by him in Cairo on 24 and 25 June 1988, (a)(i) how many persons accompanied him to that city and (ii) what are their names, (b)(i) who is or was the owner of the aircraft used to transport them and (ii) what was the cost of hiring it and (c)(i) who financed the trip and (ii) what is the estimated total cost thereof?

The MINISTER OF FOREIGN AFFAIRS:

(a) (i) 69 people including media representatives.

(ii) It is not considered to be in South Africa's interest that names be furnished.

(b) (i) SAA.

(ii) The cost of the return air transport for the group amounted to R4 342,30 per person.

(c) (i) The relevant government departments involved in the peace talks and the media representatives who accompanied the delegation jointly financed the visit.

(ii) Falls away.

Importation of second-hand clothing

1479. Mr D J N MALCOMESS asked the Minister of Finance:

(1) Whether any provision has been made for the importation of second-hand clothing into the Republic; if not, why not; if so, what is the (a) nature and (b) percentage of the duty and/or surcharge on such clothing;

(2) whether he will make a statement on the matter?

The MINISTER OF FINANCE:

(1) Yes. Provision for the importation of worn clothing and worn textile articles which are put up (imported) in bulk packings such as bales is made in tariff heading 63.09 of Schedule No. 1 to the Customs and Excise Act, 1964.

(a) and (b) Worn overcoats in such packings are subject to Customs duty of 25% or 40c each and other worn clothing in such packings to Customs duty of 25% or 35c each. Both are subject to surcharge at 20%.

Other used (second-hand) clothing is classified in either Chapter 61 or Chapter 62 of Schedule No. 1 to the Customs and Excise Act and the rate of duty, which differs according to the type of clothing and the material from which it is manufactured, depends on the applicable tariff heading. Should the Honourable Member require any further detail in this regard he should please contact the Commissioner for Customs and Excise.

The importation of worn second-

HOUSE OF ASSEMBLY

†Indicates translated version.

For written reply:

General Affairs:

Post Office employees: overtime

1422. Mr C J DERBY-LEWIS asked the Minister of Communications:

(1) (a) What categories of Post Office employees are paid for overtime and (b)(i) when and (ii) for what period are they paid for overtime at the rate of (aa) time and a third, (bb) time and a half and (cc) double time;

(2) whether this arrangement is applicable to all Post Office employees; if not, (a) what exceptions are made and (b) what are the reasons for these exceptions?

The MINISTER OF COMMUNICATIONS:

(1) (a) Officials in receipt of a salary not exceeding R35 070 per annum are normally paid for overtime duty. Officials earning higher salaries are only paid overtime in exceptional cases, and

(b) (i) when called upon to work longer than their prescribed weekly hours of attendance, e.g. during periods of staff shortages, absences and work pressure, and

(ii) (aa), (bb) and (cc) overtime duty is divided into two categories:

(A) Ordinary overtime
Overtime duty performed during the hours 06h00 and 20h00 on a day other than a Sunday and certain public holidays.

(B) Special overtime
Overtime duty performed during the hours 20h00 and 06h00 on weekdays and on a Sunday and certain public holidays.

Hourly overtime rates are calculated according to a sliding scale that varies between time plus 30% on the lowest salary notch to time plus 4% on the highest notch in respect of ordinary overtime and time plus 82% to time plus 74% in respect of special overtime;

(2) yes;
(a) and (b) fall away.

Hansard.

HOUSE OF ASSEMBLY

†Indicates translated version.

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For written reply:

General Affairs:

Income tax

1311. Mr C J DERBY-LEWIS asked the Minister of Finance:

Whether he is considering exempting from income tax the first R12 000 per annum earned in interest by retired persons from their investments; if so, when; if not, why not?

The MINISTER OF FINANCE:

No. It is not apparent from the question why R12 000 of a retired person's investment income should be exempt from tax. The R1 000 exemption that currently applies in respect of interest income was originally introduced, at a lower level, to facilitate the introduction of the final deduction system and not only as a relief measure for retired persons or the lower income groups or to encourage saving. Along with the Margo Commission the Government does not believe that the exemption of a part of a taxpayer's investment income is sound tax policy, nor is it accepted that saving can best be encouraged by way of tax incentives. Selective tax incentives are inclined to create distortions in the economy, whereas a general reduction of tax rates, which will benefit the whole body of taxpayers and not only those who, owing to their age, status as pensioners or level of income, qualify for the incentives, is what the Government is aiming to achieve. The elimination, as far as possible, of existing incentives will help to attain that objective while the creation of yet more incentives and reliefs will only hinder its achievement.

Foreign diplomats: political participation in RSA

1347. Mr C J DERBY-LEWIS asked the Minister of Foreign Affairs:

Whether foreign diplomatic personnel are permitted to participate in political activities in South Africa; if so, why; if not, what procedure is followed by his Department in cases where such participation is brought to its notice?

The MINISTER OF FOREIGN AFFAIRS:

No. Should it be alleged that a member of the personnel of a foreign diplomatic mission has participated in political activities in South Africa, in contravention of the generally accepted rules of international law, the allegation would be carefully investigated by my Department. Should the allegation be found to be correct, the necessary action would be taken by my Department.

Diaz/Huguenot/Great Trek festivals

1367. Mr K M ANDREW asked the Minister of Constitutional Development and Planning:

(1) Whether his Department has contributed or intends to contribute to the (a) Diaz, (b) Huguenot and/or (c) Great Trek festivals; if so, (i) in what way, (ii) when, (iii) why, and (iv) at what cost, in each case;

(2) whether any outside organizations or agencies were allocated funds by his Department in respect of these festivals; if so, (a) which organizations or agencies and (b)(i) what amount was allocated, and (ii) why, in each case?

The MINISTER OF CONSTITUTIONAL DEVELOPMENT AND PLANNING:

(See reply to Question No 1374 on Friday, 30 September 1988 in Col 2315)

Diaz/Huguenot/Great Trek festivals

1368. Mr K M ANDREW asked the Minister of Defence:

(1) Whether the South African Defence Force has contributed or intends to contribute to the (a) Diaz, (b) Huguenot and/or (c) Great Trek festivals; if so, (i) in what way, (ii) when, (iii) why, and (iv) at what cost, in each case;

(2) whether any outside organizations or agencies were allocated funds by the Defence Force in respect of these festivals; if so, (a) which organizations or agencies and (b)(i) what amount was allocated, and (ii) why, in each case?

The MINISTER OF DEFENCE:

(See reply to Question No 1374 on Friday, 30 September 1988 in Col 2315)

Tax shock for body corporate

By Clare Harper.

Bodies corporate are required to pay tax on the interest earned from the general levy at the same rate applicable to companies — 50 percent — a Melville townhouse development owned under sectional title discovered recently.

The trustees of Welgelegen were asked to pay back taxes for the past 14 years after they discovered they had not paid tax on the interest generated from the levy.

A spokesman for the South African Property Owners' Association, Mrs Eve Leggatt, said there were probably many bodies corporate that did not know the tax situation and would be liable to pay back taxes.

A spokesman for the Receiver of Revenue said that, theoretically, the Receiver could tax the body corporate on the levy as well, because the onus was on the taxpayer to ask for partial exemption.

But, in practice, bodies corporate applied for the partial exemption and the Receiver only taxed on the excess interest and if there were profits, for example, from hiring out spare parking space or servants quarters.

A spokesman for estate and insurance agents G E Symons CC, Mr K Monro-Perry, said that, in terms of the Income Tax Act, a body corporate must register as a taxpayer, which would include every sectional title scheme.

The body corporate could apply for exemption from paying tax on the income generated from the general levy.

Any surplus generated from the levy and earnings were taxable at a rate of 50 percent.

SA OWED R11-m IN CAR GST SCAM

Weekend Argus Correspondent

PRETORIA. — The taxman has offered partial amnesty to about 3 000 car owners nationwide who face action by the Receiver of Revenue for fraud and tax evasion involving more than R11-million.

If South African car owners, who registered their vehicles in Bophuthatswana to avoid paying general sales tax, come forward, they will have to pay only the GST owed, plus interest of about 15 percent a year from when the tax was first due.

Otherwise, they may have to pay up to double the tax owed, said deputy director of the Commissioner of Inland Revenue, Mr Peter Franck.

Dormant companies

He said his department had uncovered about 3 000 cases in the past 18 months, involving mainly luxury vehicles registered either with private individuals or often dormant holding companies in Bophuthatswana, where there is no sales tax, but belonging to SA residents.

This type of fraud had increased since the introduction of fringe benefits tax legislation, which was wide enough to include perks provided by subsidiaries or related companies.

Such cars had been found mainly in the PWV area, in Cape Town and Bloemfontein. Mr Franck said garages could be offering to arrange the phony registration for vehicle buyers.

One case involved a Lamborghini worth about R200 000, said Mr Franck. Tax on this car amounted to R24 000.

Another owner registered his luxury car using his gardener's address, allegedly evading tax of R36 000.

Another person bought three luxury German cars, and by citing a false address in the homeland, evaded tax totalling R150 000.

Investigations by the commissioner's office had also uncovered a few cases involving industrial machinery, said Mr Franck.

In this scam, buyers in South Africa claimed to be exporting the machinery to Bophuthatswana to avoid GST. They then brought the machinery back to South Africa, but failed to declare the import, which is liable to GST.

Tax-fraud investigators are usually alerted to a vehicle tax fraud when an expensive, executive car bears the homeland's YBA plates, said Mr Franck.

There was no offence involved if an employee working in Bophuthatswana brought his company car to his home in South Africa, said Mr Franck.

Wanted exemption

However, when the owner had a financial interest in the Bophuthatswana holding company, he was obliged to pay GST in South Africa.

Some executives had been discovered when they claimed the vehicle belonged to the Bophuthatswana holding company and then tried to claim an exemption for its use on their South African income-tax returns.

Several minibus taxis bore YBA plates on the bumper, but had South African business addresses painted on the side of the vehicle.

People who live in Bophuthatswana but work in South Africa do not have to pay GST on cars.

New tax system in two years

GEORGE — South Africa will have one of the world's most modern tax systems within two years — but the tax burden will not be lightened.

Star 5/10/84

The Minister of the Budget for white own affairs, Mr Kent Durr, told the National Party Cape Congress in George yesterday that the system would, however, result in a more equitable tax base.

Legislation on the Margo recommendations and a Government White Paper would be published for comment and could be expected to be put through Parliament next year, he said.

One of the major problems facing the country was that half the population earned no income because 60 percent of blacks were under 20.

Reform is key to economic growth

By Sven Lünsche

The chief executive of the African Bank, Gaby Magomola, has called on businessmen to see political reform as an opportunity for economic growth and not as a deterrent.

Addressing a conference on "Tax for today's businessmen" yesterday, hosted jointly by accountants Kessel Feinstein, Charter Life and *The Black Business Magazine*, Mr Magomala said businessmen were leaving the country in droves or investing their money off-shore.

In the face of political reform, white businessmen are showing a reluctance to invest in local capital projects and are showing a complacency towards the real issues in South Africa, he said.

"If we shared our resources and our knowledge we could create a much improved economy.

"Attempts to promote black business need to be quadrupled, until blacks are integrated as fully fledged members of the economy," Mr Magomola concluded.

At the same conference Charter Life's legal manager, Martin Sweet, said sensible tax planning had become virtually impossible, as retroactive tax laws had become an accepted part of tax policy.

"It also raises the level of uncertainty in investment to such a degree that business confidence is being undermined," Mr Sweet told the delegates.

"The plain fact is that the Department of Finance is forever resitingits goal posts wherever it perceives itself to be at a disadvantage.

"The inevitable question is whether tax reform has been abandoned in the face of governments failure to significantly curb the huge rate of state spending," Mr Sweet said.

He added that economic instability was the ultimate product of inefficient government and so was more taxation which feeds into the spiral.

VOTE NOW, PAY LATER TAX SHOCK LOOMING

Sunday Times Reporters

TAX increases for Christmas! That's the grim prospect for South Africans when the Government gets down to paying for the R4-billion new year pay rise for public servants.



A stiff rise in general sales tax (GST) — possibly from 12 to 15 percent — is said to be the main option.

Financial experts said this week that the Government had four options — to raise taxes (GST, personal or company), to borrow, to impose a levy on fuel, or to cut back on other State expenditure.

A rise in GST, they said, was most likely because it would bring quick returns over the Christmas spending period.

Furthermore, with valued added tax (VAT) scheduled to replace GST in six months time, an earlier rise in GST would condition the public for 15 percent VAT — the rate imposed in a number of countries.

The senior deputy governor of the Reserve Bank, Dr Japie Jacobs, told the Sunday Times no decision had been taken.

PFP finance spokesman, Mr Harry Schwarz, said he was not against a pay rise for the public service — "but the public should know that money does not fall out of the sky".

Blast rocks

Tax curbs will lead to quality SA films

THE SOUTH AFRICAN film industry, which for the past three years has been enjoying a largely tax concession fuelled boom, may slow somewhat due to tax amendments promulgated this year limiting incentives for investment in the industry.

The slowdown, however, may simply indicate that the industry is entering a more responsible stage of growth, with tax benefits still available to investors who are interested in a quality product, say industry experts.

"We have gone through a phase where we have produced a lot of junk in developing films for the international market, just as Japan and Korea went through their junk phases," says South African Institute of Film and Video vice-chairman Albie Venter. "Now we have to aim at earning respect of our own."

Limited

"Tax incentives still exist — they have just been limited to a certain degree, says Glynn Herbert, a partner with Aiken & Peat. The legislation "tried to put a clamp and a brake on people who, by being clever, were abusing the tax structure".

Figures from the Department of Finance indicate that these abuses will indeed take a bite out of revenues collected if allowances claimed for last year are granted.

Estimates are that film industry investors claimed tax allowances of some R550m in 1987 — not all of which have been granted — and the figure is expected to be as high this year.

In addition, the lucrative tax incentives have contributed to a "hit-and-run" industry in which the majority of pictures are made by foreigners who sell them abroad, says director William Faure. "It's an exploitation market rather than a legitimate industry."

"I think the industry has changed considerably because of the tax benefits, unfortunately for the worst," says producer/director Manie van Rensburg. "At the moment people are making deals, not movies."

Toron International MD Edgar Bold says that, of the 25 films produced in SA in 1976, three were international. That ratio has since changed so that, of the approximately 25 theatrical feature films that will be made this year, about 22 will be international and three exclusively for local markets.

CAMILLE KRAEPLIN

These problems specific to the industry were addressed by Section 24 F of the Income Tax Act, which was promulgated in September 1987. The provision, which applies to films both for export and for the South African market, provides that if 75% of a picture's production costs are spent in SA, the owner of the picture may write off the costs over a two-year period.

The higher the local production content, Herbert says, the higher the allowance.

More serious abuses, however, involved the export marketing allowance under Section 11 of the Income Tax Act, which provides for a deduction of either 175% or 200% of marketing expenditure on films for the international market.

Often through padding of market-spend figures, investors' upfront money could be increased by five or six times the original investment, Herbert says.

"We've heard of situations where somebody spent something like R100 000 and claimed allowances of millions," says Thys Heyns, chairman of the SA Institute of Film and Video.

In addition, pre-sale agreements with American or European distributors often "guaranteed" marketing loans to the film maker "on the basis that, if the film didn't make it, they wouldn't have to pay it back," Herbert says. Thus partners were not "at risk".

Section 24 H of the Income Tax Act, promulgated in July, addressed this problem by limiting liability to the amount of actual investment. It states that the cumulative export marketing allowance — including agents' fees, which are limited to 30% of production — may not exceed 2,5 times the local production costs less the foreign production costs. Any income the film generates may also be factored into the calculation.

Task group

Film makers hope this amendment, which ties tax benefits to investing in a film that will "fly," translates into higher quality films that better reflect South African culture.

"The danger of a system that is totally tax driven is that the quality of the product isn't sound," says Bold. With a system that isn't totally tax based, you have a better chance of producing a good film, he says.

In May, a task group was formed to study the current situation within the industry and formulate proposals to put it on a sound base. Recommendations by a sub-committee dealing specifically with tax concessions and subsidies are expected to be presented to government this month.



☐ FAURE ..."exploitation market rather than a legitimate industry"

Although the Department of Finance has indicated that there will be no changes in the tax system before the recommendations are made, many industry veterans are anticipating a move away from the current tax-based incentives.

Bold would like to see a solution that combines tax incentives with matching funds or a back-end subsidy based on success at the box office.

"I do think a tax system of protecting the film industry is far preferable to a subsidy system, because it's less susceptible to government pressure," says producer David Wicht. "Government support must be such that it doesn't interfere with film content."

New hurdle

Secretary of the task group Morné Coetzer says the sub-committee is to target incentives that will stimulate film production so that the industry "eventually, hopefully, will survive without a major amount of State aid".

Although it is too early to determine what direction these proposals might take, Coetzer does not expect major changes in the current tax and subsidy system.

Recent surcharges on capital goods may present another hurdle for the industry.

"The surcharges will have an influence on camera and other equipment," says Bold. "If the cost of capital goods is higher, it makes the cost of production higher. Ultimately, the cost advantage we have been enjoying will be whittled away."

TAX (320)

Longer pipeline

Extensions granted for the phasing-out of the GST debtors' allowance confirm suspicions that VAT will not be introduced by April and implemented by mid-1989 as originally expected.

This allowance, which gives relief against payment of sales tax not yet collected, was to be phased out ahead of VAT. Now concessions granted in certain cases, says Arthur Andersen's Richard Rubin, have extended

14/10/88 BM

the period by 10 months or more beyond April.

Says Rubin: "Withdrawal of GST debtors' allowance, before a decision is taken for VAT relief against the payment of taxes not collected, would be premature and illogical." The implication is that it will be some time before VAT finally replaces GST; he believes, maybe after mid-1989.

"Experience overseas has shown the lead time from announcement to implementation should be longer than the 16 months scheduled here. This was the case even in the UK, where a form of transactions tax was in force prior to VAT. There's no reason to believe we can effect implementation any sooner — particularly given the Third World component in our economy."

He believes a more realistic schedule would have allowed two years from publication of the White Paper in February. He prefers delayed introduction to implementation, on time, of a poorly planned system.



Rubin

"It would be a serious mistake to attempt to keep to a timetable at the expense of the quality of the eventual VAT system."

Much consultation with the private sector will be needed. One issue that will have to be clarified is what relief will replace the debtors' allowance.

Says Rubin: "There is plenty of overseas precedent for relief. Nine retailer schemes in the UK permit qualifying vendors to pay VAT on a cash receipts basis. Relief also exists in other VAT jurisdictions, like Ireland, Luxembourg, Finland and Austria." ■

Surcharge hike could backfire

KAY TURVEY 14/10/88

IT IS not certain that the higher import surcharges will serve their intended purpose of bringing the balance of payments to more realistic levels, Deloittes partner Mark Crisp said yesterday.

Speaking at an FCI seminar, he said there was concern that August's surcharge increase would not stem the flow of foreign exchange and cut imports by R1.5bn as government had hoped.

The increase, said Crisp, would heighten inflationary pressure in the short term, leading to a further devaluation of the rand against other currencies.

Deloittes associate director in charge of customs and excise duties, Doug Jolliff, said importers could defer the impact of the surcharge by using bonded warehouses. These warehouses — which allow importers to land goods in SA without entry for home consumption — could be used to store goods until they were actually required to be consumed.

Thus duties could be deferred until the goods were needed, or until an exemption from the surcharge had been negotiated.

He said there were numerous rebates available to manufacturers who would be wise to review which raw materials qualified for them, given the added incentive of avoiding the surcharge.

Many importers also failed to maximise the opportunities in terms of the adjustments allowed to the transaction price when arriving at a customs value, Jolliffe said.

Customs value is reached by deducting from the sale price any buying commissions, delivery charges incurred after the place of export and interest paid.

Du Plessis silent on talk of 2% GST rise

Political Correspondent

THE Minister of Finance, Mr Barend du Plessis, today declined to react to speculation that GST would be increased by 2 percent to 14 percent in order to raise the money for public service salary increases coming into effect in January.

He said that the decision on how these increases should be provided for was not such an urgent matter. A variety of options would be available.

It should be remembered that the bringing forward of the date for the implementation of the salary increases from April 1 to January 1 would not only lead to additional expenditure but would also generate additional revenue through taxes.

BUDGET ISSUE

The carry-through effect of the increases was an issue to be dealt with in the Budget for the next financial year.

● Commercial bankers believe another package of economic curbs to "cool" the economy is being considered by the government as evidence mounts of an unexpected spurt in consumer spending and borrowing in the September quarter, writes The Argus Business Editor.

Among options being considered are fiscal measures including a rise in GST, new import controls, stricter HP terms and limits on housing bonds.

The Minister of Finance has power to raise GST by up to 2 percent but any higher increase can only be proposed in his annual Budget or a mini-Budget.

Bankers say an all-round rise in rates of overdraft, home loans and hire-purchase borrowings is on the cards.

Weather 2, Women 22, Finance 23 — 25, Letters 26, Racing 28, Watersport 29, Sport 30 — 32, TV — Page 3 of

Star 21/10/88

GST increase to fund pay, pensions on cards

Star (320)

Political Staff (880)

DURBAN — An increase in general sales tax to 14 percent is on the cards to help Government pay for the R4 000 million rise in the public service wage bill and for higher social pensions.

In an interview, the Minister of Finance, Mr Barend du Plessis, refused yesterday to comment on speculation that the Government intended to raise the money partially by putting up GST from its 12 percent level.

Mr Harry Schwarz, the Progressive Federal Party's spokesman on finance, accused the Government of making political decisions with an eye on the municipal elections that could seriously damage the economy.

"Any business or individual knows that if you spend money you must know where it is coming from. It is fundamental to good government."

When President Botha announced the 15 percent increases for public servants he said it would cost R3 000 million for the public servants and R1 000 million for social pensioners.

Every one percent increase in GST brought in about R1 000 million a year.

Further revenue for the remaining R1 000 million could come from the 3c extra tax on to the last fuel price increase and from the 60 percent import surcharge.

More summonses for debt (49)

Summonses and judgments for debt in August this year increased by 16,2 percent and 17,6 percent respectively compared to July.

Liquidations for the three months to September 1988 increased by 31 percent compared with the previous three months, but this was a decrease of 12,5 percent compared with the same period last year.

The total number of insolvencies for the three months to August 1988 shows a decrease of 13,8 percent compared with the previous three months, and a decrease of 34,1 percent compared with the corresponding three months of the previous year.— Sapa.

Star 21/10/88 (5)

The Star Finance

Savings suffer as tax bite grows

Finance Staff

DURBAN — While individuals have seen their contribution to the total of income tax collected almost double in less than 20 years — to upwards of 57 percent — their savings rates have declined to about one fifth the level of 1969-70.

Durban Metropolitan Chamber of Commerce says the R11,69 billion collected from the bulk of individual taxpayers in the 1987-88 tax year was about 57,4 percent of all income tax collected.

In 1969-70, the percentage was 29,4 percent.

To meet the expanding requirements of the State, earners sacrificed savings, and the savings rate as a proportion of personal disposable income fell from 10 percent 18 years ago to two percent in the first half of this year.

In other words, for every R1 000 of income after deductions, the average saving has shrunk from R100 in 1969-70 to R20 today.

A backdrop to this picture is inflation, which has reduced the buying power of money to the extent that today's R20 is the equivalent of little more than R2 or R3 in 1970 terms.

Transvaal taxpayrs contributed the lion's share, 58 percent (R6,8 billion), the Cape Province R2,76 billion (24 percent) and Natal R1,5 billion.

The balance of R618 million came from the Free State.

The chamber figures showed white taxpayers contributed 91,3 percent, coloureds 3,4 percent, Asians three percent and blacks 2,3 percent to the total.

The figures, however, do not take account of lower-income earners taxed on the final deduction system.

Inclusion of those would push up the black contribution.

A way to cut the taxman's take

FULCRUM Deposits, offered by First National Industrial Bank (FNIB), have attracted the attention of investors who see the advantage of competitve interest rates with the oppotunity to actively manage their tax liabilities.

"The flexibility of the Fulcrum Deposit makes it possible to maximise the investor's tax planning," said Alan Pawson senior manager of FNIB's funding department.

"The Fulcrum Deposit is available for periods of between 24 and 60 months, and is distinguished from the traditional fixed deposit by structured interest payments."

For example; the full interest on a three-year deposit may be paid in the first, second or third year.

Mr Pawson added: "The astute investor will use the inherent flexibility of Fulcrum to avoid incurring additional taxable income in the same year in which other investments mature.

"The Fulcrum Deposit is therefore an ideal investment for anyone due to retire in the near future.

"Investment income can be deferred to the tax year following the one in which lump-sum payments like gratuities, endowment policies and annuities are paid out.

"In the first few years in which we have offered the Fulcrum Deposit, it has received great support because of this unique flexibility."

Taxes, surcharges to fund pay rises

Cape Times 25/10/88 320

From NEIL JACOBSOHN

JOHANNESBURG. — Government is likely to raise more revenue than expected from income tax and the new import surcharges, which would be used to help fund the R4bn needed for pay increases for public servants and social pensions, Finance Minister Barend du Plessis said yesterday.

Du Plessis said Treasury was still examining the latest revenue figures, but early indications were that income would be higher than expected from the new Minimum Tax on Companies (MTC), the phasing out of the debtors allowance on GST, and perhaps also from the 60% import surcharges introduced to dampen imports and protect the balance of payments.

There was still also sufficient opportunity to "arrest certain expenditure tendencies and bring about additional savings," he said.

Some economic indicators were showing that the downturn in demand may be restimulated by the additional money pumped into the economy by government's 15% pay hikes for all its workers, and the concomitant ability to borrow. But other indicators, said Du Plessis, showed the opposite.

"The economic situation is delicately poised. We need to be standing on firmer ground before new policy decisions can be made."

About R750m needed to be raised in the current financial year to pay for the higher public service salaries, which was relatively modest, said Du Plessis.

The higher-than-expected revenue would assist in funding this; and in any case, some 25% would be self-financing through the recovery of personal income tax and gst from civil servants.

The bulk would then have to be structured into next year's budget, he said.

A revenue target of R350m was set in the March Budget when MTC was introduced. It is known that substantially more has been raised.

Most analysts put the figure at around R700m. It is not known how much additional revenue has been raised by the import surcharge figures.

The additional revenue may mean that government will delay rumoured hikes in GST to 14% until early next year, but Du Plessis yesterday refused to comment on the rumours of a hike in the sales tax rate.

(320) b/day 25/10/88

October 25 1988

Concession helps to plan bequests

Estate duty move aids millionaires

SUPER-RICH married taxpayers now effectively qualify for duty exemption of up to R2m (R1m each) in terms of the amended Estate Duty Act approved by Parliament this year.

The latest issue of Tax Memorandum, the newsletter of accountants Aiken and Peat, says this concession can be used effectively to implement duty-saving benefits in estate planning, especially where the estate value is high.

The newsletter also suggests wills should be reviewed and updated to take into account amendments to the Act.

Tax Memorandum points out although duty has been reduced to a flat rate of 15% and each estate is exempt from duty up to R1m, there is still a need to explore potential reduction of duty when estate values exceed R1m.

The newletter says "personal considerations and circumstances of the persons making a will, however, very often outweigh purely fiscal considerations".

It poses the example of a husband dying before his wife, leaving net assets of R2,5m. If all these assets were bequeathed to her, there would be no estate duty because bequests to a surviving spouse qualify as deductions for estate duty purposes.

In the example, bequests handled in such circumstances would not necessarily be the most efficient way of dealing with a R2,5m estate because no advantage has been taken of the R1m concession, while the bequest would elevate the dutiable value of the wife's estate.

A worthwhile alternative would be to bequeath R1m directly to the children. Another way would be to make the bequest into a family trust.

Discretionary

However, if a trust is used to accommodate a direct bequest of R1,5m, it is important, says the newsletter, that the surviving spouse must have a vested interest in this bequest to the trust in order to qualify for a deduction in respect of the R1,5m.

The R1m bequest could be made to the same trust on a discretionary basis. The trustees would then be able to assist the surviving spouse from these funds should this ever be necessary.

The suggestion of a trust illustrates how it could be used if it "is desired that children should not obtain a vested right to the exclusion of a surviving spouse".

Moreover, the size of the balance after the deduction of R1m would be one factor to be considered in deciding whether this balance was adequate to meet the widow's needs, the newsletter says. — Sapa.

Govt income exceeds expectations

Taxpayer has bailed out Barend

GOVERNMENT was likely to raise more revenue than expected from income tax and the new import surcharges, which would be used to help fund the R4bn needed for pay increases for public servants and social pensions, Finance Minister Barend du Plessis said yesterday.

Du Plessis said Treasury was still examining the latest revenue figures, but early indications were that income would be higher than expected from the new minimum tax on companies (MTC), the phasing out of the debtors' allowance on GST, and perhaps also from the 60% import surcharges introduced to dampen imports and protect the balance of payments.



● DU PLESSIS

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NEIL JACOBSOHN

restimulated by the additional money pumped into the economy by government's 15% pay hikes for all its workers, and the concomitant ability to borrow. But, Du Plessis said, other indicators showed the opposite.

"The economic situation is delicately poised. We need to be standing on firmer ground before new policy decisions can be made."

Du Plessis said about R750m needed to be raised this financial year to pay for the higher public service salaries, which was relatively modest. The higher-than-expected revenue would assist in funding that, and in any case, some 25% would be self-financing through the recovery of personal income tax and GST from civil servants.

Du Plessis said the bulk would then have to be structured into next year's Budget.

A revenue target of R350m was set in the March Budget when MTC was introduced. It is known substantially more has been raised. Most analysts put the figure at around R700m. It is not known how much additional revenue has been raised by the surcharges.

Extra GST to fund pay hikes

320 Business 26/10/88

KAY TURVEY

AN estimated and unbudgeted R700m in sales tax collections — from the phasing out of the GST allowance on hire purchase sales — should help fund the R1bn payable during the current fiscal year of the R4bn salary increase for public servants.

The allowance was previously granted to businesses selling on credit, permitting them to postpone payment of 50% of the GST due until the final instalment was paid. This facility is being phased out before the introduction of VAT next year.

Earlier this week Finance Minister Barend du Plessis said government was likely to raise more revenue than anticipated from sales tax, among other sources, which would help fund the 15% January public service wage hike.

Finance Department chief director of sales tax Raymond Langley said the reduction of the debtors allowance by 5% each month until March next year was expected to bring in about R700m after exemptions.

A concession extending the winding up of the allowance until March 1990 was granted to certain businesses that offered credit in excess of 12 months and could prove the phasing out would put excessive strain on cash flows.

UK inquiry into Minorco bid raises controversy

Star 26/10/88

Finance Staff and
Financial Times

Lord Young, UK Secretary for Trade and Industry, yesterday sparked off fresh controversy about the British Government's merger policy when he referred Minorco's £2,9 billion hostile bid for Consolidated Gold Fields to the Monopolies and Mergers Commission.

The City of London widely assumed that the referral was made for political reasons to stop the takeover of a UK group by South African interests.

Describing the move as a sensational decision, the London *Evening Standard* said there were suggestions the intervention was influenced personally by the Prime Minister, Mrs Margaret Thatcher.

The decision to refer the bid to the Monopolies Commission came one day before the first closing date of the offer, when many expected Minorco to be able to announce that it had received at least a 50 percent acceptance to give it control of Consgold.

Analysts were divided in their opinion about whether or not Minorco, whose bid automatically lapsed when the referral was announced, would wait for the inquiry to be completed before renewing its offer. The Commission has to report its findings within three months.

Minorco has not been completely foiled in its bid because it can renew its bid if the Commission clears it.

"The Monopolies inquiry is a rather narrow one. While it's a setback for Minorco, it won't be looking at the SA interests, so the fight's not over yet," a London analyst said.

But according to Minorco director, Tony Lea, the new bid would not necessarily have to be at the same figure as the one that has lapsed.

Minorco said it had noted the decision and that, in accordance with its terms, the offer had lapsed.

A separate Department of Trade and Industry (DTI) inquiry into suspected insider dealing ahead of the bid is likely to issue its findings within three months.

On Monday, a US district judge in New York issued a temporary injunction against the bid on anti-trust grounds.

Consgold waged a world-wide campaign against the bid, pointing to Minorco's South African connections and this resulted in Lord Young receiving letters from the prime ministers of Australia and Papua New Guinea, from some State governors in the US as well as UK MP's.

However, the DTI insisted that Minorco's nationality played no part in the decision. It said Lord Young considers that there are possible effects on competition in the markets for certain high value minerals and metals, and especially titanium and zircon, which deserve investigation by the Commission.

Analysts were astounded by this suggestion. They pointed out that mineral sands, the raw material from which both titanium and zircon are produced, is in abundant supply, reasonably well distributed throughout the world and that the involvement of Consgold and Minorco in this business was tenuous.

The bid, the biggest ever made for a UK company, has been surrounded by controversy because of clear signs of insider trading in the weeks before the announcement of the offer.

Lord Young appointed DTI inspectors last week to investigate the insider dealing allegations and the possibility that there might have been concert parties purchases of the target company's shares on behalf of, rather than by, the bidder.

Consgold urged the London Stock Exchange's Takeover Panel to halt the bid temporarily in view of the investigation, but yesterday the full Panel turned down the request.

Consgold share price in London rose yesterday after the panel announcement at 7am. But two hours later, when Lord Young's decision became known, the price fell back to end last night at 211,37, down 106p from Monday's close.

On the JSE almost R2 billion was wiped off the market capitalisation of Consgold shares, when the price yesterday fell 825c to R82.

Market analysts said the share could go much lower, even dropping to the R60 it was trading at just over two months ago when investors got wind of the Minorco offer.

Govt planning a two percent rise in GST

320

Star 26/10/88

By Magnus Heystek, Finance Editor

GST is set to be increased from its current 12 percent to 14 percent, possibly as early as next month, as part of a package aimed at generating additional income for the Government and dampening excessive consumer expenditure.

Reliable sources say the Government is putting the final touches to another package of restrictive measures to cool down the economy, which unexpectedly spurted ahead in the third quarter of the year.

A spokesman for Mr Barend du Plessis, the Minister of Finance, said yesterday higher GST was just one of a number of possibilities being considered and that any restrictive package might only be forthcoming towards the end of the year.

An increase in GST to 14 percent would generate an additional R1 billion for state coffers in the current fiscal year, Mr Nick Barnardt, an economist at Trust Bank, said yesterday.

Mr du Plessis said yesterday he was awaiting fresh economic data before acting on the matter, although on the revenue side there has been substantially stronger inflow of income recently.

However, the possible increase in GST must also be seen against the background of the need to curb consumer spending.

Latest economic figures show the economy is still overheating relative to the parlous state of the balance of pay ments.

Figures for the third quarter have not yet been released, but economists forecast a surplus on the account of R1 billion for 1988, which leaves virtually no safety margin against the background of debt repayments.

Growth in the money supply in September was still a very high 26 percent, way above the official target of 12 to 16 percent.

Economists agree that the Government has little choice but to increase GST urgently to contain excessive consumer spending expected from the increase in civil service salaries.

Mr John Banos, an economist for stockbrokers Simpson Mckie, said: "It is highly likely that GST will be increased to 14 percent soon after the municipal elections. Any decision to increase it by more than two percent has to be taken by Parliament."

Other measures to cool down the economy are being considered and include a further increase in Bank Rate, which would enable commercial banks and building societies to raise all other retail rates, a further tightening of hire purchase conditions (for cars, in particular) and possibly a broadening of the import surcharge net.

Particularly worrying to economists are gold and foreign exchange reserves which, at current levels, are barely enough to pay for more than one-and-half month's imports.

With $190 million in terms of the debt-standstill agreement due in December, this leaves monetary officials with very little room to manoeuvre.

Government revenue this year does not pose any problems thanks to the excess revenue generated by the Minimum Tax on Companies (MTC), the import surcharge and higher-than-expected tax garnered from individuals and companies as a result of the buoyant economy. This is reflected in government revenue for the first six months of the current fiscal year growing 24 percent — much higher than forecast in this year's budget.

This implies the Government will not have much problem financing the 1988/89 deficit before borrowing, although it is at fairly high levels. The problem remains next year when a slowdown will result in a concomitant decline in government revenue.

Tax collection up R2bn

(320)
27/10/88. B/day.

GERALD REILLY

PRETORIA — Income tax and GST collection for the first five months of the financial year — April-August — was up by nearly R2bn on last year's figures, the Office of the Commissioner for Inland Revenue said.

Earlier this week Finance Minister Barend du Plessis told business goverment expected to raise more revenue than budgeted from income tax.

Revenue Commissioner Clive Kingon said the collection system had become more streamlined and efficient.

The stronger-than-expected economic upturn had resulted in bigger collections from companies and individuals. This applied, too, to GST collections.

In the last three months of the current financial year the fiscus would recover about 25% of the amount involved in public sector salary increases.

Amendments to the Income Tax Act since 1984 had made tax avoidance by companies increasingly difficult.

The tougher attitude of the department in prosecuting late payers was also paying off, Kingon said.

Latest collection figures for April-August reflected the bigger collections.

Income tax paid in the five months amounted to R8,9bn against R7,7bn last year and GST collections to R4,8bn compared with R4,1bn.

Du Plessis' budget expectation from income tax for the whole financial year was R24,1bn (R21,8bn for 1987-88) and for GST R11,6bn (R9,9bn for the previous year).

Tax bonanza raises fears

MINIMUM tax on companies (MTC) has raised R676,2m — almost double the budgeted R350m — giving rise to fears that the intended temporary tax might recur after proving so lucrative.

Tax experts said yesterday MTC, introduced as a one-off measure to ease government's cash flow while tax reforms were introduced, might be imposed again.

This would be even more likely if the income generated from MTC was used for current expenditure, as it was not a final tax, but an advance payment against future tax liabilities. MTC, payable by companies that paid dividends and did not pay full tax, was retrospective and payable by last month.

KAY TURVEY

Earlier this week Finance Minister Barend du Plessis cited the tax as contributing to higher than anticipated revenue, which would go towards funding the R4bn public service wage increase.

Aiken Peat partner Glynn Herbert said he did not believe the tax would be a one-off measure after proving so bountiful. Once the money had been spent it would take some time before another tax could be found to replace it.

● To Page 2

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Taxman's bonanza raises business fears

● From Page 1

Inland Revenue Commissioner Clive Kingon said MTC had raised R676,2m which had eased Treasury's cash flow. He said R200m of MTC revenue would be left over by March.

Kingon said he was not in a position to comment whether the tax would recur. He could merely reiterate that the Finance Minister had not promised it would not be re-imposed and had said if MTC were to be implemented again the tax would be more refined. MTC has been criticised for its imprecision.

However, Kingon added MTC would not be applied next year as it would defeat the purpose of the moratorium on stamp duties, which had been introduced after Margo's recommendations to allow companies to rationalise without being penalised.

The moratorium, which applies from July 1, 1988 to June 30, 1989 enables defunct companies to pay out dividends to other group companies without attracting stamp or transfer duties.

320 D/Law 28/10/88

Business Report

Tax proving lucrative

MTC: Govt gets R676,2m

Own Correspondent

JOHANNESBURG. — Minimum tax on companies (MTC) has raised R676,2m — almost double the budgetted R350m — giving rise to fears that the intended temporary tax may recur after proving so lucrative.

Tax experts believe that MTC, introduced as a once-off measure to ease government's cash flow while tax reforms were introduced, may be imposed again.

The re-imposition would be even more likely if the income generated from MTC is used for current expenditure as it is not a final tax, but an advance payment to be held against future tax liabilities, they warned.

MTC payable by all companies which paid dividends and did not pay full tax was a retrospective tax to be paid by last month.

Earlier this week Finance Minister Barend du Plessis cited the tax as contributing to higher than anticipated revenue, which would go towards funding the R4bn public service wage hike.

Aiken Peat partner Glynn Herbert said he did not believe the tax would be a once-off measure after proving such a good cash-cow. He said once the money had been spent it would take some time before another tax could be found to replace it.

Fisher Hoffman & Stride partner Anthony Chait agreed that it was likely the tax would be re-imposed after proving such a money-spinner.

Inland Revenue Commissioner Clive Kingon said MTC had raised R676,2m which had eased Treasuries' cash flow. He said R200m of MTC revenue would be left over by March next year, but the shortfall would be replaced by normal taxes.

Kingon said he was not in a position to comment whether the tax would recur. He could merely re-iterate that the Minister of Finance had not promised it would not be re-imposed and had said if MTC were to be implemented again the tax would be less crude and more refined. MTC has been widely criticised for its impresision.

However, Kingon added MTC would not be apply next year as it would defeat the purpose of the moratorium on stamp duties, which has been introduced following Margo's recomendations to allow companies to rationalise without being penalised.

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VALUE-ADDED-TAX (320) FMAIL

4/11/88

Slowly on its way

Draft value-added-tax (VAT) legislation has been completed by Inland Revenue — and other — officials. But nothing will be released for comment until numerous details have been fine-tuned.

The plan is to then publish the draft statute as an unofficial White Paper, for general comment, in the *Government Gazette*. One official expects the final result to be as long as the bulky, complicated Sales Tax Act.

So far, results where VAT-type systems have been implemented in SA — fuel levies and beer, wine and liquor — have been pleasing. But the number of suppliers in these industries is small, and officials say numerous other adaptations have to be made for peculiar situations in SA.

"There is no lack of precedent," says an official, "but that's not the point. We want the draft law to be as polished as possible when it is released." Revenue is growing increasingly sensitive to charges that it does not do sufficient research.

While government has said nothing official about VAT, other than that it'll be implemented, there has been widespread lobbying by vested interests.

Those that have speculated that GST — and VAT — will be hiked, say to 14%, have not noticed the radical improvement in revenue collections, due mainly to improved collection procedures following an intensive training programme at Inland Revenue.

But there seems consensus that the chance of partial or full implementation of VAT next year is slight. ■

320 FINMARK 4/11/88.

ductible, making the deal yet more lucrative.

In most cases the LA has an option to acquire the asset after, say, 10 years. The asset — one consultant cites a sewage works as example — is then, by and large, paid for by the taxpayer in the most roundabout way.

When Horwood ended leveraged leases in 1984, only one lessor was left untouched. Enterprises — typically banks and specialist leasing houses — could still write off depreciation allowances, but only against *rental* income. This sealed off a large portion of the corporate leveraged lease market.

In those heady days, companies like Pick 'n Pay were buying and on-leasing chunks of Sappi's Ngodwana paper mill.

Those days are back, though nobody knows for how long. The 50%:30%:20% depreciation allowance amendment — remarkably — did not restrict third-party lessors to use of rental income. The allowance may be applied against any form of income. If the amendment had cross-referenced to Section 23A, little would have changed.

Says a tax consultant: "The tax profession has fallen on two sides of the fence. First, those who believe omission of the cross-reference was indeed an oversight.

"Second, those who, for some obscure reason, believe government again wants to encourage this form of finance." Those in the latter category have gone hell-for-leather in flogging the new leveraged leases.

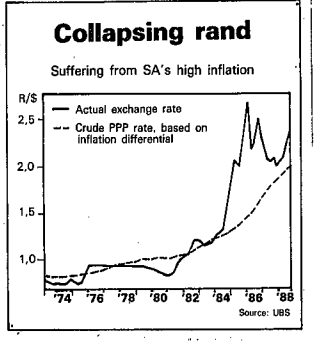
For middlemen, this type of transaction is very lucrative. Says the consultant: "Activity in this market illustrates, once again, the dominance of the tax profession by the mediocre."

Not that Inland Revenue is sitting idly by. Senior officials are considering legal action. This is an interesting attitude, given that a small corrective amendment could easily end the situation. But by then, too much could have been lost to the State coffers. The potential sums involved could be material.

This use of the 1988 50%:30%:20% depreciation allowance is the last thing even Margo could have forseen. Finance Minister Barend du Plessis has a responsibility to say something before drastic measures become unavoidable. ■

GRAPH CORRECTION

A graph which appeared on page 50 of the issue of October 21 was incomplete. The correct version appears here.



Fury at Barend's latest tax grab

Sunday Times 25/12/88

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FINANCE Minister Barend du Plessis has infuriated financiers by helping himself to a Christmas present amounting to hundreds of millions of rands a year.

He did so by outlawing certain tax efficient financing schemes through a notice in this week's Government Gazette.

The notice said "massive amounts" were involved, and the Commissioner for Inland Revenue reportedly estimated the extra income to his department at "hundreds of millions".

Mr Du Plessis' announcement disallows tax deductions for dividend-interest swops, certain preference share and variable rate debenture financing schemes and "round-tripping" of funds by assurance companies, banks and companies.

He says that if the Receiver is challenged, disputes will go to the income tax courts. If necessary, he will seek new legislation.

"As such due notice has now been given of the proposed actions, such legislation, when it becomes operative next year, cannot be described as retroactive."

Burden

The proposal has drawn heavy criticism as yet another tax burden for the beleaguered private sector. The manner in which it was done and the uncertainty it causes have also been condemned. The step is said to be another case of "legislation by Press release".

Business Times Reporter

The method used suggests great urgency. Mr Du Plessis says his action was triggered by tax avoidance that came to light in income returns submitted recently.

Sanlam chairman Fred du Plessis tells Business Times: "This is becoming more and more like a banana republic. We don't know what they're after. We take expert advice to make sure we don't contravene any rules and then they come along and change them."

Dr Du Plessis says it would be unthinkable for the authorities to tinker with instruments, such as preference shares and debentures, which have been acceptable in most countries for decades.

Trust Bank general manager finance Denzille Beaton says: "The irony is that many companies had to use preference capital to recapitalise themselves after their ordinary share capital was wiped out in foreign-exchange losses caused by President Botha's Rubicon speech.

"I don't know where a company is to go if it wants to refinance after big losses in future. Banks will simply have to write off sour loans instead of converting them into prefs and that will mean more unemployment."

Deloittes Haskins & Sells associate director Trevor McGlashan says: "The proposals cut to the very heart of legitimate financing arrangements."

The impression is that Mr Du Plessis is grabbing every tax cent he can lay his hands on.

"The problem is that he is spending too much, not that anyone is paying too little".

Old Mutual chairman Jan van der Horst says: "It causes further uncertainty on the distinction between legitimate avoidance and illegal evasion.

Fat fees

"There is already uncertainty on many issues, such as the distinction between income and capital gains. We certainly do not need more"

Chris Liebenberg, managing director of Nedbank s.v. Nissan, Samcor, Kanhym, Federale, Sentrachem and Tedelex, or those which qualify for investment and export allowances, such as Sappi and Mondi.

Property companies, such as Pangbourne, which use variable rate debentures to tide them through new developments will also be affected.

Mr McGlashan says the avoidance schemes were the result of differentiation between various types of taxpayers and income. This is true of dividend-interest swops and round tripping in particular.

He says the Margo Commission recommended equity between all taxpayers and all types of income. The Government has followed the recommendations by cracking down on allowances and avoidance — but has not delivered the recommended quid pro quo: lower tax rates.

Raising finance through prefs and convertible debentures more often than not is valid and makes economic sense. These instruments help to raise finance for projects and for companies in difficulty. They are were useful in money and capital markets.

"The variable debenture scheme is useful when undertaking a major project. It allows a quoted company to retain its market position by paying regular dividends because the loan burden fluctuates according to pre-tax profitability. This means that in lean years a low amount of interest is paid on the debentures, but in good years it rises."

Mr McGlashan is concerned that the change should be dated from December 22 and not before. He says that if it applies to all schemes, it will be unfair.

"Experience with Government news releases and legislation has shown that the intentions set out originally are often not carried through to the legislation, which is more repressive and retrospective."

Mr Du Plessis and the Commissioner for Inland Revenue, Clive Kingon, could not be reached for comment

big banks will be less affected than small ones, which collect fat fees for structuring tax-efficient schemes.

The main effect will be to put money in the Receiver's hands more quickly than in the past. Banks hold preference shares amounting to more than R1-billion, but it is hoped that existing schemes will not be affected.

Charles Turner of Duros Merchant Bank says the measures could wipe out project finance. They will be a blow to banks and assurance companies and will deprive stricken companies of survival tactics.

Export

"A company in loss often has to convert debt into prefs merely to survive. If that measure is taken away, the company will have to go to the wall."

Derek Cohen of Mercantile Securities says the step is in line with the latest tax philosophy of shutting everything that looks like a loophole even if it is damaging.

Companies that are most affected are those with large assessed tax losses, such as

'Hundreds of millions lost'

Anger over govt's tax clampdown

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B/Day 23/12/88

GRETA STEYN

CONFUSION and anger greeted government's announcement of an immediate crackdown on company tax avoidance schemes involving hundreds of millions of rands.

Some bankers and life assurers were adamant their schemes, which will now fall foul of the taxman, were not illegal. They said the Income Tax Act would have to be amended to outlaw these practices.



● KINGON

But Commissioner for Inland Revenue Clive Kingon said yesterday specific schemes would be challenged in the courts under the existing Act.

"Only if it emerges that the Income Tax Act is inadequate, will I recommend to the Minister that legislation be changed."

He said it was difficult to say how much revenue had been lost through these schemes. "But it probably runs into hundreds of millions."

Tax experts criticised the announcement as "legislation by Press release". It had created great uncertainty and it made planning a nightmare as it was not clear whether the Act would change.

Arthur Young tax director Charles MacKenzie said: "The Minister should back up statements with legislation, so that we know where we stand.

"The way the document is worded, it is a tactic to scare taxpayers while government tries to frame legislation."

A major criticism was the vague description of the schemes, which meant companies were not sure whether certain practices would fall foul of the law or not. It was especially the reference to financing by means of preference shares that caused surprise and uncertainty.

A senior banker said the Margo commission had found preference shares were not cause for concern from a tax collection point of view.

Fisher Hoffman Stride partner Graham Fryer said: "It is unthinkable that government will outlaw preference shares entirely. But I expect the taxman will crack down on companies using these shares as a substitute for overdrafts or other short-term financing."

The reference to variable rate debentures also elicited surprise. A banker said it was simply a mechanism used to structure loans, part of "everyday business". However, the crackdown on round-tripping of funds between financial institutions and the corporate sector had been expected.

CHRIS CAIRNCROSS reports from

● To Page 2

Anger over clampdown on tax schemes

● From Page 1

Cape Town business was especially angry over financing schemes being labelled "tax avoidance". Old Mutual chief actuary Theo Hartwig stressed that in the conduct of its business and the structure of its product range, OM's primary consideration was the longer term interests of its policyholders.

"Consequently it is not our practice to enter into schemes the objective of which is primarily to secure short-term tax advantages," Hartwig said.

Sanlam senior portfolio manager Dirk Vermeulen's said it was clear government intended to eliminate the tax-free element of preference shares, whatever their merits.

Government to clamp down on tax avoidance schemes

STr 22/12/88

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Pretoria Correspondent

The Government had decided to clamp down on certain tax avoidance schemes, Minister of Finance Mr Barend du Plessis said in a press statement issued in Pretoria yesterday.

He said certain tax avoidance schemes had been uncovered by the Commissioner for Inland Revenue, and legislation would be introduced to combat the schemes.

Mr du Plessis warned that people involved in such practices must take cognisance of the fact that their actions would not only be contested in court but also be combated by way of new legislation with effect from yesterday.

The tax authorities had found it more and more difficult to keep undesirable tax practices in check, especially when Parliament was not in session and amendments could not be introduced quickly.

Some of the schemes were new and others variations of schemes used in the past.

Some included dividend-interest swops and provision of finance by means of preference shares where a company having an assessed loss for income tax purposes obtained additional finance by means of the issue of redeemable preference shares rather than by taking a straight interest-bearing loan.

Mr du Plessis said another scheme included a device whereby the income of an operating company could easily be drained off to institutions which were either exempt from tax or whose taxable income was determined according to special rules.

Round-tripping of funds between financial institutions and the corporate sector, which was based on the difference in treatment between certain financial institutions and ordinary companies and on the fact that the latter was not subject to tax on dividends, was another scheme uncovered.

By means of these schemes, the Minister said, large sums of money were circulating between insurers and their subsidiaries, the banks and the corporate sector. The threat posed by the schemes to the corporate income tax base was great.

'Massive' losses in income tax

Govt puts squeeze on tax schemes

GOVERNMENT is to crack down on companies escaping the corporate tax net by outlawing tax avoidance schemes that pose a serious threat to the income-tax base.

Finance Minister Barend du Plessis said in a statement last night: "Investigations carried out by the Commissioner for Inland Revenue confirm the threat that these schemes pose to the corporate income-tax base is not only real but massive."



● DU PLESSIS

The schemes came to light after tax returns submitted during the past few months had examined. Some of the practices were new and others were variations on past themes.

Government gave notice of its intention to stamp out tax avoidance in a special Government Gazette today, listing four schemes:

- ☐ Dividend-interest swaps;
- ☐ Provision of finance by means of preference shares;
- ☐ Provision of finance by means of variable rate debentures; and
- ☐ Round-tripping funds between financial institutions and the corporate sector.

In the latter case, the scheme was based on the different tax rules applying to certain financial institutions, such as life assurers, and ordinary companies.

"It has been established that by means

GRETA STEYN

of these schemes very large sums of money are circulating between insurers and their subsidiaries, the banks and the corporate sector," the statement said.

The companies shared the tax savings by adjusting the relevant interest and dividend rates.

In the case of dividend-interest swaps, a company receiving taxable interest income ceded the income to a company that did not pay tax on interest earned, for instance an insurance company. In exchange, the insurance company gave up dividend income, on which it would have had to pay tax — while its partner in the exchange did not.

"In this way, the ordinary taxpaying company avoids tax on its interest income and receives instead dividend income which is exempt from tax in its hands," the statement said.

In cases where a company with an assessed loss for income tax purposes required additional finance, it frequently obtained this by issuing redeemable preference shares rather than by taking a straight interest-bearing loan.

This held tax advantages for both the "lender" and the "borrower". By paying a dividend, the borrower's assessed loss was reduced and the lender was not taxed on the income. The tax saved was usually shared by paying a lower rate of dividend than would otherwise have

● To Page 2

Govt puts the squeeze on tax schemes

● From Page 1

been the case.

In terms of the remaining scheme, the income of an operating company could easily be drained off to institutions that were exempt from tax or whose taxable income was determined according to special rules. Instead of the operating company obtaining capital by issuing equity shares, it issued variable rate debentures.

The return on the debentures were directly linked to the profitability of the company. Because its tax liability was reduced, the operating company could offer investors a better rate of return.

Du Plessis warned people involved in these schemes their actions would not only be contested in court but also be combated through new legislation with effect from today.

"As due notice has now been given of the proposed actions in this regard, such legislation, when it becomes operative next year, cannot be described as retroactive in the normal sense," he said.

The commissioner had already identified certain specific cases which, in his opinion, could be challenged under existing provisions of the Income Tax Act. He would raise assessments in those cases as soon as possible.

(320) Bfinancy 22/12/88

Can government afford mining tax proposals?

CHRIS FRAME looks at the report of the Marais Committee on mining taxation

SINCE the Second World War, government commissions throughout the world have struggled to create tax systems which are simple, efficient, effective and fair as between different taxpayers.

The recommendations of the various government commissions have tended to feed upon each other, producing different fashions and buzz words, such as "neutrality," "simplification," etc.

In the meantime, tax systems throughout the world have become increasingly complex, and to anyone who is prepared to read tax Acts, as opposed to commission reports, less and less inclined to give neutrality between taxpayers any sort of hearing at all.

This is a reflection in the fiscal systems of increasingly complex economies and increasingly differentiated and complex government economic objectives.

The Margo Commission felt itself unable to make firm recommendations in an area of great technical complexity and one of prime importance to the South African economy. The matter was left to a technical committee — chaired by Org Marais — which has produced well-researched and balanced recommendations but with the usual problem of affordability from the Revenue's viewpoint.

It has been recommended that the mining industry continue to write off for tax purposes 100% of capital expenditure in the year it is incurred. This contrasts with a three-year write-off in the manufacturing industry and a write-off over the economic life of the assets in other industries.

The committee takes the view that such a recommendation is reconcilable with the concept of neutrality between different taxpayers and should be implemented basically on the grounds of simplicity.

Perhaps a clearer view of such a conclusion is that the concept of neutrality between taxpayers must give precedence to the importance of continued investment in the mining industry, which is the mainstay of our export trade.

Interestingly enough, the introduction of the three-year write-off of capital expenditure in the manufacturing industry can also be justified by reference to simplicity but is a breach of the neutrality principle and can again only be justified by economic expediency.

Generally speaking, capital expenditure incurred by one mine cannot be offset against the income from another mine, due to the enormous impact this has upon current Revenue collection.

The technical committee expresses agreement with the Margo Commission that such "ring fencing" is a breach of the principle of neutrality and can result in a serious misallocation of resources.

Having recognised the breach of an accepted principle, the committee — like the Margo Commission — has had to accept that economics does not necessarily recognise fairness. The State simply cannot afford to dismantle the "ring fencing" concept, due to the impact this would have on State coffers.

The technical committee has shown an ability to arrive at a workable compromise by suggesting arrangements whereby, in certain circumstances, a portion only of capital expenditure can be offset against the taxable profit from another mine or a portion of that mine's profit can be allowed as a base against which the new mine's capital expenditure can be deducted.

This "flexible fencing" does, however, suffer from the fundamental difficulty that the Minister must decide on the precise tax relief to be made available to a particular project.

Quite apart from the problem of deciding between competitive projects and the breach of the concept of neutrality between taxpayers that this implies, the addition of yet another governmental discretion exercised through the fiscal system can hardly be applauded.

The technical committee must, however, be given full credit for courage in producing an answer which will probably prove unpopular but which will solve the economic problem posed to them.

The committee has recommended that new gold mines should not automatically be granted a capital allowance but that the Minister be given a discretion to grant to all new marginal mines a capital allowance based on the merits of each case.

The capital allowance referred to is an allowance calculated as a percentage of mining capital expenditure deductible over and above that expenditure.

The granting of such a discretion to the Minister in these circumstances has much less merit than the discretion discussed in relation to "ring fencing". It introduces an element of uncertainty and another element of negotiation into the mining tax system.

The fiscus has been generally unwilling to accept discretions of this kind, due to the difficulty in ever establishing a fair motivation for the exercise of the discretion.

The committee's recommendation that the present surcharges on all mining companies could be phased out will undoubtably receive the support of all sectors of the economic community. The application of surcharges to particular sectors of the economy is unfair and results in the misallocation of resources; it is certainly not an acceptable way of hiding an escalating total tax rate.

The acceptance of this recommendation alone will go a long way towards meeting the fiscal problems of the industry.

A special feature of the gold mining industry is the fact that it is taxed not by reference to the 50% company rate but by reference to a formula which essentially taxes rich mines at a high rate of tax and low grade mines at a low rate of tax. The State is concerned with the maximum use of its resources rather than profitability.

The export of gold impacts upon the balance of payments, regardless of the rate of return to the miner, and it is the balance of payments which governs the rate of economic growth in SA.

The companies operating rich gold mines have argued that the formula tax results in the misallocation of resources.

The technical committee have recommended that the formula system remain but the average tax rate resulting from its application be as near as possible to the ordinary company tax rate.

A veritable Solomon's judgment has lessened the burden on the rich gold mines while still retaining some relief in respect of the low grade mines. The State must bear the difference.

The recommendation by the technical committee that lease payment to the State should be abolished is really based upon the fact that such payments are to all intents and purposes merely another discriminatory tax levied on the mining industry.

It is therefore somewhat disturbing to note that the Inland Revenue representatives on the committee reserve the right to consider the introduction of an across the board resource rent tax if lease payments are withdrawn.

Such a tax is envisaged to relate to gross revenue from all minerals, including existing mines which are not at present subject to the payment of lease consideration.

This reservation, along with various transfer duty reservations, may give rise to doubts as to the ability of government to accept the full impact of the recommendations in their revenue base.

The recommendations of the Marais Committee represent a new and encouraging trend in our tax reform process. They represent an ability to compromise and present practical solutions to problems readily amendable to the application of general principle.

However, the factor which reduced the Margo Commission to an academic exercise is still relevant to the Marais Committee. Is it worthwhile putting forward proposals for reforming the fiscal system without reference to government expenditure?

The Marais recommendations seem to have the support of all parties in principal — but can the government afford it?

☐ **CHRIS FRAME is a partner at Price Waterhouse.**

Sovereignty and the people

LETTERS
PO Box 1138
Jo'burg 2000

Dear Sir,

IT IS CLAIMED by Frances Kendall (Business Day, November 18) that dividing the country into a large number of semi-autonomous cantons will result in sovereignty being vested in the people rather than the State.

I don't see it. Surely being dominated in a small state — e.g., Lesotho or Lichtenstein — allows me no more sovereignty than when dominated in a large state — e.g., the US. I would expect the opposite — that is, that diverse interests are more likely to be protected in a bigger state. Why else would mankind find a need for a League of Nations and, when that fails, a United Nations?

Kendall goes on to suggest it is desirable to confine the powers of central government to matters such as finance, defence and foreign affairs, so I suppose each of the 200 or so cantons will have its own post, telephone and television network, its own rail and road network and airways, its own education system, police and judiciary.

I'm sure if we polled the people of any country on what powers should be devolved from their central government, these would be 5% of the total at most, which is what is now being considered in SA, for example.

The dividing line between central and local government will shift slowly over the years as conditions change. It seems that economics rather than ideology plays the greatest part in the long term. So it is that we are currently being conditioned into reversing the proliferation of bureaucracies in the homelands, the latter very close to cantons, in concept. There is also a strong call for a greater degree of centralisation in education.

In SA we have four provinces and a dozen or so homelands with various degrees of self-government. Multiply this by 10 and you get some idea of the difficulties involved in sharing the fiscus between the cantons.

A canton system can have politically strategic value, which is perhaps why it has been included in the principles of the Independent Party. One can imagine that, with carefully placed boundaries, some cantons could have white majorities — at least until their popularity and needs attract others.

C L KIDSON
Edenvale

FOREIGN EXCHANGE/David de Kock

Govt outlaws tax avoidance schemes

Cape Times
22/12/88
320

From GRETA STEYN

JOHANNESBURG. — Government is to crack down on companies escaping the corporate tax net by outlawing tax avoidance schemes posing a serious threat to the income tax base.

Finance Minister Barend du Plessis said in a statement last night: "Investigations carried out by the Commissioner for Inland Revenue confirm that the threat which these schemes pose to the corporate income tax base is not only real but massive."

The schemes came to light after examining tax returns submitted in the past few months. Some of the practices are new and others are variations of past schemes.

Government gave notice of its intention to stamp out tax avoidance in a special Government Gazette today, listing the schemes drawing attention.

Four were mentioned:

- Dividend-interest swaps;
- Provision of finance by means of preference shares;
- Provision of finance by means of variable rate debentures;
- Round-tripping of funds between financial institutions and the corporate sector.

In the latter case, the scheme is based on the different tax rules applying to certain financial institutions, such as life assurers, and ordinary companies.

"It has been established that by means of these schemes very large sums of money are circulating between insurers and their subsidiaries, the banks and the corporate sector," the statement said.

The companies shared the tax savings by adjusting the relevant interest and dividend rates.

In the case of dividend-interest swaps, a company receiving taxable interest income cedes the income to a company which does not pay tax on interest earned, for instance an insurance company.

In exchange, the insurance company gives up dividend income, on which it would have had to pay tax — while its partner in the exchange does not.

"In this way, the ordinary taxpaying company avoids tax on its interest income and receives instead dividend income which is exempt from tax in its hands," the statement said.

In cases where a company with an assessed loss for income tax purposes requires additional finance, it frequently obtained this by issuing redeemable preference shares rather than by taking a straight interest-bearing loan.

This held tax advantages for both the "lender" and the "borrower".

By paying a dividend, the borrower's assessed loss is reduced and the lender is not taxed on the income.

The tax saved was usually shared by paying a lower rate of dividend than would otherwise have been the case.

In terms of the remaining scheme, the income of an operating company can easily be drained off to institutions which are exempt from tax or whose taxable income is determined according to special rules.

Instead of the operating company obtaining capital by issuing equity shares, it issued variable rate debentures.

The return on the debentures were directly linked to the profitability of the company. Because its tax liability is reduced, the operating company can offer investors a better rate of return.

Du Plessis warned persons involved in these schemes that their actions would not only be contested in court but also be combated through new legislation with effect from today.

"As due notice has now been given of the proposed actions in this regard, such legislation, when it becomes operative next year, cannot be described as retroactive in the normal sense," he said.

The Commissioner had already identified certain specific cases which, in his opinion, could be challenged under existing provisions of the Income Tax Act. He would raise assessments in those cases as soon as possible.

Confusion surrounds crackdown

Finance Staff

Confusion surrounds the government's announcement yesterday of an immediate crackdown on company tax avoidance schemes.

The Minister of Finance, Mr Barend du Plessis, said yesterday certain avoidance schemes had been uncovered by the Commissioner for Inland Revenue, and legislation would be introduced to combat the schemes.

He warned people involved in such practices to take cognisance of the fact that their actions would not only be contested in court but also be combated by way of new legislation with effect from yesterday.

Some of the schemes were new and others variations of schemes used in the past.

But accounting firms approached today doubted whether leglisation would be introduced before June, July next year.

"There is a lot of uncertainty about the nature of changes to be introduced, but we believe government is merely trying to frighten companies at this stage," said a partner at one accounting firm.

"Government's document is badly worded. The description of the schemes is very vague, so much so that companies won't be able to tell from the document whether their schemes fall foul of the law or not.

"We believe government will investigate assessed losses rather than attack the schemes themselves."

MINE TAXES 320 FM MC 9/12/88

Bullish effects

Gold share price levels on the JSE were virtually unchanged during Tuesday's trading after release of the Marais Committee's findings on mining taxation — despite general reaction that the proposals are positive for the industry.

Reasons for the cautious reception are that the recommendations still have to be accepted by the Department of Finance, while the proposed seven-year phase-in period means there will be no short-term gains.

Should it be accepted, major beneficiaries will be the high-grade, quality gold mines such as Driefontein, Kloof and Hartebeestfontein because these currently pay the highest levels of tax.

Preliminary calculations from one analyst are that full implementation would increase Dries' earnings by 35%, Harties' earnings by 43% and Kloof's earnings by 21%. The changes are far less marked for the medium quality mines with only a 6% improvement in earnings calculated for Libanon, while there will be little or no change for marginals such as Grootvlei, which pay no or minimal tax.

Conclusion drawn by a number of analysts is the proposals reinforce their recommendations over the past 12-18 months that investors should concentrate on the top quality mines and avoid the marginals.

Lowering the industry's average tax rate will result in a greater dividend flow over time from existing mines. That could improve general investor sentiment towards the industry, while the mining houses will have more funds to invest in new gold mines, of which there could be some 15 in the pipeline.

The State stands to make major direct tax gains as a result, as committee member Professor Danie Krige points out. He calculates the present value to the State in real terms of 15 new gold mines at R60bn using an optimistic grade scenario, and R20bn using a pessimistic grade scenario.

A key issue is still the ringfencing of mines for tax purposes which the Marais Committee says should continue but: "be subject to exceptions on a more flexible basis than at present." Ringfencing, which has been strictly applied for the past five years, rules out tax benefits from the merger of new with existing mines, such as Gencor's linking of Beatrix with Buffelsfontein.

Anglo American Corp group tax consultant Marius van Blerk believes the proposals allow the Government Mining Engineer leeway in deciding how to deal with projects which are "touch and go" — not good enough to stand on their own but also not hopeless cases.

There could be quite a few of these. An obvious one is Gencor's Poplar mine which chairman Derek Keys said earlier this year was a non-starter without a suitable tax arrangement.

Van Blerk says: "Ideally, the ringfence should go, but the committee's proposal ranks as second prize. The timing is appropriate because there are quite a few projects bubbling away at present which can be used to put these recommendations to the test."

☐ (See *Leaders*)

Brendan Ryan

9/12/88

TAXATION (320) FMMC

Another straw

Rumours of a larger than expected 1988-1989 Budget deficit are creating uncertainty in the capital market. The authorities hope last week's announcement — of a 9c/l increase in tax on petrol **(see *Business*)** to fund the deficit — will allay fears of further government borrowing. The announcement may or may not calm the capital market. It is certainly disturbing motorists.

Apart from its impact on commerce and industry and implications for inflation, the new tax will add to the load carried by already overburdened individual taxpayers. If one looks no further than direct taxation, the position of the individual is dismal and deteriorating **(see graph)**.

Says Rand Merchant Bank economist Rudolf Gouws: "The ratio of direct personal tax to current income has climbed from under 5% in 1961 to 11,5% in 1987. And the contribution of personal taxpayers to total Revenue receipts rose from 24,8% to 32,2%."

The main reason for the growth in tax is the rate of inflation which, under a system of progressive taxation, induces fiscal drag. Says Arthur Young's Ian MacKenzie: "Despite the lowering of tax rates and spreading of tax brackets over the last two years, most taxpayers are paying a higher average rate.

"Take, for example, a married man with two children earning R20 000, R40 000, or R60 000 in 1988. A 15% increase in salary to about R23 000/R46 000/R70 000 will push his average tax rate up from 10,5%-12,6%, 22,7%-24,8%, 29,5%-31%. So his real after-tax income is correspondingly lower."

Nor is direct taxation the only contribution individuals make. Indirect taxes are levied via 12% GST, import surcharges ranging from 10%-60% and 22,9c already embedded in the price of every litre of petrol.

Then there are invisible taxes. These include RSC levies, minimum tax on companies and Customs & Excise payments — all of which are passed on to consumers — as well as taxes on taxes, as when GST is levied on cigarettes and alcohol which already include a cut for the Receiver.

Visible and invisible, taxes have affected the ability of individuals to spend. Gouws estimates that, in the Eighties, growth in real personal consumption expenditure has averaged only 1,9%, compared with 4,6% during the Sixties and Seventies.

Perhaps more important, it has reduced the capacity of people to save.

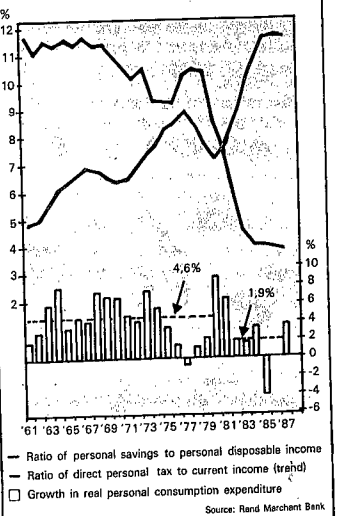
"In 1961," says Gouws, "personal savings amounted to nearly 12% of personal disposable income (PDI). This ratio started declining towards the end of the Sixties and plunged, since 1978, to less than 4% of PDI. In the period, the proportion of personal savings to total domestic savings shrank from 36,6% to 7%."

However, these statistics minimise the situation, as they include contractual savings. Sanlam economists estimate that in 1986, more than 800% of personal savings were contractual — so there was massive negative growth in all optional forms of savings.

This damaging propensity to *dissave* reflects the underlying distortions created by constantly rising rates of tax to fund ever-increasing government expenditure. ■

Crossing paths

Savings vs tax



(320) B/day 9/2/88

New tax would give mining a golden boost

KAY TURVEY

SOUTH AFRICA's mining industry has received its biggest boost in years with the publication this week of the Marais report on mining taxation.

After years of high taxation, tax surcharges, escalating costs and the Minimum Companies Tax introduced in this year's Budget, the Marais report proposals would reduce tax and encourage investment.

However, gold mining houses looking to protect vested interests are divided in their views on how taxes should be lowered, although independent tax experts view the proposals as an "excellent compromise".

Deputy Finance Minister Org Marais, who chaired the technical committee, said the difficulty in preparing the report was how to balance the interests of the low grade mines, the richer mines and the Receiver of Revenue.

If the proposals are phased in over a six- or seven-year period, as recommended, the report estimates the loss to fiscus at about R150m to R200m in the first year. However, this is expected to be made up through the multiplier effect on the economy and an increase in indirect taxes — such as VAT, to be introduced next year.

While the Marais proposals would benefit mining in general, most of the report focuses on gold mines. The report is intended to put SA's faltering flag-ship industry back on a strong growth path. Its recommendations have still to go before the Permanent Tax Committee, but indications are that the proposals will be included in next year's Budget.

A fundamental objective of the committee was to obtain tax neutrality between various industry sectors. The mining industry currently pays tax at a higher rate than in any other country, hindering its competitive position.

The report proposed that all non-gold mining companies should pay tax at the standard 50% company rate, while gold mines retain formula taxation. Consideration was given to lowering the current formula tax for gold mines or imposing a flat rate, but the commission opted for the former, cutting the maximum rate to 61% from 78%.

The proposed revised formula would mean profitable mines paying a little less tax and marginal ventures a bit more.

Lower grade mines favour a formula based on profits, whereas the richer mines go along with the Margo Commission's recommendation for a flat rate which would allow them to pay less tax. But Marais said the committee's task was to ensure all parties, including the fiscus, did not lose out.

A gold analyst observes that the proposals would favour mining houses with profitable high-grade mines, such as Goldfields and Anglo Vaal, more than others. Mines such as Driefontien and Kloof in the Goldfields stable, and Hartebeesfontein and ET Cons in the Anglo Vaal camp, would benefit most from the flattening of the tax formula curve.

Mining houses with a cross-section of mines, such as Anglo and JCI, are less affected.

But as Price Waterhouse partner Chris Frame points out, the report is an effective compromise. The lowering of the tax rate, coupled with the elimination of mining lease payments and surcharges, should stem the decline in the industry.

Yet Gencor, with its predominantly lower grade mines, would be paying slightly more tax as the tax curve flattens, which is why Gencor supports a formula as opposed to a flat rate.

The case for formula tax, which is in effect a progressive tax on profits, is that it encourages the mining of marginal ore, by lowering the ore pay limit of all gold mines which are making taxable profits.

It also provides assistance to mines which need to mill unpayable ore while developing access to payable ore. The report said: "The advocates of the formula argue that its benefits outweigh its cost.

"Where the formula is used to promote the extraction of low-grade ore within a developed section of a mine, the marginal cost is low and the capital already spent in developing the section is a sunk cost. The social return on capital invested in mining is increased by extending the lives of the mines.

"Furthermore, the foreign exchange generated by maximising gold production in the longer-term has important positive linkages for other sectors of the economy."

On the other hand, Goldfields — with its profile in high grade mines — prefers a flat tax, as although the group benefits from a reduced formula and flatter tax curve the gains would be even greater if a flat rate were introduced.

Goldfields executive director Bernard van Rooyen said the gold mining industry had been over-taxed for a long time — well over 80% on a marginal tax rate — and the proposals went some way to restoring tax neutrality.

Van Rooyen served on the technical committee, and Goldfields' divergent views are expressed in the report. However, the group ultimately gave its qualified support to the reduced formula, saying it would not oppose its introduction "if this represents the only means by which gold mining taxation can be aligned more closely to the company tax rate".

Goldfields' submissions included in the 200-page report highlight that a flat tax on gold mines could encourage foreign investors to participate more keenly on the JSE, although they concede evidence is not clear in this regard.

Investors purchase gold shares because of attractive current dividend yields and in anticipation of a capital profit if the gold price rises, Goldfields submits.

It says the formula tax and lease payments reduce the responsiveness of after-tax profits to the gold price and therefore render South African gold shares less attractive to foreign investors, who can achieve better gearing to the gold price through North American and Australian stock.

Goldfields calculated that more mines would benefit from a 50% flat tax than would be penalised. After eliminating cross holdings, mines accounting for 78% of the market capitalisation of listed gold shares would gain.

The big plus of a flat rate is its simplicity. The Margo Commission recommended a flat rate, as the major problems facing the formula are the high marginal rates and the distortion created.

The report set out the advantages of a flat tax, which it argued should give more stability to State income than the formula tax, although this would lead to a decrease in tax receipts.

Further, a flat tax provided for tax neutrality given similiar risks and treatment of capital expenditures, although it would not recognise possible inter-industry risk differentials.

"An advantage is that the fiscus and the shareholder receive the same returns and therefore projects developed by mines, which are already taxpayers, are more likely to be undertaken on their own merits and not to take advantage of tax benefits," the report said.

Self-interested murmurings from mining houses aside, the report has been widely acclaimed as a significant piece of work, which could have far-reaching consequences for the local mining industry, including the opening of new mines.

It also poses significant threat to food prices

Star 12/2/84 320

By Sven Forssman

The introduction of VAT poses a new and significant threat to food prices, Tiger Oats executive chairman Robbie Williams says in the annual report.

He says approximately 70 percent of food turnover is at present exempt from GST, but there are indications that, unlike in the UK, food will not be exempt from VAT.

"Since the proportion of income that must be allocated to food purchase is far greater for the less affluent sections of our population, it follows that they will be the hardest hit.

"If, as is also indicated, this is then coupled with a removal of the subsidies on bread, their position will become even more parlous.

"It is essential that these aspects are carefully considered in terms of their impact on the present social situation before any definite moves are made or further policy statements issued."

Looking at the agricultural scene Mr Williams says farmers still had to contend with a notoriously fickle climate and face world markets distorted by the protectionist agricultural policies of wealthy areas like the United States and European communities.

"Ironically," he says, "a wheat or maize surplus in South Africa could become an embarrassment instead of a blessing, as the true value cannot be realised on world markets affected by the dumping of surpluses of the wealthy nations.

"Even industrialised nations are not able to afford the expensive inefficiency of subsidising products their consumers do not need, but the consequences for farmers in developing nations such as our own are severe when substantial surpluses are sold into world markets.



Robbie Williams

Tax reform proposals submitted to board

CHRISTOPHER TUCHER

THE Sunnyside Group, a coalition of 40 agencies promoting small business, has submitted sweeping tax reform proposals to the Competition Board, group chairman Keith Foster announced yesterday.

The proposals recommend that businesses with turnover of less than R250 000 be exempted from GST and that the Standard Income Tax on Employees (SITE) be waived for workers earning less than R12 000 a year. Very small businesses would also be exempt from RSC levies.

Foster said tax legislation made "criminals" of thousands of informal sector operators who did not keep tax records. Revenue loss from Sunnyside's proposals would be negligible.

Tax reform would be only the first of a series of areas in which the group would submit proposals to government. Areas where deregulation was needed included licensing, health standards, transport and the control boards.

Cheque racket swallows up R3,5-m

Sowetan 15/12/88 (320)

MORE than 8 000 tax rebate cheques involving R3,4 million went astray during the past eight months as the never-ending cheque cashing racket continues to plague the Department of Inland Revenue.

By SY MAKARINGE

This was confirmed yesterday by Mr Chris Dempers, the department's Chief Director of Operations, as the *Sowetan* continues to be flooded with complaints from black taxpayers who reiterated their call for the introduction of a fool-proof system to ensure the safety of their money.

Smashing

Many said they were extremely inconvenienced as they waited for many months in vain for their rebates to be paid out.

This disclosures comes despite the smashing of an alleged syndicate of racketeers by the John Vorster Fraud Squad about six months ago.

Although the Receiver of Revenue claims to be capable of recovering most of the money from financial institutions which unwittingly accept the cheques, the taxpayer will pay for R30 000 which could not be recoverd.

Mr Dempers confirmed yesterday that the department failed to recover an amount of R13 954 in 1987 and R16 227 during the past eight months as the business which accepted the cheques could not be traced.

"Taxpayers will not lose their money. The money that was not recovered will be paid for by the general public," he said.

Mr Dempers said, in a bid to stop the racket, the Receiver of Revenue started paying out the rebates into the taxpayers' banking accounts as from the beginning of last month.

THE MARAIS REPORT

A slightly tarnished jewel

■ Mining taxation needs far less attention than the slashing of tax rates

Those who have had the inclination to read the 204-page Marais Committee report on mining tax are a little more perplexed than they expected to be. For while the committee wants a simplified mining tax regime, making mines more like companies, it also glosses over some fundamental points.

Also, while it recommends a dilution of mining tax levels, the fine print reveals that Inland Revenue is keeping some new taxes in reserve. Simply put, Revenue agrees with everything in Marais, but has used it as an opportunity to establish — if need be — a totally new tax base.

Applying Marais would mean abolition of mining surcharges and lease payments, reduction of the gold mine top marginal rate from 79% to 61% (making an effective average 50%, as in company tax), and keeping "ring fencing" (which broadens the tax base of the mining sector).

With retention of the "gold tunnel" in the gold mine formula tax and the 100% capital redemption allowance, the fiscus, on a net basis, loses out. This — the lack of revenue neutrality — is the heart of the Marais report. In the short to medium term, an insatiable fiscus would be left short-changed.

The high probability is that mining tax payments, on the Marais system, would swell materially in the long term, even on pessimistic forecasts. But this possible result of ultra long-term capital expansion, initiated by lower tax rates, is not a scenario Pretoria will find easy to live with.

The Chamber of Mines — at least unofficially — doubts that the Marais recommendations will be accepted, because of the lack of revenue neutrality. And in the context of global tax reform, the findings anything but follow the general trend.

The successful international tax formula of the Eighties has been a reduction of business and industry *allowances*, thereby increasing non-personal tax payments, offsetting much lower personal tax rates. But SA now has a record overall tax burden, in real and nominal terms. Our mines are already the most highly taxed in the world. Effective tax rates are at historic highs, when personal and non-personal taxes are combined.

While Marais recommends a substantial reduction in the tax burden on the sector, it leaves the 100% capital redemption allowance untouched. Indeed, Marais goes little further than Margo, other than giving final recommendations. Moreover, it leaves untouched some vital features that form the backbone of many SA mining decisions.

Perhaps the most significant omission relates to the phenomenon of mining investment companies, which can make significant *profits* from the tax system.

In taxation, the biggest savings are made when rates are high and allowances large. Which is possible here.

It may seem puzzling that when tax rates are high, astute tax planners can save the most in cash terms. The reason is simple.

A 100% one-off capital redemption allowance at, say, 50% tax saves the company half the cash invested. With tax of, say, 79% (as at rich gold mines), a mine needs to invest only 21% of the sum in cash terms.

The balance is effectively paid for by the fiscus. Mines reaping this benefit must make profits at least equal to the level of investment made — in theory at least. In practice, for many years mining investment companies co-ordinated various ventures, related only by common shareholders.

As pointed out by the Margo Commission, such a company can still reduce the income of a profitable mine by deducting:

☐ Its own capital redemption allowance; and

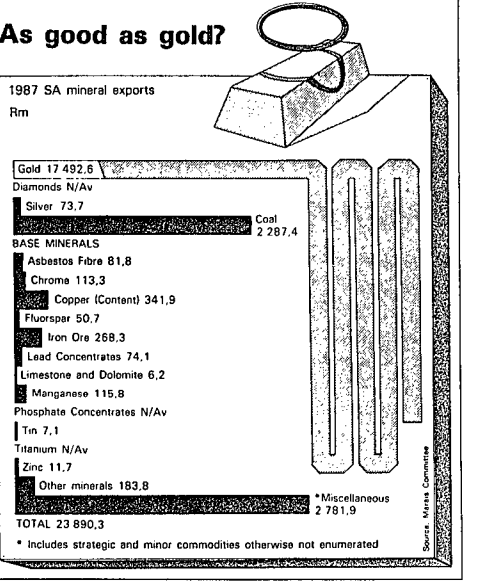
☐ Working losses of a developing mine.

Its returns then show a very small taxable income, or even a small loss. But this only half completes the magic. If the company has funded the expansion occasioning the capital redemption allowance from borrowings, it may still have sufficient *cash* to pay a substantial dividend.

In other words, the company, whose mines may make substantial use of the infrastructure, pays little (if any) tax, but material dividends. While this method of mine financing was raised by Margo (and left un-



Price Waterhouse's Chris Frame ... distorting economic conditions



touched, without the hint of a recommendation), it is totally ignored by Marais.

Again, such financing is possible despite the introduction of ring fencing to mining in December 1984. The change provided that capex by one mine would rank for deduction from only that mine's income. But, as experience has shown, in practice this has operated as only a partial ring fence.

Marais recommends that ring fencing be retained, subject to a new discretion for flexibility. An exemption available in the 1984 legislation was aimed almost exclusively at mines that fail.

Ring fencing, for all its apparent logical foundation, is resisted by hard-core tax reformists. For it is seen as — and probably is — a distorting factor on the economic decisions of a company.

Says Price Waterhouse's Chris Frame: "A conglomerate, for example, considers total cash flows from its many kinds of operation. If it has interests in, say, mining, manufacturing and food distribution, why should the tax system intervene in a decision to expand its mining interests? A tax ring fence distorts — often significantly — decisions that should be based, as purely as possible, on economic grounds only."

Since 1984 companies that have been able to sidestep the ring fencing law have often felt forced into making new mining investment that qualifies for the 100% capital redemption allowance. Cash flow savings at very high tax rates are practically irresistible; how much new mining investment has been for this reason alone?

Perhaps Marais ignored this vital area in detail because much mining is so deeply involved in such financing that any suggestion of a change would start a row of unprecedented proportions.

In practice, the tax structure of a mine is negotiated by a few representatives of the private sector, and a few from the Department of Finance. So each mine virtually has its own "tax system." This is why, to an outsider, SA mining tax is strewn with anomalies and contradictions.

Certainly, this was the conclusion of the Margo Commission, which positioned itself as an "objective" outsider.

But while both Margo and Marais found it convenient to look at the salient, objectively verifiable features of mining tax, both, aware of what happens in practice, simply did not acknowledge it. It is significant that what is printed in the Marais report is agreed to by Inland Revenue — *subject* to its right to impose two new imposts:

- ☐ A resource rent tax; and
- ☐ Transfer duty.

In broad terms, it is proposed — but not recommended — that these taxes would be imposed across the board. Marais won't speculate on the possible rates. But if the taxes are imposed — in the interest of preserving revenue neutrality — precedents show clearly that the rates will rise steadily.

Very soon, the industry could end up paying what it did before "tax reform" changed the system.

The upshot is that acceptance of Marais in total will be pointless, unless there is a long-term guarantee on the rates of any possible new taxes.

In summary, while Marais appears to have reached the right conclusions, it may have done so for the wrong reasons. Leaving an open window to Revenue is a mistake. It's a pity, too, that Marais leaves unsettled the questions of writing off mineral rights and whether prospecting should be encouraged by the tax system.

But for Marais to ignore the differences between the official mining tax system, and what really happens, is tragic. ■

WHAT THE TAX CHANGES MEAN FOR GOLD PROJECTS

The Marais Committee recommendations

Conversely, a move away from imme-

MONEY MATTERS Derek Tommey

We can 'save' SA, literally

FOR THE past two months, senior Treasury officials have been working hard at planning next year's Budget — deciding what funds to allocate to various departments and which taxes to change or impose.

One area I hope they are looking at is the provision exempting the first R1 000 of savings interest from tax. In today's conditions, the R1 000 ceiling is ludicrously low, and offers little incentive to save.

South Africa's high inflation and high income tax rates make it extremely difficult for an individual to receive a positive return on his savings.

This holds true even in light of recent interest rate rises. At present, financial institutions offer 14,5 percent on 12 months' fixed deposits — one of the highest rates for several years.

But anyone investing in these deposits and who has a marginal tax rate of more than 14 percent (that is anyone earning more than R1 000 a month) will still receive an after-tax return below the 12,5 percent inflation rate. So in real terms, he gets poorer. Inflation shrinkings the value of his capital, while his interest is not large enough to compensate.

The situation is worst for people in the highest tax bracket — the people who should be given the greatest encouragement to save. Anyone in this category who put their money into these 14,5 percent fixed deposits will get a net after-tax return of a mere 8 percent.

This is less than two-thirds the current inflation rate. It means a wealthy man, when investing in a 14,5 percent fixed deposit, finishes up 4 percent poorer a year and with no income.

So it is not surprising to find that in the third quarter of this year, South Africans, according to the Reserve Bank, were saving less than one percent of their personal disposable incomes.

This is an intolerable situation for a developing country which badly needs savings, and should not be allowed to continue.

There can be no doubt that the quickest and easiest way to change this situation would be to increase the amount of interest income exempt from tax.

At existing interest rates a saver can build up a nest egg of R6 800 on which income is tax-free. If his nest egg exceeds this amount, the interest in excess of R1 000 is subject to full tax and the saver then moves into a loss situation.

This allowable nest egg of R6 800 is also far too small when one considers that Cabinet ministers these days believe they need an annual income of R120 000 on which to live.

South Africans, especially those in their 50s and older, are wondering what they are going to live on in their retirement. They should be allowed to build up a tax-free nest egg far larger than this. A figure of R50 0000 for a start would not be excessive, seeing that investors are still allowed to put R150 000 into fully tax-free building society and Post Office deposits.

Of course, one must expect resistance from the authorities. They can be expected to argue that they cannot afford such tax concessions.

But tax policy involves far more than merely balancing the books. It should be aimed at improving the lot of everyone, and, in the conditions that exist in South Africa today, an increase in personal savings would achieve this.

More savings would lead to less consumer spending, reduced inflationary pressures, more money for investment and lower interest rates.

What the Government would lose in tax concessions could be more than made good by the resultant increased tax revenues and reduced spending on the public debt.

Increased savings would lead to lower mortgage rates, a reduction in the rate of increase in the consumer price index, and reduced the need to increase public service salaries.

Above all, it would lead to conditions in which entrepreneurs would be more willing to take risks, creating more investment, more jobs and a more prosperous South Africa.

Mr Du Plessis, please think hard about this.

Asia's appetite for gold knows no limits

Star 17/12/88

HONG KONG — Nowhere is the glitter of gold more alluring than in Asia. Central banks buy it. Housewives hoard it. Smugglers sneak it across borders.

Asia's hunger for gold is so great that it will make up at least 75 percent of non-communist gold demand in 1988. In 1989, it will take 85 percent, dealers say.

The demand from the region supported gold prices this year, gold analyst Timothy Green told a recent investment conference in London.

Taiwan's central bank led the buying spree, precious metals analysts say, and the island will be the world's largest gold importer this year.

In the first 10 months of 1988, it imported 311 tons, official statistics show, outstripping Japan's projected 300 tons for the whole year.

The Taipei bank bought to diversify the island's foreign exchange reserves of $74 billion, which are now mostly held in cash and low-yield US government securities.

"We're talking about Taiwan being a 500-ton market this year in official and unofficial purchases," says Jonie Lai, Hong Kong-based Southeast Asia manager for the World Gold Council.

"If official figures put gold imports at 311 tons, you have to ask yourself where the extra 190 tons comes from. The answer is most of it comes from Hong Kong."

Hong Kong's bullion and coin imports in the first 10 months of the year reached a record 378 tons, compared with 117 in the same months of 1987 and 146 in all 1987, she says.



No prizes for guessing how much this little lot is worth

But local demand is small. The bulk of Hong Kong's gold imports move illegally into Taiwan.

Taiwan's gold purchases from the US slowed in July after Washington complained that the precious metal was showing up in Taiwan's trade figures and artificially cutting its trade surplus with the US.

Following Taiwan's brush with US trade watchdogs, South Korea decided to scrap a plan to import 20 tons to reduce the nation's growing current account surplus.

Economic Planning Board officials say they have abandoned the import plan because it is not the fundamental solution to South Korea's trade problem.

They say South Korea has imported 24 tons of gold so far this year and that an estimated 20 to 30 tons were smuggled in.

In July, South Korea abolished import restrictions and slashed tariffs on gold, but left a high tax intact.

"As long as we have high domestic taxes on gold, consumption is unlikely to increase," says an Energy and Resources Ministry official.

The yen's strength against the dollar has made gold seem cheap in Japan. At the Tokyo Commodity Exchange for Industry, prices in October and November were at three-year lows.

Japan bought 610 tons of gold in 1986 to mint coins to celebrate the 60th year of Emperor Hirohito's reign. Imports dropped to 239 tons in 1987.

Gold is laden with intrigue in India and China, where smuggling and black marketeering are rampant.

China is Asia's biggest gold producer.

It keeps output figures secret, but a senior official at China Gold Corporation says the nation plans to double its gold output within five years.

An analyst says China's gold production is expected to rise to 100 tons by 1990 from a scant 30 in 1980.

But gold mining is hindered by low technology, lack of trained workers and rampant smuggling, press reports say.

Gold importation is illegal in India, where production is a single ton a year and demand is an estimated 250 tons for fiscal 1988/89 ending in March.

Smugglers are expected to bring in about 150 tons, against 110 tons the previous fiscal year. Gold from recycled jewellery fills remaining demand, says Shantilal Sonawala, president of the Bombay Bullion Association.

"Even more gold could be smuggled in this year because we expect to see improved economic activity in most Indian villages," he says. — Sapa-Reuter.

Actstop 'harassed, raided' by police

Star 19/12/88

By Sally Sealey (327)

Actstop, the organisation fighting evictions and other tenant-related problems in the Johannesburg area, has been subject to a number of police raids and police harassment of tenant committees members in the past two weeks, says a member of their publicity secretariat, Mr Cas Coovadia.

In a statement Mr Coovadia said: "The past two weeks have been marked by persistent attempts on the part of security police from John Vorster Square to harass and intimidate Actstop members.

"A number of flat committee members have been interrogated and their flats have been searched."

Mr Coovadia said a member of the publicity secretariat, Mr Pressage Nkosi, has had at least three visits.

The police public relations division, Pretoria, said: "We have to advise that this office does not comment on routine police duties."

Star 19/12/88 (320)

R66-m in tax refunds is in the post

A Christmas 'gift' from the Receiver

By Paula Fray

About 120 000 taxpayers are getting a welcome Christmas present — the Receiver of Revenue has sent out refunds totalling R66 million this month.

About 40 000 South Africans can expect their "gifts" — totalling R24 million — this week, according to Mr Des Goosen, director operational development of the Internal Revenue Branch.

A further 80 000 taxpayers received their refunds, totalling about R42 million, earlier this month with cheques dated December 6 and 12.

The department has also been successful in recovering about R3,4 million missing when 8 152 refund cheques were stolen over the past eight months.

Several cases were still being investigated and only R16 227 could not be recovered. In 1987, R13 954 was not recovered, Mr Chris Dempers, the Department of Revenue's Chief Director of Operations, said.

"The taxpayers whose cheques were stolen will not lose their money. The money that was not recovered will be paid for by the Inland Revenue," he said.

The money was recovered from parties who cashed the cheques — normally businesses who received payment for goods and then paid out the balance in cash.

Outstanding forms

About 10 percent of the 1,8 million assessment forms sent to salaried taxpayers this year are still outstanding. The 180 000 outstanding included people who had died or left the country, Mr Dempers said.

Mr Goosen said they hoped to have rounded off about 90 percent of last year's tax assessments for salaried taxpayers by the end of 1988.

The remaining 10 percent should be completed by January to enable the tax authorities to enter the new year with a relatively clean sheet.

Mr Dempers was optimistic that more salaried taxpayers would enter their bank account numbers on the assessment forms so that Inland Revenue could put refunds directly into their acounts.

Some account numbers were incorrect this year and were rejected by banking institutions. Mr Dempers said he hoped people would furnish the correct information next year.

Receiver sends out R66m 'gift'

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Mr Dempers said he hoped people would furnish the correct information next year. — Sapa

Small business group calls for tax reforms

A COALITION of 40 agencies promoting small business in South Africa has called for tax reforms which would prevent hundreds of thousands of informal sector operators being regarded as 'criminals simply because they do not keep tax records.

The Sunnyside Group, which represents more than 150 000 small enterprise owners, has submitted updated tax reform proposals to the Competition Board, following the rejection by the government of the Margo Commission's proposal for a Comprehensive Business Tax and its introduction of the new Standard Income Tax on Employees.

The Group's new proposals suggest exemptions on record-keeping requirements for very small businesses, since informal sector entrepreneurs cannot cope with the burden of keeping a multitude of records.

Ian Hetherington, co-ordinator of the Sunnyside Group's Special Focus Team on taxation, points to the compliance costs small, start-up entrepreneurs have to meet "in terms of registering, licensing, filling in tax forms by the dozen, keeping 30-column wage registers, satisfying industrial councils, keeping record for UIF and Workmen's Compensation, to mention just a few". These he says, can sink many a small business, where the owner has to be a jack-of-all-trades.

"Small businesses run the risk of being registered, recorded, taxed, licenced, surveyed, inspected, exempted, confiscated, approved, permitted, interviewed, fined, bent, mutilated and stapled to death," Hetherington said this week.

The Sunnyside Group hopes its tax reform proposals will reduce some of these pressures. It believes the loss of revenue to the government would be negligible while the efficiency of the tax collection process would be enhanced.

The agencies represented in the Sunnyside Group include representative black business and consumer organisations as well as private sector organisations and university-based small business development agencies.

320 WMAIL 15-22/12/88

Tax dodgers are being summonsed

Cape Times 9/11/88 320

Own Correspondent

PRETORIA. — Four months after deadline, 12% of wage and salary earners have failed to submit 1988 tax-year returns.

Summonses are going out at a record rate of more than 3 500 a week in the 32 receiver of revenue districts throughout the country, a spokesman for the commissioner said yesterday.

First offenders can be fined from 5% of the tax involved to a maximum of R100. However, chronic offenders can be "treble taxed".

"The commissioner for inland revenue has started imposing penalties which by the end of the tax year next March will amount to millions of rands," the spokesman said.

In Cape Town the dodgers number only 5%.

Grand pictures in the Cape Times

EXPORTS (320) FMAIL 11/11/88

Hidden tax problems

The recent 10%-60% import surcharge has thrown SA's export incentive system into a state of confusion. Everything suggests that government should re-evaluate the situation much sooner than it planned to.

After all, one ostensible reason for the

(320) FMAIL 11/11/88.

surcharges was to "protect the balance of payments." If that is indeed so, it is crucial for government to streamline and simplify procedures where import duties and surcharges can be rebated by an exporter.

The traditional — and popular — method of claiming export incentives has been the "Category A" claim. This is made to the Department of Trade and Industry and allows the produceer of *export* goods to claim 50% of the duty paid on imported inputs and 50% of the notional duty paid on local inputs.

As the amount received is not subject to tax, it is a full refund of duty paid and an incentive payment on local inputs. But, as Deloitte Haskins & Sells' Di Nicholson points out, Category A claims provide no relief for *surcharges* paid on imported inputs.

It is not clear whether this is deliberate, or simply a drafting error of a kind that seems to be plaguing fiscal legislation this year. Previously few manufacturers were liable for surcharge, as they had exemption permits. It appears that these fell away with the new surcharges. To compound the situation, more changes are in the pipeline.

"Government has already declared its intention to change the exports incentive package in March 1990, so now is the time to start investigating other ways to relieve the burden of duties and surcharges on imported components, while still using Category A incentives for local inputs."

There are already opportunities. One is provided by the Customs Act for the elimination of duties and surcharges. "The most favourable option," says Nicholson, "is to obtain a full rebate of duties payable at the time of importation."

One way of achieving this is by using the Third Schedule, the so-called industrial rebates. These allow producers in certain specified industries to import listed inputs free of both duties *and* surcharge. Moreover, the application is to goods destined for both local and export markets.

Most other possibilities are subject to a permit system administered by the Department of Trade and Industry. Where goods imported are identifiable as forming part of products which will be exported, the Fourth Schedule may be used.

This allows a full rebate of duties and surcharges on importation. "But," says Nicholson, "rigorous documentation is required." Moreover, if at the time of import it cannot be ascertained which goods will be exported, duties must be paid on all imports.

On exportation, a claim for refunds of duties and surcharges is applied for in terms of the Fifth Schedule. "Again, onerous paperwork is involved."

So while the Customs Act provides a number of incentives, many producers are unfamiliar with the procedures. While most are geared up to submit Category A incentive claims, that route provides no relief from surcharge on imported inputs.

Argues Nicholson: "The authorities should, therefore, re-evaluate the position and provide a more acceptable means of stimulating exports." Of course, it is not difficult to remember that the 10%-60% surcharges were applied — with great haste — for what appeared to be macro-economic control measures. But to overlook the impact on export incentives is folly.

Business Report

VAT may be introduced at 16%

Cape Times 11/11/88 320

By DAVID CLEGG
of Arthur Young

ANYBODY who has read the financial press recently will have seen suggestions that value added tax (VAT) is to be introduced at a rate of 15% and in some cases this has been linked to the pay rise for public servants and with a rise in GST to that level which may or may not be the case.

But surely VAT is meant to reduce tax rates!

After all, the Margo Commission which recommended VAT was supposed to reduce personal tax, so what has happened?

The answer, quite simply, is nothing. Anybody who understands the VAT system and can compare it with General Sales Tax (GST) would have to come to the conclusion that the rate of VAT must be higher than GST unless one of two things happens:

- Government wants less money (unlikely), or
- The VAT system is somehow distorted (read complicated) so as to generate more tax.

How so? Without getting too technical, a simple example will serve to illustrate the point.

Today when a commercial organization pays its advertising agency or SATV, that payment is subject to GST.

This forms a cost of doing business for the company and tax revenue for government.

In addition the company doing the advertising also charges sales tax on the goods that it sells to the man in the street — more tax for the government.

But under a VAT system the company selling the goods to the man in the street collects the tax and before paying it over to government deducts the tax it has already been charged on its advertising.

A moment's thought will make it clear that the government must then collect less tax under VAT.

If one adds up all the GST which businesses pay at present on the goods and services that they buy but for which they will be granted a credit under a normal VAT system, it probably amounts to almost one-third of the sales tax collected at present.

So, to compensate for the tax which will be lost under VAT, the government will have to raise the rate from 12% to about 16%.

But surely (I hear you cry) VAT taxes more transactions than GST and collects more tax, not less.

True, but not so many more transactions as to collect enough tax to reduce the rate by very much.

When government announced the introduction of VAT they recognized this problem and tried to compensate by decreeing there will be no credit for businesses on the VAT that they pay on their capital goods — machinery, vehicles, cash tills, furniture and so on.

This will bring the rate back down by about 3% at the cost of complicating the system but even so, it is unlikely that the rate can be brought much below 10% to 12% and, certainly, that is a lot higher than most people will find acceptable.

Remember tax on basic food stuffs was abolished when the rate of GST reached 7%.

Just how government plans to sell this to people is the best kept secret of next year.

FM's 'Investment in 1989' conference

Govt may be forced to increase taxes next year

Star 11/11/88 320

Finance Staff

The Reserve Bank rate could rise by a further three percentage points to about 17,5 percent says Dr Hans Falkena, chief economist for the United Building Society.

He told delegates to the conference that the main reasons for the surge in interest rates were the 15 percent hike in public sector wages and the weakening of the rand.

The weaker exchange rate could result in massive forward cover losses to the tune of R1,5 billion which would be effectively added to the money supply.

Dr Falkena said: "Without an increase in taxation (for instance GST to 15 percent or the new VAT starting at a relatively high rate) the budget is bound to be too stimulatory, implying that the bank rate has to go up to the 17 to 18 percent level by the middle of next year."

He added however, that given the authorities traditional approach of putting a brake on the economy by fiscal measures only and not to use the monetary intrument at all, it was more likely that the government will be forced to increase taxes.

He said that if this proved to be the case, monetary policy should still play a powerful role in cooling the economy and ensuring the country's cash flow.

He said that at the next round of foreign debt negotiations, due in 1990, South Africa's creditors may well be more lenient and could reschedule at least part of our debt.

"The need to run a surplus on current account of some $1,5 billion a year remains. And most likely creditors will question any easy monetary stance in South Africa (negative real rates) if we should be unable to pay even this reduced amount."

Dr Falkena went on to state: "If monetary policy fails to bite at the hour when it is most needed, the inflation target of some 16 percent and our target of a surplus on the current account of $1,5 billion may easily be endangered.

"As this is likely to be unacceptable the Reserve Bank would be virtually forced to increase its bank rate to 15 percent by the middle of next year. Once it has reached this level it would probably remain there until inflation starts to fall again, say towards the end of 1989."

TALKS ON TAXATION

Soweto 18/11/88

320

BUSINESSMEN and individuals on the East Rand are invited to attend tax seminars aimed at educating the public about the latest developments on taxation.

Mr Matsheru Matsheru, a well-known Soweto tax consultant who has arranged the seminars, said the idea behind them is to minimise the present confusion within the community about tax aspects.

On Sunday a seminar to discuss the Standard Income Tax on Employee (Site) will be held at the Laban Mathlabi School in KwaThema, Springs at 3pm. More information can be obtained from Ms Hendrietta Selepe at 736-4125.

Seminar

On Wednesday (Nov 23) a seminar to discuss the Value Added Tax (VAT) will be held at the Easy-By-Night Club in Katlehong at 1pm. The contact person is Mr D Zondo (905-5904) or Mr Justice Radebe (906-2401).

Mr Matsheru said another VAT seminar would be held at Funda Centre in Soweto on November 30 at 10am. He said this seminar was the continuation of the one held at the same venue in November.

Tax coffers start filling up

(320)

Star 21/11/87

By Derek Tommey

The Minister of Finance, Mr Barend du Plessis, tends to be portrayed as a man who does not know where his next rand is coming from.

But anyone who believes this has not seen the latest Treasury tax returns.

They show that the business boom — and probably the 20 percent to 60 percent import surcharge — are together starting to generate strongly expanding tax revenue for the Treasury.

RETAILERS

When the norm for company profit increases this year seems to be 40 percent to 50 percent and retailers have been reporting until recently a strong rise in sales, one must expect some spin-off for the taxman and this appears to have been the case.

Total inland revenue collections in October amounted to R3 994,7 million, which was R1,2 billion, or 45 percent, more than the R2 754,3 million collected in the same month a year ago.

Only preliminary figures are available for September and October tax receipts, so it is not possible to see how much the new import surcharges are contributing to the boost in tax receipts.

One would expect to find them with the Customs and Excise receipts. But as these dropped sharply in October from previous months, this does not seem likely.

This leads to the assumption that they are being included in the Inland Revenue receipts and also contributing substantially to the jump in collections.

Inland Revenue figures have shown steady increases over the year-ago figures as can be seen from the following:

- August: R3 922,6 million (plus 10 percent).
- September: R4 108,4 million (plus 22,7 percent).
- October: R3 994,7 million (plus 45,0 percent).

Customs and Excise figures show a similar trend:

- August: R719,2 million (plus 75,6 percent).
- September: R821,2 million (plus 66,9 percent).
- October: R425,6 million. (plus 668 percent) — possibly Customs and Excise collections last October might have been abnormally low.

HEALTHIER

As a result of the upsurge in collections, the Treasury is in a much healtier position than it was a few months ago.

At the end of August, with five months' collections under its belt, the Treasury had received R17,1 billion — 20 percent more than it had in the same period last year.

However, by the end of October, collections had jumped to R26,4 billion, some 26 percent ahead of last year and a far greater increase that Mr du Plessis reckoned on in his March Budget.

Mr Lewis said.

They are stockpiling for use as well as speculation in the future," an analyst said. — Sapa-Reuter

In Watson, also increased its interim dividend by 50 percent to 6c.

Tax shackles small businesses

By Frank Jeans

The South African tax system has operated against the build up of capital by small businesses and in favour of financial institutions and major groups.

That's the view of Dr Lawrence McCrystal, chairman of the Board of Trade and Industry, who believes that the industrial sector is heading for a "quiet revolution" over the next 10 years, particularly in growth of the small entrepreneur.

And giving a hint of changes on the way, Dr McCrystal says the findings of an investigation into the industrial sub-contracting infrastructure is now before the Government.

"It has been virtually impossible for a small manufacturer to build up capital out of after-tax profits," he told a small business conference in Cape Town.

"The only way he has been able to accumulate capital has been to sell his business usually to one of the larger groups. So the small business sector in this country has never developed as it has in many other countries."

On the question of saving, the BTI chairman said the interest rate policy together with inflation and the tax system had operated together over the past 15 years "virtually to destroy that great virtue of all strong economies — savings".

And he referred to the "poignant manifestation" of this in the present building society set-up which had its origins in the mobilisation of man-in-the-street savings.

"Today, with savings by such people having dried up, the building society movement as we once knew it is all but destroyed," he said.

"They now rely for upwards of 80 percent of their money on institutional sources.

"Because of the lack of saving, small manufacturers have to rely on the banks for funding instead of being able to call on their own and other people's savings.

"Such saving as does take place is contractual and in the hands of institutions which are by no means entrepreneurial."

Drawing comparisons with his counterpart in Italy, Spain and the Far East where a small manufacturer lives upstairs and operates his business downstairs, Dr McCrystal said the "small man" here requiring limited space had to find premises often far from his home at substantial rental in some fine complex established usually by a financial institution.

He also pointed out that the BTI investigation had revealed that nearly 40 percent of South African industries in the machinery, transport and related engineering industries were subject to constraints in respect of local manufacture, design, development and sub-contracting.

Referring to what he called "economic colonialism", Dr McCrystal said: "South Africans have tended to look to the developed Western countries to source requirements rather than develop local sources."

Tax man compares returns and reports

21/11/88

THE TAX man has become an assiduous reader of financial journals and is comparing company forecasts of taxable profits with already submitted returns of provisional tax estimates to see if these are consistent, reports Tax Memorandum, the newsletter of accountants Aiken and Peat.

If they are not, corporate financial officers receive a telephone call asking them to justify the estimates submitted. In many cases, this leads to revised estimates and "additional and significant provisional tax payments".

The newsletter notes that individual provisional taxpayers have not yet been subjected to this new approach.

Even unlisted companies are also falling under scrutiny. The tax man is taking note of well publicised economic developments, such as petrol price rises, in various sectors of industry, analysing the impact these may have on the performances of companies, and comparing their calculations with provisional tax returns.

The newsletter also reports that the Receiver of Revenue has invoked a rarely used section of the Fourth Schedule of the Income Tax Act to spring an unpleasant surprise on corporate provisional taxpayers, and some companies have had to revise their estimated provisional payment to pay significant additional provisional tax, with detrimental consequences to cash flow.

The Department of Inland Revenue has also issued a pamphlet for employees which covers some of the general questions now being asked about the new tax system of standard income tax on employees (SITE).

Available

Some of the more important questions which have been answered in this pamphlet relate to matters such as:

- ☐ What earnings are subject to SITE?
- ☐ What deductions can be taken into account when determining SITE?
- ☐ How can an employee ensure that the correct amount of SITE is deducted?
- ☐ How are married woman treated under the SITE system?

This pamphlet is available at all Receivers of Revenue and employers are encouraged to obtain a supply from their local receiver for distribution to their employees. Employees may also obtain a copy direct from their local Receiver of Revenue. — Sapa.

Call for GST exemption for foreign tourists

23/11/88 (320)

CHRIS CAIRNCROSS

CAPE TOWN — A sales tax exemption system on all purchases made by foreign tourists — similar to those commonly applied overseas — should be introduced here, Cape Town's Chamber of Commerce said in submissions to the Commissioner for Inland Revenue.

The chamber noted that the existing system was causing concern in that it was fragmented and applied in an *ad hoc*, illogical manner that was leading to a loss of sales to retailers.

It proposed the commissioner change the exemption system to that used overseas, where tourists could purchase goods free of GST (or VAT), provided they took them out of the country.

The chamber declared widespread support for a system providing for:

- ☐ The exemption of sales from GST (or VAT) of all goods with a total transaction value of R100 or more;
- ☐ The purchaser to provide proof of foreign residence through the production of his passport to the seller;
- ☐ The seller to provide details of the goods purchased on a form prescribed by Inland Revenue, which would be signed by the seller and purchaser — with the latter warranting the goods would be taken out of SA;
- ☐ The purchaser to produce the goods to customs on the point of departure from SA with customs stamping the prescribed form;
- ☐ The purchaser presenting the validated form to the bank, which would then refund the tax paid, this payment then being claimed from Inland Revenue.

The Star Finance

Southern shrugs off higher insurance tax

Star 24/11/88 (320)

By Sven Forssman

The 75 percent increase in life assurance companies' tax rates has not had the dramatic effect on Southern Life's results for the six months to September 30 that the market was expecting.

In fact, its earnings of 22,5c a share were slightly ahead of market expectations.

Analysts had estimated earnings in the region of 20c a share.

Total income rose 12 percent — R103 million to R963 million — which consisted of premium income of R641 million and investment revenue of R322 million.

Recurring new business production for the six months increased by 27 percent.

A dividend of 15,6c (13c) has been declared.

Chairman and chief executive Mr Neal Chapman says Southern continued its practice of setting the interim dividend and earnings at 50 percent of the preceding year's total.

But, because of the 75 percent increase in the tax rate, the taxed surplus has been reduced by an appropriate provision.

Mr Chapman concedes, however, that the increased tax rate has not had a dramatic effect on results.

"The tax rate hike was a hefty one and we had to make some provision, but we are pleased with the results," he says.

Mr Chapman says that in the absence of unforeseen factors arising over the remainder of the financial year, the taxed surplus and dividends per share should show satisfactory increases over those of the previous year.

"However a further provision in respect of the tax increase will affect the rate of growth of taxed surplus and the rate of growth in dividends is expected to be affected accordingly."

Substantial increase

Southern's total assets have grown 12 percent (R937 million) since the March year-end to R8,8 billion.

This is a substantial increase, considering Southern's total assets showed growth of only 1,3 percent between the year-end in 1987 and the year-end in 1988 (from R7,7 billion to R7,8 billion).

Mr Chapman says Southern Life's investment portfolio has made a strong comeback since the October crash last year and the subsequent fall in market prices in January and February this year.

"This is indicated by the fact that since the March year-end the company has built up unrealised investment surpluses of more than R400 million arising from the valuation of assets at market value."

Before the whistle blows



Pierre du Toit is an international partner at Arthur Andersen.

Fairly drastic US sanctions measures of the past year or two — real and threatened — have tended to concentrate SA minds across the Atlantic. We must not forget there is a world outside America — something we are fond of accusing the Americans of doing.

Europe, giving birth to a "New Europe" in 1992, is still a most important part of that world.

When the Dutch parliament gets ready next year to consider further anti-SA measures, we should note not only the fact, but also the degree to which they see them as an extension of their European responsibilities. For therein lies the potential for such measures to fan out over Europe.

A draft Bill likely to be presented to the Dutch Staten-Generaal during 1989 addresses two main areas: for Dutch companies to enforce the European Community (EC) Code of Conduct better, and implementation of a 1986 EC position regarding new investment. Both instances need national legislation to give effect to European decisions.

In the first measure, Dutch residents, corporate or otherwise, with subsidiaries — a branch ("vesting") or certain other more or less permanent business interests in SA — will be forced to report annually to the Dutch Ministry of Foreign Affairs on their compliance with the EC code. It will have to be done in the EC prescribed form; failure to do so will be a criminal offence.

The second concerns new investment. A Dutch resident will be prohibited from investing in that which would result in him obtaining new investment, or increasing an existing investment, to more than 50% control. Establishment or extension of a branch business will also become illegal.

To support these measures, new loans with terms of more than five years will be barred.

These measures are, of course, important in themselves as well as for their European perspective. But there is a further perspective I believe requires some focus — and that derives from the Netherlands as probably our most important intermediary country in the international tax treaty network.

First there is a general question whether the Netherlands may, in due course, follow Canada and the US in cancelling its tax treaty with SA. I do not believe any such move is imminent. The Dutch economy is traditionally very much tied up with its exceptionally wide treaty network and the international use made of it.

It probably wants to refrain from a political interference in the treaty area which could cause large-scale unease to major players in international investment.

In another way, however, this could already materially affect the Dutch-SA tax treaty. Its protection has become an important intermediary for investment from other countries into SA — especially where the investor does not come from a treaty country, or wants to disguise his origin.

So, a prohibition on new controlling investment by Dutch residents has to affect use of the Netherlands as a holding company situs into SA. (If there are ineffective aspects to the draft legislation, one may expect them to be removed in time.)

But, the really important interpretation of the proposed changes lies in the way a measure which, on the face of it, has nothing to do with tax treaties can inhibit a major application of the treaty. The Dutch are managing to water down the use of the treaty without creating political precedents that may scare other treaty partners.

Moreover, the proposed measures would not directly affect existing situations.

Therein lies, perhaps, the most important lesson for SA business fighting to keep open export, supply, technological, financial or other business connections with the outside world.

If it will be necessary for a business to protect these interests with appropriate offshore planning and structures, the business should realise that time is running out. I can't put it more bluntly than to say — get there before you're out forever. ■

320 FM 25/11/88.

the purposes of his trade as hotel-keeper.

"The amended provisions will, however, not apply in respect of any such asset let under a written agreement of lease formally and finally signed by every party not later than November 18 1988." ■

TAX AVOIDANCE 320

Officials hit leases

Government has moved quickly to end a tax avoidance mechanism using leveraged leasing. The schemes had assumed industrial proportions, running into hundreds of millions of rands and substantially eroding the tax base.

Leased assets affected by the crackdown include machinery, plant, aircraft and — for the first time — hotel equipment and utensils.

The leasing scheme hinged on an apparent oversight in this year's amendments to the Income Tax Act, which incorporated the Margo recommendation for a standard 50%:30%:20% depreciation over three years, but did not cross-refer to the section restricting such allowances to rental income only (*FM*, November 4). FM, 25/11/88

nsequently, the user of an asset which ed taxable profits could arrange for the asset to be leased to it by a company with taxable profits. This "third party" lessor would then reduce its taxable income, passing on part of the benefit to the lessee in reduced rentals.

Invariably, the lessor would use debt to finance acquisition of the asset, leading to the further benefit of tax-deductible interest payments. (The use of debt explains why these financing mechanisms are known as "leveraged" leases.)

In 1984 retroactive law ended the use of an unrelated party's taxable income. Thereafter, depreciation allowances could only be written off against *rental* income.

In other words, if the user of the asset lacked sufficient taxable profits to absorb the generous tax allowances, it had to go to a rental company. The effect was to severely curtail the use of leveraged leases, and to lead to higher and higher effective tax rates in the banking sector, which had been active in leveraged leasing.

This week's change (effective for new leases signed after November 18) corrects the apparent legislative oversight and again provides that a tax write-off can now only be claimed against rental income or taxable profits of the user of the asset.

The effects will be far-reaching on those who were nimble enough to take advantage of the oversight.

Uncorrected, the oversight would have meant substantial erosion of the tax base and have had the undesirable commercial effect that companies with tax losses, or enterprises not liable to pay tax, would have cashed in on a tax benefit.

□ The statement, issued by Deputy Finance Minister Org Marais, reads in full: "In terms of Section 23A of the Income Tax Act, deductions or allowances claimed under Sections 11(e), 11(o), 12 and 14*bis* in respect of machinery, plant and aircraft let by a taxpayer may not exceed the taxpayer's taxable rental income in any year of assessment.

"These deductions or allowances relate to the writing off of the cost of the items specified in the sections concerned. Section 12B, which was inserted in the Principle Act by the 1988 Income Tax Act, is also concerned in part with the writing-off of the cost of certain leased assets and should, therefore, also be subject to Section 23A. It has accordingly been decided to recommend to parliament that Section 23A be amended to include a reference to Section 12B and also to cover machinery, implements, utensils or articles let by a taxpayer and brought into use on or after January 1 1989 by the lessee for





UNEXPECTED RELEASES ... Harry Gwala re-united with son Mandla, after serving 12 years, and Zeph Mothopeng, at home with his wife Urbania after serving 11 years.

VAT-free shopping plea to help tourists

(320) B/day 28/4/88

Business Day Reporter

CAPE TOWN — Foreign tourists might be exempt from VAT — when it replaces GST next year — on purchases of more than R100 they take home.

They would pay VAT to shopkeepers but recover the money from Customs as they left the country.

This would emulate the procedure for tourists visiting the UK and other EC countries.

Inland Revenue sales tax division chief director R Langley said representations had been made by several parties, including Cape Town Chamber of Commerce, for such a scheme.

"It is known as a retail export incentive scheme," said Langley.

Inland Revenue official S C van Niekerk added publication of the VAT Bill was due last month but had been delayed, probably until early next year.

"It would be premature to say what exactly is in that Bill," he said.

Langley said under GST, licences were granted to some manufacturing jewellers and fur traders to exempt them from sales tax and excise duty like duty-free shops at airports.

He added: "These concessions bring in foreign exchange."

One problem with the proposed system for tourists is that they would have to collect the rebate in foreign exchange as they leave the country or the facility would be vulnerable to cheats.

Cape Town Chamber of Commerce said in its latest weekly bulletin the present system, in which only some shops had exemptions, infuriated foreign tourists.

It said VAT was expected to be higher than GST, so it was important new legislation provided for this facility.

Cape Times 28/4/88 320

Tourists to benefit in VAT scheme

By PETER DENNEHY

TOURISTS may be exempt from paying Value Added Tax — when it replaces GST next year — on purchases of over R100 which they take out of the country with them.

They will initially pay the VAT, but they get a form which they turn in at the airport when they leave. After showing the goods to customs officials, they may reclaim the tax in the currency of the country to which they are returning.

Mr R Langley, chief director of the sales tax division of the Inland Revenue Service, said representations had been made to the IRS by several parties, including the Cape Town Chamber of Commerce, for such a scheme to be implemented. Tourists would claim the money from the IRS.

"It is known as a retail export incentive scheme," said Mr Langley. "We have looked at it. It is not likely to happen before the VAT system is implemented, because changes would have to be made to the GST Act."

Another IRS official, Mr S C van Niekerk, said the VAT bill had been due to be published in October this year but had been delayed and may only come out early next year.

"It would be premature to say what exactly is in that bill," he said, adding that Inland Revenue had largely drawn it up.

"In other countries they have such a system (of exemptions)," he said.

Mr Langley said that even at present under the GST system licences were granted to some manufacturing jewellers and fur traders to exempt them from sales tax and excise duty, in much the same way as duty-free shops at airports.

"The reason for these concessions is that it brings in foreign exchange, just like exports," he said. These concessions had only been only introduced from 1985.

Ordinary goods manufactured specially for export are also exempted from GST.

One problem with the proposed system for tourists was that the foreign exchange point would have to be moved inside the "point of no return", otherwise people would be tempted to cheat.

The Cape Town Chamber of Commerce said in its latest weekly bulletin that the present system, in which only some shops had exemptions, infuriated foreign tourists and left them with a negative impression of South Africa.

The chamber said VAT was expected to be even higher than GST, so it was most important that new legislation provide for this facility. It realised it was already too late to change the GST rules now.

Life office tax eroding formation of capital

By Tom Hood

CAPE TOWN — The decline in personal savings had to be stopped, Old Mutual chairman Dr Jan van der Horst told the annual general meeting in Cape Town yesterday.

He urged the Government to curb spending, address the inflation problem and ensure that interest rates provided positive real returns.

"At a time when South Africa's personal savings performance has deteriorated to an historic low of 2,1 percent, I find it disappointing that tax will hamper the formation of long-term capital such as that generated by life assurance."

The arbitrary increase of 75 percent in life assurers' tax rates announced in this year's Budget had impacted negatively on the level of benefits paid to policyholders and would affect future payouts as long as the increased rate applied.

Dr van der Horst strongly disagreed with the recommendation of the Margo Commission to impose heavy tax on one of the few savings media that had successfully mobilised savings and created capital.

He cited four main reasons for the poor savings performance.

"In the first place, the demands of the Government on the income of the individual have increased greatly, arising from

sector spending, the rise in GST from four percent in 1980 to 12 percent in 1987 and direct taxes on individual income, rising from 6,6 percent to 11,5 percent over the same period.

"Secondly, inflation escalated further, partly fuelled by increased government spending, placing further pressure on the position of the individual.

"Thirdly, the growth performance of the economy deteriorated sharply during this decade, resulting in individuals cutting back further on their savings to maintain a standard of living."

In the fourth place, there was very little incentive to save. "In an environment of high inflation, interest rates did not keep pace and savers did not receive positive real returns on interest-bearing investments.

"It is in this light that individuals should be encouraged to invest with life assurers and not discouraged by means of heavier tax."

He warned against comparing the tax paid by life assurers with the operating results shown in the balance sheet.

"This is fallacious in two respects. About 70 percent of our assets relate to pension fund and annuity business.

"This is not taxed in the assurers' hands, but attracts full tax in the recipients' hands when benefits are paid.

"The tax we pay therefore relates to only 30 percent of our business.

"Secondly, premiums are the largest constituent of income received, and the predominant portion of premiums must be set aside to provide for payment of future benefits.

"The excess of income over expenditure is an inappropriate measure of taxable income," he said.

Paper must lodge deposit of R30 000

JOHANNESBURG. — The independent Afrikaans weekly newspaper, the Vrye Weekblad, has been asked by the Minister of Justice, Mr Kobie Coetzee, to lodge a deposit of R30 000 — the highest amount so far asked of any newspaper — before a registration certificate would be issued by the Department of Home Affairs.

In a statement yesterday, the editorial staff of the Vrye Weekblad said they believed Mr Coetsee's decision to demand R30 000 was part of decision by the government and the National Party to wage a "vendetta" against the newspaper.

The Vrye Weekblad sent a written representation to Mr Coetsee last Wednesday and on Monday the newspaper's editor, Mr Max du Preez, and its legal representative met the minister and senior officials.

"The meeting took place in a very pleasant and friendly atmosphere.

"We were under the impression the the minister accepted our bona fides and understood what Vrye Weekblad as a professional newspaper was trying to achieve," the statement said. — Sapa

Mining chief calls for tax changes to boost industry

By Sven Forssman

Changes must be made to South Africa's existing tax policy to encourage the further development of the mining industry, Rand Mines chairman Dammy Watt says in the annual report.

He says that the mining industry has entered into what will probably prove to be one of the most difficult periods in its history.

The double digit inflation rate constitutes a major threat to both profitability and the long term survival of the industry.

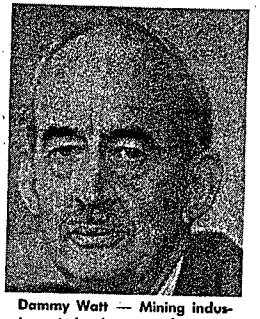
Superimposed on this, says Mr Watt, is the threat of more widespread sanctions against the sale of the commodities produced and the supply of resources required by the industry.

"A technical committee under the chairmanship of the Deputy Minister of Finance is now considering the subject of mining taxation.

"It is hoped that this committee will conclude its deliberations in the near future and that the changes recommended by the committee will be both supportive of existing mines and conducive to encouraging entrepreneurs to invest in new projects.

Marginals

"It is essential that the committee also make recommendations to assist the so-called marginal mines to remain in operation, especially now that the margin between operating costs and revenue is being eroded by inflation at such an alarming rate.



Dammy Watt — Mining industry entering into one of its most difficult periods in its history.

"With appropiate assistance, these mines can still produce a substantial amount of gold, generate significant exchange, provide job opportunities for a large number of people and support the local communities in which they are located."

Mr Watt says it is vital at this critical time in the history of the country that the mining industry should continue in its role as a major generator of foreign exchange and as an employer of large numbers of people.

"The recent rise in fuel prices and surcharges on imported equipment are challenges which all mines will have to contend with in order to contain working costs, now escalating at a rate considerably in excess of the published inflation rate.

"Mine management will have to be ruthless in employing every device available to it in order to contain costs. A major effort has to be directed towards increasing productivity."

Strikes

Turning to industrial relations, Mr Watt says strike action in South Africa was at its lowest level since 1983 and there are signs of a new realism in relations between trade unions and management.

He says by contrast with last year's costly and violent strike by NUM members on many gold and coal mines, agreement was reached with NUM, which represents some 24 000 members of unions affiliated to the CMU, in six weeks in the 1988 wage negotiations, in a climate in which both sides observed and experienced the value of bargaining in good faith.

"This is a most encouraging development and it is to be hoped that a healthier basis for the future relationship between the employer and the employee organisations has been reached.

"The Chamber of Mines is currently negotiating changes in work practices within the mining industry with the white trade unions. I sincerely hope that neither the advisory committee system established in terms of the legislation nor the trade unions will prove a hindrance to the advancement of black mineworkers.

"At present, the industry is extremely short of certificated personnel in some key occupations, a situation which is seriously impacting on efforts to increase production efficiencies."

Petrol tax fuel for a labouring engine of Government

The 9c tax on each litre of petrol to help pay for public servants' salaries demonstrates how the Government's economic options have narrowed.

Having exploited the more conventional sources of revenue almost to the limit, the Government is now casting about for other forms of tax to raise sufficient money to keep itself going.

Sanctions and boycotts, the virtual total suspension of foreign credit, loans and investment, double-digit inflation, one of the world's highest population growth rates, and a counter-revolutionary strategy which requires spending massive amounts have all contributed to this situation.

By DAVID BRAUN, Political Correspondent

The problem facing the Government is how to keep its promise of economic betterment without asking for more and more cash from the taxpayer.

RESTRAINED

The Government is endeavouring to administer a normal, healthy, growing economy. But every way it turns it finds, like Gulliver in Lilliput, it is restrained by countless bonds.

President Botha sounded the keynote when he opened Parliament at the beginning of the year.

The tone he set encouraged the business community and the Opposition alike: The Government was determined to restrict its spending, public service salaries and administered prices were frozen, and major plans for privatisation and deregulation were unveiled.

In addition, there was the promise of badly needed tax reform.

Now, as the year draws to a close, the Progressive Federal Party says the Budget is wrecked and it has withdrawn the support it gave to the State President's economic package.

Privatisation still has to produce any major benefits, there is no sign of any significant tax reform, the growing public service has had a salary increase after all, inflation is tending upwards again and the Government is spending too much.

South Africa found out this year that economic growth cannot be allowed to accelerate too rapidly because of the restrictions of the balance of payments.

As no one wants to extend any credit to South Africa, economic growth has to be choked off before the value of imports exceeds exports.

If the international banks were to demand their money tomorrow there are real risks that South African assets abroad would be seized.

On the other hand, South Africa needs as much growth as it can get to reduce unemployment and fund education and housing.

Faced with these problems and the need to find a further R4 billion a year for public servants and State pensions, the Government slapped an additional tax on fuel.

Not everything is gloomy, however.

There are encouraging signs that deregulation has created massive growth of the informal sector (some experts believe the country's GNP could be nearly one third more if this sector, which does not pay tax, is included).

Unemployment has come down because of this and the Government's massive job creation and labour training schemes.

ENCOURAGING

There are also encouraging signs that population growth is starting to tail off.

Exports, particularly minerals, remain high. Tourism is apparently booming.

South Africans should not hold out too much hope that the Government has any new or exciting plans to boost the economy next year.

Expect a raising of the tax threshold at which income earners pay maximum tax and a general shifting of the tax brackets accordingly.

Any other tax reforms will, in the words of one senior official, merely be rearranging the deckchairs on the Titanic.

Commission proposes lower mining taxation

Star 6/12/84

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By Roy Cokayne

PRETORIA — The final report of the technical committee on mining taxation, the Marais Committee, has recommended the reduction of the overall tax burden on the mining sector to bring it into line with other sectors of the economy.

This should be achieved by introducing a common tax formula on all gold mines and taxing all other mines at the standard company rate, said the Committee, which was appointed by Minister of Finance Mr Barend du Plessis in February this year to investigate all aspects of mining taxation following the recommendations in the White Paper on the report of the Margo Commission.

Existing surcharges for both gold and other mines should also be eliminated, the committee said.

The revised common formula together with the elimination of the surcharge will result in exempting from tax the first five percent of gold mining profits — as opposed to the first six percent or eight percent under the existing formula — and a reduction in the existing maximum rate of 75 percent to 61 percent, it added.

"This will relieve the burden on the high-grade gold mines and will encourage the development of new mines without prejudicing low-grade producers," the committee said.

Other recommendations by the committee were:

- Mining lease payments should be eliminated.
- The existing 100 percent redemption of captial expenditure should continue with certain exemptions, such as housing and motor vehicles.
- The limitation of redemption of capital expenditure to a particular mine (ring fencing) should continue but should be subject to exceptions on a more flexible basis at the Minister's discretion.
- The special capital allowances for new gold mines should no longer be automatically granted. The Minister should, however, have the discretion in special circumstances to grant the allowance.
- These proposals should be subject to a phasing-in period to allow the fiscus to accommodate the resulting reduction in revenue.

Chairman of the Committee, Deputy Finance Minister Dr Org Marais, said it believed economic growth and employment would be stimulated if the principle of tax neutrality between sectors of the economy was applied.

"The mining sector is strategic in the economy. At present the nominal mining tax rate is higher than in other sectors and this can create an unfavourable climate for investment.

"The committee believes these measures will have a positive impact on the industry. The lowering of the tax rates will bring the SA mining tax system more in line with worldwide trends," Mr Marais said. The final report was presented to Mr Barend du Plessis.

Some mining tax reforms may be included in Budget

Star 7/12/88

320

By Roy Cokayne

The Minister of Finance, Mr Barend du Plessis, hopes to include some of the recommendations of the Marais Committee report into mining taxation and of the yet incompleted probe into the life assurance industry in the Budget in March.

Speaking yesterday at the handover of the mining tax report by deputy Minister of Finance, Dr Org Marais, who was chairman of the investigating committee, Mr du Plessis said the Government was still being criticised by people claiming the Margo Commission Report had been shelved.

"This report is an indication that the Margo Commission Report gave certain guidelines of tax reform but left several areas incomplete on account of the highly technical nature and practical aspects of them. One of these was mining taxation.

"A second is Value Added Tax (VAT), which is still receiving top level attention, and a third is the taxation of the life assurance companies, which is also progressing," he said.

Mr du Plessis said the mining taxation report was being made public for comment.

"In the meantime, the Stals Committtee — the permanent tax advisory committee — will evaluate the report and if at all possible I'd like to include some of these recommendations in our Budget proposals in March 1989," he said.

Mr du Plessis stressed that tax reform could not be "an abrupt action" and the proposals on mining taxation that were considered for the next Budget would represent a properly planned phasing-in exercise.

It was difficult to say over how many years the recommendations would be phased in but once the Government had committed itself to the changes, they would be worked into the five-year fiscal plan as a guideline.

With regard to the probe into the taxation of life assurers, Mr du Plessis said he would welcome feedback on these investigations in time for consideration before the next Budget.

In addition, the investigation into the implementation of VAT was progressing full steam ahead and legislation pertaining to VAT had to be passed in the next session of Parliament, he said.

Included among the recommendations in the final report of the Marais Committee was that the overall tax burden on the mining sector should be reduced to bring it into line with other sectors of the economy.

It said this should be achieved by introducing a common tax formula on all gold mines and taxing all other mines at the standard company rate while existing surcharges for both gold and other mines should be eliminated.

The revised common formula, together with the elimination of the surcharge, will result in exempting from tax the first five percent of gold mining profits — as opposed to the first six percent or eight percent under the existing formula — and a reduction in the existing maximum rate of 75 percent to 61 percent.

Dr Marais said new development was likely to be boosted by the reduction in the tax rate besides it leading to more efficiency. He expected ten to 15 new mines to open up on the Witwatersrand basin over the next ten years.

Chamber of Mines welcomes tax proposals

320

Star 7/12/88

By Sven Forssman

The recomendations of the Marais Committee on Mining Taxation have been welcomed by the mining industry, but analysts are sceptical whether they will be accepted by government.

Mr Tom Main, deputy chief executive of the Chamber of Mines, said the recommendations were a major breakthrough for the industry and the country if implemented.

He welcomed the majority of the recommendations and particularly those aimed at encouraging investment in mining.

A spokesman for Gencor said the group also saw the recommendations as being positive and that they could give momentum to new projects.

Anglo tax consultant Mr Marius van Blerck said the commission's recomendations if implemented would provide a boost to the entire mining industry.

"We believe the short term sacrifices of revenue the fiscus will have to bear will be more than repaid through the increased activity in the medium to long term," he said.

But Mr Mike Brown, mining analyst at Davis Borkum Hare, said he doubted whether government would be happy about suffering a loss of revenue in the initial stages.

It is estimated the fiscus will lose between R150 million and R200 million in the first year of six/seven year phase-in period.

Mr Main added that the recommendations, if accepted, would signal a bold and exciting new direction for the country in the approach to taxation, the stimulation of private enterprise and the generation of wealth for the nation.

The most encouraging of the recommendations were those related to the Committee's acceptance of the importance of encouraging investment in mining. Mr Main had no doubt that this would be achieved if the tax reductions on mining, as proposed by the Marais Committee, were implemented.

"In broad perspective, what the Committee has done is to reconcile, to a large extent, the interests of marginal mines, richer mines, the fiscus and the economy as a whole in the continued prosperity of the industry and the country. This is a very significant achievement."

Mines hail tax reduction plan

KAY TURVEY

THE mining industry has welcomed recommendations unveiled by Deputy Finance Minister Org Marais yesterday to reduce its tax burden and encourage capital investment.

Responding to the report of the technical committee on mining taxation, chaired by Marais, industry sources described the proposals as encouraging.

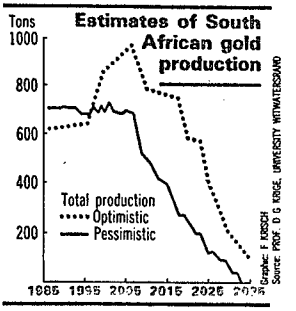
If implemented, they would stem the corrosive decline in the industry and its deteriorating international competitive position, they said.

Marais said the mining sector was strategic in the SA economy accounting for 10% of total revenue. It made a major contribution to exports, although this had fallen from an average of about 48% to 41% in the past three years.

However, at present the nominal mining tax rate was higher than in other sectors, which created an unfavourable climate for investment, he said.

It was hoped the implementation of the proposals would see the development of 15 new mines in the Witwatersrand basin producing a combined income of R60bn.

The committee recommended a considerably lower common tax formula for all gold mines, and that all other



mines should be taxed at the ordinary company rate. In both cases all existing surcharges should be eliminated. The abolition of surcharges coupled with the revised formula would result in a reduction in the existing maximum tax rate of 78% to 61%.

The acceptance of the existing 100% redemption of capital expenditure was seen as fair as it acknowledged the risks involved in mining and provided a pro-

● To Page 2

Mines hail plan to reduce tax burden

● From Page 1

tection against inflation.

However, the exemption in the case of infrastructure such as housing to be written off over 10 years came in for criticism. Industry sources said housing was a socio-political issue and mines could make a contribution.

Further, the committee recommended the minister be given discretion to lift the ring fence in the case of marginal projects. In addition capital expenditure for new gold mines would no longer be automatic, but at the discretion of the minister.

Marais said the introduction of the total package would amount to a loss of about R800m to R900m — or about 25% of last year's total gold collections — in the current fiscal year.

However, if phased in gradually, as suggested, the loss would be about R150m to R200m in the first year.

Marais emphasised this loss of tax would not be made up by other areas, although he pointed out the lower tax rate would encourage more investment and have a multiplier effect on the economy, so generating more revenue.

Tax experts welcomed the lowered tax base as encapsulating the spirit of Margo to reduce direct taxes and increase indirect taxes.

Price Waterhouse partner Chris Frame said the recommendations left the indirect taxes to absorb the shock and although income tax from mines would fall, taxes such as RSC and VAT would make up the shortfall.

He praised the report for recognising the crises in mines faced with escalating costs. If implemented the proposal could help preserve the industry.

Frame said the report was the best compromise between the existing high taxation formula and a flat rate for gold mines, which would prejudice the lower grade mines.

An Anglo spokesman said the proposal would relieve the burden on high-grade gold mines and low-grade mines would pay a bit more.

Marais said the report, which is now to be submitted to the permanent tax advisory committee, was the first of a trilogy of tax reports. The following two would deal with VAT and the insurance industry.

Business Report

Mining taxation report welcomed

From KAY TURVEY

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The acceptance of the existing 100% redemption of capital expenditure, was seen as fair, as it acknowledged the risks involved in mining and provided a protection against inflation.

However, the exemption in the case of infrastructure such as housing to be written off over 10 years came in for criticism. Industry sources said housing was a socio-political issue and mines could make a contribution.

Further, the committee recommended the minister be given discretion to lift the ring fence in the case of marginal projects. The relaxation of ring fences is the most effective way of encouraging new mining ventures without subsidies and special tax concessions.

In addition capital expenditure for new gold mines would no longer be automatic, but at the discretion of the minister.

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Taiwan's economic freedom produces rich rewards

ARGUS 8/12/88

3/74

By DON LILFORD, News Editor of The Argus, who recently returned from a trip to Taiwan



"THE commies could never invade this place ... if they tried, they'd get stuck in the traffic."

This comment from a South African journalist, cooped up in a mini-bus on the constipated freeway between Chiang Kai-shek international airport and Taipei, brought some light relief to his fellow newsmen on a tour of Taiwan recently.

In truth, however, the situation is far from funny.

A torch-bearer in what has been termed the Asian economic miracle, the Republic of China on Taiwan is in danger of being strangled by its own success. The problems of traffic congestion and air pollution have reached Frankenstein proportions in the capital, Taipei, a city of 2,7 million people.

It took us more than two hours of stop-start motoring to cover the 40km from the airport to the city that evening. On another occasion we spent 4½ hours travelling 160km from the west coast port of Taichung to Taipei. Both journeys were on the multilane Chungshan freeway, which was jammed solid with traffic.

In central Taipei, the city's 500 000 scooters and motorcycles jostle with cars, buses and trucks of every description to pump 6 950 metric tons of hydrocarbons into the air every month.

Traffic snarls

Traffic snarls are monumental, illegal parking commonplace, traffic control minimal to non-existent.

At rush hour many scooter riders wear protective face masks (but no crash helmets!) and to stand at a busy intersection for anything more than 15 minutes is to invite sore eyes, a runny nose and a burning throat.

The people of Taiwan are alive to the situation. An underground railway is being constructed and is due for completion in five years, the minimum fine for illegal parking has been raised from R25 to R100; the new mayor of Taipei, Mr Wu Poh-hsiung, has promised urgent action, and people who telephoned the public hazard hotline last month provided the municipal department of environmental protection with 70 percent of its 900 cases.

From the sidelines, however, a word of thanks for Cape Town's strict traffic controls, its oft-maligned traffic police and meter maids — and a whispered prayer that a similar situation is never allowed to develop here.

In many other respects, however, Taiwan leaves South Africa at the starting blocks.

Taiwan has a land area 34 times smaller than South Africa's and a much smaller population (19,7 million). But last year its national income per capita was more than double that of ours, its real economic growth rate 11 percent compared with our 2,4 percent and its inflation rate 0,5 percent against 16,11 percent.

At the end of last year, its international reserves were $75 000-million compared with South Africa's $641-million (minus gold), its exports $53 538-million as against $21 099-million.

This staggering performance is undoubtedly due in part to the industry of the people of Taiwan and the economic freedom they are permitted.

In some instances, the spirit of free enterprise is taken to mind-boggling extremes.

In the centre of Taiwan, for instance, I came across a panel beating business whose open-air workshop extended out on to the pavement of one of the main thoroughfares.

While workmen with hammers and welding torches set about repairing the ravages of recent street clashes, well-dressed women and men in business suits threaded their way unconcernedly among the damaged vehicles as if this were the most natural thing in the world.

In another part of the city, close to the plush Asiaworld Plaza Hotel, there was a car wash. Not one of those huge American-style machines with revolving nylon brushes. Just four women and a man in conical-shaped straw hats, operating from a rather ramshackle hut, using cold water, soap, polish — and a good deal of enthusiasm and elbow grease.

If you wanted a car wash you simply drove your vehicle on to the pavement and the quintet set to work with gusto.

It was a flourishing business and, consequently, that portion of the pavement was occupied almost continuously throughout the day. Pedestrians who wanted to pass simply had to skirt the car wash — and take their chances in Taipei's traffic maelstrom.

Street vendors abound in the city, offering everything from meals on the hoof to jewellery, wristwatches, clothing, trinkets and toys.

And, in spite of its relatively small size, industrious Taiwan is almost totally self-sufficient in food. The average farm is less than 2½ acres in extent, but cultivation is intense, crop care expert and by South African standards obsessive.

Every available piece of land is put to use. In Taichung I looked out of the window of our city hotel to see a man and his wife tending a flourishing rice crop on a small farm sandwiched between modern buildings.

Politically, the Republic of China is moving towards "democratisation", according to the director general of the government information office, Dr Yuming Shaw.

"We will tolerate almost anything short of sedition, the violent overthrow of the government," he told the visiting South African journalists.

"There have been no detentions in the last year or two. No newspapers have been closed and the two big independent newspaper groups push us to the very limit."

He said he was not perturbed about the handing back of Hong Kong to Red China in 1997.

Problems

Prosperous and flourishing Hong Kong was a "dagger at the heart of communism ... meat the communists will be unable to digest".

He is a propounder of the theory that Hong Kong cannot be allowed to become either too successful or a total failure because either outcome will cause problems for the communists on the mainland.

If Hong Kong is a success, it will mean capitalism is better than socialism; if Hong Kong is a failure, then it will have failed under socialist control.

He feels that, ultimately, the Chinese on Taiwan will be reunified with their countrymen on the mainland.

So, too, does Mr John Chang, Vice-Minister, Ministry of Foreign Affairs. "There will be reunification someday. But only when the gap is not so big — economically, politically and socially," he said.

Mr Chang said that Taiwan, with a population density second only to Bangladesh, had achieved one of the highest standards of living in Asia and that all the people were sharing in its prosperity.

"We have no tycoons here," said Mr Chang. "Successful businessmen, yes."

(320) FMARC 9/12/88

MINING TAXATION

Marais backs a dead cert

■ The new proposals on tax should make mines more like ordinary companies

It's unsettling to realise that SA mining — our only truly internationally competitive industry — pays higher tax rates than in any other country. But then, the average South African is also paying more tax than ever.

So the report of the Marais Committee into mining tax must be welcomed. It proposes a new regime that could put mining back on a strong growth path. And while it may mean a short-term loss to the fiscus (0,5% of 1988-1989 revenues, declining annually for six years), the effects are almost certain eventually to increase substantially the State's revenues from mining as the sector begins to grow in response.

Unfortunately, the Marais report first has to go to the Permanent Tax Committee; but Deputy Finance Minister Org Marais — who chaired the committee — seems confident that the proposals will be included in next year's Budget.

Whether the findings were prompted by very high tax rates, or by Margo, which left the mining tax question open, is moot. The point is that rich gold mines pay a marginal rate of 79%, including the formula tax, surcharge and lease payments.

Add to that the Minimum Tax on Companies (MTC), RSC levies, fuel tax, GST on capital goods, and recent import surcharges, and some gold mines could well pay a 90% marginal tax rate. Diamond mines pay an effective 56,2%, others an effective 57,5% — admittedly, before other sundry imposts.

Despite the high tax rates SA still has a substantial mining sector — so why change the system?

Mining houses by their very nature operate on an ultra long-term basis. They have to make decisions for expansion, based on lengthy exploration and prospecting. These, in turn, need funding that, by definition, is high-risk. The *one* certain factor that can assist them is a fair tax regime that takes into account the extraordinary features of the industry. That means a system free of adhoccery and political expediency.

Unfortunately, this has not been the experience, whether for the general body of taxpayers or the mining sector. Gold mines, for example, have experienced a hike in surcharge from 5% in 1979 to 25% in 1985 — simply to help fund budgetary shortfalls. More recently, all have been hit by MTC.

But a high tax rate is by no means the only problem: spiralling costs occasioned by stubborn double-digit inflation could be even more dangerous. The report shows that the estimated break-even cost for SA gold producers in 1988 is about US$255/oz-$265/oz. This compares unfavourably with Australia at $212, the US at $242 and Canada at $223.



Org Marais ... a need for security in planning

Indeed, SA became the highest-cost gold producer in the non-communist world in 1987. Add to that the problems of declining grades, deeper mines, fluctuating prices of the rand and gold, threats of more sanctions, and the recent tendency for wages to rise faster than inflation — and SA's mines are in an extremely serious situation.

So it's a major blow that the Marais Committee recommends that its proposals be phased in over seven years. Tax is the only mining cost element that can be changed unilaterally and with speed — and, the figures suggest, at fractional cost to the State.

Perhaps the greatest problem is that the recommendations look less revenue-neutral than they really are. In other words, if it is perceived that the (insatiable) fiscus will lose material revenues if the package is accepted, it will be ignored, as were practically all relief provisions in Margo.

But if there is truly a sector which has a right to special pleading, it is mining. It has always paid a significant amount of tax; now employs over 750 000 people; and contributes significantly to exports — averaging about 46% from 1980-1987 (and so how ironic that mines get no automatic relief from the new import surcharge).

Special pleading aside, the Marais recommendations are technically immaculate, taking in:

- ☐ Reduction of the gold formula marginal tax rate from 75% to 61% (the outcome effectively reduces the average rate to 50%, the same as company tax);
- ☐ Abolition of the surcharge (now 25% for gold mines) for all mines;
- ☐ Abolition of lease payments;
- ☐ Retention of the 100% redemption for hard-core capex;
- ☐ Non-gold mines to pay the standard company tax rate (50%);
- ☐ Retention of the gold "tunnel" (the tax-free portion of mining income), though with a fall from 6%-8% to 5%; and
- ☐ Retention of ring-fencing (subject to a new discretion for marginal projects).

Price Waterhouse's Chris Frame comments: "Marginal mining will be made less attractive (something of a sacrifice) and, on average, existing mines will be supported. Significantly, the gold mine formula tax will be placed back where it was supposed to be."

The last significant report on mining tax was the Holloway Commission in 1945, when there was a fixed gold price. Mining tax has since deteriorated into a system of anomalies and excessive rates.

There are reasons for optimism about the Marais report. A big one is the composition of the 17-member committee. Unlike Margo, many members (seven) were employed directly or indirectly by government; another seven were from the main mining houses; three were academics.

This suggests that a great number of practical problems were sorted out *before* the recommendations were signed. The prime example is the seven-year phase-in period.

A Revenue official says immediate implementation of the proposals would mean a one-off revenue loss of about R800m-R900m a year. Phasing-in will slash this to R150m/year-R200m/year (about 0,5% of 1988-1989 revenue), with substantial relief from the discounting effect of inflation over the phase-in. And as formula tax falls from 75% to 61%, the 100% capital redemption allowance will be worth progressively less.

As summed up by Marais: "The idea is to encourage new ventures." It is to be hoped that possible relief on ring-fencing (which tries to prevent the losses of one mine being offset against another's profits), plus potential increases in EPS yields, will attract new capital into mining.

It is widely accepted that the choking-off of foreign capital has severely stunted new ventures. One respected academic has estimated a potential for 15 new economic mines in the Witwatersrand basin, each with a 30-year lifespan.

The committee must be congratulated for reporting seven months after appointment, though it is a pity it did not complete its investigation into the writing off of mineral rights, and whether the tax system should encourage prospecting. Recommendations on both will be made "in due course."

Moreover, the committee has done its homework on the formula vs flat tax debate. It says that the new suggested formula will be tantamount to the 50% corporate tax rate — so has suggested that as an alternative. Retention of the formula, of course, is aimed at keeping the tax tunnel, which to some extent encourages low-grade mining.

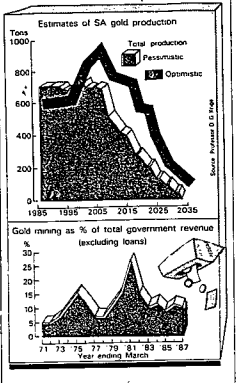
Pretoria's bid to allow indirect tax to take over that should ensure the conversion of the committee's findings into law. After all, Margo recommended a greater emphasis on indirect taxes — which may be seen as a euphemism for invisible taxes.

Pretoria realises that the white tax base is now too narrow to support its insatiable needs. The conversion to indirect taxes is overt, with a VAT-type impost in the liquor industry, RSC levies, and the proposed substitution of GST by full-blown VAT.

A main objective is to tax the informal sector (most recently by hiking the fuel levy). If this allows tax relief for the mining sector, so much the better.

It has never been more important to ensure the long-term survival of SA's flagship industry. For 1988's potential 90% gold mining tax is not only a long cry from 1910's 10% rate: it is also unsustainable. ■

Pay now, mine later?





Judge Margo ... provisions for relief ignored

(320) FMARC 9/12/88

TAXATION — 1989

January — MARCH.

Assocom plans talks with govt

B Day 3/11/89

320

KAY TURVEY

ASSOCOM plans to make representations to government following Finance Minister Barend du Plessis's announcement last month that government would act against four financing schemes which served to avoid income tax.

The announcement singled out dividend interest swaps, preference share financing, variable rate debenture financing and round-tripping of funds between financial institutions and the financial sector.

Responding to the move, Assocom's taxation committee chairman Bob Wood said yesterday suitable action was being considered.

Assocom was concerned that the government's reaction to the Margo Commission had been more on the revenue-raising side rather than in bringing meaningful reform to the tax system.

Over the past number of years, the tax burden on individuals and on the corporate sector had increased to such an extent that the businesss community had been forced to seek all legitimate means of reducing their tax liability.

The Federated Chamber of Industries (FCI) has also signalled its intention to meet government.

Assocom, in its Assocom Review for the fourth quarter of last year, said the year ahead could be one of the most momentous in the history of SA, reports Sapa.

"The events which will unfold will determine whether the country will go forward to a challenging future or stagnate in a laager, baying defiance at the rest of the world," Assocom says in the publication released today.

Up and up go taxes and inflation, down goes the rand

Star 4/1.89 (320)

Gloomy economic forecast

By Michael Chester

Sharp increases in the size of tax bills seem likely to add to the burden of higher inflation and a weaker rand exchange rate in 1989, according to forecasts by the Econometrix research unit.

And Dr Azar Jammine, director and chief economist of the think tank, blames the bleak outlook on the penalties now to be paid for the artificial boost given the economy by the National Party as a political sweetener before the October municipal elections.

He predicts the rate of sales tax will soar from 12 percent to at least 15 percent when the Government switches from the GST system to VAT (value-added tax), scheduled to be announced in the 1989 Budget.

The taxman will also take bigger bites out of pay packets as wage and salary increases force taxpayers into higher tax brackets.

Dr Jammine fears the harder tax squeeze looks inevitable as the Government becomes even more hard pressed to foot the bill of State expenditure, worsened by the civil service pay rises.

The heavier taxes — with the VAT net widened to cover even basic foodstuffs — look bound to put a brake on consumer demand as the credit boom comes to an end, he adds.

BLAME LAID ON AUTHORITIES

The Econometrix researchers lay the blame on the efforts of the authorities to generate an artifical boost to the economy as a political ploy at election time — the trigger to the credit boom that led to a surge in consumer spending on borrowed money.

The result of the massive creation of credit out of thin air, as the Reserve Bank pumped vast amounts of liquidity into the banking system, was that a spending spree on imports had stripped the country's foreign exchange reserves to precariously low levels.

That now threatened a renewed significant decline in the rand exchange rate, which would worsen inflation trends.

Still to be felt was the full impact of the successive waves of measures the Government was compelled to introduce to counter the false boom — more stringent hire-purchase rules, harsh import surcharges and sharp rises in interest rates.

The spending spree was prolonged, according to Dr Jammine, only because consumers were determined to buy ahead of inevitable new price increases as fresh fuel was added to inflation.

Now a slowdown in demand was unavoidable, especially for non-essentials such as new cars, household appliances, TV and video sets and furniture, which had benefited most from the credit splurge.

TWO WILD CARDS IN THE GAME

There were two wild cards that could alter the scenario — first the gold price, which heavily influenced the South African economy, and second the possibility of a 1989 general election. Neither, however, should cause undue optimism, cautions Dr Jammine.

The gold price looked likely to remained subdued in the face of strict monetary policies used overseas as inflation safeguards.

And even if a general election was held, one had to be sceptical about whether the Government any longer had it within its power to continue with artificial boosts to the economy by printing more and more money when the national reserves had been reduced to such a parlous state.

Longer term, the Angola-Namibia peace initiatives, the deregulation of business activities and moves to privatise more State-owned enterprises provided rays of hope for the mid-1990s.

But the benefits would take time to filter through and would not be in time to alter the economic outlook for 1989 and next year.

"In retrospect," says Dr Jammine, "one can only bemoan the fact that the Government induced the economy to overheat so much in 1988 for political ends.

"There need not have been any reason for a reduction of economic activity whatsoever in 1989 had the authorities ignored political expediency and acted more responsibly.

"Instead, the country may once more be faced with an increase in unemployment and a corresponding escalation of social unrest."

Holiday work students say tax system is unfair

B Day 5/11/85 (320)

KAY TURVEY

TAX consultants have been inundated with inquiries as students working full-time during their holidays have found themselves at a "grossly unfair" tax disadvantage under the new SITE system.

After the introduction of SITE earlier this year, students and other employees who do not work for a full year are now taxed according to tax tables of full-time employees. Under SITE, these employees are not entitled to any tax refund although annual earnings could fall well below R5 358 — the minimum income on which tax is payable in the case of a single person.

SITE is deducted after the amount earned has been annualised and reduced pro rata for the period for which they have worked. Individuals earning less than R12 000 or R20 000 in the case of married women pay SITE and are not subject to PAYE and do not have to submit a tax return.

Intentions

Deloitte Haskins & Sells partner Des Kruger questions the morality of such a situation, but he points out that in practice students and other seasonal workers may not find themselves so badly off, as SITE is applicable at a lower rate than the 25% deduction under PAYE.

One of the intentions of SITE was to reduce the returns submitted to Revenue, although the administrative burden on employers is vastly increased. Employers are now required to obtain IRP2 forms, perform the necessary SITE and PAYE calculations, deduct tax and furnish students with IRP5 certificates.

However, a concession has been granted with regard to child rebates. Once a child over 18 becomes liable for normal tax, the parent no longer qualifies for a child rebate of R100.

Revenue legal draughtsmen Ian Meiklejohn said the law was to be changed retrospectively so parents of children who qualified for tax only under SITE would be eligible for a rebate.

Tax and interest rates could rise again in '89

LOOKING at the economic prospects for 1989, Davis Borkum Hare economist Mike Brown sees the restrictive economic measures introduced in 1988 aimed at reducing domestic demands remaining in place for most of this year.

Dampening measures likely to be introduced could include higher taxation. He says: "Government spending was largely restrained in 1988 but the salary increases for civil servants and the probable early general election should see higher state spending over the next six months. It seems taxes will be increased to help finance state spending."

Implementation of the Margo Commission proposals seemingly provide a perfect excuse for higher taxes, as seen in 1988 with about R2bn in tax increases introduced up to December.

ADAM PAYNE

Brown recalled that weakness in the current and capital accounts of the balance of payments forced the authorities to adopt stricter economic measures and said they were aimed at rebuilding a solid surplus on the current account and at increasing foreign exchange reserves ahead of 1990 debt negotiations and repayment commitments.

Measures

The dampening measures in force and those likely to be introduced include:

☐ Higher interest rates: the recent 2% hike in bank rates probably brought interest rates up to the level at which they will start biting into consumer spending. However, if overseas interest rates rise further and/or local demand for credit continues at high levels, further increases in interest rates cannot be discounted;

☐ Indirect measures — import surcharges, increased fuel prices — met the double objective of reducing imports and pushing up state revenue. More measures of this kind should not be discounted. For some years, the consumer has been wooed into increased spending by low interest rates, declining taxes, stable petrol prices but now the opposite side of the coin is being presented. Also lurking is the spectre of higher GST and/or VAT, although this could be delayed until after the election — mooted for March or April.

At present, the outlook is for economic growth to slow from about 3% this year to 1,5% or less in 1989. The sluggish growth trend could drag into 1990.

(320) FMML 6/1/89

Tip of an iceberg

Finance Minister Barend du Plessis seems to have declared tax war on the financial and corporate sectors. A press announcement, effective December 22, hits out at four classes of financing.

Legislation can be expected soon after parliament reconvenes, but unprecedented pressure on Inland Revenue will force a clarifying statement before that. The announcement mentions:

- ☐ Dividend-interest swaps;
- ☐ Pref share financing;
- ☐ Variable rate debenture financing; and
- ☐ Round-tripping of funds between financial institutions and the corporate sector.

Schemes shown to the *FM* by Inland Revenue vary in detail. While many are plainly legitimate, others corrupt the spirit of tax law.

These are obvious targets for Section 103 of the Income Tax Act, the anti-avoidance provision.

The sort of schemes that inspired the announcement were set up solely or mainly to avoid tax. As such, they fall foul of S103. Many, if not all, can be taken to court.

But as a case can take years to eventually go on appeal to the Appellate Division, legislation may be needed to bridge the gap. Revenue officials believe legislation will be of the "shotgun" rather than the "rifle" type.

In practice, only some pref share schemes may need legislation. The other three, and others not mentioned, vary too much in detail to be covered effectively by new law.

Not to belabour the point, many schemes covered by the announcement are legitimate. Those that raised the hackles of Inland Revenue Commissioner Clive Kingon are often fantastic in conception. Some variable rate debentures, for example, offer returns of up to 56%. Details notwithstanding, the premium arises from abusing tax laws.

Round-tripping of funds, now the toy of *all* large banks, life offices and pension funds, involves simple paper-swapping purely to avoid tax. Since these institutions pay different rates of tax (pension funds do not pay any), "pure tax" margins are made by all three parties. Inland Revenue believes up to R11bn is involved in round-tripping.

Pref share schemes said to have corrupted the spirit of tax law have short lives, of one to three months. While it is normal to roll over a banker's acceptance every three months, this is not a characteristic of a pref share.

These pref shares, which exploit differing tax rules for dividends and interest, are just disguised loans — falling foul of any "form vs substance" test. "Normal" pref share schemes will not be hit — which, unfortunately, is not clear from the announcement.

While many private-sector critics have described the announcement as an overreaction, its very vagueness, the *FM* understands, was intended. "It was meant as a warning," says an official. "Technically, if not politically, it would have been disastrous to not say something as soon as possible, now there is some indication of the figures involved."

Inland Revenue has been inundated with callers wanting to know, for example, if the next 90-day roll-over of their pref shares will be hit. But the more fundamental question is why Inland Revenue took so long to cotton on to the schemes.

"Disclosure," answers the official. "Many companies are not disclosing these deals, but they can argue that they are not required to." He points a finger at the accounting and legal professions: they set up many of the schemes, but officials perceive an overt intention to keep details secret.

Often the schemes are complicated. While one leg may comply with tax law, all the legs taken together may be a clear corruption of the law's spirit. Separate tax returns from the enterprises involved give no evidence of the overall scheme.

Revenue was tipped off to the financing schemes from "outside," and has been investigating the matter for some months. While specific legislation is intended for pref shares, Revenue is also contemplating a change on disclosure rules.

This may be done via either the Income Tax Act or the Companies Act. In either case, Revenue will be able to get a quicker handle on tax avoidance schemes.

A scheme not mentioned in the announcement relates to property deals: a section of the Act is being evaded by use of equity sales at the end of the property payoff period.

Better disclosure would allow earlier detection of these schemes, now also thought to involve billions of rands. Separate action to counter them is contemplated.

The tragedy is that the announcement does not try to strike at the real problem: the lack of neutrality — something Margo tried so hard to achieve.

Different enterprises pay different rates of tax, and often their income and expenditure are defined differently.

While this prevails, there will always be ways of arbitraging between types of enterprise, and devising schemes purely for tax reasons.

Meanwhile, the announcement will do little to allay fears that Du Plessis is squeezing every possible cent out of the tax system. Finance officials argue that the financing schemes fall into a different class; the announcement aims merely at restoring something of a status quo, rather than excising more cash from the economy.

Says an official: "The simple fact is that large enterprises are, month by month, paying less tax than before. This shifts the burden on to the personal taxpayer and smaller businesses. Being a large enterprise should be no automatic licence to some of these tax schemes now coming to light."

In any event, further action against the financial and corporate sectors is assured. Financial schemes that fall foul of *current* law are clearly in for a hammering; that is all the announcement really says. If the end result is revenue neutrality, and a higher level of disclosure, then few sincere taxpayers would have lost out. ■

FINANCIAL MAIL JANUARY 6 1989

Getting soaked

Embattled taxpayers face an unhappy new year — including the start of value-added tax (VAT) at the same 12% rate as GST.

UBS economist Hans Falkena predicts government will collect R56bn taxes next fiscal year — a 20% nominal and 5% real rise on this year's R46,5bn.

Inflation, fiscal drag, the import surcharge and the petrol tax increase will push revenue up 16%, to R54bn, he says in the latest *Economic Perspective*. But that would leave an unacceptable Budget deficit of R15bn (about 6,4% of GDP) — since spending will soar 22%, to R69bn from R57bn.

He believes government, rather than cut spending, will raise taxes another R2bn to trim the deficit to R13bn (5,5% of GDP).

How? Most likely by instituting VAT, around September, at 12%. "That will be quite a tax increase, because VAT is a far broader tax than GST, with fewer exemptions," he says.

An option would be rapid privatisation, which would both raise revenue and cut cross-subsidisation of services. But there's little evidence of quick privatisation.

FM 6/1/89

Falkena says a R13bn-R14bn deficit plus higher inflation will push up bond rates. He sees long RSA stock — now around 16,70% — exceeding 17% by mid-1989.

☐ Both taxes and spending account for rising slices of the economy — supporting the notion that the more governments raise taxes, the more they're encouraged to spend. Revenue has increased from around 17,5% of GDP in the early Seventies to 21% in the Eighties and 23% this fiscal year. Spending has risen from 21% of GDP to 29%. ■

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TAX POLICY

Making crime respectable

Obviously, tax evasion is ethically deplorable. Like any other crime, it increases the burden on the honourable — or, at any rate, the honest. But it only retains a stigma as long as the general tax system is broadly considered to be reasonable.

If that ceases to be the case — and especially if honest taxpayers cease to feel any confidence that clamping down on offenders will in any way benefit them — tax evasion will no longer attract any moral opprobrium. That is a stage long since reached with our exchange control regulations, which in the popular view no longer apply to a wide range of shady wheeler-dealers, or to anybody with friends in the right (Nationalist) places; and it is a situation in which Inland Revenue is fast finding itself.

The plain fact is that there is a growing feeling that our tax system has thrown any sense of equity out of the window. The only "reforms" that are considered are those that increase the flow of funds to the fiscus. Any logic behind the impeccably argued recommendations of the Margo Commission has been abandoned. Whenever Revenue finds anomalies in how the system works, it never moves towards level playing fields by relieving the heavily taxed; it simply bludgeons those who find ways of minimising its take.

It's now clear that the switch from GST to VAT, originally advocated as a broader but lower-rate tax, will end up a broader but higher-rate tax.

To finance the depredations of the kleptocracy is not merely the underlying need; it is seen as the only need.

So however legitimate some of the objectives of Barend du Plessis' Christmas gift to the business sector (**see *Economy***) may be, it is no surprise that the general reaction has been one of shock-horror. The figures officialdom quotes, of "billions of rands" in tax revenue lost, are simply not credible; and even should they be true, there is no belief that recovering these losses will bring the slightest relief to the individual taxpayer.

In a sentence, the tax system no longer has any credibility. We don't believe what officials tell us about tax avoidance; we don't believe there is any consistent underlying philosophy or even an understanding of what damage excessive taxation does to an economy; we do believe that State spending and the Budget deficit are totally out of control.

This is becoming a crisis not just of credibility but of legitimacy. An administration which forfeits fiscal loyalty is in deep trouble. Government seems to think that the private sector is an inexhaustible source of funds to finance its extravagant follies. It would do well to consider the number of revolutions fomented at least in part by tax grievances: 1640, 1776 and 1789 will do for a start. ■

Tax man pledges rebates on way

Star 7/11/89 (320)

SUE VALENTINE and SAPA

TAX payers who have had their rebate cheques stolen can expect a windfall within the next month to six weeks, the Inland Revenue has announced.

Replying to complaints about the length of time it has taken to reimburse tax payers whose rebate cheques have allegedly been stolen, the Department of Inland Revenue's Chief Director of Operations Control, Mr Chris Dempers, said the backlog should be cleared withing two months.

"We must make sure the cheque has been stolen before we can issue a new one," he said. "Once we have made inquiries with the bank, the cheque should be sent within a month or six weeks.

"In many cases we find the wife has actually cashed the cheque or the tax payer has — and then forgotten about it.

Mr Dempers said no interest was paid on the money due to a tax payer during the time it took to re-issue a cheque. "There is no provision for the payment of interest except in certain circumstances such as in the case of provisional tax payers," said Mr Dempers.

Although the Department of Inland Revenue was "a little behind" in the posting of assessments to tax payers, it hoped to clear the backlog by the end of this month, said Mr Dempers.

Mr Dempers said that 1,232 million salary assessments were sent out last year, compared to 1,245 million in 1987.

However, he said the Johannesburg office of the Inland Revenue was about six percent behind in salary assessments.

● TO PAGE 2.

Tax rebates on way

Star 7/11/89 (320)

● FROM PAGE 1.

● Seven percent of return forms issued to salaried taxpayers for the 1988 tax year are still outstanding, according to the Director of Operational Development (Inland Revenue) in the Department of Finance, Mr Des Goosen.

He said this was about 3 percent less than the previous year.

Mr Goosen said that of 1,7 million returns issued, only about 126 700 were still outstanding.

He said about 3 500 summonses a week were being issued to defaulters, and appealed to those who had not yet submitted their returns to do so soon.

Offenders face court penalties and additional tax for the late rendition of returns.

For first offenders, this penalty was usually five percent of the tax payable, subject to a maximum of R100. In the case of a second offence, the penalty could be doubled.

● United Building Society reports in its latest economic review that the expected economic downturn and other measures taken by authorities to curb spending will cost South Africans an extra R2 billion in taxes over the next financial year.

It also says it expects gold mines will pay little additional tax in 1989 because of large tax deductable capital expenditure programmes.

'Extra R2bn in taxes needed for next year'

SOUTH Africans were going to have to find an extra R2bn in taxes in the next financial year, the United said.

It also said it expected gold mines would pay little additional tax in 1989 because of large tax deductible capital expenditure programmes.

Economist Hans Falkena said in the group's latest Economic Review the increase in tax income was likely to be too low to pay for the expected sharp increase in government expenditure and it was expected government would increase taxes by an extra R2bn in the coming Budget.

The group said: "This will limit its budget defict to some R13bn or 5,5% of GDP (in this estimate forward cover losses are still on the books of the Reserve Bank).

"After allowance for tax adjustments we estimate that government income will rise by 20% in the fiscal year 1989-1990."

The group estimated that in the coming financial year government expenditure would climb by 22% to R69bn.

The major causes were the upcoming civil service increases and the accumulated losses by the Reserve Bank on its forward cover operations. — Sapa.

Higher taxes or higher rates, says Old Mutual

By Magnus Heystek
Finance Editor

Short-term interest rates are bound to remain at high levels for most of 1989 and could, in certain circumstances, rise substantially, Old Mutual warns in a report released yesterday.

The viewpoint conflicts with the widely held opinion that interest rates are close to the top of the current cycle and that a downward movement will begin in the second quarter of this year.

Interest rate movements will be determined by the state of the balance of payments, in particular, and by the level of foreign exchange reserves, Mr Dave Mohr, chief economist at Old Mutual, says in the report.

Sustained pressure on the low level of gold and foreign exchange reserves will leave the authorities no choice but to increase interest rates more.

"It must be borne in mind that large amounts of foreign debt falling outside the debt standstill net are repayable in 1990 and 1991. In the light of these commitments, a premature decline in short-term rates could lead to the recurrance of an exchange-rate crisis in this period.



Mr Dave Mohr

"We feel that the authorities will not allow interest rates to fall substantially until the level of foreign reserves has improved considerably from its present levels," he says.

"In the light of the known restrictions on the capital account of the balance of payments, the rebuilding of foreign exchange reserves will require a considerable improvement in the current account, even taking into consideration the large surplus recorded in the third quarter," says Mr Mohr.

Another factor indicating that monetary policy will have to be tightened even more is the sharp rise in demand for credit and the concomitant rise in the money supply.

Preliminary statistics point to continued growth in money supply in October and November, substantially exceeding official targets.

Most of the faster growth in money supply can be attributed to a considerable acceleration in credit extension to the private sector, he says.

After an annual rate of increase of 23 percent in the second quarter, it accelerated to a 58 percent in the third quarter.

Total outstanding credit to the private sector at end-October was 40 percent higher than a year before.

"This sharp increase in credit extension increased the risk of a further weakening of both the current account and inflation, leaving the authorities with no choice but to increase interest rates further," says Mr Mohr.

He is critical of the Government for once again overspending its budget substantially.

Government spending for the full fiscal year is expected to be 18 percent higher than in the previous financial year, substantially higher than the budgeted increase of 12,5 percent.

A further rise in government spending can be expected in the 1989/90 financial year. Unless it is fully financed by taxes, the increase will place considerable pressure on interest rates.

Mr Mohr advocates tax increases, apart from the recently announced rise in the fuel levy, to reduce the likelihood of higher interest rates.

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Retroactive taxation 'unfair'

By Sven Forssman

Businessmen had every right to make the maximum use of any legal tax avoidance schemes, a Federated Chamber of Industries delegation told senior officials at the Department of Inland Revenue yesterday.

The meeting was held to clarify statements made by the Minister of Finance, Mr Barend du Plessis, on December 22, which FCI felt had created uncertainty.

Concern was expressed at the "constant shocks and in particular those of a fiscal nature such as surcharges, additional taxes such as MTC, withdrawal of GST debtors allowance and retroactive taxation" which businessmen have had to face in the past year.

FCI stressed, however, that it still supported any action against tax evasion schemes.

The delegation, led by executive director Ron Haywood, said the Minister's statement that legislation would be introduced from December 22 last year was unfair and unacceptable to the business community.

They said this would, in effect, be retroactive legislation as the announcement did not contain details of the proposed changes to the legislation, as recommended by the Margo Commission's report.

FCI and Receiver discuss tax clamps

BRUCE ANDERSON

BUSINESSMEN had every right to make the maximum use of legal tax avoidance methods, an FCI delegation told senior officials of the Department of Inland Revenue at a meeting yesterday.

The meeting was held to clarify the tax clamps announced by Finance Minister Barend du Plessis on December 22 last year. (320)

A statement released by the FCI after the meeting said: "Concern was expressed at the constant shocks, particularly those of a fiscal nature such as surcharges, additional taxes such as Minimum Tax on Companies (MTC), withdrawal of GST debtors allowance and retroactive taxation, which businessman have had to face in the past year." Bldwy 11/1/87

The FCI delegation, led by executive director Ron Haywood and the chairman of the FCI fiscal policy group Bob Cole, stressed it supported any action against tax evasion schemes.

The FCI said that Du Plessis's statement in December created uncertainty as it is an extremely broad-based state-

● To Page 2

FCI seeks clarification from Receiver

ment and does not clarify the issues in sufficient detail". (320) Bldwy 11/1/87

● From Page 1

If changes in the laws dealing with tax avoidance were made, then they should take place according to the procedure recommended in the Margo Commission report, the FCI said.

The Margo Commission report recommended that: "Where a large-scale tax avoidance scheme takes place while Parliament is not in session, the Minister should announce that he intends, in the next session of Parliament, to introduce legislation which will be precisely in the form set out in the announcement with effect from the date of the announcement."

According to the Margo Commission the above procedure should be used only in the most exceptional circumstances.

The FCI said it felt that, in the light of the Margo Commission's guidelines, Du Plessis's statement that legislation would be introduced with effect from December 22 last year was felt to be "unfair and unacceptable to the business community".

...y of teachers for all is central issue

Last year was a bleak one for education in South Africa.

Many problems remain unresolved. In black education a long tradition of an inferior "Bantu education" has resulted in years of unrest, stayaways, vandalism and violence. Demotivation is rife. Application is absent. Dismal matric results in 1988 reflect these ills.

The problems of white education seem petty by comparison, but morale among white teachers is at an all-time low. Thousands of highly talented educationists have abandoned the profession they love to take up more profitable positions in the private sector.

The central issue in education is the quality of the people who teach our children. Leaders in education (in all cultures) despair at the Government's inability even to perceive the critical position.

The situation is indeed desperate, but there is hope for the class of 2000 (those pupils who start their 12 years of schooling this year) provided the six partners in education acknowledge the problems and take action. Star 12/1/89 32.1

Pupil power

Pupils have power: the most common problem in senior classes (Stds 8 to 10) is those pupils who lack motivation, who seem determined to pursue mediocrity and who will drag many of their peers down with them. In black schools intimidation is real, physical and frightening.

In white schools the apathy, arrogance and sloth of those who have tarried for too long in the classroom is a cancer that must be attacked before it affects the entire class. In both cultures it is the pupils who must take the lead, the authorities will back them. Pupil power and peer group pressure are potent and positive forces.

Parents are partners. Both the DET and the TED have followed an active policy of involving parents in the education of their children, and both believe that the policy is paying dividends. Parents must expect that greater demands will be made on them.

> As the Transvaal Education Department's schools open for the first term, a veteran teacher says it is imperative that all the partners in the educative process — pupils, parents, teachers, officials, private enterprise and Government — think through and beyond their present attitudes to the other "partners in education".

The patience, courage and strength of black parents will face enormous trials.

White parents will have to realise that they have, for far too long, taken for granted a standard of all-round education that surpasses most others in the world. They are the inheritors of superbly endowed schools, built by generations of concerned parents.

They will have to devote more of their time and resources to maintaining and improving these institutions. They will have to use initiative and expertise to ensure that schools are staffed by caring, concerned educators.

Teachers cannot afford to enter 1989 in a spirit of depression, negativism and despondency. "A teacher affects eternity, he will never know where his influence ends."

This influence can be for good. It can also be destructive, and negative teachers will cause immense harm. Our teachers must continue to believe in the nobility of their calling, despite the crumbling of idealism in this materialistic society.

Many will have to re-assess their curriculums, their attitudes and their methods. Why are so many senior pupils bored and apathetic? Perhaps there is a need for less formal teaching, and more real learning. The times are a-changing, the capable teacher finds the challenge exciting and stimulating.

There are many splendid people in the higher realms of education. From the Director of Education to headmasters they share a common frustration — they lack real authority.

They have to accept immense responsibility but they are constrained by webs of regulations, curbs and constraints. There is no need for more regulations, more themes, more symposiums, more words, more circulars. There is a need for those in authority to be given authority.

To develop the confidence to listen, to decide, to act; to put into real practice such fine themes as "partnership in education"; to allow schools to make full use of the facilities (built up by parents) in "service of the community".

It is tragic that private enterprise has had to do so much in an attempt to compensate for the inadequacies of "Bantu education". Even more will have to be done in 1989 and in the nineties but another vacuum is being created.

Declining standards in white schools mean that private enterprise, in order to ensure that the trickle of highly capable matriculants does not dry up totally, will have to give thought to bolstering white, as well as black, education.

Millions

Perhaps some of the millions poured into the pockets of entertainers, sporting idols and administrators must be diverted into the grassroots, the schools?

Finally, the senior partner in education — Government. Perverted ideology caused black education to be neglected for decades. The inordinate amount of money spent on those structures that sustain and support apartheid is the single central sickness in our society.

A general election is widely rumoured. General elections are usually financially profitable for teachers (at least in the short term). Will the electorate face up to the real issues this time? Will education be one of these?

Each of the six partners in education has a contribution to make. If all six use the opportunities of 1989 to move from fear, mistrust and selfishness towards a generosity of spirit we may be able to look forward to the Nineties as a period when we no longer have to speak of DET and TED, of black and of white education.

Then there may be hope for the class of 2000.

INTEREST RATES

Taxing times

In recent weeks, the banking sector has been revelling in the unaccustomed luxury of a relatively liquid money market. Reserve Bank intervention (see ***Markets***) routing many millions of rands through the system, by regularly rolled-over daily repurchase agreements, has kept both interest rates and bankers' blood pressure at reasonable levels through the normally tight year-end.

To the surprise of participants, the money market still relied heavily on Reserve Bank intervention this week — probably due to unexpectedly high tax payments. In December, government deposits with the Bank were R5bn, up from R4bn in November. So at least R1bn moved from the private sector to the government in the period.

Though a tap issue of 1996 stock could have contributed to the shift in funds, the effect would have been neutralised in part by maturing Treasury bills and government stock. So presumably most of the movement was attributable to tax revenue.

Fortunately for banks, Reserve Bank Governor Gerhard de Kock will continue to "neutralise purely seasonal shifts of funds between the private and the public sector." This means he will accommodate the market until government spending starts returning money to the system.

As a result of this continued assistance, there is considerable optimism about the interest rate cycle and a belief among many bankers that the present period of relatively plentiful money represents a return to happier days of easy accommodation.

This perception, however, is premature.

Despite the "satisfactory performance" of foreign exchange reserves in December (see below), De Kock is determined there will be no immediate easing of monetary policy. Accommodation granted over recent weeks does not imply any easing of underlying basic monetary policy, he insists.

"We are delighted foreign reserves didn't fall in December — but they are still low and will have to be rebuilt further. Until that happens, until we have seen money supply growth return to the target level of 12%-16%, until we are assured that fiscal policy is not too expansionary, and until we are certain of a R4bn surplus on the current account for 1989, there will be no relaxation of monetary policy."

No fundamental reassessment of the economy will be possible, he says, until December money supply and trade figures become available towards the end of this month.

Many economists expect these to be good news.

Among them is Nedbank chief economist Edward Osborn, who expects a dramatic change in levels of liquidity.

Last year, he argues, saw adverse changes in the four basic elements of liquidity: movements in the balance of payments (BoP), flows in and out of the Exchequer account, changes in bankers' balances with the Reserve Bank as a result of legislative changes in the definition, and the value of notes and coins in circulation.

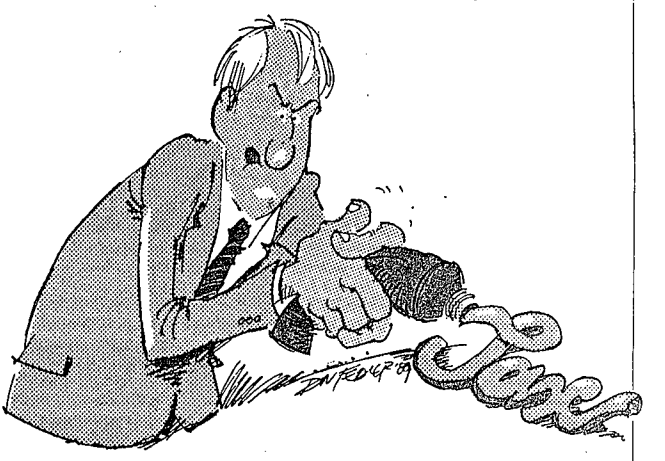
While these combined to produce a R270m surplus in 1987, keeping liquidity high and rates stable, pressures started to build up after the first quarter of that year.

"They reached a climax in the third quarter of 1988 with a drain of R3,7bn. This was the result of a R2,1bn increase in government balances arising from tax revenues and issues of government stock, an increase in notes and coins in circulation (R500m), a decline in gross gold and foreign exchange reserves (R500m) and changes in the definition of banks' balances with the Reserve Bank (R600m). The fourth quarter saw the drainage still high but reduced to R1,7bn.

"The result was a R7bn drain in 1988, which had to be matched through steadily rising bank accommodation and the provision of repurchase agreements on occasions."

Now, Osborn believes, we will see a reversal of this trend. "In the first quarter of 1989, there will be a seasonal change in the state of the Exchequer, with balances running right down to the close of the financial year. Departmental spendings are high and no further issues of stock will be made. Furthermore, we could see the beginnings of a turn round in the BoP situation."

Certainly the first signs of cash flows reversing should be seen soon. On the basis of Finance Minister Barend du Plessis' most recent estimate (in December) the deficit before borrowing will increase R700m this fiscal year to R10,6bn. With spending so far this year running pro-rata below budget, considerable expenditure lies ahead. So except for a temporary interruption, when tax payments at the end of February once again suck money out the system, the rest of the fiscal year should see favourable cash flows.



The Bank's energies will then be devoted to mopping up excess liquidity in the market and ensuring that rates don't sink to unrealistically low levels in response to seasonal flows.

Having battled so hard and so long for each increase in official interest rates, De Kock now knows that rates are not easily allowed to rise with market forces. He will be most reluctant, then, to let them fall without incontrovertible evidence that demand pressures are under control. ■

OUTLOOK

Could be worse

Brace yourself for a slowdown. But, says Old Mutual economist David Mohr, don't fear a repeat of the drawn-out recession of 1985-1986 — when real domestic spending contracted by 11% from the mid-1984 peak.

In the latest *Economic Monitor*, Mohr predicts real GDP growth of 1% in 1989,

TAX POLICY

Pretoria's uncertainty principle

Arbitrary moves on tax schemes make planning impossible and stain the system



There is a wave of resentment growing among ordinary law-abiding taxpayers that government's recent ambiguous tax changes — reinforced again on December 22 — are being used as a means of intimidating them into paying more tax than the law had previously required of them.

Just as ambiguous security and censorship laws have intimidated journalists and some political leaders into self-censorship, so too we fear are taxpayers being intimidated into paying more tax than they might legally need to do.

The message at least from the Union Buildings is very clear: we want your money and we will take it no matter what you do. If we in government don't like the way you order your tax affairs, we will simply change the rules every time you try something new. Sometimes we will do so retroactively, so you will run the possible risk of unsuspectedly being turned into a criminal.

The implications of this are profound: sound financial planning goes out the window; the incremental tax burden (ultimately felt by individuals even if it appears only to apply to companies) is perceived as unfair — and it is out of such conditions that tax revolts are born, though South Africans appear remarkably forebearing about it all.

It has in this country (as elsewhere in the West) previously been the undisputed legal right of every taxpayer to so order his affairs that he pays in tax no more than the law requires. Of course, for their part, the tax authorities have an equal right to act against tax schemes that break the law and prejudice the fiscus, or to remove tax shelters the need for which in changing circumstances may have disappeared.

But it is an accepted tenet of tax law in capitalist democracies that tax changes be clear, unambiguous, and not retroactive. Countries that make laws uncertain and ambiguous generally have something to hide. And when this applies to taxation, it impugns government's financial integrity. For it lays itself open to suspicions of claiming what does not rightly belong to it.

This is precisely what happened again on December 22 when an enabling document — *In Connection with Schemes for the Avoidance of Income Tax* — was published. It lists four means of financing to which Pretoria takes exception. But it refers in unclear terms to schemes that have been used for decades both here and internationally. They include:

- ☐ Dividend-interest swaps;
- ☐ Pref share finance;
- ☐ Variable rate debenture finance; and
- ☐ Round-tripping of funds between financial institutions and the corporate sector.

It is not clear, for example, what pref share schemes are being referred to. Until the promised amending legislation (implicit in the announcement) is actually passed in parliament, taxpayers will be left to operate in a grey area, uncertain of the consequences of their tax arrangements.

An eminent tax lawyer charges: "Taxpayers who think they may be affected by the announcement are left to telephone Inland Revenue. If they're lucky, they may get some idea of what the legislation will look like. But in my experience, what Revenue tells you and what it does are often two very different things. This makes tax planning practically impossible."

Price Waterhouse's Chris Frame, referring to a "cloud of uncertainty," sees the latest attack on taxpayers as a "fire brigade" technique. This means that Revenue seeks to stamp out some or other perceived abuse — but in the process hits far wider than its notional, ill-defined target.

"Sure," says Frame, "the commissioner has a duty to collect taxes. But (his) powers should be exercised with restraint. Throwing the baby out with the bathwater has never worked for anyone."

Remember that sound financial planning — which relies on a fair and comprehensible tax system, not subject to arbitrary, revenue-raising expedients — would serve to widen the tax base, as Western experience has shown in the Eighties.

Arthur Young's Charles MacKenzie comments: "Businessmen are expected to plan their affairs and to operate within the ambit of the law. How can they do so if the legislator refuses to tell them what the law is? Government appears to have reached a stage where it feels that it has the right willy-nilly to warn the taxpayer about legislation of which it itself is uncertain."

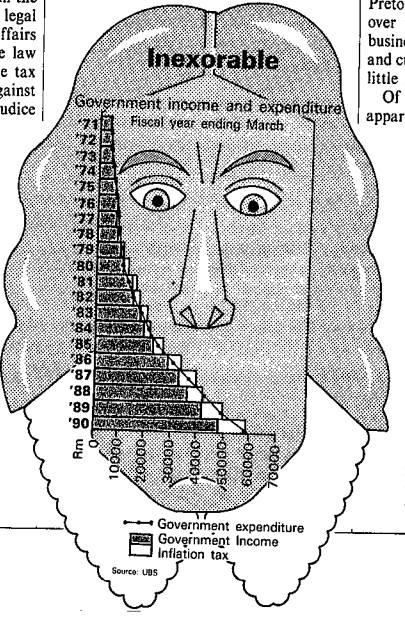
This tactic, which MacKenzie describes as the "rule of the big stick," is designed to confuse the taxpayer so that government can experiment with whatever legislation it deems appropriate. "How can you run a business in such an uncertain environment?" he wants to know.

Taxpayers who do protest against arbitrary actions appear to have little, if any, effect on the authorities. The latest announcement was made without any prior discussion with the private sector. This makes the obscure shape of the proposed legislation even more difficult to identify. The authorities apparently see no more than substantial short-term tax gains, and lack a perception of the permanent long-term inhibition to savings and investment, not to mention what it does to business morale. Clearly, Pretoria does not appear to understand that over time a higher tax take, by reducing business activity, circumscribes the tax base and curbs tax revenues. Pretoria has learned little from Reagan and Thatcher.

Of course, some of the financing schemes apparently covered by the announcement may indeed be legally fanciful, and Revenue may be fully entitled to attack them. The equitable route is via Section 103 of the Income Tax Act, a widely-framed anti-avoidance section that has been in place for decades.

S 103 was legislated precisely to counter some of the unusual avoidance schemes that have been devised, and use of it is a legitimate use of the law. Indeed, in recent years, Revenue, helped by certain pro-tax collector decisions in the Supreme Court, has been most successful in attacking blatant and subtle abuses of tax law.

Any sound body of law is characterised also by recourse to open courts of law. Yet, apart from anything else, recourse to the courts is becoming extremely difficult for taxpayers. It may take R20 000-R30 000 for an urgent



Much talk on tax. Except from those who'd know

WMPTL 13-19/1/89.

320

The only ones not talking about the new tax bill are those who know the details

By HILARY JOFFE

THERE's plenty of speculation in business circles about when Value Added Tax will replace General Sales Tax but so far there's no word from the government.

A spokesman for the Commissioner of Inland Revenue said this week there was as yet no final decision on when VAT would be introduced. It could be any time during the fiscal year beginning on April 1.

The Minister of Finance would announce the date when he tabled a bill in parliament, the spokesman said. The bill would be published for discussion before it was introduced in parliament, he said.

Talk in tax circles is that such a bill already exists but so far its contents are secret.

Meanwhile, several tax consultants and economists believe VAT will be introduced in September or October — definitely not March, as was initially thought. It's considered certain to be levied at at least 12 percent — the present GST rate. Some analysts predict it will be as high as 15 percent, to finance the ever-increasing government deficit.

For the government, the timing of VAT may be a delicate balancing act. Even if it is introduced at the same rate as GST, food will not be exempted so the new tax is likely to be unpopular.

The government may not want to introduce it too close to the general election, which it is likely to have to call by March next year. At the same time, numerous technical problems are said to be delaying its introduction — mostly questions of what would be subject to VAT

According to one tax source one such technicality is the definition of capital goods.

Under GST capital goods (such as machinery) are taxed. This means there is some double taxing in an economic sense. Businesses pay GST on purchasing a machine but also include the depreciation on the machine in costing the products which they sell to consumers.

Taxing capital goods is in theory inconsistent with VAT. Under VAT double counting should be eliminated — each business charges VAT on the sale of its outputs but claims credit for VAT charged to it on its inputs.

However, exempting capital goods from VAT would mean a significant loss of revenue for the government and so capital goods are said to be certain to be included in the tax base.

The introduction of VAT will mean a major administrative task for businesses. Enterprises which haven't had to charge GST will have to charge VAT — manufacturing companies, for example. The new system will require full-scale modifications to accounting and computer systems.

The uncertainty about the introduction of VAT is thus causing some consternation. Private sector representatives have asked the Minister of Finance to give them six months from the time VAT legislation is finalised to the time they have to implement it and, says the Inland Revenue spokesman, the minister will provide time.

Introduction of VAT likely to be delayed

Star 13/11/89

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Finance Staff

Albert Einstein said the hardest thing in the world to understand is income tax. Small wonder ordinary mortals anxiously await Government's VAT draft legislation to explain the intricacies of VAT and who and what will be drawn into the net.

Says Anthony Chait, partner in Chartered Accountancy firm Fisher Hoffman Stride: "The keenness with which the legislation is awaited is because there has been very little from Government in terms of how the legislation will actually be imposed. There is tremendous uncertainty amongst various industries, for example the construction industry, as to how VAT will affect them.

Of most concern is the question of how VAT will be applied.

"For example on the rentals of immovable properties by businesses. It is thought individuals renting a flat or a house for domestic purposes will not pay VAT. Businesses are concerned that the rental of premises for business purposes may rate as a taxable service. This could have a significant impact on cost structures and inflation generally as they will seek to recover their outlay."

Consensus is that following representations made by various industries, significant amendments and in some cases total rewrites of relevant provisions in draft legislation have been made.

Government needs to structure legislation acceptable to a multi-faceted community, says Mr Chait. "This is probably the single reason responsible for the long delay in releasing draft legislation. The area most problematical at present is that of the whole concept of VAT as it applies to financial services."

He believes because of problems inherent in the switch-over from GST to VAT, implementation of VAT will be in October rather than on April 1 as originally planned. South Africa is not unique in encountering problems with VAT, says Mr Chait.

"In an insurance transaction for instance, how do you measure the VAT to be added on? Is it based on the amount of the premium or the growth of the policy? In every country which adopted VAT, the tax on financial services presented problems."

Financial services is a broad term which encompasses many specific items such as charges made for loans, stock brokers' commissions and brokerage, bank charges on current accounts, brokerage on dealings in securities. "Any form of interest is a form of finacial service," notes Mr Chait.

"In the UK all these services have been exempted from VAT. But a number of financial services are not exempt and often one finds there is a grey area where these are concerned. These largely relate to financial services of an advisory mature."

Mr Chait believes any form of fee charged for consulting or the giving of advice will be subject to VAT.

"The problem arises where institutions like banks offer a mix of services, some liable for VAT and others not. It is an enormous problem to differentiate one particular financial service from another."

Difficulties arise in determining input and output tax on these services and what net amount has to be paid over to the fiscus.

"In the UK the apportionment is usually based on an institution's turnover. A bank, for instance, would claim that 20 percent of its turnover is made up of financial services such as charges and interest which are exempt from VAT.

In this country we are simply re-living the same learning curve effect other countries experienced in dealing with financial services.

He advises government to exempt interest on transactions from VAT. "It is unthinkable to suggest that interest on a mortgage bond be subject to 12 percent or 15 percent VAT."

He suggests the route to go is to exempt all financial services from VAT. But if the service is an advisory service then clearly it is a professional service which should be taxed.

If the fiscus agrees to exempt financial services from VAT how can the shortfall, possibly worth billions, be met?

"Bringing food back into the VAT net coupled with VAT on professional services such as the services of architects, accountants and attorneys will compensate the fiscus. I also believe there is a good argument for including VAT on medical services."

What about the informal business sector which has escaped GST up to now? Will VAT affect them?

"The growth in the informal sector leads to a shrinking of the tax base because a lot of the informal sector has little respect or mortality when it comes to paying income or sales tax. This has to be watched.

"Clearly there is going to be a turnover limit in the registration of a business for VAT purposes. At present the limit is R50 000. If government imposes reasonable limits on turnover a lot of these so-called informal sector businesses would be excluded. The hawker population has multiplied.

It would save an inordinate amount of administration if Revenue were not concerned with collecting from all these little businesses that would pay VAT on all they buy and won't be obliged to collect output VAT, so Government won't lose out."

As Mr Chait points out, "There's a lot to be said for having a tax system that will be simple and easily collectible."

Taxpayers may have to pay 'protection money'

W/G ARGUS 14/1/89 320

From CLAIRE GEBHARDT

THE estimated R4bn lost "protecting" importers against a falling rand is one of the factors why taxpayers may have to fork out an extra R2bn this year.

And the only way the Reserve Bank could possibly cut its losses on the provision of forward cover, say economists, is to hike prime to 22 or 24 percent.

But such a step would raise an outcry from debtors as well as be politically unacceptable because of the government's concern for farming interests.

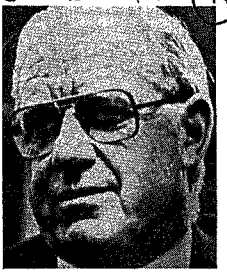
The catch-22 situation is that either government puts up with foreign exchange losses, or puts up interest rates which would probably bankrupt the farmers, say economists.

Whether the Reserve Bank's claims on the Treasury will be dealt with in this year's Budget is cause for speculation.

Governor of the Reserve Bank, Dr Gerhard de Kock, interviewed last year, said the debt wasn't an issue in March 1988 "but is building up to becoming an issue in March 1989."

At that stage he was optimistic that the rand would stop declining, thereby reversing the consistent losses.

He subsequently announced the Bank would resume an orderly withdrawal from the market by paying gold mines in dollars once more.



Dr De Kock

But economists are pessimistic about the Bank being able to withdraw from the forward exchange market in the foreseeable future.

And in the wake of a currency said by most to be in a cyclical long-term depreciation, see little chance that the consistent losses on the forward cover book will be reversed.

These losses were spotlighted once more this week by United's Dr Hans Falkena.

He predicted that government expenditure would climb by 22 percent to R69bn in the coming financial year "Because of the accumulated losses by the Reserve Bank on its forward cover, and the upcoming civil service pay increases."

Other economists echoed his concern.

Volkskas' Adam Jacobs regards the forward cover losses as highly alarming, "Leading to money creation and being tantamount to subsidising of imports."

But huge losses on forward exchange cover are not inevitable, say economists, and depend solely on the rate the Reserve Bank is quoting for its forward cover.

If the rate is totally market-related there is no reason for the Bank to make a loss, but that implies it cannot set interest rates, they explain.

To cut losses, the Reserve Bank would have to quote forward rates which are fully in line with the rest of the world.

And this would mean bringing the forward market in line, interest rate-wise, with the rest of the world.

Real interest rates of major trading partners are averaging about four percent while in South Africa the figure is zero or one percent.

Central banks in the Netherlands, France and Germany would absolutely refuse to absorb any of these forward cover costs, but in South Africa it is a political decision, economists believe.

And though the rand is a weak currency and likely to remain so, they believe this should not imply that the Reserve Bank be involved in a loss-making process.

Scrap fuel tax, says MIF as petrol-hike anger mounts

Staff Reporter

THE Motor Industries Federation yesterday called on the government to scrap its proposed fuel tax as public anger at Monday's petrol price hike mounted.

Slamming the increase yesterday, MIF president Mr Alex Hawes said he objected to it in the "strongest possible terms" and warned of the "ripple effect" it would have on the economy.

MIF executive director Mr J H van Huyssteen expressed shock at the hike and accused the government of loading its tax burden on petrol consumption instead of spreading the fiscal needs along a "wider front".

But a request by maize farmers that Monday's diesel price increase be held off until after harvest time was turned down yesterday by the Deputy Minister of Economic Affairs and Technology, Mr George Bartlett.

In a statement he said the representations from the National Maize Producer's Organisation (NAMPO) had been sympathetically received and carefully considered. "Unfortunately it is not possible to postpone the increase for farmers only."

Mr Van Huyssteen noted that the fuel price had gone up by 23c since last year's September 1 increase, triggering further inflation across the entire economic spectrum.

In Cape Town and other coastal areas motorists will pay 9c extra a litre after midnight tomorrow, while consumers in the north-western Cape face a stiff hike of 12c a litre. In other areas the price will be 10c a litre.

And in its first fare hike since September 1988, City Tramways will be charging between 2c and 15c more per journey, depending on distance.

Long-distance clipcard-holders travelling from Atlantis to Cape Town will have to fork out 15c

To page 3

From page 1

Fuel tax

extra daily, bringing a single trip to R1,89, while cash payment will cost R4,30 for the journey, Tramways spokesman Mr Bob Krause said yesterday.

Likewise, commuters travelling between Khayelitsha and Claremont will pay 75c if they use a clipcard, or R2,17 cash once the increase comes into effect.

Mr Krause stressed that Tramways had delayed implementing the full costs of the September 1 increase and noted the "hardship" that the increase would cause to passengers.

In January 1979 passengers paid 20c to travel by bus from Sea Point to Cape Town and 25c for the journey from Nyanga to Claremont, he added.

Taxi fares were not immediately set to rise, though an SA Black Taxi Association spokesman yesterday indicated that the situation was "subject to review".

OK Bazaars managing director Mr Gordon Hood "deplored" the petrol price increases, which he said would come as a further blow to the already struggling consumer.

He hoped that those suppliers whose prices remained unchanged when the petrol price was lowered last year would do the same now.

And, warning of manufacturers who could exploit the price hike, Checkers marketing director Mr Johan Williams said the supermarket chain would fight to keep prices down.

Pay rises can put you in Govt's Site

(320) Star 14/1/89

DEREK TOMMEY

THERE are times, believe it or not, when a pay rise can be a mixed blessing.

This applies particularly to a working wife who is paying the recently introduced Standard Income Tax on Employees, or Site.

Her problem is that any pay rise, bonus, fringe benefit, overtime or other remuneration which lifts her income above Site limits will increase her tax. Her income will be added to that of her husband and the Receiver will take a bigger cut.

Site was launched to cut some of the red tape surrounding tax collection. It is an alternative way of calculating the tax on earnings below a prescribed level. The tax paid is final and not normally refundable and, with one exception, is payable by anyone earning R1 000 a month or less.

The exception is the working wife. Extending Site, with its fixed tax rate, to working wives was seen by Government as a way meeting the complaint that the country's high tax rate discouraged married women from working.

So Site was also extended to working wives earning less than R20 000 a year or R1 667 a month.

Being subject to Site has two advantages for a working wife. The obvious one is the lower tax rate. Secondly, her take-home pay is all hers. Nothing has to be set aside to meet possible further tax payments in future.

Most working wives who are earning less than R20 000 a year have apparently welcomed Site. But nothing is ever perfect in this world.

Unfortunately, since Site was introduced, prices have gone up by 12 to 15 percent. And most employers have helped workers face these rises by granting wage increases.

If the rise in Public Servants' pay is any gude, incomes on average have gone up about 15 percent

What this means is that many working wives who were just within Site limits and blissfully believed they had no tax problems are now outside Site — and are back where they were a year ago, with their and their husbands' incomes being added together for tax purposes.

One hopes Finance Minister du Plessis is aware of problems that can arise from not adjusting Site for inflation, and will correct the situation in the next Budget.

In the past,Government has been set against automatically changing income tax rates to take account of inflation. (This has led to substantial fiscal drag.' But if Site is to continue saving Inland Revenue the expense of assessing the earnings of thousands of people with small incomes, a change in Site limits seem essential.

Moreover, as most pay rises are given in January there seems a good case for making any changes in Site limits retrospective to January 1. Inland Revenue has had no qualms in the past about legislating retrospectively.

However, there is one way whereby working wives whose income are above the Site limits can stay within Site. This is by investing enough of their incomes in retirement annuities to keep pay within Site limits.

Details of how to do this can be found in the article below. However, it should be emphasised that before the Receiver of Revenue will accept these RA deductions it is necessary for the working wife's employer to get local Revenue office approval.

Income tax changes trigger some complex calculations

Star 14/1/89 (320)

RECENT amendments to the Income Tax Act will affect life assurers and the selling of life assurance in various ways.

The introduction of Site has created numerous opportunities for effective estate planning, but has created just as many problems.

The deduction formula for contributions to retirement annuity funds in terms of Section 11 (n) (aa) of the Income Tax Act bears repeating.

The contributing member of the Retirement Annuity (RA) fund is entitled to claim the greater of:

A 15 percent of taxable non-retirement funding income.

B R3 500, less the deduction for current pension fund contributions.

C R1 750 as a tax deduction.

Under new Site legislation, section 1(n)(aa) has been amended so that, where a married woman is, under Site provisions, a taxpayer in her own right, each spouse will now be entitled to a deduction of one-half of current contributions to an RA fund up to the greater of:

R3 500 less pension fund contributions or R1 750, plus so much of the unused portion of the deduction to which the other spouse was entitled.

Article contributed by JOHN DIJKMAN, Standard General Life legal adviser.

A few examples will illustrate the complexity of the deduction created by this amendment.

EXAMPLE 1

A husband has R36 000 a year net taxable income from non-retirement funding sources. He contributes R5 400 to a retirement annuity.

His wife earns R16 000 a year net remuneration and contributes R1 000 a year to a retirement annuity. She contributes R1 200 to a pension fund.

Their allowance deduction in terms of Section 11 (n) would be as follows:

In terms of part (a) of the deduction formula, the husband will be entitled to deduct the full amount of R5 400, being 15 percent of R36 000.

The wife would be entitled to deduct the greater of half (R1 750) or half (R3 500) — R1 200 and so much of the unused portion of the deduction to which the other spouse was entitled. She would therefore be able to deduct half R1 750 (R875) as a deduction. As her husband is deducting in terms of part **A** of the formula, she cannot use the unused half portion of the formula, as he is not entitled to anything in terms of part **B** and **C** of the formula, and portion of her contribution will be disallowed as a deduction.

Even so, the couple are nevertheless entitled to a larger RA contribution than before the introduction of Site.

EXAMPLE 2

If we take the same example but now have the husband earning a pensionable income of R36 000 a year, the position changes somewhat. He contributes R1 500 a year to a pension fund and R1 800 a year to a retirement annuity fund.

His wife earns R16 000 a year and contributes R600 to a pension fund and R800 a year to a retirement annuity fund. Their allowable retirement annuity deductions will now look like this:

The husband's allowable RA deduction will be the greater of half (R1 750) or half (R3 500) — R1 500 = R250 and he may therefore deduct R875 of his R1 800 contribution.

The wife's allowable RA deduction will be the greater of half (R1 750) or half (R3 500) — R600 = R1 150. As she only contributes R800 a year to the RA, her husband would be entitled to utilise the unused portion of her allowable deduction (R350) and he would therefore be able to deduct R875 plus R350 (R1 225).

As can be seen from the above example, it will now be possibe in certain instances to increase a family units deductible contributions to a retirement anuity fund.

However, as soon as the wife's salary is increased to the extent that she no longer falls within the Site limit, her taxable income will be included in the income of her husband and thecouple could then find themselves contributing to retirement annuities, the contributions of which are either wholly or proportionately no loiger deductible.

The issue of the deductability or not of contributions to RA funds is crucial, as it can help determine whether or not the married woman's earnings will be subject to Site alone or whether they will be subject to PAYE in addition to Sze, resulting in her total earnings being added to her husband's income, bringing one back to the old problem of the inequities of married couple taxation.

Heavier (320) grows 31 Times the tax (3/11/89) burden

By Robyn Chalmers

TAXPAYERS could be burdened with an extra R2-billion in the next financial year when Government expenditure is expected to climb by 22%.

United group economist Hans Falkena says that in the coming year Government expenditure will rise to R69-billion, mainly because of higher pay for public servants and accumulated losses by the Reserve Bank on its forward cover operations.

"This will limit its Budget deficit to R13-billion, or 5,5% of gross domestic product (in this estimate forward cover losses are still on the books of the Reserve Bank).

"After allowance for tax adjustments we estimate that Government income will rise by 20% in the fiscal year 1989-1990."

The only areas where meaningful cuts in expenditure could take place are education, defence, health and constitutional development.

Imposts

Tax income will be lower than expected because of the expected economic downturn and other measures taken by the authorities to curb spending. He believes taxes will have to be increased both on companies and by indirect means such as GST.

If current trends in Government income and expenditure were to continue and the current tax rates were not increased, the Budget deficit in the next financial year could well exceed R15-billion.

Such a deficit would amount to 6,4% of GDP, compared to 3,1% in the US, 2,5% in Japan and 18% in Germany.

Salaried taxpayers are carrying the burden of greater imposts from the Receiver of Revenue with a doubtful smile — they have become more prompt in submitting income returns.

Department of Finance Director of Operational Development (Inland Revenue) Des Goosen says 7% of the tax returns issued to salaried taxpayers for the 1988 tax year are still outstanding.

This is an improvement of about 3% on the previous year. Of the 1,7-million buff forms issued, only about 126 700 are outstanding.

Mr Goosen says summonses are being issued to those taxpayers who have not submitted their returns. About 3 500 summonses a week are being issued.

He says offenders should realise that in addition to any fine that might be imposed by the courts, a penalty in additional tax for late returns will be levied.

Tax hike certain 320 B/Day 16/1/89 economists

GERALD REILLY

PRETORIA — Increased taxation in the 1989/90 budget appears unavoidable because of sustained high state spending, economists say.

They maintain even bracket creep, which is likely to add substantially to state revenue in the new financial year, will be insufficient to provide the needed funds.

Volkskas economist Adam Jacobs said the deficit before borrowing was likley to be around 6% of GDP.

To get this into perspective, he said the US deficit was between 2% and 2,5% of that country's GDP.

He said a benchmark of 3% of GDP had been set as a target for SA by the IMF.

"There is absolutely no indication that goverment spending will be cut back drastically or even worked down to any significant extent.

"So the alternative would seem to be higher tax in one form or another in the March Budget."

Last week, too, old Mutual economist Dave Mohr said an increase in taxation to support state spending, in addition to the already announced levy on petrol sales, would be necessary.

UBS economist Christo Luus estimated the deficit before borrowing in the coming Budget at around R10bn.

This and continued high level state spending made it virtually certain Finance Minister Barend du Plessis would increase taxation.

PFP finance spokesman Harry Schwartz said the Budget delivered before the general election would not include increased taxation.

There had been talk of appointing a delimitation commission, but this had not been followed through.

So the possibility of an early election remained.

Schwartz said today's increase in the petrol price was a tax and would go straight into general revenue.

Goverment was also to get a payment of R600m from the Industrial Development Corporation before end-March for Iscor shares, although nobody was disclosing the price or number of shares involved.

So it had substantial additional support funds.

Govt taxation of fuel angers AA chief

Star 13/11/87

Staff Reporter

The Government's tactics of extracting payment from the motorist by adding "exorbitant" taxes on fuel was condemned yesterday by the Automobile Association's director-general, Mr Peter Elliott.

He said it was "totally unacceptable that the new pump price, coming into effect on Monday, includes 9c a litre in tax".

"When added to the 3c a litre (tax increase) of September 1988, the total of 12cper litre in tax increases in one year is proof that the Department of Finance has found an easy source of revenue — the motorist.

"It is grossly unfair that the motorist should continue to pay to make good shortfalls in taxation," Mr Elliott said.

The AA has appealed to filling station owners to ensure they were able to cope with the expected rush over the weekend.

The AA was also concerned that some filling stations might adjust their pumps to the new prices before midnight on Sunday.

B/Day 18/1/89 (320)

BUSINESS DAY, Wedi

R1 loaf of bread looms

GERALD REILLY

PRETORIA — Housewives can brace themselves for a big increase in the bread price soon.

Sources say the hike can be avoided only if Finance Minister Barend du Plessis agrees to a subsidy of at least R175m in the 1989-90 fiscal year.

With a smaller subsidy the R1 loaf is possible.

This, it is pointed out, is unlikely as the Cabinet has already decided to phase out the bread subsidy over a three-year period.

This year's subsidy of R132m will run out by the end of March.

It accounts for 11c on each loaf on brown bread and 2,3c on white.

it is also probable that with VAT — expected to replace GST in about a year's time — the tax will be levied on basic foods.

This was a recommendation of the Margo Commission provided an acceptable means could be found to relieve the burden on the poor.

VAT at 12% would add an additional 10c to the price of a standard loaf.

Also to be added would be increased margins for bakers and millers to compensate for the 10c/l hike in fuel prices and other operating costs.

'No chance' of VAT this year

B/Day 18/1/89 (320)

CHRIS CAIRNCROSS

CAPE TOWN — There was virtually no chance of VAT being introduced in SA this year, Finance Department officials said yesterday.

They stressed it would be physically impossible to change over to the new system during the 1989/90 financial year, dismissing suggestions that VAT could be in operation as early as July.

The draft legislation had not yet been completed, although publication was initially promised for the end of 1988.

Several submissions made by the private sector apparently caused the delay, with officials having to travel overseas to gather further information on the teething problems that occurred in other countries with the transition from GST to VAT.

It was still uncertain when the legislation would be finalised and published for comment. Official sources yesterday suggested it would emerge only when the Budget was tabled in Parliament, with Budget day provisionally scheduled for March 15.

Officials reckoned it would take at least six months after promulgation of the legislation to re-educate and train staff for the switch-over.

It was understood that an intensive and wide-ranging education and promotional campaign was being created in order to make the general public conversant with the mysteries of VAT. This would be launched once the legislation was passed by Parliament.

That might be only in 1990 as government had given the undertaking that it would allow sufficient time for the private sector to properly respond to any draft legislation, before going through the final steps of translating it irrevocably into law.

the new [illegible] to the polls immediately after [illegible] a Swapo [illegible] in November;

election.

Party leaders interviewed yesterday were reluctant to be identified because [illegible] The likelihood that the economy R250 000 — has been a major objection [illegible] time the screen market opens.

VAT delay 'is linked to early election'

yesterday confirmed VAT was unlikely to be implemented this year. He said various issues such as scope and liability of the tax still had to be determined, Sapa reports.

He said if a general election were to be held this year, it would give the tax committee more time to consider private sector and other representations.

Tax experts also said the delay in implementation of VAT would leave HP retailers between two stools, as the debtors' allowance previously granted to credit retailers under GST was to be phased out by April, while VAT was unlikely to be introduced until 1990.

The withdrawal of this allowance,

From Page 1

which provided tax relief on credit sales, would exert serious pressure on the vendor's financing costs.

Marais reiterated that government would not rush into implementing the new tax.

This move has been welcomed by the FCI and Assocom. FCI executive director Ron Haywood said they would rather more time was spent getting the system right first time round. Assocom taxation committee chairman Bob Wood said they prefered a delay if it meant due consideration would be given to the tax

See Page 3

There are two sets of clues, but the answers are the same

VAT delay 'linked to early election'

KAY TURVEY

TAX experts yesterday linked the probable delay of VAT until next year to the prospect of an early general election.

They said the inclusion of food in the new tax net would be a highly unpopular move before an election. The exclusion of basic foods under the present GST system was estimated to lose government about R2bn a year, or 16,5% of present GST yields.

But Finance Deputy Minister Org Marais said government hoped to submit a draft Bill to Parliament during the coming parliamentary session, irrespective of whether an election was held.

He said progress was being made with the legislation. Overseas VAT advisers had visisted SA in December and their report would be submitted to the standing advisory tax committee on Monday.

Finance Director-General Chris Stals

To Page 2

VAT to throw a tighter net around tax

B/Day 19/11/89 (320)

-GERALD REILLY

PRETORIA — VAT would throw a wider and tighter net across the taxation scene and should significantly reduce the revenue losses leaking through the GST system, finance department sources said yesterday.

Commissioner for Inland Revenue deputy-director Schalk Albertyn said the implementation of the new system would necessitate the employment of 1 200 additional staff in the Commissioner's office.

The recruitment of the extra workers began at the start of the month with an initial target of 800.

He said they would be trained in GST administration because internal procedures for GST varied little from what would be needed to administer VAT.

Swell

Albertyn said in addition the recruits would undergo specialised training to equip them fully to cope with the new system.

"Most of the new workers will go to swell the inspectorate staff to ensure maximum collections at the three main points — manufacturers, wholesalers and retailers."

Albertyn said existing office equipment should be adequate.

He said he hoped VAT would prove to be a more efficient tax collection strategy.

He also hoped that revenue losses currently suffered in the GST system would be curtailed.

policyholders.

World's most complicated tax system

By TREVOR WALKER, Business Staff

SOUTH Africa has the distinction of having evolved the world's most complicated personal tax system.

Any ordinary PAYE taxpayer with a wife working to help keep the family afloat, investing in a retirement annuity and attempting to make any other deduction in his annual tax return, would need a mini computer and a book similar to that of Silke's latest yearbook on the Income Tax Act.

Mr Michael Stein of Costa Divaris and Stein, a co-author of the yearbook said, what the 1989 Income Tax Act refered to as The Standard Income Tax on Employees or "SITE" was "completely out of sight as far as the ordinary tax payer is concerned".

When a monogamous South African taxpayer has to calculate deductions concerning his first wife and then those for his second wife, one begins to understand his need of some professional tax/psychiatric help.

Mr Stein points to, as an example in terms of the Act, the "Order of Computation of Deductions".

Because various deductions depend upon a computation of taxable income which might itself be reliant upon certain other deductions, various provisions attempt to set out an effective order in which the deductions concerned are to be independently calculated.

Intended to be calculated first is the first wife's earnings allowance, secondly the RA contribution, then any qualifying donations, then medical and dental, although unfortunately this is dependent upon the first wife's earnings allowance and not the second.

The deduction to be calculated last is the second wife's earnings allowance.

Silke takes the taxpayer attempting to complete the yearly "buff" through these steps with references to the various paragraphs that apply.

It is defintely not the sort of book recommended for the kids to buy for Father's Day.

This hefty paperback covers the full Act and includes case studies.

To give the reader some idea of the complexity we quote from the Act "concerning deductions in respect of salary (earnings) of married women".

20A (1) There shall, in determination of the taxable income of any taxpayer in whose income there is under the provisions of section 7(2) included any earnings of his wife, be allowed as a deduction from his income.

(a) So much of the total amount of the net earnings of his wife (whether, consisting of the earnings of one wife or more than one wife) as does not in the year of assessment exceed an amount equal to the greater of R2 250 or 22,5 percent of the said net earnings.

Now says Mr Stein one must first establish how net earnings are defined.

So to yet another sub-section paragraph (c) 'net earnings' means the taxable income derived by a married woman from earnings, as determined before deductions of any amount allowable under this section and sections 11(k), (n) and 1SA.

(Paragrapgh (c) substituted by s 16(1)(d) Income Tax ACt 1988, in terms of s 47(a) of that Act effective as from the commencement of the years of assessment ending on or after 1 January 1989).

Mr Stein said: "I have studied the Act very closely, yet even now when presented with what should be a relativley easy tax return I almost invariably have to refer to the Act to establish in what order the various deductions have to be computed."

He said the Act would probably have to be altered this year to clear up a number of grey or unclear areas and the legislation made retrospective, not necessarily onerously.

The annual Budget was presented in March and in recent years the legal team at the Receiver of Revenue had to hastily cobble together proposals for legislation later in the year in order that the latest demands by the Treasury could be met.

PROPERTY SALES

Vermaas tax file left for 3 years by Receiver

PRETORIA. — Fraud suspect Mr Albert Vermaas's income tax file lay for three years at the offices of the Receiver of Revenue's inspectorate, that "did not know what to do with it", the Receiver of Revenue, Mr Andries Viljoen, told the Harms Commission yesterday.

Mr Vermaas's income tax returns for 1985, 1986 and 1987 had not been submitted.

Mr Viljoen said he had assisted in getting the file up to date, and Mr Vermaas was fined.

Mr Viljoen also told the commission that he had twice gone to Mr. Vermaas's Transvaal game farm.

Sensitive information

He said that while the tax file was being brought to date, Mr Vermaas's accountant told him that certain information could not be furnished because it concerned the circumvention of sanctions, and was of a sensitive nature.

Mr Viljoen said he gave Mr Vermaas general advice on tax matters, including tax payable on aircraft belonging to a US company that would be used to circumvent sanction measures against South Africa.

A Reserve Bank official said yesterday that he was twice invited to Mr Vermaas's Namibian farm.

Mr Arnold Peacey, who heads the Reserve Bank's multilateral relations and development affairs section, told the Commission that Mr Vermaas had flown him, as a member of a "small private party", to Mr Vermaas's Namibian farm and back on both occasions, in June 1987 and mid-1988.

The Minister of Defence, General Magnus Malan, and his son accompanied the party.

Asked how come he had come to be an intermediary, Mr Peacey said that on an occasion Mr Vermaas said he had aircraft on the ground, which was a costly business, and asked whether Mr Peacey could "inquire what was going on" regarding forex applications to the Reserve Bank. — Sapa

● **Barend feared a R150m 'scam' — Page 2**

Revenue officials 'didn't know what to do with tax file'



Mr Albert Vermaas

Millionaire Mr Albert Vermaas failed to pay taxes for three years while his file lay in the Inspectorate Division of Inland Revenue — and officials claim they did not know what to do with it.

The Receiver of Revenue for Pretoria, Mr Dries Viljoen, told the Harms Commission yesterday when he inquired as to why the file had been in the inspectorate division for three years without being attended to, an official from Inland Revenue remarked: "We didn't know what to do with it."

The reason for avoiding submitting tax returns in the three years, according to Mr Vermaas's accountant, was that the attorney held "certain sensitive information which he did not want to disclose", Mr Viljoen testified.

Mr Viljoen conceded he did not inquire what the "sensitive issues" were.

According to Mr Viljoen, Mr Vermaas was fined for failing to submit tax returns.

Mr Viljoen also revealed that the file was at one stage in the possession of Mr Vermaas's nephew who was employed in the inspectorate division.

POOR PROCEDURE

He described this as "poor procedure", that a relative of a person being investigated should be in possession of a file.

Mr Justice Harms remarked: "In other words, one's biggest luck is when your file lands up in the hands of the inspectorate."

Mr Viljoen responded lightly: "Especially if you nephew is there, sir."

The witness said he was first introduced to Mr Vermaas by a brigadier in the police force.

He also visited Mr Vermaas's game farm in the Transvaal, but declined an invitation to a game auction at the same farm when he (Mr Viljoen) became aware of investigations against Mr Vermaas.

He said he requested Mr Vermaaas's file from the inspectorate division after the attorney contacted him claiming to have a problem with tax returns.

"I considered Mr Vermaas's questions were of a general nature. I was at all times aware of the situation that he might try to use me to help him out of a situation." — Pretoria Correspondent and Pretoria Bureau.

Receiver quizzed over lack of action

Vermaas tax on hold for 3 years

B/Day 24/1/89

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MANDY JEAN WOODS

THE Pretoria Receiver of Revenue's inspectorate division was still investigating Pretoria attorney Albert Vermaas's tax returns for possible irregularities after three years, the Harms Commission was told yesterday.

But, Pretoria Receiver of Revenue Andries Viljoen said to date nothing had been done about Vermaas's outstanding income tax returns for 1985, 1986 and 1987. When Viljoen questioned the investigating inspector as to why nothing had been done, he was told: "I do not know what to do with it." Viljoen was at a loss to explain why Vermaas had not been investigated.

● See Page 3
● Comment — Page 6

Viljoen requested the file after Vermaas approached him and asked for assistance filing the returns. On direct questioning from commisson member advocate Petrus Marais, Viljoen admitted he knew Vermaas personally and had twice visited his game farm, Sebaka, in the Middleburg district.

He said if he had never met Vermaas, the file would ordinarily not have come to him for his personal attention.

The reason given by Vermaas's accountants for filing late returns was that they were dealing with "sensitive items". Under cross-examination from Marais, he said he had never ascertained whether or not the items were indeed "sensitive" information.

Mr Justice Harms said an income tax return only listed "what you earn and what you spent".

Viljoen said the tax issues he discussed with Vermaas were general in nature, dealing with things su as the value of game, diamond claims and a helicopter purchase.

The tax implications of aircraft registered in the US were also discussed at one stage. Vermaas mentioned to him he used the planes for sanctions-busting benefiting the state.

Viljoen said when he received the file for the first time he noticed that a relative of Vermaas — who worked as an inspector for the Receiver of Revenue — had taken the file out once.

Mr Justice Harms said: "It seems the greatest luck a person can have is to have their income tax returns referred to the inspectorate."

To which Viljoen replied: "And especially when you have a relative working there", causing much hilarity among observers at the hearing.

Finance Department chief director, public finance, Arnold Peacey told the commission he had spent at least two weekends at Vermaas's Namibian game farm in the company of Defence

● To Page 2

Vermaas tax on hold for three years

B/Day 24/1/89

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Minister Magnus Malan.

When contacted last night, Vermaas's relative, Wessel Vermaas, said the first time he met Vermaas was when he was contacted by telephone out of the blue.

He said: "Vermaas told me we were relatives. I had never even met him before then. To today I don't really know how we are related."

Wessel Vermaas, a chartered accountant, served in the Receiver of Revenue's office for two years in place of military service. He worked for one year in 1986 in the inspectorate division.

He said: "When he called, he told me his file was with the inspectorate division and asked me to help him. He then made an appointment. I probably checked out the file then as a matter of routine to read it before we met.

● From Page 1

"I met him and I told him then that the matter was out of my hands and he must speak to the relevant inspector. I especially did not want anything to do with it because we were related."

Wessel Vermaas said at their first meeting Vermaas told him about his game farm in the northern Transvaal and invited him to spend a weekend there. "But I never accepted."

Unpaid taxes: Huge amounts found

1989

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Own Correspondent

PRETORIA. — Finance Department sleuths uncovered record amounts of unpaid taxes last year, Inland Revenue chief director Mr Schalk Albertyn said here yesterday.

Untaxed income discovered amounted to nearly R1,4 billion — R71 million (R27m in 1987) among salaried tax payers, R221m (R170m) among business and farming interests and R1,065 billion (R656m) among companies.

Mr Albertyn said the success of the campaign to eliminate tax delinquents was due mainly to a bigger inspectorate and more intensive probes into the books of companies and businesses and the returns of individuals.

Unpaid sales tax

"And working with the narcotics bureau has uncovered big incomes from the sale of madrax tablets."

Unpaid sales tax receoverd in the 12 months to the end of December amounted to R282m — substantially bigger than the R173m collected in 1987.

Additional assessments made after investigations, and unpaid estate duties, amounted to an additional R55m, with penalties. The figure for 1987 was R28m.

Mr Albertyn said the figures illustrated the potential for even bigger recoveries. It was expected this year, with a strenghened inspectorate staff, that substantially more would be collected. "We know there a lot more out there and we aim to find it."

However, he added, "even if we doubled out inspectorate there would still be slippery customers oozing through the tax net".

Charles gets warm we

Taxpayers lined up in the 'rogues' gallery'

320 BT Day 25/11/87

KAY TURVEY

INLAND Revenue's 10 decentralised inspectorate divisions each have up to about 400 taxpayers under investigation, in what they call their "rogues' gallery".

Responding to evidence to the Harms Commission that the inspectorate division of the Pretoria Receiver of Revenue took more than three years to act on the tax affairs of attorney Albert Vermaas, Inland Revenue operations chief director Schalk Albertyn said this was the exception.

He said investigations usually took between three to 18 months to be completed.

However, it was not always easy to trace the movement of a file as these were often passed from one office to another by hand.

Lengths of investigations varied depending on the degree of co-operation from the taxpayer under inquiry.

Further, such investigations took time as they required a lot of "legwork" including visits to the taxpayer's bank or building society and a trip to the deeds office to check properties registered in the offending taxpayer's name.

Albertyn said most of the files in the "rogues' gallery" were opened as a result of tip-offs from jilted mistresses or divorced wives, although former business partners and aggrieved employees also tipped off the Receiver.

Investigations also followed from referrals from various Receiver offices where irregularities had been noted.

● See Page 3

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(320) B/Day 25/11/87

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● See Page 3

Employers now have extra burden of SITE

KAY TURVEY

AS THE fiscal year draws to a close employers will have the added burden of administering single income tax of employers (SITE) introduced as a tentative move away from the so-called "marriage penalty".

Government rejected the Margo Commission's recommendation regarding separate taxation due to the loss of revenue this would entail, although the white paper described SITE as a first step in this direction.

The primary objective of the tax was to reduce the number of tax payers required to make returns and simplify the administration of income tax collection.

Whereas the tax may have succeeded in the former, its success on the later is highly debatable. Tax experts have described the tax as an "administrative nightmare" and have called it "seriously flawed" while making repeated calls for its repeal throughout the tax year.

Under SITE, the employer is responsible for individuals earning remuneration below certain limits — R12 000 in respect of single tax payers and married men and R20 000 for married women.

Deloitte partner Anne Pappenheim says employers are unused to having no corrective mechanism, as SITE is a final tax and no rebates are possible.

Deemed correct

She says it is essential staff falling into this category fill in the appropriate IRP2, which gives the relevant personal particulars so tax can be calculated by the employer at the end of a tax period.

Where employees' circumstances change and they fail to furnish employers with a fresh IRP2 in sufficent time, any excess site paid by the employer will be deemed to be correct.

If the employee fails to submit an IRP2 to his employers, the employer is required to determine SITE at the highest applicable rate.

However, Deloitte associate director Des Kruger says for most married people — estimated at about 70% — SITE has granted some form of tax relief.

Although a strange quirk remains, where if a woman earns more than her husband no relief arises.

Imprecise wording of the Act has caused ongoing confusion throughout the fiscal year and led Inland Revenue to send out a circular to all employers in December with various explanations of the new SITE tax.

However, a problem area remains with regards the taxation of students or other workers who work for a continuous period over a few months but are not employed for the full year.

Vermaas: 'no chance to put my case'

26/1/89

ARGUS

The Argus Correspondent

PRETORIA. — Mr Albert Vermaas has claimed he has been "tried and found guilty" before having an opportunity to put his case properly.

In an exclusive interview yesterday, Mr Vermaas — a key figure in the probe into alleged cross-border irregularities — said the sequence of events since the Harms Commission began sitting in Pretoria had placed him in a bad light.

Although he had been given an opportunity to testify before the Commission, he had elected not to do so, "because of accepted legal principles".

Mr Vermaas was arrested on November 23 following allegations of fraud, contravention of the Banks Act and contempt of court.

This was the direct result of what he called "untested allegations."

Asked if three Cabinet Ministers, Finance Minister Mr Barend du Plessis, General Magnus Malan, Minister of Defence and Mr Pik Botha, Minister of Foreign Affairs, had been involved in any of his financial deals, Mr Vermaas said they had no involvement at all.

Asked about the comment by Mr du Plessis to a Reserve Bank official that "he did not want the State President embarrassed", Mr Vermaas said he did not understand the significance of the suggestion that the State President could in any way be embarrassed on account of any aspect relating to his personal affairs.

The commission's frame of reference was broadened after Mr Vermaas's arrest to include the allegations made against him and his alleged involvement with Ciskeian companies Eurotrust, Eurobank and Eurobond — which were allegedly involved in an illegal deposit-taking operation in South Africa.

Bail of R10 000

"My arrest was without the knowledge or participation of the Attorney-General of the Transvaal, Mr Don Brunette," Mr Vermaas said.

He said he had failed to understand the urgency of his arrest.

He was granted bail of R10 000 the same evening by a Pretoria magistrate, who heard the matter at his home in Verwoerdburg.

Since his arrest the State has been unable to formulate charges, Mr Vermaas said.

He was aware that the contempt of court allegations involved aircraft leaving the country allegedly in contravention of a temporary Reserve Bank interdict brought in the Pretoria Supreme Court on November 23 last year.

Mr Vermaas said he was concerned at the manner in which commission officials approached the matter.

During an interview Mr Vermaas had with officers of the commission, they produced a copy of the magazine Finansies en Tegniek, in which it was reported that the Harms Commission would be investigating Mr Vermaas.

"This came as a suprise to me," Mr Vermaas said, "especially in view of the fact that some of the subjects listed for investigation were mentioned."

The report appeared before the frame of reference of the commission had been broadened to include matters pertaining to him.

"This was a transgression of the commission's regulations, " Mr Vermaas said.

The attorney expressed his annoyance at the way in which ev[illegible]

his tax file lay in the offices of the Receiver of Revenue's inspectorate division.

Mr Vermaas denied this, saying that because he conducted an operation of considerable size throughout South Africa with a staff of about 1 000, there were times he had filed late tax returns, because he had been given the necessary permission by Inland Revenue for an extension.

He said he had paid taxes in 1985, 1986 and 1987 during the extension time granted to him.

This was normal business practice in South Africa.

● He denied evidence that he had a cousin in the inspectorate division of Inland Revenue, who handled his tax file. Mr Vermaas said the man was not a relative, nor did he ever claim he was.

The first time he ever heard of his namesake was when the man telephoned him to discuss his tax.

● Evidence was that millions of rands left the country through Mr Vermaas for the purchase of aircraft spares. An expert on aircraft testified that Mr Vermaas had paid inflated prices for aircraft, spares, refurbishing of aircraft and training of pilots.

Mr Vermaas said he was confident that he would have no difficulty in proving the true value and purchase price of aircraft he owned.

He denied over-invoicing for aircraft and spares purchased overseas. The Reserve Bank was aware at all times of the aircraft and spares and refurbishing, among other things, and approved transactions, according to Mr Vermaas.

● Evidence before the commission was that Mr Vermaas sold property to foreign investors at inflated prices.

Mr Vermaas said the financial rand made it worthwhile for foreigners to bargain-hunt in South Africa, and he believed he had done nothing wrong.

● A provisional trustee of the Vermaas estate and companies testified he had turned down a deal of R155-million for Chieftain Aviation because liquidators felt the deal would not be to the benefit of investors. They were not satisfied with the bank reference and that the money would be paid by the foreign purchaser.

Mr Vermaas said the liquidator knew the name, telephone number and address of the potential purchaser.

Mr Vermaas said he failed to understand why the liquidators were rejecting the offer out of hand. With the sale of Chieftain Air, Mr Vermaas believed he could repay creditors 100 percent of their capital.



Mr Albert Vermaas

Vermaas: 'no chance to

ARGUS 26/1/89 320

The Argus Correspondent

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The report appeared before the frame of reference of the commission had been broadened to include matters pertaining to him.

"This was a transgression of the commission's regulations," Mr Vermaas said.

The attorney expressed his annoyance at the way in which evidence before the commission was reported.

Mr Vermaas said he also wanted to correct several allegations made against him at the Commission and wanted to set the record straight.

● Evidence before the commission was that he failed to submit tax returns for three years, while his tax file lay in the offices of the Receiver of Revenue's inspectorate division.

Mr Vermaas denied this, saying that because he conducted an operation of considerable size throughout South Africa with a staff of about 1 000, there were times he had filed late tax returns, because he had been given the necessary permission by Inland Revenue for an extension.

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Vermaas: tax not filed for 13 years

MANDY JEAN WOODS
and KAY TURVEY

PRETORIA businessman Albert Vermaas, whose business activities are the focus of an investigation by the Harms Commission, had not filed income tax returns for 13 years, sources said yesterday.

On Tuesday, Pretoria Receiver of Revenue Andries Viljoen told the commission that to his knowledge the Receiver's inspectorate division — which investigates suspected fraud cases — had been investigating Vermaas since 1985.



© VERMAAS

He said Vermaas's returns for 1985, 1986 and 1987 were only filed last year after he personally took an interest in the case at Vermaas's request.

Viljoen only assumed the post of Pretoria Receiver of Revenue in 1985.

The reason given by Vermaas's accountants for failing to file the returns on time was that certain information related to sanctions-busting and was "sensitive".

It was learned yesterday that Vermaas had not filed a single return since 1975 and it was this lack of history on his financial affairs which had held up the inspectorate's investigation.

Inland Revenue operations chief director Schalk Albertyn said a three-year investigation was an exception as most inquiries usually took three to 18 months.

He said by law he could not comment on any individual case. Other senior department officials also declined to comment on the Vermaas case.

It was also reliably learned that the exposure by the commission of alleged fraud by Vermaas and the subsequent provisional liquidation application brought against him and several of his companies spurred the inspectorate to action.

The return date for the liquidation application has been set for February 7.

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TAX AVOIDANCE 320

The heat's still on

Few actions by government in the tax arena have attracted more professional interest than the statement of December 22, concerning certain corporate financing schemes. It has been widely condemned for vagueness and abuse of power *(FM* January 13).

Later discussions with Inland Revenue, by large representative bodies and individual organisations, suggest that the legislation will not be nearly as "bad" as many feared. It may be aimed more at clarification than stamping out legitimate corporate financing schemes, such as those using pref shares, and even variable rate debentures.

The *FM* understands Revenue officials have said that the statement will not preclude action against schemes that can be struck down under existing law, particularly S103 of the Income Tax Act, the general anti-avoidance section.

Even if the statement was intended only as a warning, should it have been made in the first place, in such vague terms?

The statement certainly touched some delicate spots.

Says a rural attorney: "Pretoria has an unenviable record for excessive exercise of government powers by ministerial edict and administrative discretions, without recourse to a court of law.

"But in matters such as sophisticated company tax schemes, income tax statutes and other commercial legislation, the unsupervised exercise of State powers without recourse to the courts should not be tolerated."

Many professionals see any action in the tax arena as an extension of government's insatiable appetite for money.

Says Arthur Young's Charles MacKenzie: "It is unfortunate that media releases are so poorly worded and not supported by draft legislation. Businessmen are expected to plan their affairs and operate within the law. How can they if the legislator refuses to tell them what the law is?"

The SA Institute of Chartered Accountants (SAICA) tells the *FM* that tax law needs to be "clear and unambiguous to avoid confusion. Veiled threats of imprecise future legislation are not conducive to an understanding relationship between Revenue and taxpayers (and their advisers)."

SAICA is "satisfied" with some aspects of the December 22 announcement:

- ☐ It was made in the *Government Gazette;*
- ☐ Proposed legislation will "apparently" affect only future schemes, not future income from existing schemes; and
- ☐ The schemes were not referred to as illegal, immoral or tax evasion. To the extent that they may be vulnerable under existing law, "we have no problem."

A main problem with the announcement, says SAICA, is that the "proposed legislation is threatening but not clear."

Second, new legislation could be retroactive, because of uncertainty as to which arrangements, existing or not, will meet its approval and requirements.

Third, the "cause of the problem, the lack of neutrality in the method of taxation of different entities, has still to be addressed. The schemes are simply a symptom of the disease to be dealt with."

Is there an easy solution? Any answer would rest heavily on the distinction between a good tax scheme and a bad one. SAICA notes that "the difference between tax avoidance, which is legal, and tax evasion, which is illegal, is clear. Morality does not play a part. Taxpayers must pay what current law says they must — no more and no less."

The attorney suggests a statutory "Bill of Rights" for commercial and tax law. He argues that such a general supervisory jurisdiction is essential to maintain a spirit of freedom and full opportunity for "self-realisation of the individual."

This would seem especially relevant when an individual or company — or even a sector such as life offices or gold mines — feels government power has been exercised in an intrusive, improper or negligent manner. ■

I swore an oath of secrecy, says Receiver

Star 27/11/89

320

By Deborah Smith, Pretoria Bureau

Pretoria Receiver of Revenue Mr Andries Viljoen said yesterday he had sworn an oath of secrecy and could not reveal whether he had launched an investigation into millionaire Mr Albert Vermaas's tax affairs.

He said he could not discuss anyone's tax affairs in public and he had been allowed to speak only because he was giving evidence before the Harms Commission of Inquiry.

His evidence earlier this week revealed the inspectorate division of the Pretoria Receiver of Revenue had failed to act over a three-year period on Mr Vermaas's tax affairs which had been sent to it for investigation.

Mr Viljoen testified he was at a loss to explain why Mr Vermaas's outstanding income tax returns for 1985, 1986 and 1987 had not been investigated.

He said he had first requested the file after Mr Vermaas asked him for assistance in filing the returns.

Mr Vermaas's accountants said the returns were filed late because they dealt with sensitive matters.

Mr Vermaas said in an interview on Wednesday that he had filed his returns during an extension period granted by the Receiver and had paid his taxes during this time.

Mr Viljoen said that when he first received the file he noticed that a relative of Mr Vermaas who worked at the Receiver's office as an inspector had taken the file out once.

Mr Vermaas said the man was not a relative and he had never said he was.

Now Beeld lashes

Star 27/11/89

Tax returns not in

ASSISTANT director of operations for Inland Revenue, Mr Chris Dempers, says there are still approximately 120 000 outstanding tax returns.

He said this figure represented only six percent of the 1,8 million returns issued to the salary and wage earners for the 1988 tax year. (320)

Mr Dempers added that these taxpayers were now summoned to appear in court and in addition to a fine that the courts may impose, taxpayers were also subjected to a penalty in the form of additional tax that was levied on assessment. So far, R3,8 million penalties for additional tax had been raised. — Sapa. Sowetan 27/11/89 — TO [illegible]

ECONOMY

CAPE TIMES 31/1/89

320

Tax relief seen as State revenues soar

Business Staff

GOVERNMENT tax revenues are soaring, with income tax and sales tax receipts showing monthly increases of more than 50 percent — and raising hopes that taxes may not rise in the March Budget.

According to Central Statistics Services, tax receipts in the six months ended December were R26,1-billion. This was R5,8-billion or 28,5 percent more than the Treasury received in the same period of 1987.

Collections in the last four months of the year showed an even bigger rise. At R17,7-billion they were 33 percent or some R4,4-billion ahead of the comparative 1987 figures.

If tax collections continue at the same rate this month and the next two months there seems a good chance that government revenues could be higher than even its latest revised estimated of R46-billion, which includes R260-million from the new petrol tax.

Total revenue of R47-billion would now seem to be a possibility.

With State spending not expected to exceed R56,1-billion, this means that the deficit before borrowing would be well within government limits of R9,9-billion. More importantly, it might persuade the government that it can finance next year's expenditure without a further tax rise and could even afford a tax cut.

With a general election in the offing, it is unlikely that the government will need much persuasion.

Latest available detailed income figures show that sharply increased income tax and sales tax receipts, the transfer of the fuel levy to general revenue and the sharply increased import surcharges were mainly responsible for the strong rise in Government receipts.

Income tax payments in October totalled R2,5-billlion, an increase of 55 percent on a year ago. Collections for the seven months ended October amounted to R14,2-billion, an increase of 22,6 percent on the previous year.

Sales tax collections also soared in October jumping 50,7 percent from R777-million to R1,3-billion. Sales tax collections in the seven months ended October were running 24,7 percent ahead of the previous year at R7,1-billion.

The Director-General of Finance, Dr Chris Stals, recently said in Cape Town that State revenues have been substantially higher than those of the past few years.

"If we can keep government spending within reasonable limits then there is every possibility that the public will not be hit by higher taxes.

"In fact, we would like to reduce the level of personal taxes and if we are successful in holding back on the expenditure side of the Budget then a cut in taxes could well be possible."

● While interest rates could still rise, a much higher level appears to be ruled out by political considerations, First National Bank says in its latest economic review.

But, the review says, the ruling level of interest rates may remain in place for longer than expected.

Bill of Rights is needed to protect the taxpayer

(320)
B/Day
31/1/89

DES KRUGER

RELATIONS between taxpayers and the fiscus are being strained almost to breaking point as the authorities appear to ride roughshod over what were once the cardinal principles of taxation.

If equity is to be restored to prevent a breakdown in the tax system, the authorities should consider framing, in concert with the private sector, a Bill of Rights with the force of law to protect taxpayers — and the economy at large — against possible administrative and legislative excesses of the fiscus.

The first step to restoring respect for the tax system would be to level the fiscal playing field so that taxpayers can feel confident that there are some basic rules that fiscus must observe in its actions.

SA's existing tax system, and in particular its self-assessment components such as sales tax and RSCs, rests on a delicate and tenuous relationship between taxpayers and the fiscus.

A number of general forces appear to be operating upon the taxpayer and the fiscus to aggravate their existing relationship.

There is widespread dissatisfaction on the part of taxpayers with the tax system, or as it is described in the Margo Report, "their conviction that the system is burdensome and unfair". Whether or not the system is indeed so is immaterial — there is a firm perception that it is.

Secondly, there is a pervasive feeling that the tax laws are too complex, as taxpayers are increasingly expected to administer additional imposts such as SITE, MTC and RSCs. Perhaps the most contentious item at the moment is the fiscus's growing use of ministerial pronouncements and retroactive legislation. This has created a climate of uncertainty which is hardly conducive to taxpayer confidence in the tax system.

Further, a general disrespect for the political process and the public service has evolved. Inland Revenue, which is part of the public service, is unfortunately not immune from this attitude no matter how efficiently and honestly it attempts to carry out its onerous task.

In addition, the tax system has become increasingly politicised as more and more people oppose the payment of tax on the grounds that taxes are, to paraphrase Judge Oliver Wendel Holmes, not being paid for a civilised society. Studies have shown that taxpayers are more compliant if they are satisfied that their taxes are being used for the common good and not government ineptitude. People who are not happy with how their taxes are spent will no doubt oppose the payment of taxes.

Unfortunately, due to budgetary and personnel problems, as highlighted by the Margo Report, Inland Revenue is finding it increasingly difficult to carry out its tasks. The apparent result of this is legislation that fails to meet its objective first time round, and apparent over reaction to perceived tax abuses. This in turn has created a climate of uncertainty, and reinforced the perception of the fiscus as being heavy-handed.

And while our tax laws remain complex they are as difficult for Inland Revenue to administer as they are for the taxpayer. Furthermore, major new tax provisions — such as SITE, MTC and the proposed VAT — add to the already overburdened tax administration.

These sources of tension, and their effects, are revealed in many ways ranging from relatively mild symptoms to extremely serious problems in the manner in which business in SA is done.

From the taxpayer's standpoint, a growing tendency is to take aggressive positions in regard to the interpretation of the tax law. Whereas previously the possibility, no matter how remote, of the general anti-avoidance provisions being applied would have been sufficient to kill off a number of shelters doing the rounds today, increasingly, people are willing to "give it a go".

On the other hand Inland Revenue's stance has been an increasing tendency to behave in a contentious way, that reflects less respect for taxpayers and tax practitioners. Further, there appears to be a greater tendency on the part of the fiscus to take extreme and result-orientated positions, even though they cannot be reconciled and may distort other areas of the law. A notable example of this is the recent ambiguous attack on the provision of finance by means of preference shares.

Given the present parlous state of taxpayer/fiscus relationship the question is what can be done to remedy the situation, short of abolishing tax.

Fiscus holds the ultimate weapon, legislative sanction, sometimes retroactive. Yet perhaps it is time to consider adopting a Bill of Rights to protect taxpayers and lay down the rules under which the game is to be played so that the goal posts are not continuously being moved. There should be a touchstone against which administrative and legislative actions can be tested.

This could be achieved by adopting a Taxpayer's Bill of Rights or, as it is known in the UK and Canada, a Taxpayer's Charter.

Unfortunately, while both the UK and Canadian charters provide some protection for the taxpayer, they have no legal effect and are mainly administrative guidelines adopted by the Revenue departments. The rights enunciated enjoy limited protection.

The basic parameters of a Bill of Rights for SA should encompass the following aspects:

- ☐ Certainty: in adopting and amending legislation due regard should be had to prior consultation, where possible, and the need for finality. This would preclude ambigious ministerial pronouncements. That is not to say however, that there should be open season when Parliament is not in session. It does mean that proposed action should be detailed and not retroactive. Business cannot be expected to operate efficiently when vague tax changes are announced but the detail is left in limbo for some time, for example, MTC, the proposed VAT and more recently preference shares;
- ☐ Cost of compliance: tax law should be administered with due regard to the compliance costs incurred by taxpayers in meeting their obligations;
- ☐ Fairness: many of Inland Revenue's practices are "confidential" and there is no set rule as to the entitlement of taxpayers to obtain a ruling. To ensure equal treatment of all taxpayers it is imperative that practices be made public and that taxpayers be entitled to obtain rulings regarding proposed transactions; and
- ☐ Discretions: the number of discretions in the tax law should be reduced substantially. Where it is necessary to retain a discretion this should be made subject to objection and appeal.

A stop should also be put to the tendency to obfuscate the clear legal distinction between tax avoidance (legal) and tax evasion (illegal).

It is time we introduced rules that would act as a brake on potential fiscal excess and restore confidence in our tax law and its administration. We need to protect the right of every taxpayer to so organise his affairs so as to pay the least amount of tax legally without fear of administrative fiat.

☐ *Kruger is associate director of Deloitte, Haskins & Sells*

Tax burden may be eased as Govt revenue soars

Star 31/1/89.

(320)

By Derek Tommey

Government tax revenues in recent months have shown unexpected strength suggesting that South Africans could expect some tax cuts, over and above a change in rates to allow for fiscal drag, in the coming Budget.

This was strongly hinted at recently by the Director-General of Finance, Dr Chris Stals. He told The Star's correspondent in Cape Town that state revenues have been substantially higher than those of the past few years. "If we can keep government spending within reasonable limits then there is every possibility that the public will not be hit by higher taxes.

"In fact, we would like to reduce the level of personal taxes and if we are successful in holding back on the expenditure side of the Budget then a cut in taxes could well be possible."

According to Central Statistics Services, tax receipts in the six months ended December were R26,1 billion. This was R5,8 billion or 28,5 percent more than the Treasury received in the same period of 1987.

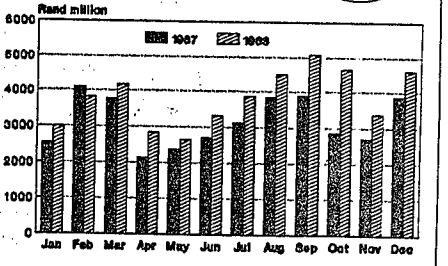
Collections in the last four months of the year showed an even bigger rise. At R17,7 billion they were 33 percent or some R4,4 billion ahead of the comparative 1987 figures.

If tax collections continue at the same rate this month and the next two months there seems a good chance that Government revenues could be higher than even its latest revised estimated of R46 billion, which includes R260 million from the new petrol tax.

Total revenue of R47 billion would now seem to be a possibility.

With state spending not expected to exceed R56,1 billion, this means that the deficit before borrowing would be well within Government limits of R9,9 billion. More importantly, it might persuade the Government that it can finance next year's expenditure without a further tax rise and could even afford a tax cut.

With a general election in the offing, it is unlikely that the Government will need much persuasion.



Government revenue 1988 compared with 1987.

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LIFE ASSURERS HELD UP BY GOVT PROBLEMS WITH VAT

CAPE TOWN — The problems government is experiencing in getting to grips with VAT legislation are also delaying any official response to submissions made by the life assurance industry for a review of the substantial increase in taxes imposed on this sector in last year's Budget.

Representatives of the Life Offices Association (LOA) came away from a meeting with Finance Minister Barend du Plessis and officials of his department on Friday with little to smile about.

Sources within the industry indicated yesterday they had only slight hopes government would reconsider and ease the 75% increase in the tax burden imposed on life offices last year.

CHRIS CAIRNCROSS

Their appeal to the revenue authorities is that attention should preferably be given to reaching some agreement with the industry on the basic tax structure first, before becoming too concerned with VAT.

Attention should also be given to reviewing the status of prescribed investments.

They suggested there was still time to reach a compromise that could in broad outline be accommodated in the March Budget, and detailed in the Income Tax Bill that generally follows in June.

Du Plessis was not prepared to disclose what transpired at the meeting.

It is understood the occasion was also used by the industry to express concern over Du Plessis' December warning that government intended to clamp down on schemes adopted by the industry to lessen the tax burden.

Govt noose to tighten on company tax

BY RETA STEYN

LEGISLATION is to be tabled in the current session of Parliament to close company tax loopholes, Inland Revenue spokesmen said yesterday.

The planned amendments to the Income Tax Act follow a special Government Gazette last year outlining schemes which would fall foul of the taxman. At the time of the announcement, it was not clear whether the Income Tax Act would change or not, eliciting criticism that the announcement amounted to "legislation by Press release". Tax experts said the wording in the special gazette was too vague.

Most banks and other financial institutions have already terminated financing packages which could be construed as tax avoidance.

First National Bank's former MD Chris Ball told Business Day preference share schemes must have added about R25m to R50m to the profits of each of the banks involved. The other banks were unable to comment on the estimate.

Inland Revenue spokesman Ian Meiklejohn said yesterday the wording

● To Page 2

Govt to tighten noose on company tax

● From Page 1

of the new legislation would be published long before the Bill came before Parliament. The department was planning a special release with the exact wording as soon as possible to clear up any confusion that might still exist.

The amended legislation would be effective from December 22, 1988, but the Bill would probably only be passed towards the end of the session. Tax avoidance schemes involving preference shares, dividend-interest swops, debentures and round-tripping were described in the December release. Revenue spokesmen could not rule out that new tax avoidance schemes, currently under investigation, might not also be targeted in the amended legislation.

Business Report

Cape Times 2/2/83

Legislation threatens tax loopholes

By GRETA STEYN

JOHANNESBURG. — Legislation is to be tabled in the current session of Parliament to close company tax loopholes, Inland Revenue spokesmen said yesterday.

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Govt should make up its mind on controversial tax issues

Star 2/2/89 (320)

By Ann Crotty

Tax rates in SA seem to have reached the level where it is well worth investing time and money making sure that, as an individual or a company, no more than the very legal minimum that is required, is paid to the Receiver.

All sorts of schemes are being thought up to reduce the tax burden. In an attempt to gain more flexibility on this front, individuals are becoming corporate entities. And four-legged house pets are being classified as part of the security system and therefore generate a tax allowance.

The result is that although tax rates are being increased, the overall tax catch is not increasing proportionately. And as a growing number of individuals and companies are encouraged to avoid tax, those left in the net are having to carry the heavier burden.

Govt reaction

In response to this tax avoidance trend the government announced last year that it was tak ing a number of anti-avoidance measures.

According to Charles MacKenzie, tax partner at Arthur Young, "In no other year have so many different anti-avoidance measures been undertaken by the fiscal authorities".

Mr MacKenzie says that this reflects the increased incidence of avoidance which in turn reflects the fact that tax rates are simply too high for this country and this economy to accept them without question.

"Businessmen realise that businesses only grow if capital is invested in them. The only way to continue to grow is therefore to pay less tax by whatever legal means available."

Government's enormous expenditure cannot be funded through normal channels and so it has had to resort to extraordinary measures such as the fuel levy and the confusing MTC. "Government has now reached the point where it seems that it is scraping the bottom of the barrel", says Mr MacKenzie.

"Government appears to have reached a stage where it feels that it has the right, willy-nilly, to warn the taxpayer about legislation which itself is uncertain of.

Big stick

"This tactic, which can only be described as the 'rule of the big stick' is designed to destabilise the taxpayer so that Government can finally make its mind up and produce whatever legislation it deems appropriate".

But, as Mr MacKenzie points out, businessmen are expected to plan their affairs and to operate within the ambit of the law: "How can they do so if the legislator refuses to tell him what the law is?"

Among the schemes that have been used to avoid tax and are now under attack from the Minister of Finance, is the use of preference shares to fund the operations of a company which has sustained considerable losses.

As Mr MacKenzie points out: "The philosophy behind this scheme is simple. The company raises funds through issuing preference share capital rather than taking a loan. Interest which would have been payable on a loan would only serve to increase the company's assessed loss."

Preference shares give rise to a dividend obligation. These dividends are paid out of pre-tax profit: "Naturally the financier wishes to make a 'profit' out of the transaction. He would therefore require that the assessed loss company would pay a dividend of say 70 percent of the prime bank overdraft rate."

Normal deal

This means that the company's payment on the debentures is only 70 percent of what it would have been if a bank loan had been used. This is a normal transaction which has not been designed solely or mainly for the avoidance of tax.

"The borrowing company has been exposed to the normal risks of business and has suffered a loss. Surely it is entitled to recoup that loss and the best way of doing so is to create a set of circumstances whereby its cash flow is conserved and it is placed in a position where it can once again build up profitable activities."

"Unfortunately the legislator does not share this point of view. It seems that it is perfectly all right for a company to suffer substantial losses but once it seeks to retrive those losses, in a manner that cannot be attacked by any of the current anti-avoidance legislation, mainly because it is a normal business activity, the transaction falls beyond the pale."

This means that the Minister is now interfering with the mechanics of the operation of businesses which is not his province.

B/Day 6/2/89

Pre-election tax cuts 'would be irresponsible'

(320)

PRETORIA — To lower taxation as a political tactic in the March Budget would be irresponsible and economically damaging, economists warned at the weekend.

Speculation on tax cuts as a sweetener for an early general election was stimulated by hints last week by Finance Minister Barend du Plessis and Finance director-general Chris Stals.

However, Stellenbosch Bureau for Economic Research chief Ockie Stuart said to lower taxation would be counter to government's declared

GERALD REILLY

strategy to cool the economy.

"Last year, steps were taken — higher interest rates, surcharges, tougher HP conditions among them — to slow down consumer spending. In spite of this, consumer spending is still at a high level."

To give another boost to consumer spending with the economy in its present state would be irresponsible.

Volkskas economist Adam Jacobs said the country could not afford to have gross domestic spending inflated by tax cuts.

Although the state's cashflow was sound, spending remained high with the economy heading for a R10bn deficit before borrowing.

He estimated the March Budget total would rise to around R63bn, as against R55bn this financial year, merely to cope with inflation.

Meanwhile, an Inland Revenue spokesman said tax receipts in the first nine months of the financial year totalled R17,54bn — R2,80bn more than in the previous financial year and ahead of Budget estimates.

Impending tax reforms could bring welcome relief

(320)

S/W 7/2/89

By Derek Tommey

The important tax reforms for 1989, mentioned by Acting State President, Mr Chris Heunis, at the opening of Parliament on Friday are believed to centre on three areas.

One is the change-over from GST to VAT. Another is the need, which every individual taxpayer will welcome, to do something about fiscal drag.

The third is implementation of the changes in gold mining tax proposed by the Deputy Minister of Finance, Dr Org Marais.

As far as the Department of Finance is concerned, the one of greatest importance must be the introduction of valued-added tax.

Initially, when VAT was first mooted, it was expected it would be introduced before the end of 1988.

But Inland Revenue has had to spend much valuable time unravelling the complexities of the tax and this slowed progress to a snail's pace.

Nonetheless, some progress has been made and legislation is expected in this parliamentary session to provide for the introduction of VAT, either later this year or, more likely, early next year.

One factor apparently holding back the introduction of legislation is that the Government has not yet decided what type of VAT it wants.

Inland Revenue wants to make VAT as comprehensive as possible to spread the burden over as wide a range of goods and services as possible and keep down the rate of tax.

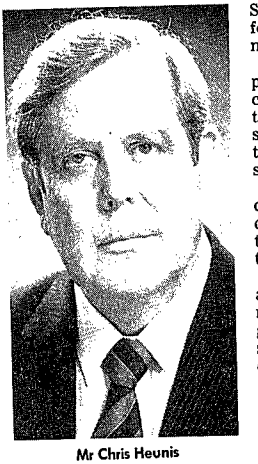
But it is believed the Cabinet has still not decided whether VAT should cover capital goods such as houses and other types of property.

To many South Africans, the prospect of paying VAT on house purchases may seem an unwarranted extension of the scheme. But buyers of new houses would have to pay the tax in any event, so why should buyers of existing houses be exempt, goes the argument.

There is another aspect of VAT on capital goods, which appeals to the Treasury and probably to the Government. It is believed it would lead to a two percentage point reduction in the rate of VAT and possibly lead to the rate being either the same as GST, or a little lower.

Fiscal drag comes about when a pay rise meant to compensate for inflation pushes the recipient into a higher tax bracket, thereby depriving one of much of one's pay rise.

As long as inflation remains above four to five percent, fiscal drag remains a problem. Some countries have overcome this by indexing the tax system to inflation, but the SA authorities apparently are unwilling to follow suit.



Mr Chris Heunis

However, they will have to make some adjustments to the income rates and also to Site, or the Government will find itself extremely unpopular.

Dr Org Marais has been arguing for some time that gold mines are over-taxed and that this is stopping investors from putting money into new mines. Since this can have a harmful effect on economic growth, gold mining taxes should be cut.

His views have received support from other sectors, which claim gold is the one SA good that will never be affected by sanctions and therefore everything possible should be done to stimulate output.

However, while some tax reductions for the gold mining industry appear to be on the way, these might not be as substantial as supporters hope.

For there also appears to be another group in the Government, which, while agreeing that gold mining taxes are too high, see no reason for giving the industry special concessions.

The argument is that because the gold mining commands such vast resources it has always been able to outbid commerce and industry for scarce manpower and material resources. This has forced up manufacturing industry's costs and inhibited its development.

The group argues that giving more tax concessions to the gold mining industry would enable it to grab an even bigger share of the scarce resources and further skew the economy.

This looks like turning into an interesting fight, with significant implications for economic development.

'Tax hike needed to cool economy'

BDay 8/2/89

320

KAY TURVEY

A SHARP tax increase is needed in the Budget to demonstrate a serious commitment by the authorities to cooling the economy.

Southern Life economist Mike Daly said higher taxes to bring the deficit before borrowing well below this fiscal year's 5% of GDP were essential, for unless further demand-restraining measures were taken soon, there was little reason for the economy to slow down this year.

Daly said since it was impossible to expect government-expenditure growth to fall below the expected average inflation rate of 15% to 16% for 1989, it was on the revenue side that action would have to be taken.

After the early salary increase for civil servants effective from the start of this year, the onus on sound management of the economy was shifted from the Reserve Bank to Treasury.

Daly told Business Day that as the authorities were probably loath to raise interest rates in an election year, continuing clampdowns on tax-avoidance schemes for companies were likely.

Further, a loan levy or surcharge on individual's personal tax was a possibility, as tax brackets were unlikely to be raised.

Daly said consumers had remained "stubbornly determined not to co-operate" with policy measures aimed at putting the brakes on expenditure growth.

Spending power had been building up as personal income had outpaced the falling inflation rate for the past two years and employment levels had been rising.

The perception of less political instability had encouraged the replacement cycle for durable consumer goods and fixed plant and equipment.

Rand Merchant lifts income 15%

RAND Merchant Bank Holdings lifted net income after tax for the six months to December by 15% to R7,5m (R6,5m). Group earnings rose by 53% to 18,1c (11,8c) a share. Earnings by the banking subsidiary rose by 15% to 13,6c (11,8c).

Attributable income rose to R9,9m (R6,5m) and retained income at the end of the period to R10m (R6,9m). No interim dividend has been declared.

The directors explain that a special interim dividend paid in December 1987 was of a nonrecurring nature and was due to the restructuring of the group.

The directors say the improved earnings in the first half of the current year were achieved in spite of disappointing results from traditional banking services.

"These divisions experienced squeezed margins as a result of a rising interest pattern and a resistance by the banking authorities to allowing lending rates to reflect market conditions."

Although the fee earning divisions of the bank exceeded budget the trading divisions were operating in more competitive conditions which resulted in lower margins and they were hard pressed to achieve their targets.

Income of R2,5m from the holding companies and nonbanking subsidiaries was mainly due to a nonrecurring surplus from the realization of a strategic minority shareholding in CGP Investments.

This was sold to the major shareholder, Bonuskor, to enable it to acquire 100% of CGP.

Glynwed kicks free of SA links

Own Correspondent

LONDON. — Glynwed International, the Birmingham-based industrial group, yesterday confirmed it had disposed of its remaining interests in five SA companies via a management buyout.

The largest is Glynwed's wholly owned subsidiary Falkirk Industries. In 1987, it reported a loss of £1m. Also being sold are four unnamed associated property companies.

Glynwed said the interests in the five companies will be taken on board by Adval Group Investments.

The purchase consideration was not disclosed, but it is understood to be close to £1,3m, as the net effect of the transaction reduces Glynwed's borrowings by this amount.

'Sharply higher taxes essential'

Own Correspondent

JOHANNESBURG. — A sharp tax increase is needed in the upcoming budget to demonstrate a serious commitment by the authorities to cooling the economy.

Southern Life economist Mike Daly says higher taxes to bring the deficit before borrowing well below this fiscal year's 5% of GDP are essential, for unless further demand restraining measures are taken soon there is little reason for economy to "land" this year.

Daly says since it is impossible to expect government expenditure growth to fall below the expected average inflation rate of 15% to 16% for 1989, it is on the revenue side that action will have to be taken.

Following the early salary increase to civil servants, he notes the onus on sound management of the economy has been shifted from the Reserve Bank to Treasury.

Daly said that as the authorities were probably loathe to raise interest rates in an election year, ongoing clampdowns on tax avoidance schemes for companies were likely.

Reserves: Slight rise disappoints

Own Correspondent

JOHANNESBURG. — The Reserve Bank's holding of gold and foreign exchange reserves in January

Bad news for

'Not necessary to up taxes'

SYLVIA DU PLESSIS

IT WAS not necessary for sharp increases in taxes to cool the economy at this point, economists said yesterday.

They were responding to Southern Life economist Mike Daly's suggestion that higher taxes were essential to bring the deficit before borrowing well below this fiscal year's 5% of GDP. He said there would be little reason for the economy to slow down this year unless more demand-restraining measures were taken soon.

Standard Bank chief economist Nico Czypiowka said there were "tentative" indications of a slowdown in the economy as consumer spending was cooling off. The deficit was also not unduly high in spite of heavy government spending.

Trust Bank's Ulrich Joubert agreed there were signs the economy was cooling off and said there was a "sense of overtaxation" in SA.

He said: "I don't think it makes good sense just to increase taxes. The level of personal and indirect taxes worries people and we have to be careful with our tax structure, as far as individuals and companies are concerned."

Nedbank economist Edward Osborn said if government was to make a fiscal contribution to controlling inflation, it had to start with an improvement in the structure of personal income taxes.

He said: "However, this may have to be at the expense of higher indirect taxes. Ideally, it should be at the 'expense' of a smaller, tighter and more efficient administration, but this would appear to be a forlorn hope."

Liquidators hand in affadavit

Vermaas hit with R44,5m tax claim

THE Pretoria Receiver of Revenue has filed a claim of R44,5m against the provisionally sequestrated estate of Pretoria attorney Albert Vermaas.

The Receiver's claim formed part of an affidavit handed in yesterday to the Pretoria Supreme Court and the Harms Commission by the provisional liquidators of Verco Holdings and Vermaas's personal estate.

In a letter sent on Wednesday to the provisional liquidators, the Receiver says R6m additional income tax is due for 1987, R19,2m due for 1988 and R19,2m provisionally due for 1989.



● VERMAAS

The Receiver's first assessment of Vermaas's 1987 return resulted in a credit to Vermaas for R87 936. But, on reviewing this assessment in order to file the claim, the Receiver found Vermaas had R12,6m taxable income for that year, of which R6 026 934 was due in taxes.

The 1988 assessment form showed Vermaas had taxable income of R42 800 415.

The affidavit notes another R10,3m taxes could be due on profits from the sale of assets in the subsidiary companies of Verco. Verco is the holding company for a number of companies,

MANDY JEAN WOODS

including Chieftain Aviation, all of which are wholly owned by Vermaas.

The liquidation and sequestration applications are being opposed by Vermaas and certain creditors who invested money in the Eurobank scheme. They believe the sale of Chieftain Aviation for R155m will put Vermaas's estate into a solvent position thereby voiding the sequestration and liquidation proceedings.

The liquidators submitted documents which showed Verco's current assets exceeded liabilities by R38,6m. The Verco financial statement, as at November 30 last year, shows current liabilities amount to more than R41m while current assets amount only to R3m.

The statements also show that Verco's subsidiary companies are insolvent: Centurion Industries has a shortfall of liabilities over assets of R1 869 825; Verco Property Holdings R10 070; Chieftain Air R2 337 027; Sebaka Game Ranch R1 332 579; Bergvuur Ltd R656 710; Chieftain Airlines R70 399; Verco International R21 880 and Traders International (Swaziland) R41 719.

These figures do not take into account several other factors which worsen the position.

On February 7, local attorneys acting on behalf of the American Bank and Trust Company of Tulsa, Oklahoma, notified the provisional liquidators that

● To Page 2

Vermaas hit with a R44,5m tax claim

● From Page 1

Deutsche Aviation — the overseas holding company of Chieftain Aviation — was indebted to it for $1,4m — a loan which is in default.

The company has mortgaged and created a security interest for the Lockheed Jetstar and the Beechcraft King Air aircraft which are in SA.

In addition, one company, Transwest Diamonds, has an inflated value on the books. The company books value it at R3,8m but a January 11 purchase offer by Oxidental Exploration and Mining gives the purchase price as R1,6m. The liquidators conclude, therefore, Transwest's value should be reduced.

Another liability is a R2m claim on the Ciskei-registered Eurobank, a debt considered irredeemable by Verco's provisional liquidators.

Vermaas owes taxman R44m

Cape Times 10/2/89

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ABOVE: The John Rolfe rescue helicopter lies wrecked in the farm dam where it crashed on Wednesday.
RIGHT: A Sikorsky helicopter lifts the wrecked chopper from the water.
Pictures: JIM FREEMAN

Rescue chopper smashed during fire-fighting crash

By JIM FREEMAN

THE John Rolfe rescue helicopter copters, which operates the rescue aircraft

PRETORIA attorney and businessman Mr Albert Vermaas, whose business activities are the focus of a Harms Commission corruption inquiry, owes the Receiver of Revenue R44,4 million.

This came to light during an extraordinary session of the commission held in Cape Town yesterday.

Among other sensational revelations heard by the commission were that:

- A United States agent for Mr Vermaas has been attempting to secretly sell off to a Latin American country at least two aircraft belonging to the Vermaas-owned company Chieftain Air.
- The books of an American-based company owned by Mr Vermaas were being transferred to Germany "where it is presumed that these records will be destroyed".
- Mr Vermaas' 1987 tax assessment showed a credit of R87 936, but a re-assessment done in this year showed a taxable income of R12,7 million for the year — with a balance of R6 026 934 owed to the Receiver.

Planes to buy

In a letter to the provisional liquidators, the Receiver said that in addition R19,2 million was due for 1988 from Mr Vermaas' taxable income of nearly R43 million and R19,2 million provisionally due for 1989.

Yesterday's sittin[illegible]

R44m



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Planes to buy

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Yesterday's sitting was summoned to have a letter from Houston attorney Mr Roy Beene read into the record.

Mr Beene said a client of his who was looking for planes to buy had discovered that Deutsch, a Vermaas company based in America, owned Californian-based De Havilland DH-4 aircraft bought with funds obtained from Chieftain.

It was learnt the assets purchased with funds from Chieftain were in the process of being sold — at least two of the DH-4s were on sale to Latin American buyers.

Mr Beene also said the corporate stock of Deutsch had been transferred to the estate of a deceased German citizen.

"The books and records of Deutsch are being prepared to be shipped to Germany where it is presumed that those records will be destroyed.

"My client learned this information through a conversation with an employee of Deutsch who was unaware of the sale of the Deutsch assets by Mr Rittenberry (described as the primary individual in charge

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From page 1

Vermaas

of the day-to-day affairs of Deutsch) to avoid the creditors of Chieftain.

"It was also learned that prior to the Chieftain matter, Mr Rittenberry was without funds and now has a surplus of funds, presumably being monies derived from Chieftain."

He suggested that an order against Mr Vermaas be obtained in South Africa and that an attorney be retained in the US to file a civil law suit against Deutsch and Mr Rittenberry restraining them from disposing of the Chieftain aircraft and from transferring or destroying the books and records of Deutsch.

- Liquidation and sequestration applications against Mr Vermaas' Verco group of companies are being opposed by Mr Vermaas and creditors who invested money in the Eurobank scheme.

They believe the sale of Chieftain Aviation for R155m will put Mr Vermaas' estate into a solvent position.

In an application brought in the Pretoria Supreme Court, the creditors asked the court to extend the return date until February 28 to enable Chieftain Air to be sold. — Own and Political Correspondents with Sapa

Vermaas planes for sale, Harms Commission told

ARGUS 10/2/87

Staff Reporters

PROVISIONAL liquidators of Pretoria attorney and businessman Mr Albert Vermaas will file affidavits urgently in the Pretoria Supreme Court today following yesterday's extraordinary sitting of the Harms Commission in Cape Town.

The commission heard that Mr Vermaas's agent in the United States was trying to sell secretly to a South American country at least two aircraft belonging to a Vermaas-owned company.

The Harms Commission learnt this from a Texas attorney, Mr Roy Beene, who sent a letter by facsimile machine to Cape Attorney-General Mr Frank Kahn, appointed to help the commission's inquiries into cross-border irregularities.

Mr Beene recommended that an American business associate of Mr Vermaas, Mr Chuck Rittenberry, be restrained from disposing of assets derived from Mr Vermaas's South African company, Chieftain Aviation Holdings.

Speaking from Pretoria today, liquidator Mr Wally Edelstein said he consulted senior counsel last night "in view of what transpired".

"I will be filing affidavits in the Verco Holdings (Mr Vermaas's holding company) matter in the Supreme Court first thing this morning.

"We have set other steps in motion — I can't tell you at the moment — in order to protect the aircraft in the United States. What I am told will depend on what action I and my co-liquidators take in connection with Chieftain and the aircraft," Mr Edelstein said.

At yesterday's unscheduled sitting the commission also heard that corporate stock of the American-based company Deutsch Aviation Incorporated had been transferred to the estate of a dead German.

"The books and records of Deutsch are being prepared to be shipped to Germany where it is presumed that those records will be destroyed," Mr Beene said in the letter.

In the light of this information Mr Beene recommended that the Deutsch company and Mr Rittenberry be restrained from disposing of the assets derived from Chieftain.

Mr Beene said he had learnt of these dealings when a client, who wanted his name withheld, was searching the market to buy planes.

"It was also learnt that prior to the Chieftain matter, Mr Rittenberry was without funds and now has a surplus of funds, presumably being monies derived from Chieftain," Mr Beene continued.

In other documents handed in to the commission Mr Vermaas's last tax payment was shown to be R3 641, although he owes the Receiver of Revenue more than R44-million in tax.

Originally, in 1987, Mr Vermaas's tax assessment showed a R87 936 loss of income but a re-assessment showed his taxable income for 1987 to be R12,7-million.

Vermaas owes R44-m tax, Harms told

(320) Own Correspondent Star 10/2/84

CAPE TOWN — Pretoria attorney Mr Albert Vermaas owed more than R44 million in tax, but his last tax payment was shown to have been only R3 641, the Harms Commission was told in Cape Town yesterday.

Documents were handed in to the commission in support of this claim.

In 1987 Mr Vermaas's tax assessment showed a R87 936 loss of income but a reassessment in February this year showed his taxable income for 1987 to be R12,7 million.

One of the provisional liquidators of Mr Vermaas's estate, Mr W H Edelstein, said an urgent meeting would be held to decide what action to take in the light of this new information before the Harms Commission.

In other evidence to the commission yesterday, an urgent plea was made for steps to be taken to restrain an American business associate from disposing of assets derived from Mr Vermaas's South African company, Chieftain Aviation Holdings.

Aircraft sold

While liquidation proceedings against Mr Vermaas were being heard in Pretoria, the commission heard in Cape Town that aircraft owned by Mr Vermaas's American company were being sold to South American buyers.

A Texas attorney, Mr Roy Beene, said this in a letter to the Attorney-General Mr Frank Kahn.

At the unscheduled sitting, the commission also heard that corporate stock of the American-based company Deutsch Aviation Incorporated had been transferred to the estate of a deceased German.

"The books and records of Deutsch are being prepared to be shipped to Germany where it is presumed that those records will be destroyed," Mr Beene said in the letter.

In the light of this information, Mr Beene recommended that the Deutsch company and Mr Vermaas's American business associate Mr Chuck Rittenberry be restrained from disposing of the assets derived from Mr Vermaas's South African company Chieftain Aviation Holdings.

A client of Mr Beene's, who wanted his name withheld, found that Deutsch owned primarily De Havilland aircraft which were located in California and that Mr Rittenberry was in charge of company affairs.

"At least two of the DH-4s are being sold to purchasers in Latin America," he said.

Savings from films, farms and others

S/Times 12/2/89 (320)

By Julie Walker

SOUTH African investors understandably try to reduce their legal tax liability, especially when the marginal rate is high.

The Receiver of Revenue is equally adamant that they should not get away with paying less than he considers due. SA's tax legislation has been vaguely drafted in parts, and many experts have emerged in recent years to assist investors.

Hazards

Rick Tudhope of Pim Goldby Tax Services outlines some of the changes which have taken place and some of the legally acceptable opportunities which exist.

One of the major hazards has been the Government's tendency to introduce retrospective tax legislation, or to drop hints at after-dinner speeches and in vague announcements about prospective changes.

Such loosely made comments have caused uncertainty for many investments, such as those made in SA's film industry, which previously carried important tax breaks for investors.

Film financing at one point meant that for every R1 invested in the production and marketing of an SA-made international feature film, the investor would receive up to R14 of losses to offset against income from other sources — clearly an inequitable position as far as the Receiver was concerned.

Tightened

Many of these films have yet to show a return either to SA's foreign-currency reserves or to the Receiver's coffers. The low quality of many of the movies could not be realistically expected to do otherwise.

The tax changes now in place have tightened up a system which was seen to have been abused by film promoters. This may be to the detriment of an SA-made film with potential for international success. But all films are tarred with the same brush.

Mr Tudhope believes that film financing offers reasonable prospects after the latest changes.

Another area which has been hit has been armchair farming. Previously, part-time farmers were given tax breaks on livestock which had a standard value for tax purposes. Now, such losses cannot be used against other income. They are contained in the area of activity — that is, ring fenced.

Changes have also been made to claims for the depreciation of capital equipment. Farmers have lost out on the immediate write-off of capital expenditure in that the 50%-30%-20% formula now applies. This encourages part-time farmers to be more committed, says Mr Tudhope.

Swing

He believes there will be a swing from investing in building societies to insurance companies because investments in the latter have more tax advantages.

Investors put only after-tax income into building society savings accounts, and are taxed fully or partly on the interest earned.

However, investments in the products of an insurer are tax-deductible in many cases up to a maximum amount.

In many cases the returns are exempt or partially exempt from tax, giving investors a double-whammy.

Mr Tudhope says the salaried employee is picking up an increasing stake of the tax burden, possibly because he is an easy target. The efforts of many tax consultants are therefore aimed at the employer.

Co-operation

"Much can be done by employers to ease the lot of their staff. One technique is to make full use of the pension and provident fund contributions allowable for tax deductions.

"In some cases up to 20% of an individual's salary can be contributed before tax into an approved pension fund."

Mr Tudhope says there should be greater co-operation between the two. Employers must pay enormous salaries and increases for staff members to receive any benefit, but could tailor a better financial package with the right advice.

He recommends retirement annuities (RAs), particularly for the self-employed or the job-hopper, and following the introduction of SITE, married women.

A wife's earnings are assessed and taxed by her employer who calculates what the deductions should be. He will give credit for RA contributions. The wife's salary is not added to her husband's on an income-tax return form if she earns R20 000 a year of less.

On the subject of retirement annuities, building societies could compete with insurance companies by offering schemes for investors, says Mr Tudhope.

Gross

The increase in tax on life-assurance companies is also misunderstood by many people.

"Life assurers are taxed on gross investment income. For every R100 of income, they were taxed on R40 at the company tax rate of 50%, or R20. On top of this there was a 7,5% levy, making a total of 27,5%.

"Now, for every R100 of income, insurers are taxed on R70 at the 50% tax rate, paying R35. The levy has been scrapped. So the effective rise has been from 27,5% to 35% — an increase of about 25% and not the 75% rise most commentators would have us believe."

Pension, provident and RA income is not taxed in the hands of the insurer.

It seems reasonable that if the insurer invests on behalf of its policy holders, the tax paid should be about the same as the individual would have paid had he placed the money individually.

Capital

Although this existing method of taxing insurers gives them an investment edge, it is an advanced method in that it recognises the insurer's interaction with investors, unlike other taxpaying entities which are taxed in isolation.

Mr Tudhope does not believe that capital gains tax will be introduced in SA. He hopes that the tax on dividend income to individuals will be scrapped soon.

"Dividends are paid out of taxed profits, then are taxed again in the hands of the shareholder — a case of double taxation."

Ground rules for the high riskers

VENTURE capital does not fit the profile of everybody's ideal investment vehicle, but can have its merits.

Mike Clarke of New Company Investments (NCI) — the name is self-explanatory — lays down the ground rules for investing outside the usual sphere.

Mr Clarke says: "Venture capital is recognised internationally as an opportunity to make extremely high returns on investment."

High return is usually coupled with high risk, and Mr Clarke believes it is largely for investors who have made adequate provision for basic security and are looking for high growth.

Ideas

"The No 1 rule of venture capital is: Don't put all your eggs in one basket. I believe that is the first rule of investment, but it applies especially in this field.

"Every entrepreneur believes he has it all to make it work, but the mettle of the man is tested when he meets

do not take his word for it, go and meet the management yourself. That way you can get a true picture of the proposal rather than the rose-tinted view the salesman usually depicts.

If you are investing in a mining company, get a respected consultant to evaluate the geological reports. Many people have rushed to invest in gold mines, but few have reaped any return. Even a site visit can be most convincing, with the promises that "Over there we'll sink a shaft, over here we'll build a plant."

Mr Clarke says investors should recognise that although investment selection is critical it is not the be all and end all, and that the after-care is important.

Crisis

start-ups in RA — Donny Gordon and Louis Luyt are examples — but only companies seeking funds under section 142 of the Companies Act should be considered.

"I don't know of one success under section 141 of the Act," says Mr Clarke.

He places today's operators in three classes. The first is where a salesman acts on behalf of his client to raise funds through share sales to the public. There is no secondary market in the shares, and many people have been burned.

The second, and respectable operator, is an occasional venture capitalist, probably involved in mature businesses who backs entrepreneurs. Some JSE-listed companies take part in this sphere.

The third is the professional venture capital company, such as NCI. Here, the structure is developed for investors and entrepreneurs, pro-



MIKE CLARKE

The JSE has announced its intention to set up a new sector, similar to the mining exploration board. It will quote holding companies of venture capital investments, such as NCI.

Individual venture capital projects will not be listed in this sector, but a holding company would be able to list by introducing the successful companies it has backed when they come to fruition and qualify for the JSE on their own merits.

Mr Clarke says venture capital is not for the gambler, nor is it for the faint-hearted. But it has a role to play in investment.

Planning beats tax and inflation

EFFICIENT tax planning is one of the most important aspects of all investment decisions. S/Times 12/2/89

Liberty Life's Lifestyle Builder range has been developed to meet investors' needs in a high-tax, high-inflation environment. It is an ideal vehicle for a lump-sum investment, such as an inheritance or a retirement cash sum.

Two new products are Income Builder and Capital Builder. The former has been designed to produce a high after-tax guaranteed monthly income for 10 years, and return the investor's capital on the assumption that a rate of 15% is achieved.

Success

The latter is designed to achieve the highest after-tax capital growth on a lump sum investment over 10 years.

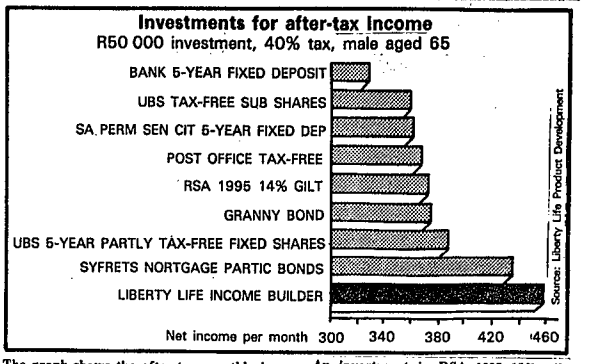
Liberty assistant general manager Herschel Mayers explains the success of the Builder plans, referring to the accompanying graph. Lifestyle Income Builder produces the most attractive after-tax return when compared with similar investments.

Liberty's investment team has achieved returns of 18,8% a year in the past 10 years in its managed portfolios whereas the inflation rate has averaged 14,4%.

The Capital Builder offers outstanding guarantees, says Mr Mayers. The guaranteed minimum return at maturity — 10 years — is about 7%.

Both products guarantee a minimum payment of the original investment amount in the event of death.

The investor has a wide range of investment portfolios to choose from, ranging from equity to property to managed portfolios, which offer a combination of the two.



The graph shows the after-tax monthly income that a 65-year-old male investor would receive on a R50 000 investment in these fixed-interest investment schemes, assuming a marginal tax rate of 40%:

A five-year fixed deposit at 14% with a commercial bank would provide R329,37 net.

United Building Society tax-free subscription shares offer 9% a year tax-free, effectively R360,37 a month.

Senior Citizens five-year fixed deposit with the SA Perm at 14% plus 0,5% payable yearly gives an effective monthly income of R362,50.

A Post Office tax-free investment pays 9% a year, six-monthly in arrears, yielding R368,16 a month.

An investment in RSA 1995 15% gilts would yield R373,63 a month.

The Senior Citizens deposit, or granny bond, gives 15% a year and yields R375 a month. The maximum investment is R30 000, but R50 000 has been assumed for comparison.

The UBS five-year partly tax-free fixed shares at 13,5% payable yearly would return R388,98 a month.

Syfrets mortgage participation bonds at 17% payable quarterly in advance would give an effective monthly income of R437,45.

Lastly, Liberty's Income Builder would provide a monthly income of R459,18 after tax. The capital remains intact assuming a 15% bonus rate is maintained. The managed portfolio has exceeded this rate in the past 10 years.

ECONOMY

Argus 13/2/89 320

All eyes on tax reforms in 1989

From DEREK TOMMEY

JOHANNESBURG. — The important tax reforms for 1989, mentioned by Acting State President Mr Chris Heunis at the opening of Parliament are believed to centre on three areas.

One is the change-over from GST to VAT. Another is the need, which every individual taxpayer will welcome, to do something about fiscal drag.

The third is implementation of the changes in gold mining tax proposed by the Deputy Minister of Finance, Dr Org Marais.

As far as the Department of Finance is concerned, the one of greatest importance must be the introduction of valued-added tax.

Initially, when VAT was first mooted, it was expected it would be introduced before the end of 1988.

But Inland Revenue has had to spend much valuable time unravelling the complexities of the tax and this slowed progress to a snail's pace.

Nonetheless, some progress has been made and legislation is expected in this parliamentary session to provide for the introduction of VAT, either later this year or, more likely, early next year.

One factor apparently holding back the introduction of legislation is that the Government has not yet decided what type of VAT it wants.

Inland Revenue wants to make VAT as comprehensive as possible to spread the burden over as wide a range of goods and services as possible and keep down the rate of tax.

But it is believed the Cabinet has still not decided whether VAT should cover capital goods such as houses and other types of property.

To many South Africans, the prospect of paying VAT on house purchases may seem an unwarranted extension of the scheme. But buyers of new houses would have to pay the tax in any event, so why should buyers of existing houses be exempt, goes the argument.

There is another aspect of VAT on capital goods, which appeals to the Treasury and probably to the Government. It is believed it would lead to a two percentage point reduction in the rate of VAT and possibly lead to the rate being either the same as GST, or a little lower.

Fiscal drag comes about when a pay rise meant to compensate for inflation pushes the recipient into a higher tax bracket, thereby depriving one of much of one's pay rise.

As long as inflation remains above four to five percent, fiscal drag remains a problem. Some countries have overcome this by indexing the tax system to inflation, but the South African authorities apparently are unwilling to follow suit.

However, they will have to make some adjustments to the income rates and also to Site, or the government will find itself extremely unpopular.

Dr Org Marais has been arguing for some time that gold mines are over-taxed and that this is stopping investors from putting money into new mines. Since this can have a harmful effect on economic growth, gold mining taxes should be cut.

His views have received support from other sectors, which claim gold is the one South African good that will never be affected by sanctions and therefore everything possible should be done to stimulate output.

However, while some tax reductions for the gold mining industry appear to be on the way, these might not be as substantial as supporters hope.

For there also appears to be another group in the government, which, while agreeing that gold mining taxes are too high, see no reason for giving the industry special concessions.

The argument is that because the gold mining commands such vast resources it has always been able to outbid commerce and industry for scarce manpower and material resources. This has forced up manufacturing industry's costs and inhibited its development.

The group argues that giving more tax concessions to the gold mining industry would enable it to grab an even bigger share of the scarce resources and further skew the economy.

This looks like turning into an interesting fight, with significant implications for economic development.

INVESTMENT

Vermaas's overseas assets frozen

Own Correspondent

JOHANNESBURG. — The Reserve Bank will institute legal action in the US and Europe in an attempt to secure all the assets of Verco Holdings and Chieftain Aviation both of which are wholly owned by Pretoria attorney Mr Albert Vermaas.

The bank served an attachment notice to the provisional liquidators of Verco yesterday because it had reasonable grounds to suspect foreign exchange regulations had been contravened, Reserve Bank attorney Mr Tippy Luttig said. Mr Vermaas can challenge the Reserve Bank's attachment notice served yesterday.

"The reason for serving the attachment was to prevent the sale of assets pending an investigation by the bank in the US, Europe and SA," Mr Luttig said.

The move effectively blocks attempts by the Luxembourg-based United Ordnance Procurement SA to purchase Mr Vermaas's airline Chieftain Aviation for R155m.

Last Friday, the Pretoria Supreme Court extended the return date of liquidation and sequestration applications against Verco, Eurotrust and Mr Vermaas to February 28, the effective date for the sale of the airline.

The applicants — the provisional liquidators and Sentra-Oes — were given leave to anticipate the return date within 24 hours if further information came to light.

Mr Vermaas's business affairs have been the subject of an investigation by the Harms Commission since November. In December the Reserve Bank set up a special committee to investigate forex fraud, including Mr. Vermaas's commercial rand transactions totalling R100m and finrand transactions totalling R92m.

Mr Vermaas sent the money out of South Africa during an 18-month period to pay for the purchase of spares and aircraft for his airline, Chieftain Aviation, and R92m was returned to South Africa during the same period by "overseas investors" who purchased various companies owned by Mr Vermaas.

The Harms Commission heard last year that in several of these finrand transactions Mr Vermaas acted as an agent for himself and for the overseas buyer.

The provisional liquidators said yesterday that the interests of creditors would be protected and to this end they would take whatever steps were necessary.

Assets which have been attached include all the right title and interest of: The entire issued share capital of Verco, Verco loan accounts, the luxury fishing boat Gabriella, the entire issued share capital of Chieftain Aviation, loan accounts which Verco or Mr Vermaas has with Chieftain, and all Mr Vermaas's and Verco's right, title and interest in and to the entire issued share capital in FDI Anstalt Vaduz, Lichtenstein.

In addition, three Cessna aircraft in SA were attached, three helicopters and 14 other aircraft that are currently in SA and overseas.

VAT: where are we now?

BDay 15/2/89

HERBERT MABIN

IT IS just a year since government announced its decision to introduce an invoice Value Added Tax (VAT) in preference to the Comprehensive Business Tax (CBT) recommended by the Margo Commission as its first option.

This decision was greeted with considerable relief by the business community, especially by the Association of Chambers of Commerce (Assocom), which had researched the operation of a CBT in the State of Michigan and had found such a tax to be gravely flawed on many counts.

Government's follow-up announcement that draft VAT legislation would be released for comment during 1988 and submitted to Parliament early in 1989 has not, however, been implemented, and is is now officially indicated that VAT will not be introduced this year.

The delay in introducing VAT is understandable in view of the complexities of this form of taxation. The delay can be welcomed if it indicates that fundamental efforts are being made to get the shape of VAT correct from the start.

What precisely are the paths of virtue in introducing VAT? The private sector has been busy identifying the issues that need to be grasped, and the problems that will emerge for industry and commerce if those issues should be either misunderstood or ignored. There is a wealth of international experience with VAT to draw upon.

The most basic issue is that VAT is simply a tax on value added. It is not a transactions tax, like the present GST. VAT, if it is truly recognised as such, can be imposed only where value is added by the application of labour, capital, experience and acumen. Will the new tax broadly conform with this principle?

Right from the start, unfortunately, the authorities have decreed otherwise in the important case of purchases of capital goods, the tax on which — according to them — will not be deductible from the output tax on products in the supply of which such capital goods are utilised. The tax on capital goods would thus be a transactions tax. It should have no place in a VAT system.

This capital goods tax will have a profound and unwelcome influence on South African manufacturing costs and competitiveness, and on commercial and other costs as well.

Its impact on industry will be heavy. It is, of course, true that industry at present bears GST on its acquisitions of capital goods — but that is GST, and it makes no effort to masquerade as VAT. One of the basic objectives of VAT is to tax the net value added in the intermediate steps in the chain of production and distribution rather than sales as such. Hence VAT will truly be a tax on valued added, not a GST on various of the intermediate links.

Another series of questions for decision is the treatment of services. Just one example: building rentals should in principle be taxable; for value is added in the service of letting accommodation. This should apply to both commercial and residential rentals.

Will there be sufficient muscle to subject house and flat rents to VAT? Will rent-payers draw contrasts between VAT payable by them and the freedom from VAT which the private buyer of a used, "second-hand" house should enjoy because a private house seller does not add value through business skills? There is also the difficult fact that a house-buyer may not be required to pay VAT on his mortgage interest costs.

There are problems in applying VAT to financial services. In theory, interest should probably be subject to VAT; but, in practice, how is the value added element in interest charges to be identified? It would seem to be an intractable problem.

In principle, no foodstuffs should be excluded from VAT if the tax is indeed to be a VAT. Exclusion of some foods would seriously diminish the VAT base. Important sectors of the population may need assistance, but this calls for some form of direct subsidisation rather than distortion of the tax system.

Would some small businesses qualify for exemption from VAT, as in the case of GST? If so, they might be disadvantaged, because they could not claim credits for the input tax paid on their stocks; while, if not exempted, they would be subject to costly administrative burdens.

Other problems include the operation of VAT on business with neighbouring states (on which Assocom has made recommendations); and the business cash-flow burden arising from the financing on VAT payments on input goods and services.

Two things are of paramount importance. Firstly, close consultation between the tax authorities and organised business is urgently needed, to enhance the chances of getting things right at the start rather than being faced with errors which require laborious correction.

Secondly, industry and commerce themselves must make their own detailed and exhaustive preparations to introduce and administer the complexities of VAT — a major task, and for which adequate time will have to be allowed once the VAT legislation is finalised.

Given consultation, wisdom and adherence to sound tax principles, SA should be able to make a good job of VAT.

☐ **Mabin is tax adviser to Assocom.**

Schwarz questions assurance on fuel tax

By Peter Fabricius, Political Correspondent

Finance Minister Mr Barend du Plessis's assurance that South African fuel is totally undertaxed has been questioned by Mr Harry Schwarz, Progressive Federal party spokesman on finance.

Replying to debate on the mini-budget yesterday, Mr du Plessis told Parliament that in the United Kingdom 67,5 percent of the petrol price was tax.

Mr Schwarz said today: "When it suits the Government they compare with Third World countries and when it doesn't they compare with the first world."

"In the United States there is no petrol tax at all."

It was true, however, that in some countries petrol tax was higher than in South Africa.

"But the Minister is forgetting that they get their fuel far more cheaply in the first place.

"We can't buy at normal market prices and our transport costs are also high compared to the UK, for instance, so the basic price is higher before tax."

Mr du Plessis, in his speech yesterday, said the 10c-a-litre increase in the petrol price had been aimed at dampening the growth in the use of fuel.

The rise was also in line with the Margo Commission recommendation that there be a move to indirect or consumption taxation.

8 000 Receiver's cheques stolen

Political Staff

THOUSANDS of cheques worth millions of rand have been stolen after being posted to taxpayers by the Receiver of Revenue, by what appears to be an organised criminal network.

The Commissioner for Inland Revenue, Mr Clive Kingon, confirmed yesterday that some 8 000 cheques worth millions had been stolen.

And he disclosed that a man had been caught with 40 cheques and had been prosecuted.

Mr Kingon said the cheques were being "intercepted" after being sent out by the Receiver of Revenue and then cashed in different places, very often by small businesses.

One, he said, had even been cashed at a bank.

Mr Kingon said that every case involving a missing cheque was followed up and in 70% of the cases the cheque was successfully traced. Where a crossed cheque had been cashed by a small business, the money had been recovered from that business.

The commissioner said the disappearance of the cheques was why the Receiver wished to pay refunds into bank or building society accounts and was requesting taxpayers to supply account numbers.

However, he said problems did exist where people did not have accounts, gave an invalid account number or refused to give that information.

Apart from the criminal aspect, the issue was involving his staff in an enormous number of hours work tracing the stolen cheques.

The issue of the stolen cheques was raised by the MP for Yeoville, Mr Harry Schwarz, when he spoke in the mini-Budget debate on Monday.

He said he suspected that the source of the theft was the Post Office, and the Minister of Posts and Telecommunications, Mr Stoffel Botha, has confirmed that an investigation into the disappearance of the cheques was under way.

According to Mr Schwarz, one of the "scams" which was being worked was to open an account in the name of the payee on the cheque, deposit the cheque and then draw out the money.

Mr Schwarz has also pointed out a further problem that the recipients of cheques which are stolen are having to wait months and months until a full investigation has been carried out.

Tax informers get paid for snooping

GERALD REILLY 14/2/89

PRETORIA — Tax informers are increasing state revenue by several million rands a year — and are being paid a bounty.

Inland Revenue chief director (operations) Schalk Albertyn says each year R100 000 is included in the Finance Department budget for payments to those who "split" on tax avoiders and fiddlers.

On the morality of the system, Albertyn says the department's task is to ensure the lawful collection of the maximum of tax owing. (326)

B/Dan 16/2/89 (320)

More than 8 000 tax cheques stolen

MIKE ROBERTSON

CAPE TOWN — More than 8 000 Inland Revenue cheques worth several million rands had been stolen before they reached the intended recipients, Commissioner for Inland Revenue Clive Kingon said yesterday.

Kingon was speaking after Finance Minister Barend du Plessis told Parliament a man, who had been found with 40 cheques, had already been prosecuted.

The scandal surrounding the theft of Inland Revenue, maternity benefit and unemployment cheques was first raised in Parliament by PFP finanace spokesman Harry Schwarz.

Schwarz believes the cheques are being stolen at post offices and Post and Telecommunications Minister Stoffel Botha has launched an inquiry to find the guilty parties.

Kingon said the cheques were being intercepted after they had left the Inland Revenue Department. Where and when had not yet been established.

He said the cheques were being cashed at small firms. One had been cashed at a bank.

His department had followed up about 70% of the cases and recovered the money.

To prevent more thefts, Inland Revenue was now trying to pay refunds to people electronically. However, it was encountering some difficulties with people who did not have bank accounts or refused to give the department their bank account numbers.

The latest revelations establish only the extent of thefts from one of the departments from which cheques have been disappearing. Schwarz believes possibly thousands have been stolen from the Manpower Department. This could involve several million more rands.

Taxpayers could face hard Budget

GERALD REILLY

PRETORIA — Taxpayers can brace themselves for a tough Budget if economists are reading the signs correctly.

They claimed this week adjustments were urgent if the economy was to be reined in. Efforts so far to slow the economy had patently failed.

The economists were reacting to Finance Minister Barend du Plessis warning this week that the country needed austerity budgets from government at all levels, especially in the main Budget.

Old Mutual economist Peter Mohr said that from a overall economic point of view it would make sense to tighten up on the fiscal policy. It was essential that government cut back on spending rather than focus on higher revenue. The emphasis should be on spending discipline.

On Du Plessis's threat of further restrictive measures if the economy refused to cool, Mohr said the minister's options were to raise taxation, create tougher hp conditions or to increase import surcharges — or a combination of all three.

UBS economist Hans Falkena said that, excluding the possibility of a general election, the Budget would be a tough one.

The present monetary policy was not biting hard enough and corrections might have to be made through the adjustments to the fiscal policy. Budget possibilities were increased indirect taxation, including GST, and a reduction in state subsidisation in a number of fields, he said.

PFP finance spokesman Harry Schwarz said against the present background of the state of the economy a tough Budget was needed.

However much would depend on political factors such as the possibility of an election this year.

On Reserve Bank Governor Gerhard de Kock's statement this week that there would be no relaxation in fiscal and monetary polcicies, Schwarz said the Bank had been accommodating last year and so far this year. The monetary policy had not been harsh enough.

TAXATION (320) FM(P)L 12/2/89

Barend holds fort

Taxpayers will have to await the main Budget on March 15 to learn their fate for the next financial year, Finance Minister Barend du Plessis told parliament this week.

Presenting the 1989 R18,3bn mini-Budget, Du Plessis added that "there would be more clarity as far as government expendi-



Du Plessis ... taxpayers wait

ture was concerned when the Additional Appropriation Bill — which provides for government over-expenditure in the 1988-1989 year — was introduced next week."

One of the main influences on this year's Budget — apart from the swelling demands of the public service — is, once again, expected to be the Margo Commission. Recently Deputy Finance Minister Org Marais mentioned as possibilities for the Budget:

- ☐ Draft VAT legislation;
- ☐ Changes to mining tax, in line with the recommendations of the Marais Committee;
- ☐ Changes for the life office industry, with emphasis on VAT, definition of income, and prescribed assets; and
- ☐ Further refinement for S11*bis*, the "double deduction" export marketing allowance, seen by government as playing a major role in tax evasion schemes.

Generally, if Marais is to be believed, the tax theme of the Budget will be the phasing out of concessions. This general Margo recommendation foresees that a better result can be achieved by reducing tax breaks and simultaneously cutting tax rates.

But Exchequer demands are expected to be heavier than ever. While Marais has said that "personal tax has been reduced," figures show otherwise. Revenue estimates indicate that the personal tax contribution will increase by 21% in 1988-1989 and is expected to rise a further 15% in 1989-1990. ■

(320)

VAT KOM?

Finance Minister Barend du Plessis says an announcement on replacing GST with value-added tax (VAT) is imminent. "Good progress has been made in the preparation for the introduction of VAT," he told the Frankel Kruger investment conference this week.

Du Plessis also said VAT would "not yield any additional revenue in the initial stage." If true, this implies a rate *below* GST's 12%: VAT is expected to be applied on a broader base, so the same rate *would* "yield additional revenue."

Cape Times 12/8/89 (320)

Cap

Bounty for tax squealers

By MEG BRITS

MONEY talks, so the saying goes. Money also gets people to talk — about the income tax that their former husbands, sons-in-law, neighbours-with-barking-dogs and previous employers haven't rendered unto the taxman.

What they're hoping for is a slice of the R100 000 bounty the department of finance sets aside each year to reward those who squeal on tax evaders.

However, says Cape Town tax official Mr Ernst Conradie, the department takes a dim view of "grudge cases", preferring to use the resources of its inspectorate to catch bigger fish.

And this isn't a case of bringing in the culprit dead or alive; tax inspectors actually have to recover the amounts outstanding before the bounty hunters can collect their rewards — up to 10% of the additional tax collected.

But, as usual, the taxman isn't too keen to part with money. Mr Conradie says the fee for each tip-off is individually negotiated: "It would be a bit much for us to make a guy a millionaire overnight for a tip-off which led to the recovery of R10 million. On the other hand if we recovered R100 000 he might get the 10%."

And an expanded and better-trained tax inspectorate is leaving fewer places for tax avoiders to hide. Last year they uncovered untaxed income of R1,4 billion, compared to R853m in 1987. The receiver's special inspectorate — accountants with the authority to go through tax returns and books — collected another R55m last year.

Nevertheless, the bounty system exists and it does have a sinister side to it. Tax experts say it could lead to pretty effective "blackmail" by disaffected employees with a knowledge of their employer's financial affairs.

CMC Trans 18/2/89
320

Taxpayers on wrong track, says Receiver

By CHARL DE VILLIERS

NEARLY 40% of taxpayers submitted false account numbers to the Receiver of Revenue last year in a misguided bid to avoid "non-existent" computerised tax deductions from their pay, a senior revenue official said yesterday.

Cape Town's Receiver of Revenue Mr Ernst Conradie was commenting on a new computer-based system whereby tax reimbursements are paid directly into the taxpayer's bank or building society account.

Desgined to foil theft of revenue cheques — said to total millions of rands by Finance Minister Mr Barend du Plessis — the computer system triggered a panic response from taxpayers who believed income tax would be automaticallty deducted from their accounts, Mr Conradie said.

Mr Du Plessis said in Parliament this week that 16 144 Receiver's cheques went missing between April and November last year, of which 8 152 cheques worth R3 470 800 were fraudelently cashed.

"The postal system is definitely the weak spot when it comes to the theft of tax payouts. This is partly because the Receiver's cheques are posted in window envelopes and recognised by all and sundry," said Mr Conradie.

Inland Revenue commissioner Mr Clive Kingon added that 90% of cheque thefts occurred in the Witwatersrand and Vereeniging areas, with letter boxes in blocks of flats being most vulnerable to thieves.

Though tracing fraudulently-cashed cheques was a long process, culprits who banked such cheques were usually apprehended, Mr Conradie said.

'Unnecessary to raise taxes'

JOHANNESBURG. — If the Minister of Finance can succeed in keeping the rate of increase in Government expenditure within reasonable limits, it should not be necessary for him to raise taxes, states **Sanlam**'s latest economic survey.

The company's chief economist, Johan Louw, says that in view of the poor performance of personal savings effort, steps to make saving more attractive for the individual would be welcomed.

He expects the general financial situtation to mellow in the second half of the year and foresees that the prime bank lending rate will gradually come down to about 16%.

● In its latest Economic Spotlight, **Volkskas** notes that the performance of the inflation rate last year was better than initally expected.

Volkskas states the two main reasons for this were that food prices advanced at a lower than expected rate and that certain administered prices such as rail tariffs and postal rates were subject to a temporary and partial price freeze.

It said the total inflation rate as measured by the consumer price index in December was 12,5% compared to December 1987's 12,9%.

The bank predicts an inflation level of between 15% and 16% for 1989 with the proviso it could go higher if domestic demand is not curbed. — Sapa

Revenue rolling in faster than expected

PRETORIA — Government should be rolling in money because it is pouring into state coffers at a dizzying rate, according to a Central Statistical Service survey.

The CSS said revenue collected during the first eight months of the 1988/89 financial year reflected a 28,0% increase compared to the same period of the previous financial year. This year's Budget had made provision for a 13,8% increase.

Revenue collected over the eight month period was 68,5% of the budgeted amount for the financial year, compared with 60,9% taken by the same time a year earlier.

Tax collections during April to November 1988 had increased by 29,1%. The Budget had provided for a 16,7% increase.

Fuel levy revenue had increased by an enormous 279% to R1,47bn. Surcharges had increased by 123% to R1,1bn.

Income tax rose by 26,5%, mainly due to higher company profits. GST went up by 26,2%, due to increased spending. — Sapa.

'No need to raise taxes if govt can control spending'

Mday 20/2/89

320

IF THE Finance Minister could keep the rate of increase in government expenditure within reasonable limits, it should not be necessary for him to raise taxes, Sanlam said in its latest economic survey.

Chief economist Johan Louw said in view of the poor performance of the personal savings effort, steps to make saving more attractive for the individual would be welcomed.

"Generally, government's fiscal action should support its restrictive monetary policy in an effort to limit total domestic spending to a level where excessive demands on the balance of payments were not made.

Louw said during the past few years government expenditure had been characterised by the considerable extent to which the Budget estimates had been exceeded. The 1988 Budget gave rise to the hope that renewed attempts would be made to control government spending more strictly and that actual expenditure would deviate less from the original estimates. Unforeseen expenses would, however, mean that total expenditure would again exceed the Budget quite considerably.

"The result is the credibility of the Budget is once more in question."

There could be little doubt that a drop in the rate of increase in government spending was in the national interest — and also a prerequisite for the relief of the heavy tax burden of individuals. It should, in fact, be one of the major instruments utilised to put the economy on the road to faster growth, the creation of more work opportunities and greater prosperity.

Louw said he expected the general financial situtation to tend to be more relaxed in the second half of the year and that the prime bank lending rate would gradually come down and be about 16% by the end of 1989.

The financing requirements of government in the 1989/90 financial year should be accommodated quite readily by the capital market. It was expected the Minister would budget for privatisation to make a big contribution to the funding of the Budget deficit. — Sapa.

40% of taxpayers were 'misguided'

Own Correspondent

CAPE TOWN — Nearly 40% of taxpayers submitted false account numbers to the Receiver of Revenue last year in a misguided bid to avoid "non-existent" computerised tax deductions, a senior revenue official said last week.

Cape Town's Receiver of Revenue Ernst Conradie was commenting on a new computer-based system where tax reimbursements were paid directly into the taxpayer's bank or building society account.

The computer system had triggered a panic response from taxpayers who believed income tax would be automatically deducted from their accounts.

Finance Minister Barend du Plessis said last week 16 144 receivers' cheques went missing between April and November last year, of which 8 152 cheques worth R3 470 800 were fraudulently cashed.

Proposed laws will curb avoidance schemes

320 B/Day 21/2/87

Taxman casts loophole net back to December

CAPE TOWN — Inland Revenue commissioner Clive Kingon has spelt out draft legislation to eliminate tax avoidance and loopholes used by financial institutions.

He said yesterday some changes contemplated for the Income Tax Act, to be presented to Parliament this year, might be retroactive to December 22.

On redeemable share transactions contained in terms of section 8D of the Act, the authorities propose adding, in part, this section:

Where any share in a company has been issued subject to one or more conditions set out in subsection 2, or where the holding of any share is in terms of an agreement subject to one or more conditions, it shall be deemed ... that the issue price of such a share constitutes a loan made by the shareholder to the company and that any dividend declared will constitute an amount of interest payable on such a loan.

Changes contemplated include:

☐ The share is redeemable, or may at the option of the company, the shareholder or any other party be redeemed,

CHRIS CAIRNCROSS

before the expiry of a period of three years from the date of issue;

☐ The shareholder has a right to acquire any other party to purchase such a share, whether before or after the expiry period.

Kingon notes these provisions will not apply where the shareholder is, for the purposes of any agreement concluded between SA and any other state under sections 108 or 109, a resident of another state, if the rate or amount of tax which may be levied in terms of the Act on any dividend accruing is subject to a limitation imposed under such agreement.

Dividend

This proposed legislation will be retroactive and come into operation from December 22 and apply to any share issued on or after that date.

It shall also apply where a share has been issued before December 22, or any dividend declared before then, if any agreement to which a company and shareholder are parties, provides for any variation in the rights or obligations of those party to the agreement in the event of an amendment of the principal Act related to the treatment of such share or dividend for tax purposes.

The proposed legislation will also apply in the case of any share issued by a company before that date, and to any dividend declared on a date falling after December 22, upon which share was redeemable or could be redeemed.

In addition to section 103 of the Act, more amending legislation is to be introduced affecting cessions of rights on amounts construed to be taxable.

The amendments allow the commissioner to determine the tax liability in such circumstances, and of any other party to the transaction.

Changes envisaged, which will also be retroactive, include:

☐ Any transaction, operation or scheme on or after that date;

☐ Any transaction, operation or scheme made before December 22 if the taxpayer can terminate the operation of such a transaction, operation or scheme without incurring liability for damages, compensation or similar relief.

'User-friendly' tax forms

A10a1 2/2/89

320

KAY TURVEY

TAXPAYERS accustomed to startling correspondence with Inland Revenue are in for a pleasant surprise when they receive their tax forms later this year.

Inland Revenue is to send taxpayers a new, more user-friendly tax form and instruction brochure next month.

Inland Revenue commissioner Clive Kingon described the forms as "much more attractive and less frightening".

It is hoped that as the form will be less daunting to complete, many errors will be eliminated.

Areas to be filled in are highlighted in orange and the instruction brochure has been improved. Kingon said: "The instructions are much more readable."

Further, the forbidding yellow forms from the government printer are out and white ones are in. Specially designed by Inland Revenue staff in conjunction with a Cape firm, it is the first time Inland Revenue has used an outside firm to print and distribute buff forms and brochures.

Machine packing the envelopes will free Inland Revenue staff — who usually spend up to six weeks packing and addressing them — to continue with normal duties.

Kingon described the cost of the new forms as reasonable when taken against the labour saving involved.

Row between KWV, SAB on excise policy

Cape Times 22/2/88 p 320

Own Correspondent

JOHANNESBURG. — A row is brewing between the wine farmers' co-operative, KWV, and SAB over government's excise duty policy on various products in the liquor industry.

KWV executives have been stung by SAB marketing director Peter Savory's recent remarks and have responded angrily to what they perceive as an attack on their interests.

Savory recently suggested in an Afrikaans financial magazine article that excise duty should tax the alcohol content of beverages and not the beverage as such. Such a policy would allow for cheaper beer.

Savory's remarks were taken by KWV executives as an attack, albeit veiled, on the fact that natural wine in SA was not subject to any excise duty at all.

KWV CE Ritzema de la Bat responded to Savory's remarks in an Afrikaans Sunday newspaper article. He described Savory's remarks as a "tax attack" on the wine industry.

He said SAB earnings from beer surpassed those of other sectors of the liqour industry compared with the wine industry which was experiencing stagnant sales.

However, Savory was adamant this week he was not launching an attack on the wine industry. He said: "We are just campaigning for equal treatment.

Savory said the excise duty policy was fundamentally wrong because most beer drinkers were drawn from lower or middle-income groups. In contrast, most wine drinkers belonged in upper-income groups.

SA beer drinkers paid R744m in excise duty last year compared with the R3m which was paid by the wine industry, mainly in the form of excise duty on sparkling wine, a wine product not exempt.

De La Bat was overseas this week, but KWV acting CE Kobus van Niekerk said yesterday: "The wine industry has, in the past, refrained from the attacks of the beer industry on the excise duty situation.

"But to try and pull us in by the hair and to try and create a new basis for the taxation of alcohol is just not on."

CAG Times 22/2/89 320

Tax Act changes to shut loopholes

Political Staff

THE Commissioner for Inland Revenue, Mr Clive Kingon, has spelt out details of draft legislation to be introduced this year aimed at wiping out some of those tax-avoidance schemes and loopholes employed by financial institutions which were roundly criticised by Finance Minister Mr Barend du Plessis in December.

Mr Du Plessis was in turn roundly castigated at the time for misconstruing what is legitimate accounting practice and for "unforgivably" introducing legislation by press release.

Institution spokesmen also declared that until the situation was properly clarified, no adequate tax planning could be properly executed.

In a statement released in Cape Town yesterday, Mr Kingon gave details of some of the changes contemplated for the Income Tax Act which will be put before Parliament later in the year. It is intended that the changes will be retrospective to December 22 last year.

On redeemable share transactions contained in terms of Section 8D of the Act, the authorities propose adding in part the following section:

Where any share in a company has been issued subject to one or more conditions set out in subsection 2 or where the holding of any share in a company is in terms of an agreement subject to one or more conditions, it shall be deemed ... that the issue price of such a share constitutes a loan made by the shareholder to the company and that any dividend declared will constitute an amount of interest payable on such a loan.

Changes contemplated include:

- The share is redeemable — or may at the option of the company, the shareholder or any other party be redeemed — before the expiry of a period of three years from the date of issue.
- The shareholder has a right to acquire any other party to purchase such a share, whether before or after the expiry period.
- The company has given any form of security or any other party has given any guarantee, for the redemption or purchase of such share or payment of any dividend which may be declared.

Mr Kingon noted that these provisions would not apply where the shareholder was for the purposes of any agreement concluded between South Africa and any other state under Sections 108 or 109, a resident of another state if the rate or amount of tax which may be levied in terms of the Act on any dividend accruing was subject to a limitation imposed under such agreement.

This new legislation shall apply to any share issued on or after December 22 last year.

The new legislation will also apply the case of any share issued by a company before that date and to any dividend declared on a date falling after December 22 upon which share was redeemable or could be redeemed.

In addition to Section 103 of the Act, further amending legislation is to be introduced affecting cessions of rights on amounts construed to be taxable.

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PRESS RELEASE

by the Commissioner for Inland Revenue

IN CONNECTION WITH SCHEMES FOR THE AVOIDANCE OF INCOME TAX

In order to counter schemes referred to by the Minister of Finance in his press release dated 22 December 1988 it is my intention to recommend to the Minister that the Income Tax Act, 1962, be amended as follows during the present session of Parliament:

1. By the insertion after section 8D of the Act of the following section:

"8E. (1) Where any share in a company has been issued subject to one or more of the conditions set out in subsection (2), or where the holding of any share in a company is in terms of an agreement subject to one or more of such conditions, it shall be deemed for the purposes of this Act in relation to the shareholder that the issue price of such share constitutes a loan made by the shareholder to the company and that any dividend declared on such share constitutes an amount of interest payable on such loan.

(2) The conditions contemplated in subsection (1) shall be the following, namely:

(a) The share is redeemable, or may at the option of the company, the shareholder or any other party be redeemed, before the expiry of a period of three years reckoned from the date of issue thereof.

(b) The shareholder has a right to require any other party to purchase such share from him, whether before or after the expiry of the period contemplated in paragraph (a).

(c) The company has given any form of security, or any other party has given any guarantee, for the redemption or purchase of such share or the payment of any dividend which may be declared thereon.

PERSVERKLARING

deur die Kommissaris van Binnelandse Inkomste

IN VERBAND MET SKEMAS VIR DIE VERMYDING VAN INKOMSTEBELASTING

Ten einde die skemas waarna in die Minister van Finansies se persverklaring van 22 Desember 1988 verwys is teen te werk, is ek van voorneme om by die Minister aan te beveel dat die Inkomstebelastingwet, 1962, gedurende die huidige sitting van die Parlement soos volg gewysig word:

1. Deur na artikel 8D van die Wet die volgende artikel in te voeg:

"8E. (1) Waar 'n aandeel in 'n maatskappy uitgereik is onderworpe aan een of meer van die voorwaardes in subartikel (2) uiteengesit, of waar die besit van 'n aandeel in 'n maatskappy ingevolge 'n ooreenkoms aan een of meer van bedoelde voorwaardes onderworpe is, word daar by die toepassing van hierdie Wet geag met betrekking tot die aandeelhouer dat die prys waarteen bedoelde aandeel uitgereik is, 'n lening uitmaak wat deur die aandeelhouer aan die maatskappy gemaak is, en dat enige dividend wat op bedoelde aandeel verklaar word 'n bedrag rente uitmaak wat op bedoelde lening betaalbaar is.

(2) Die voorwaardes in subartikel (1) bedoel, is die volgende, naamlik:

(a) Die aandeel is aflosbaar, of kan volgens keuse van die maatskappy, die aandeelhouer of 'n ander persoon afgelos word, voor die verstryking van 'n tydperk van drie jaar bereken vanaf die datum van uitreiking daarvan.

(b) Die aandeelhouer beskik oor die reg om te vereis dat 'n ander party bedoelde aandeel by hom koop, hetsy voor of na die verstryking van die tydperk in paragraaf (a) bedoel.

(c) Die maatskappy het op enige wyse sekuriteit voorsien, of 'n ander party het enige waarborg gegee, vir die aflossing of koop van bedoelde aandeel of die betaling van 'n dividend wat daarop verklaar mag word.

Pay SITE — and privatise your income tax

KAY TURVEY

B/Day 22/12/89

(320)

THE introduction of the new SITE tax in July last year could be seen as a form of privatisation, as the assessing function shifted from Revenue to employers.

Between 800 000 and 900 000 known cases had fallen off the register as a result of SITE, Fisher Hoffman Stride partner Anthony Chait told a SA Institute of Chartered Accountants conference in Johannesburg this week.

This had been part of the motivation of SITE — to shift the burden of the small taxpayers away from the Revenue authorities so they could spend more time going after the "big fish".

The primary objective of SITE was to simplify the administration of income tax collection by reducing the number of taxpayers obliged to make returns.

SITE constitutes a final liability and is applicable to the first amount of an employee's remuneration, R20 000 in the case of a married woman and R12 000 in any other case.

Chait said there was still a lot of confusion surrounding SITE at a time when many employers were calculating and finalising their payrolls at the end of the fiscal year.

Star 23/2/89

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Link-up to halt loss of tax cheques

Pretoria Correspondent

Three Government departments have joined forces to investigate the loss of thousands of income tax repayments and unemployment insurance cheques.

The number of Department of Manpower and Department of Inland Revenue repayment cheques being "lost in the post" is a matter of grave concern, according to the Postmaster-General, the Director-General of Manpower, and the Commissioner of Inland Revenue.

The departments will be co-ordinating investigations to find ways of dealing with the problem, while Manpower and Inland Revenue have undertaken to "immediately eliminate any possible risks that may exist in their organisations" regarding the handling of postal articles containing cheques before they are posted.

All regional offices of the Post Office are investigating and evaluating measures of combating the theft of postal articles.

The Postmaster-General, Mr Johan de Villiers, met the Commissioner of Police, General Hennie de Wet, who said a "comprehensive investigation into the matter would be carried out immediately".

TAX POLICY (520) FMML 24/2/89

Perfect law, bad news

As promised, Commissioner for Inland Revenue Clive Kingon has released two proposed new sections for the Income Tax Act, following the "shock" press announcement by Finance Minister Barend du Plessis on December 22, that a number of tax avoiding finance schemes were to be hit.

The announcement was widely condemned as vague and meaningless. It was described as an impediment to the conduct of sensible business as "all it does is introduce uncertainty, the last thing a businessman needs in this environment."

The announcement referred in broad terms to four financing schemes used here and internationally for decades:

- ☐ Dividend-interest swaps;
- ☐ Pref share finance;
- ☐ Variable rate debenture finance; and
- ☐ Round-tripping of funds between financial institutions and the corporate sector.

All are based on the principle of tax arbitrage — the fact that the tax system treats income in dozens of different ways, and then applies different tax rates. For example, while dividend receipts are tax-free to a company, interest is taxed in full.

Again, life offices pay a lower rate than financial institutions and companies; pension funds pay no tax. By elaborate tax planning, financial instruments can be juggled so that, depending on the entity involved, the tax burden is minimised, if not eliminated.

Du Plessis was led to believe that the sums involved in such schemes highlighted on December 22 were monumental. His release was intended as a warning, and the proposed legislation will do little to allay fears of just what was intended.

Two, not four, new sections will be inserted into the principal Act.

First, Section 103 (5), reproduced here in full because it will be remembered as a watershed in tax history: "Where under any transaction, operation or scheme any taxpayer has ceded or otherwise disposed of his right to receive any amount which, but for the cession or disposition, would have constituted taxable income in his hands, in exchange for any other amount, and in consequence of such cession or disposition the taxpayer's liability for normal tax, as determined before applying the provisions of this subsection, has been reduced or extinguished, the commissioner may determine the liability for normal tax of the taxpayer and any other party to the transaction, operation or scheme as if such cession or disposition had not been effected."

S103 is the anti-avoidance section. It has been in place for decades and, apart from minor tinkerings, has had no change near as material as S103 (5). This new subsection contains three tests:

- ☐ A transaction, operation or scheme (which arises *ipso facto*);
- ☐ A right to receive income which has been ceded or otherwise disposed of; and
- ☐ The consequence of such cession or disposal is to reduce or extinguish the taxpayer's liability for normal tax.

S103 (5) is, technically, one of the best additions ever to the Act. It also totally ignores any reason behind the cession or disposition.

It takes tax law one step closer to looking purely at tax consequences and ignoring the environment of business, industry and personal financial planning. It also means that tax will become yet more dominant in making financial decisions.

S103 (5) will be easy to apply; all it needs is two sets of accounting figures. If the actual transaction results in a lower tax liability than the putative transaction, it will be deemed null and void by the commissioner.

S103 (5) means in effect that the intention of a taxpayer for executing a transaction is irrelevant. Intention has always been the focal point of subsections of S103. For example, S103 (1) refers to, among other tests, that a transaction must be "normal" in the circumstances, and conducted "at arm's length." With S103 (5), contextual issues are as relevant as the weather on Mars.

The second addition is S8E: "Where any share in a company has been issued subject to one or more of the conditions set out in subsection (2), ... it shall be deemed ... in relation to the shareholder that the issue price of such a share constitutes a loan made by the shareholder to the company and that any dividend on such share constitutes an amount of interest payable on such loan."

"Deemed loans" are well-known creatures in SA tax law, and are based on tax arbitraging between dividends (a tax-free receipt in the hands of a company) and interest, which is taxed in full.

The conditions referred to in S8E — which will convert shares into a loan in the eyes of the commissioner — are, briefly:

- ☐ That the share is redeemable within three years of issue date;
- ☐ The shareholder has the right to require any other party to buy the shares from him, before or after three years; and
- ☐ The company has given any form of security, or any other party a guarantee, for the redemption or purchase of the share or payment of any dividend on it.

S8E shall be deemed to come into operation on December 22, but is in many circumstances retroactive to even earlier.

S103 (5) is retroactive to the same date; in addition it will apply "to any transaction, operation or scheme concluded before that date, if the taxpayer is at liberty to terminate the operation of such transaction ... without incurring liability for damages, compensation or similar relief."

In other words, apart from the very broad spectrum of transactions that can be hit by S103 (5), it could be retroactive to when Van Riebeeck landed in the Cape. ■

Barend not likely to part with R200m

Budget holds little hope for life office tax relief

LIFE assurers are unlikely to receive any tax relief in the March Budget as the state can ill-afford the loss of revenue.

In one of the biggest shocks in last year's Budget, life assurers were hit with a 75% tax jump as their effective tax rate was lifted from 20% to 35%.

A return to the previous rate would entail a revenue loss to the state of more than R200m.

Tax base

Industry sources believe Finance Minister Barend du Plessis accepts that life offices, as important vehicles for harnessing savings, are too severely taxed, but is reluctant to reduce their taxes given the demands on the fiscus.

Life Offices Association PRO Jurie Wessels said it was hoped the permanent tax committee would give recognition to the importance of life assurers to the national economy.

KAY TURVEY

Any new tax base to be established should consider the role played by assurers in the formation of capital, particularly against the backdrop of sanctions and the dearth of foreign financing, he said.

But the industry believes the Budget will hold no good news for them and that the the standing committee on taxation of life assurance, headed by Chris Stals, is unlikely to report until recommendations on VAT are made public.

Not only has the taxation of life offices been put on a back-burner by VAT, but any chance of the scrapping of prescribed assets remains unlikely until the assurers' tax structure has been decided.

The authorities would see any reduction or abolition of prescribed assets as a trade-off for higher taxes, the industry believes.

The withdrawal of prescribed assets -- whereby life offices and pension funds are required to invest in the capital market — is seen as a necessary step to freeing funds for privatisation.

The LOA argues that as income is taxed in their hands and not in those of the policyholder, they should pay tax at the average marginal rate of taxpayers — their policyholders. This rate should be set at 30% after expenses.

Soaring tax revenues boost Budget outlook

(320) Star 1/3/89

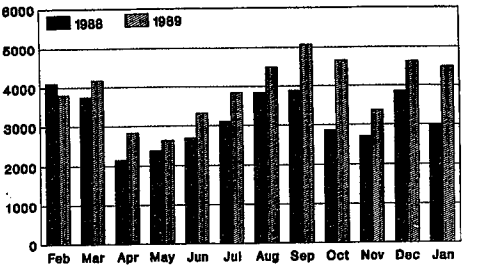
By Derek Tommey

South Africa's economic boom is making waves at the Department of Finance — and raising hopes that the Minister of Finance, Mr Barend du Plessis, may have some good news for the taxpayer when he introduces his 1989-90 Budget in two weeks' time.

The latest Treasury statement shows that tax revenues soared by 49,8 percent in January to R4 486 million, to continue the trend which has developed in recent months in line with the upsurge since mid-1988 in economic activity.

In the four months to the end of June last year, tax revenues were running only some 18 percent ahead of corresponding 1987 figures, This was roughly in line with Treasury expectations and indicated a rather flat economy.

After June, however, tax revenues jumped sharply and in the seven months ended January the overall increase was 31 percent.



Tax revenue in millions of rands.

By the end of January, the Treasury had taken R38,8 billion from the country's taxpayers — some 27,9 percent more than the R30,4 billion collected a year ago.

Tax revenues are likely to further increase in February and March as provisional taxpayers pay their dues and Revenue officials try to scrape the barrel. Additionally some of the proceeds of the increased petrol tax should also start flowing to the Treasury.

It seems, therefore, that Mr du Plessis should handsomely exceed this year's revised revenue target of R46 billion — possibly by up to R2 billion.

Currently the Government is spending R4,9 billion a month, some R1,1 billion or 28,9 percent more than last year, but only slightly above the Budget figure.

This suggests that total spending for the year could be around R56 billion, or some R1 billion more than budgeted.

This means that Mr du Plessis could end the year with a far smaller deficit before borrowing than the R10 billion he expected.

On these latest tax figures it seems there should be no need for tax increases in the Budget on March 15, even if the expected slow-down in the economic growth rate trims revenue.

It should not be forgotten that Mr du Plessis could have an additional R1 billion in revenue following the privatisation of Iscor, which should help him over any hump he might encounter.

Admittedly, much depends on the extent to which he limits the increase in Government spending.

But having already granted the public service a 15 percent pay rise it seems one can expect some restraint in this direction, regardless of whether or not there is a general election later this year.

Politics should not be mixed in VAT — deputy minister

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KAY TURVEY BD 13/1/89

VAT should not be made a political issue, Deputy Finance Minister Org Marais said yesterday.

Referring to the implementation of VAT targeted for next year, Marais said: "We want a Bill that makes good economic sense and have to consider the dangers of difficult technicalities becoming a political issue."

The permanent tax advisory committee has completed its recommendations on the new tax system and its technical report has been presented to senior members of the Finance Department.

However, the recomendations are unlikely to be given any attention before the Budget and all that can be expected in the Budget is a timetable for the draft legislation.

Marais said an important decision had yet to be taken on whether to release the report first to interest groups in commerce and industry for feedback or to the Cabinet.

Tax revenues hit record level, R5bn up on '87/88

BD 11/3/89 GERALD REILLY (320)

PRETORIA — Income tax and sales tax revenues are heading for record levels, substantially above the 1988/89 Budget expectations, Finance Department figures show.

Collections from both taxes for April-January were R5,119bn greater than for the same period a year ago.

In the first 10 months of the financial year, income collected amounted to R20,230bn against a Budget estimate for the whole financial year of R24,188bn.

A spokesman said collections normally escalated during late February and early March, with payments from the gold mining industry, companies and second provisional tax payments.

During the same period last year, collections amounted to R16,457bn, R3,773bn less than current collections — against a Budget expectation of R21,886bn.

GST is also running well ahead of expectations, mainly because of the consumer spending spree fuelled by cheap and easily accessible credit.

During the 10 months GST payments amounted to R10,819bn against a budget estimate for the whole financial year of R11,630bn.

VAT possible on property?

B/Day 7/3/89

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VAL PIENAAR

VAT could well be imposed on property transactions in the future, confirms Finance Deputy Minister Org Marais.

"While the whole issue of VAT is still under investigation by the Stals Committee, it is customary to make VAT applicable to most property transactions in other countries," he says.

"In some European countries, residential land — and, in some cases, old houses — are exempt, but in the case of commercial and industrial properties it is normal to include them."

Members of the industry react to the issue with unease, and the general mood is one of uncertainty.

"VAT could, in effect, act as an additional transfer duty — but what about rented properties?" asks Ampros MD Gerald Leissner.

"Will VAT apply, and if it does, will property owners be able to adjust existing leases accordingly — or will it represent an additional cost for them to absorb?"

Peter Erasmus, executive director of the SA Property Owners' Association, was critical of any suggestion that VAT be imposed on property transactions, on the grounds that purchasers already pay a substantial transfer duty.

However, according to Marais, imposing VAT could, in the long run, benefit many property owners by reducing the incidence of double or treble taxation.

"Developers will automatically pay VAT on the materials used in construction, just as at present they pay GST. But whereas the cost of GST is simply built into the price paid by the eventual purchaser, he will be credited with the VAT portion of the final price.

"This will then impact favourably on the prices he has to charge for the goods manufactured or sold on the premises.

"If buildings are exempt from VAT, the developer will incorporate the cost of VAT on raw materials in the final cost of the building — as he currently does with GST — but the eventual purchaser will not be entitled to any credit," explains Marais.

Tax takings set to hit record peak

Political Staff

PRETORIA. — Income tax and sales tax revenues are heading for record levels, substantially above the 1988/89 budget expectations, according to Depart of Finance figures.

Collections from both taxes for the April-January period were R5,1 billion more than for the same period last year.

In the first 10 months of the financial year — to the end of January — income collected amounted to R20,2bn against a budget estimate for the whole of the financial year of R24,2bn.

A spokesman pointed out that collections normally escalated during late February and early March with payments from the gold mining industry, second provisional tax payments and from companies.

GST is also running ahead of expectations mainly because of the consumer spending spree.

In the 10 months GST payments amounted to R10,8bn against a budget estimate for the whole of the financial year of R11,6bn.

Jalc directors are accused of tax evasion

CAPE TOWN — The directors of Jalc Holdings and its associates evaded paying tax in South Africa, Lesotho and Botswana, the Harms Commission in Cape Town was told yesterday.

An auditor assigned to investigate the Jalc group's financial record between 1980 and 1988, Mr Vincent Thompson, claimed the four Jalc directors had swindled the Revenue Office by claiming for expenses without declaring correct income figures.

He said the group's financial records had shown that directors Mr Athos Poulos, Mr Laurie Painting, Mr Chris van Rensburg and Mr John Strong had falsely audited financial statements.

One of the instances when the directors evaded tax was in the financial year ending February 1987, when R250 000 was paid into loan accounts of each of the directors, and that of Mr Vulindelel Mbotoli, director of a Jalc company, Temba Construction.

These amounts were not reflected in tax returns or on the group's balance sheet.

Mr Thompson also revealed that, according to the company's financial records, Jalc had donated R13 000 to the National Party. — Sapa.

Vlok 'to release another 50 detainees'

Own Correspondent

CAPE TOWN — The Minister of Law and Order, Mr Adriaan Vlok, has undertaken to release 50 more detainees by tomorrow, bringing to 279 the number of releases he will have authorised.

This undertaking was made during an unpublicised second meeting with prominent church leaders under the leadership of Archbishop Desmond Tutu yesterday morning. (329)

In a press statement from Catholic Archbishop Stephen Naidoo's office, the church leaders said they had met with Mr Vlok [illegible] 24 3189

The talks were a follow-up to the meeting on February 16, at which the Minister gave an undertaking to release a substantial number of detainees within a fortnight.

"Mr Vlok estimated that there were 800 in detention as at February 16. He said he would sign release warrants for another 50 detainees on Friday, bringing the total number of releases to 279," said the statement.

'Motorist is an easy source of revenue'

Star 21/8/87

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AA slams fuel tax

Reacting to the Minister of Finance's statement in Parliament that fuel was "totally undertaxed", the Automobile Association's director-general, Mr Peter Elliott, has repeated his condemnation of the Government's tactics to extract payment from the motorist by adding exorbitant taxes on fuel.

"It is obvious that the Deparment of Finance considers the motorist an easy source of revenue", he said.

Certain sections of the informal sector continue to avoid payment of taxes on their huge turnover.

While the AA is supportive of privatisation, deregulation and the development of the informal sector in the interests of job creation and the economy, ways must be found to extract tax from those involved without resorting yet again to the overburdened motorist.

A recent economic study commissioned by the American Automobile Association warned of dire consequences should an increase in tax be imposed on fuel as a means of reducing the national budget deficit.

The study found that an increase of 10 cents a gallon (5,6 cents a litre) would put 80 000 Americans out of work in the tax's first year and a total of 180 000 by 1990, resulting in the following declines:

- Income tax revenue by nearly R2,3 billion.
- Car production by 1,3 percent.
- Housing construction by 0,9 percent.
- The rate of personal savings by 3 percent.

The combined effect on the Gross National Product (GNP) of the USA would be a reduction of R20,6 billion, the study claims.

"Unless South Africa somehow operates under different economic laws, a similar effect can be expected which underlines the futility of attempting to control consumption through the price mechanism."

Mr Elliott concluded; "Foreign exchange may be saved — but at what cost?"



Encountering pools of water will have the Toyota tugging at the steering wheel, but with a little care, it will keep goin

Probe hears Jalc 'ripped off' taxman

By MANDY JEAN WOODS

THE Receivers of Revenue in Transkei and South Africa have been defrauded of hundreds of thousands of rands by the directors of Jalc Holdings, the Harms Commission heard yesterday.

Chartered accountant Mr Vincent Thompson told the commission that a brief investigation of Jalc's books for the period 1980-1988 showed that the companies and the individual directors were guilty of fraud and tax evasion, tax avoidance and misrepresentation in Bophuthatswana, South Africa and Transkei.

Jalc Holdings is an SA-registered company with interests in Nitor Construction and Jalc Construction (SA), Temba Construction (Transkei), Thata Construction (Bophuthatswana) and Matla Construction (Lesotho) among others.

Mr John Strong, Mr Athos Paulos, Mr Laurie Painting and Mr Chris van Rensburg are equal directors of Jalc Holdings and two or more of a combination of these serve with other directors in the subsidiary companies.

In most cases, the Receivers of Revenue were misled, Mr Thompson said.

He said false audited statements had been sent to the Receiver of Revenue and/or the banks and Jalc Holdings may not have complied with Reserve Bank foreign exchange regulations.

In complex evidence to the commission, Mr Thompson wove a pattern of creative accounting showing that:

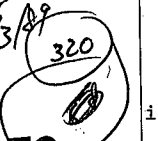
- A sizeable number of questionable cash payments were made to directors and others;
- The origin of income — both for the directors and the companies — was often disguised so taxes on such were not paid;
- Various company directors' personal loan accounts were used to "disguise" income from foreign states;
- False statements were submitted to the Receivers of Revenue showing reduced gross income and expenses so as to deflect potential queries;
- "Blatant and false" entries were made in company books;
- With some expense claims, no indication is given whether or not they were incurred to generate income, thus being tax-deductible, and
- In the case of at least one director, Mr Laurie Painting, several sums shown in the books as being paid to him were never reflected in his personal income tax returns. Tax returns for the other directors were not available.

Mr Thompson said that in June last year the SA Receiver of Revenue had submitted a query regarding Jalc Holdings business dealings in Ciskei and Transkei for the period 1982-1986.

Mr Peter Barrett, representing the Transkei government, was present at the hearing yesterday.

The hearing continues today in Cape Town.

Perks tax rise expected as rates soar



By TREVOR WALKER
Business Staff

THE "perks" tax may be increased following the steep rise in the general pattern of interest rates, and an announcement is expected within the next few days.

"An increase in the present official rate of 13 percent is under consideration and recommendations will be forwarded to the Minister of Finance for approval shortly," said Mr Clive Kingon, head of Inland Revenue. "The present rate is out of line."

Banking sources said the increase could be as much as three percentage points, to 16 percent. Government sources said if an increase was approved the new rate would probably become effective on June 1.

When the "perks" tax was introduced in March 1985 the rate was set at 18 percent. But as interest rates in the market place declined, the rate was reduced to 15 percent in December 1985 and then in January 1987 to the present 13 percent.

The tax is levied on employment-related loans, the Receiver of Revenue considering low-interest loans to an employee as part of income.

For example, if a worker is granted a cheap loan by his company for a house or a car at five percent, and the Receiver says this should be charged at 13 percent, the eight percentage points between five and 13 percent will be taxed as income.

But people who have no access to this form of cheap money are being forced to pay in some cases close to 30 percent for loans from financial institutions.

Two-thirds of all bonds in South Africa are assisted in some form or other. All government departments, insurance companies, banks, building societies, mining houses and many large and small industrial companies grant cheap housing loans.

Phased in

The practice is so widespread that when the perks tax was introduced in 1985, the tax on cheap housing loans had to be phased in over seven years.

It is only new cheap housing loans that attract the full 13 percent.

Those hundreds of thousands of people who already had assisted housing loans before the 1986 tax year will be subject to the full official rate only in the 1993 tax year.

For the current tax year they are subject only to 55 percent of the present 13 percent official rate.

TAXING PREF SHARES

Bull in the capital shop

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■ Pierre du Toit of Arthur Andersen analyses Pretoria's latest tax shock

On February 20, the Office of the Commissioner for Inland Revenue issued a press release containing draft legislation for dividends on certain redeemable shares to be taxed to the recipient as if they were interest. In choosing draft legislation as the form in which to publish further details on the earlier announcement by Finance Minister Barend du Plessis, the authorities are showing a commendable new maturity in democratising the legislative process.

Much of the proposed provision, however, represents a legislative bull in the delicate china shop of SA's capital utilisation.

SA is a developing country which needs growth to feed, house, clothe and educate its millions. Classically, it would be a capital importer. Yet, due primarily to political circumstances, we are a net capital exporter. To achieve the growth on which our survival depends we must utilise our capital resources with supreme efficiency. That implies that capital should flow within the economy with minimal artificial inhibition.

Against this background many capital flow instruments are in use, of which redeemable (preference) shares is one widespread and, indeed, internationally common example. In some — and only in some — instances borrowers who could not make efficient use of interest deductions for tax purposes choose to "borrow" through the issue of such shares. The "lender," not being taxed on the dividend, charges the share-issuing company a lower rate. No one suggests this practice is iniquitous in any way; it is no more so than is the action of the little old lady who puts her savings in a tax-free Post Office investment rather than in a taxed private savings account.

On the other hand, this was beginning to represent a total tax cost to the fiscus which it felt it could no longer afford and it was announced that it would be stopped. Stopping it hurts; but in principle one cannot object to the fiscus defending itself against what it perceives as an inordinate tax drain in a particular area.

One can, however, and must, condemn the fiscus if it then defends itself in an area as critical and delicate as capital flow with anything other than the greatest restraint. And this is where the proposed legislation storms into the china shop as if on four thundering hooves of destruction.

The first hoof is the almost indiscriminate width of the provision. In the first place it will affect any share (post-December 21 1988) which is redeemable within three years. Apart from the arbitrariness of the rather lengthy three-year period, there is no reference to the coupon rate. Everyone knows that a loan has at least two typical characteristics: the provision of returnable capital, and a determinable income return on that capital. By omitting any reference to income, let alone using the logical limitation of cumulative income preference, the ambit is drastically widened by completely ignoring this characteristic of lending.

In addition, it is provided that any share over which the shareholder has a put option will also be hit, even where there is no suggestion of redeemability.

This will hit many executive scheme shares or other financial structures where the choice of the instrument had nothing *whatsoever* to do with tax but everything with commercial, legal or financial statement disclosure motivations.

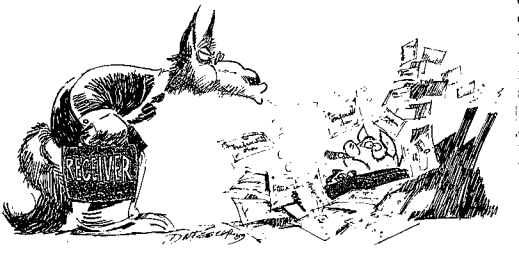
The second (particularly painful for sheer unfairness) hoof is that the dividend is recharacterised only in the hands of the recipient — the company is not deemed to have a commensurate deemed interest deduction.

Apart from the fact that few overseas recharacterisations of types of income would dare to have this one-sided approach, it is unnecessary — since in most of the supposed target situations the very point is that an interest deduction was rather tax-ineffective. In the result, however, even where tax would not be a motivator at all, the parties would now be forced to use loans to avoid this one-sided punishment for an uncommitted crime — a gross and unwarranted artificial interference with normal capital flows. This hoof therefore not only represents a lamentable setback for trust between authority and tax citizen, but also a sin against the principle of minimum interference legislation.

The third hoof is the old destroyer of retroactivity. First, the December 22 expression of ministerial discomfort in the broadest of terms is no excuse for such drastic interference effective from that date. Also, to provide that dividends on unredeemed redeemable shares, regardless of when issued, will be hit, is rank retroactivity — many parties will find that they have been committed to rights and obligations they cannot now change without artificially doing redemptions not originally contemplated. One can but repeat that the price of retroactivity to the integrity of the system is greater than any short-term benefit.

A fourth hoof most unfortunately lands on the most scarce of SA assets — foreign investors. All non-companies, plus all companies not actually enjoying Double Tax Treaty relief on dividends, will on this broad category of share suddenly become taxable to full normal tax on deemed interest, likely to be held to be a SA source. A fine invitation to them to stay, and for others to come.

The authorities were fair in allowing comment on their proposed legislation. May they now be as sensible in heeding that comment and keeping this bull out of the capital shop, or at least pulling socks over its hooves.



(320)

TAX POLICY

The biggest whack of all

Inland Revenue is to get unbridled tax powers



Last week Inland Revenue detonated a tax bomb the like of which has never been seen in this country before, and certainly is unprecedented in Western tax jurisdictions. In the breadth of its implications and the power of its destructive force, it was the equivalent of an atomic explosion in the recondite tax world.

The proposed S 103 (5) of the Income Tax Act is so sweeping that it brings the country almost to the situation in which large areas of tax liabilities will be determined by the Commissioner of Inland Revenue at his discretion. The taxpayer will have the choice of paying up or being damned.

It comes at a time, moreover, when Inland Revenue is having its cake and eating it. For on the one hand, after 10 months, Exchequer revenue receipts are more than 100% above estimates; and on the other, proposed new tax law will net hundreds of millions of rands more. The estimated increase in tax receipts for 1988-1989 was 13,8%; the increase for the first 10 months is 27,9%.

The proposed amendment and that for pref shares (**see next article**) marks a watershed in SA tax history. S 103 (5), quoted in full last week (*FM* February 24), hits any "transaction, operation or scheme."

There must be a cession or "otherwise" disposal of a right to receive income in return for the right to receive "another amount." If the net result is to reduce the taxpayer's tax liability, the cession or disposition will be ignored for tax purposes.

Unlike any other anti-avoidance section in the Act, it does not contain any commercial tests — such as normality, "at-arm's-length," or the primary intention of the taxpayer in executing the transaction.

As Ernst & Whinney's Roger Bramwell points out: "S 103 (5) is aimed at all financial swaps. Many are conducted for commercial reasons alone. For example, a bank that has reversed a decision on long-term rates may swap some of its paper with a bank that holds a different view. That's called hedging."

In future, depending on the tax consequences, it may also be equivalent to tax evasion. As we said last week, in effect under S 103 (5) the authorities will compare two sets of accounting figures. If the tax liability in the actual transaction is less than the putative transaction, it is null and void so far as the commissioner is concerned.

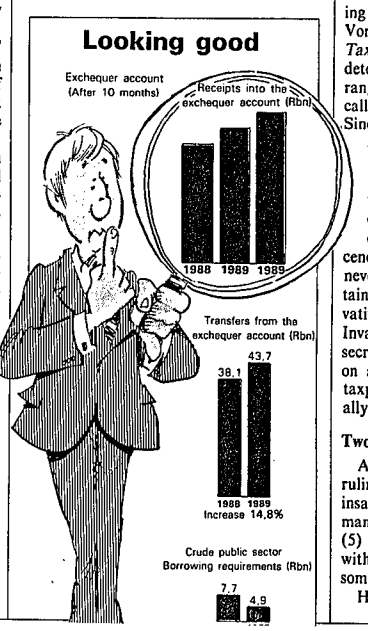
There are a great many cessions and dispositions of the right to receive income which are "normal;" in other words, which have nothing to do with tax. One particular example is the cession of the right to receive rent, as, say, security for the financing of a property. Such transactions are now under severe threat by S 103 (5).

Moreover, the proposed section is retroactive, and applies to any transaction, operation or scheme:

- ☐ Concluded on or after December 22 1988; or
- ☐ Concluded before that date, if the taxpayer is at liberty to terminate the operation of such transaction, operation or scheme, without incurring liability for damages, compensation or similar relief.

As the *FM* indicated last week, S 103 (5) is "perfect law, bad news." Arthur Young's Ian MacKenzie comments: "It is incredibly far-reaching. But given what Revenue has been trying to do for a long time, it is one of the better pieces of proposed legislation they have produced. It's a pity they couldn't have come out with this proposal in December."

MacKenzie is referring to the press announcement (S 103 (5) also came by way of press release) made by Finance Minister Barend du Plessis. That referred in vague terms to four types of financing schemes in use in the financial services sector. There was the direct threat that such schemes were under the spotlight. Then it took nearly two months for the proposed law to be announced; it may take at least another two before the proposals become law.



The *real* danger lies in further changes to the Act similar to S 103 (5). What the section says is that given a type (or series) of transaction which results in less cake for the taxman than another, that transaction will be invalid for tax purposes. Planning for tax consequences will become academic.

Commercial, industrial and other business purposes in such a transaction become irrelevant; and personal financial planning will be adversely affected — even when the overriding reason behind the transaction is rooted in some factor other than tax avoidance. Moreover, the proposed S 103 (5) gives the commissioner yet *another* discretion — adding to the hundreds already available.

So while S 103 (5) may introduce some certainty into tax law because of its technical precision, the commissioner's discretion means another facet of uncertainty for all taxpayers. P F Vineberg, writing in 1969 on Canada's tax system, said that in dealings between tax collector and taxpayer "consideration of ethics arises with both teams."

Vineberg complained that the rules as determined and applied by Revenue Canada were becoming unsportsmanlike. Commenting on this in 1984, SA attorney Henry Vorster in his LLD thesis *The Parameters of Tax Planning* said: "In SA, the rules are determined and applied in a manner which ranges from the unsportsmanlike to the ethically and jurisprudentially reprehensible." Since then, the official attitude to tax management has deteriorated.

Moreover, like Vorster, the *FM* believes that in SA tax avoidance practices which have flourished for more than a decade were *encouraged* by Inland Revenue, often through inaction and acquiescence. An example is tax rulings which are never publicised. Another is rulings obtained by banks and their attorneys on innovative products marketed by the institution. Invariably, the banks' advisers are sworn to secrecy. The result is that the ruling obtained on a product which benefits one class of taxpayer takes time before it becomes generally known.

Two-edged sword

All appeals to Revenue to publicise these rulings have been ignored. Now, with the insatiable desire to swell Exchequer coffers, many rulings on schemes affected by S 103 (5) will be hit with a double-edged sword, with rulings overturned by legislation, and sometimes hit by retroactivity.

How taxpayers — who should expect at the very least certainty in planning their tax affairs — are to cope with the precedent set by S 103 (5) is baffling. Moreover, the line of reasoning behind S 103 (5) suggests that Pretoria is using the Margo Commission's recommendations not to implement reform of the system, but to milk revenue.

The latest Exchequer figures confirm this: Pretoria is now sitting with its biggest nominal and real tax take in SA history. But equally disturbing is that Pretoria has done nothing to resolve the problem underlying the proposed new tax laws.

This, known as tax arbitrage, arises from the fact that income is treated in dozens of different ways by SA law. Given that the income has been classed, it can be taxed at dozens of different rates.

The answer is to implement tax neutrality — have a uniform definition of income and tax it at one rate. Until that is done, there will be any number of further attempts to structure financial transactions to benefit from arbitrage.

While S 103 (5) creates certainty for Revenue, its setting of a precedent could mushroom into the final break of taxpayers with tax compliance. The irony may be that instead of wiping out evasion, it could become the norm. ■

(320) FMML 3/3/89.

ACCOUNTING SOFTWARE

In the pink with VAT

If, as expected, the government introduces a system of value added tax (VAT) to SA, a lot of accounting software will be immediately outdated. This presents both a problem and an opportunity for local software vendors.

One of the first to take advantage of this situation is Pink Software, an independent software house which has already tasted international success with its TurboCAD computer-aided design package for IBM-compatible PCs *(Technology* October 14).

The latest version of Pink's TurboCASH accounting package not only caters for VAT, but claims to have introduced two "important international firsts" for a low-priced program. These are a new method of balancing entries for VAT transactions and the use of a mouse — a hand-held device that controls the computer screen's cursor.

The first development is the brainchild of Professor Selwyn Farber of the Witwatersrand University's accountancy department.

What is believed unique about TurboCASH's VAT accounting is that the user has the option of entering either the inclusive or exclusive VAT amount into the system. Provided that the computer is told which option is being used, it will automatically reconcile the entry and update the balance.

This is radically different from common practice in the UK, says Farber. The TurboCASH design team looked at a large number of accounting packages there but did not find one that offers inclusive VAT accounting.

"The packages we examined permit the user to enter into the system only amounts that are exclusive of VAT. The computer then calculates the VAT for them," Farber tells the *FM.*

"With TurboCASH, you can enter the inclusive amount and the program works out the VAT and also the actual purchase price, or pre-tax amount, as a separate item. The advantage of this is that in most businesses the cash book is entered from cheque counterfoils. Very often the businessman writes down only the amount that he has paid. With other programs the user has either to refer back to the supplier's invoice or use a calculator to work back to the original amount."

Farber believes these programs do not give the user the inclusive option simply because they cannot handle the balancing transactions.

"Accounting for VAT creates a very difficult problem from a technical point of view," he says. "VAT is far more complicated than many people realise, particularly if they are running a mainframe computer. Many SA companies using mainframes could not deal with VAT right now and would have to tailor their existing programs. In particular, I don't know how companies using American packages would cope with VAT; they would require months of adapting their systems."

With the self-generating balancing entry system that he developed, TurboCASH's cashbook-entry and journal-entry screens are the same. So that the computer knows which is which, Farber built in an identification feature that allows the user to tell the computer in advance the type of book being used; it will then do the balance correctly.

"When the method of balancing entries had been worked out, we were able to take the process one stage further," he says. "TurboCASH now allows for a batch where the default is inclusive, and for a switch where an individual line item can be entered exclusive of tax. When it is more convenient, the default can be exclusive with a switch to inclusive for a line item."

The strength of the program, he believes, is that, for the accountant who puts through entries as business takes place, TurboCASH ensures that the trial balance always balances.

The package is also unusual in employing a mouse — a device more often associated with graphics software — to move the cursor on screen.

"When inputting data on data capture screens, you must use a keyboard," says Farber. "But, to get into the software and to move around the menus, it is very much faster and far more efficient to use a mouse."

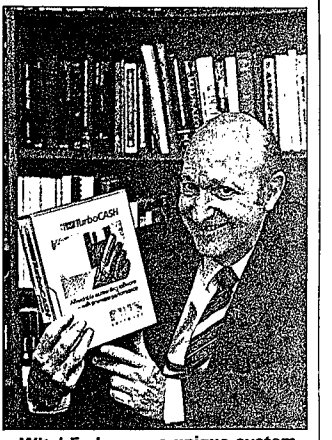
And he adds: "I believe that the day of the mouse will arrive when the popular packages such as Lotus and dBase introduce mouse support for their users. Then the rest of the software industry will follow. If this trend does come about, TurboCASH will be well-placed in the market while other accounting packages will require an upgrade."

Farber expects Finance Minister Barend du Plessis to announce the date for VAT implementation in his upcoming Budget speech. But what if government decides against VAT after all; won't Pink have wasted a lot of R&D time and money?

"Certainly not," says MD Philip Copeman. "We have always seen our major market overseas. We launched the package at the Which Computer show in Birmingham last week with the aim of getting 15% of the lower-end accounting packages in the UK. I don't believe this is over-ambitious."

Nor will SA users who buy the VAT version of TurboCASH be put at a disadvantage, he says. They simply need to set the VAT rate to zero, and the program will deal with all transactions as if they were exempt from VAT.

While the package could be used for GST, he thinks few users would actually bother doing so as they probably already have an invoicing package that handles this.



Wits' Farber . . . a unique system for VAT accounting

Farber, who says he has no financial interest in Pink Software, adds: "TurboCASH is a very good general ledger package and has been popular in SA for many years. It has many powerful features and can be used as a full accounting set of books."

CAMERAS

No development

Modern cameras are loaded with gadgetry: autoflash, autowinders, autofocus, auto-just-about-everything-else. This electronic paraphernalia makes pictures easier to take but has not changed the principles of photography. Those principles may now be changed more fundamentally by the arrival of cheap cameras which store pictures electronically, instead of on film.

For the past 60 years, the camera has remained a black box with a hole in it. The photographer opens the hole to a certain diameter for a given length of time. That illuminates a chemical-coated plastic film which later has to be pulled out and developed. Finally the picture appears.

The amateur is spared the complications of this process. Today's cameras have microchips that decide the size of the aperture and the length of the exposure. But film still poses problems. Undeveloped film is light-sensitive and easily damaged. Pictures on

Stable tax base 'is needed'

B/Day 3/3/89

(320)

CAPE TOWN — Establishing a permanent basis for the taxation of life insurers is essential for the creation of a more stable environment in which long-term savings can be encouraged, says Life Offices' Association (LOA) chairman Pierre Steyn.

Subsequent to the 75% increase in life insurance taxation last year, the standing taxation committee under the chairmanship of Chris Stals has been considering appropriate bases for taxing life insurers.

Steyn told a LOA management committee meeting yesterday the importance of encouraging savings, and especially long-term savings, was widely appreciated. The life insurance industry was, therefore, confident an equitable basis on which to tax life insurance would be found.

Steyn said it was important the tax paid on policyholders' savings with life insurers should be about the same as the tax those policyholders would have paid themselves, had they channelled their savings elsewhere and obtained an equivalent return.

In the current sanctions climate, economic growth had to be financed by domestic long-term savings. A tax discrimination against life insurers would discourage long-term saving, which was essential for capital formation. At the same time, it would discourage people from making provision for the risk of death and disablement, which would increase the state's social pensions burden.

Steyn said it was important people keep in mind that life insurers in effect paid tax on behalf of their policyholders. The tax rate of life insurers would necessarily affect the after-tax benefit policyholders were able to receive. — Sapa.

Foreign capital flows in again

BY TOM HOOD
Business Editor

FOREIGN capital is coming into the country again in spite of boycotts and disinvestment.

This is the belief of Professor Brian Kantor, director of the School of Economics at the University of Cape Town.

"Six months ago I would have expected a very significant depreciation of the rand but it has not happened," he said this week.

"The only explanation is there must be some substantial capital coming in."

"Overseas perceptions may be improving, maybe the Namibian settlement is bringing in more business."

Professor Kantor was speaking at a discussion of the results of the latest survey of owner-managed businesses in the Western Cape sponsored by The Argus, Arthur Andersen & Co and the Graduate School of Business at the University of Cape Town.

Discussing taxes, he warned that South Africans could expect more taxes on petrol.

The reason: "It is a very efficient way of raising taxes, it is easy to collect — you simply alter the petrol pumps and only four or five companies collect it for the government at minimum cost."

The country had a growing informal sector which did not keep books and could not be taxed.

"You will not get Value Added Tax from companies that don't keep books. The advantage of keeping books is you get access to credit. If you don't keep books you don't pay taxes."

Referring to the survey's disclosure that 82 percent of businessmen believed VAT would mean additional cost, he said consumers would end up paying the additional cost of collecting VAT.

An "extra thousand people" employed by the Receiveer for VAT would be a small cost.

"The authorities will be able to raise VAT in a way that they cannot raise sales tax. It should enable the authorities to switch away from direct taxes.

"If you want political advantage, the way is to reduce direct taxes and substitute indirect taxes."

Professor Kantor said the previous survey showed an enthusiastic response to privatisation but the latest one showed a lot of scepticism.

"Make no mistake — it is going to happen. We are going to see some major developments involving Iscor and Sats.

"When it happens shareholders are going to become managers of these businesses. If you don't think that will make any difference, you don't understand the nature of man."

Picking up

Official statistics said growth was only 3 percent last year but GDP as a number was increasingly irrelevant because of under-reporting of income in the informal sector. If that was taken into account, GDP growth could exceed 10 percent.

"Substantial growth is still being achieved in the economy and I don't think we are seeing it in the official numbers.

"The Western Cape is picking up more than the economy at large because of the new influx of people into the Cape.

"The great opportunities for growth are going to be in the informal sector — that is where the action is taking place.

"The economy certainly has not slowed down as yet so we can expect interest rates to be higher still.

"The growth rate must come off from these high levels, though I don't think it will go into negative growth because the buoyancy of the informal sector is going to hold it up," he added.

SATURDAY ARGUS 4/3/89

Perks tax likely to be increased to 16 percent

TOM HOOD

CAPE TOWN — The perks tax may be increased following the steep rise in the general pattern of interest rates.

Mr Clive Kingon, head of Inland Revenue said: "An increase in the present official rate of 13 percent is under consideration and recommendations will be forwarded to the Minister of Finance for approval shortly".

"The present rate is out of line," he said.

Banking sources said the increase could be as much as three percentage points to 16 percent. Informed government sources said if an increase was approved the new rate would probably become effective on June 1.

When the "perks" tax was introduced in March 1985 the rate was set at 18 percent but as interest rates in the market place declined the rate was reduced to 15 percent and laterto the present 13 percent.

The rate is a tax on employment related loans and is a level of tax that the Receiver of Revenue considers as part of income when an employer grants a low interest loan to an employee.

For example, if a worker is granted a cheap loan by his company for a house or a motor car, say at five percent, the Receiver says this should be charged at 13 percent and so the eight percentage points between five and thirteen percent is taxed as income.

Star 4/3/89

However people who have no access to this form of cheap money are being forced to pay close to 30 percent for loans from financial institutions.

Two thirds of all bonds in South Africa are assisted in some form or other. All government departments, insurance companies, banks, building societies, mining houses and many large and small industrial companies grant cheap housing loans.

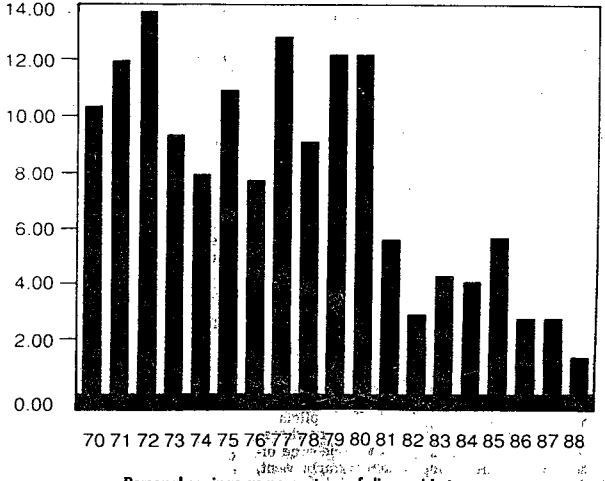
The practice was so widespread that when the perks tax was introduced in 1985, the tax on cheap housing loans had to be phased in over seven years.

For those hundreds of thousands of people who already had assisted housing loans prior to the 1986 tax year, they will be subject to the full official rate only in the 1993 tax year.

For the 1989 tax year they will be subject to only 55 percent of the present 13 percent official rate.

320

Savers have good case for tax relief



Personal savings as percentage of disposable income.

PRESSURE is mounting on the Government to use the next Budget, which is 11 days away, to give personal savers a better deal. A number of influential bodies have called for income tax on interest income to be abolished. Were this to happen it would almost double the return received by savers in the high marginal tax rates — and hopefully increase the country's savings rate.

The move reflects the fact that savers in South Africa in recent years have been ruthlessly robbed by a combination of high taxation and inflation.

It has been axiomatic that any taxpayer who has put money on fixed deposit has ended up poorer in real terms.

An investment by a high taxpayer of R100 in January, 1988, at 13 percent would today, after tax and inflation, be worth only R94,80 in terms of January, 1988, purchasing power.

The saver would have lost more than 5 percent of his investment, and instead of becoming richer through savings he would have become poorer. Savers have not been slow to realise this and one result has been that South Africa's personal saving rate has slumped to a new low and is aggravating the already serious economic situation.

Now, in a bid to increase savings and improve the country's economic prospects, a campaign has been launched to get the Government to stimulate personal savings by tax concessions.

The campaign, which is strongly supported by two Trust Bank economists, Ulrich Joubert and Nick Barnardt, is aimed at abolishing income tax on personal interest income. They estimate that this will cost the Government about R800 million in lost revenue. But they believe the long-term economic advantages will handsomely outweigh this.

DEREK TOMMEY

They also want the Government to stop telling the financial institutions to invest a large part of their funds in Government stock.

Because this gives the Government a captive market for its loans, they say, it is able to keep interest rates artificially low. This is also hurting personal savers.

With there being no point in saving there is a general tendency for people "to buy before prices go up". It often pays, in fact, to live on credit, beyond one's means.

Government reaction to the proposals, with the Budget only a few days away, has been muted. But it has been pointed out that if interest is exempt from tax then no relief should be given on interest payments.

Private taxpayers in South Africa, unlike their counterparts in the United State, Britain, West Germany and a number of other countries, have never been given tax concessions on interest payments such as on mortgages, hire-purchase agreements or other credit payments.

However, firms doing business can deduct their interest payments from taxable income because, like wages, rentals and raw material purchases, they are acost of business.

A leading tax consultant, Mr Costa Divaris, said it would be anomalous to exempt one income flow from tax while taxing another.

But some people argue that inflation itself is a tax and, owing to this country's high rate of inflation, savers are being heavily taxed twice — once for the benefit of the Treasury and once for the benefit of the Government's loan account.

Mr Joubert and Mr Barnardt point out that the Government's annual borrowings have risen from 2 percent of GDP in 1980 to 6 percent in 1988. But because inflation raised GDP and reduced the real value of the loans, the Government's accummulated borrowings fell over the period from 35 percent of GDP to 32 percent.

Another argument for reliefis the fact that the proceeds of an insurance policy, which is another form of investment, is tax free after the policy has been in force 10 years. And one third of all share dividend payments are also tax free.

Whether the Minister of Finance, Mr Barend du Plessis, will heed the call for for a tax cut on personal interest income remains to be seen. But it is certain that the personal saver needs to be assisted in some way if South Africa's personal savings rate is to improve — and the country is to generate more badly-needed savings.

cheque as "gross inefficiency" and Revenue hav

118 000 tax returns are still outstanding

By Paula Fray

About 118 000 tax returns for 1987/88 were still outstanding and the taxpayers concerned could face court action, an official of the Department of Inland Revenue said last week.

Mr Chris Dempers, chief director of operational control of Inland Revenue, said the 118 000 outstanding tax returns were about six percent of the 1,8 million forms sent out to salaried taxpayers last year.

About 15 000 lax taxpayers were summonsed a month, he said.

The final demands for the 1987/1988 forms went out in September last year.

The new income tax forms have already been sent out and should continue to arrive at the homes of salaried taxpayers until late April. The returns are due on June 6.

The new "user friendly" forms have less technical jargon and should be easier to understand, Mr Dempers said. He appealed to taxpayers to fill in their bank numbers and particulars correctly.

"A substantial number of people either did not fill in their form correctly or left out their bank account number last year," he said.

By putting the refund directly into the bank account, the cheques would no longer be "lost" in the post and would reach the taxpayer sooner, Mr Dempers added.

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Inland Revenue recovers most of 'lost' refunds

By Paula Fray

More than 1½ million tax refund cheques valued at R978 million were issued to taxpayers by the Department of Inland Revenue last year, the chief director of operational control said.

The chief director, Mr Chris Dempers, said about 11 000 of the 1 558 023 cheques issued went astray. The "lost" cheques were valued at more than R4 million.

Taxpayers whose cheques were waylaid and cashed had to sign affidavits that they had not received their money.

RECOVERED FROM BUSINESSES

The Inland Revenue recovered most of the money from the business which had cashed the cheques using a provision in the Bills of Exchange Act.

The re-issuing of tax refund cheques "lost" in the post had been speeded up last month, Mr Dempers said, responding to complaints that it took months.

Several people telephoned The Star to complain of problems with refunds.

Mrs Christine M Flavell of Hillbrow has labelled the disappearance of her cheque as "gross inefficiency" and claims she requested a stop order on her refund cheque of about R800 when it was late in arriving early in October.

Late in November she was told her cheque had been cleared in Durban.

"I now have to go and complete these forms before a Commissioner of Oaths, which will be sent to Pretoria for investigation — another long wait — while someone else is having a festive time with my money," she said. "What annoys me is, if I owe them money, I have to pay interest. Will they pay me interest?"

Mr Dempers said it was policy to put a stop on a cheque if it took too long to arrive. However, many people only realised their cheques were missing after they had been cashed.

He could not comment on an individual case but said it could be one department or person who had ignored that policy. Because of the volume of cheques issued, the cheque could not be stopped until a affidavit or form had been signed.

● The Postmaster General, Mr Johan de Villiers, the Director General of Manpower, Mr Joel Fourie and Mr Clive Kingon, Commissioner of Inland Revenue have dicussed the problem.

1 12 000 tax returns — Plea for ...

1988 figures well ahead of 1987

Govt revenue up by 26,8% to R34,84bn

GERALD REILLY

PRETORIA — Government revenue for the first nine months of the financial year was well ahead of the numbers for April-December 1987, Central Statistical Service (CSS) figures showed.

And preliminary figures showed an increase of 29,9% for the first 10 months.

Volkskas economist Adam Jacobs said the breakdown of collections for the first nine months clearly underlined the severity of the country's taxation system.

Total revenue for the period increased by 26,8% to R34,84bn compared with R27,47bn the previous year.

Finance Minister Barend du Plessis budgeted for a 13,8% revenue increase for the entire financial year.

The revenue collection in the nine months amounted to 78% of the budgeted amount for the previous financial year.

Tax collections in the April-December period increased by 28,1% to R35,06bn compared with R27,36bn the previous year.

Income tax, excluding mining taxes, for the nine months was 23% higher at R16,59bn. The big increase in income tax was put down mainly to increased company profits.

However, gold mining taxation collections were down by 23,9% to R947,1m.

GST for the nine months was 27,3% higher at R9,52bn.

CSS said this confirmed the view consumer spending was relatively high during the nine months.

By the end of December, 81,9% of the Minister's expectations for GST for the year had been collected.

The increase in fuel levies — by 267,4% to R1,71bn — was due to the consolidation of fuel levies from April 1 last year.

Customs duties and surcharges also increased in the nine months — customs by 45,1% to R1,90bn and surcharges by 134,6% to R1,32bn.

Money Times

R SPECIAL FEATURE ON PERSONAL FINANCE

RA tax concessions for married couples

CAPE Times 7/3/89 320

By LIZETTE LABUSCHAGNE

INLAND REVENUE has made valuable new retirement annuity tax concessions to married couples, says Lizette Labuschagne, Old Mutual's legal analyst who is a SITE specialist.

Details of the revised approach to retirement annuity contributions were disclosed in a circular by the Commissioner for Inland Revenue.

The new look policy effectively removes the disadvantages of the SITE system with the commissioner taking the view that couples separately taxed under SITE should as far as possible not be worse off than they would have been if taxed as a unit.

"The commissioner has given a lenient interpretation of the maximum deduction available to each spouse where the wife is subject to SITE and a taxpayer in her own right."

Looking at the table, in the case of (C); or (B) or (C) then she is allowed to claim under the item that would give her husband the greatest advantage. The strict interpretation of the legislation would not have allowed for her to make a choice. She would have had to deduct in terms of the "greatest" items.

The advantage of this interpretation is best explained by an example:

Husband:	
Salary	R20 000
Pension fund contribution	R1 200
Retirement annuity fund contribution	R2 000
Wife:	
Salary (non-retirement funding employment)	R18 000
Retirement annuity fund contribution	R500
Solution:	
Wife:	
(A) = 15% of R18 000	= R2 700
or (B) = R1 750 – Nil	R1 750
or (C) = R875	= R875

Therefore the wife is entitled to a deduction not exceeding R2 700 but, in the example, the actual contributions of R500 are of course, deductible.

Husband:	
(A) = 15% of Nil	= R Nil
or (B) = (R1 750 + R1 250) – R1 200	= R1 800
or (C) = R875 + R375	= R1 250

The wife has contributed only R500 to a retirement annuity fund and her claim for deduction can be made under either (A), (B) or (C). To give her husband the greatest advantage, i.e. a deduction of R1 800, her claim should be allowed under (B).

At the option of the wife, all her contributions (to the extent allowable) may be allowed to her husband (and not to her) as a simplest variation each spouse is entitled to the greatest of:

(A) 15% of his or her non-retirement funding "taxable income"; or

(B) R1 750 less pension fund contributions; or

(C) R875

Each spouse will also be able to deduct any unused portion which the other spouse was entitled to.

The commissioner states that in determining the deduction to which each spouse is entitled, regard must be given to that item, i.e. (A), (B) or (C) which will give the greatest advantage to each spouse.

If the wife's contribution can be made under either (A), (B) or deduction. This interpretation benefits those couples where the husband's tax rate is sufficiently onerous that it would be to the advantage of the couple to make all the retirement annuity deductions against his income.

Should the wife have insufficient SITE income from which her contributions can be deducted, then any surplus can be allowed as a deduction in the hands of her husband.

This would cater for the situation where the husband is 70 years old and cannot effect a retirement annuity any longer and the wife effects all the retirement annuities, but does not have enough SITE income against which to set the deductions off.

The husband would then be able to deduct the surplus, even though he is not contributing.

However, to the extent that the wife's employer has taken any of her contributions into account in determining her liability for SITE, such contributions must not be allowed in the hands of her husband.

The wife can never be a taxpayer in relation to her husband's income and it is therefore evident that his contributions cannot be allowed as a deduction in his wife's hands.



Lizette Labuschagne

Are pension funds worth belonging to?

CAPE Times 7/3/89 300

By BARRY McMILLAN, FILPA, of Sanlam

THIS is a question that is fairly often asked. The answer, nearly always, is yes.

I can't say it is always the case because pension funds differ, each one having its own rules.

Lurking out there, there may be one or two funds which are not worth belonging to, however, they are extremely rare creatures.

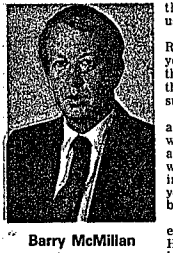
The main reason why pension funds are worth belonging to is that you get something extra, that which your employer puts in.

Your benefit is bought by your contributions and your employer's contributions.

A simple test of a pension fund is to ask what the employer is paying?

This is usually expressed as a percentage of salary.

As long as it is of the same order or more than your own contributions the fund is definitely worth belonging to.



Barry McMillan

Besides the advantages derived from your employer's contributions, pension funds are a particularly efficient, and in particular, tax efficient means of accumulating retirement benefits.

In the first place your contributions up to 7½% of your salary are deductable from your taxable income.

Thus, for example, if you are lucky enough to have a marginal tax rate the balance must be used to buy a pension.

Either the first R120 000, or R4 500 x years of membership of the fund, whichever is the greater — the lump sum benefit is tax free.

The balance is taxed at your average rate which is a considerable advantage. Your pension will be taxed as normal income, but at that stage your tax rate is likely to be lower.

Consider the man earning R4 000 a month. He contributes 7,5% of his salary — R300 a month, to a pension fund. A year later he decides to change his job. His withdrawal benefit is a return of his own contributions plus, let us say, 3% interest. He thus gets R3 658,24. He still has to pay tax at his average rate on that portion of the withdrawal benefit which exceeds R1 800. (The first R1 800 is tax free.) Thus he eventually only receives R3 181,60. But, we have to consider, what else could he have done with his R300 a month?

In the first place, if it

Tax, Govt spending cuts crucial – FCI

By Michael Chester

Dramatic cuts in taxation levels and new curbs on Government spending should be made the priority targets of the 1989 Budget, the powerful Federated Chamber of Industries said yesterday.

The FCI has spelt out the grave dangers of the growing burden on taxpayers as a result of State overspending, in a special dossier sent to Finance Minister Mr Barend du Plessis, to the Treasury and the Department of Inland Revenue.

It presses the Government to supply individuals and companies with at least six months' notice on the date to be fixed for the introduction of VAT.

FCI chief economist Mr Roelof Botha said spiralling levels of taxation and Government expenditure had become the major concern of industrialists.

The federation had launched a special exercise to list the advantages of lower taxation levels in order to accelerate more savings and investment by manufacturing companies.

Mr Botha said the entire industrial sector was cautious about commitments to new fixed investment because of the tax penalties on setting cash aside for expansion projects. There was growing concern about whether increases in interest rate levels were now approaching over-kill proportions in Government efforts to cool down the economy.

Negotiations were in progress with the Board of Trade and Industries on the possibility of special tax concessions to encourage the introduction of double-shift working and even round-the-clock production schedules in factories to cut unemployment queues.

The results of nationwide surveys into the attitude of employers about multiple-shift work schemes were expected by May. Special efforts were being made to recruit the support of trade unions.

FCI industrial consultant Dr Gad Ariovich said the manufacturing sector had won "Springbok colours" as the best performer of all behind the 3,2 percent improvement in overall economic growth last year.

Medicines: Support for no-GST call

JOHANNESBURG. — A request for an immediate application to the Minister of Finance to exempt prescription medicines from GST was overwhelmingly supported at yesterday's session of the Retail Pharmacists Conference.

The National Committee of the South African Association of Retail Pharmacists (SAARP) will also make representation to the minister with the urgent application that the raw materials used in prescription medicines will be exempt from import surcharge.

The committee further agreed to ensure that a post-graduate course in basic veterinary medicine and pharmacology be offered to all practising pharmacists.

In conjunction with this recommendation, a request will be made to the Medicines Control Council to allow pharmacists to sell certain categories of veterinary medicines. — Sapa

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Pharmacists want GST exemption

A MOVE for an immediate application to the Minister of Finance for exemption of prescription medicines from GST was overwhelmingly supported at yesterday's session of the retail pharmacists conference.

The National Committee of the SA Association of Retail Pharmacists will also ask that the raw materials used in prescription medicines be exempt from import surcharges.

The standardisation of clearly printed, indelible expiry dates on all medicines was also approved and the national committee will make representation to the Medicine Control Council in this regard.

The national committee also agreed to ensure that a post-graduate course in basic veterinary medicine and pharmacology be offered to all practising pharmacists. The course would be intensive enough to allow qualified pharmacists to fill the gap when no vet was available.

In conjunction with this recommendation, a request will be made to the council to allow pharmacists to sell certain categories of veterinary medicines. More restricted medicines should be available to those pharmacists who had successfully completed the proposed course.

If this request is met, the move to self-medication under the guidance of the community pharmacist will be extended further to include family pets, and livestock in some areas. — Sapa.

VAT gives double trouble for owners

BD Dec 15/3/84 320

VAL PIENAAR

THE introduction of VAT could lead to an overnight increase in property prices of 12% to 15%, says Anne Bennett, manager at chartered accounting firm Deloitte Haskins & Sells.

This would be the effect of government adhering to previous statements that capital goods will not qualify for an input tax credit.

Any VAT imposed on the purchase price or construction costs — or possibly even rental payments under leases of immovable property — would be a final tax and not recoverable, even though incurred for business purposes.

"The cost of such property transactions to the commercial sector, assuming that residential land and property will not be taxed, will thus increase overnight by the percentage at which VAT is levied, currently expected to be around 12% to 15%.

No dual system

"This will cause hardships in SA which are not found in any other country operating a VAT system, since nowhere else are capital goods denied an input tax credit," Bennett explains.

In addition, she says, if commercial rentals are included in the net of "capital goods," double taxation will result, since the owner of the property concerned would already have paid irrecoverable VAT upon acquisition of the property. Repeated taxation will also occur over a period of time, as buildings are resold.

Property owners and developers are uneasy at the potentially costly retrospective effect of the change over to VAT.

As Bennett points out, government is unlikely to operate a dual system, even to make it possible to sell commercial and industrial buildings already under construction when VAT is introduced free of VAT.

How much of any increase in costs will have to be absorbed by the developer, and how much it will be possible to pass on to the purchaser remains questionable — especially in a tender situation, when prices have been agreed on up-front.

Government's future attitude with regard to transfer duties is also a matter for concern, although Bennett is fairly confident that these will be dropped if VAT is imposed on property.

According to Finance Deputy Minister Org Marais, the imposition of VAT could benefit property owners, since GST on the cost of materials would no longer be built into the construction price paid by the eventual purchaser.

However, according to Bennett, this does not compensate for the fact that, under VAT, the eventual purchaser will be paying tax on the labour and profit elements of the construction price, which he does not do at present.

"And while VAT jurisdiction in other countries do standard-rate commercial and industrial property transactions, they also allow an input tax credit for capital goods.

"In SA, either construction services should be zero-rated — as they have been until recently in the UK — or, if they are standard-rated, an input tax credit must be allowed in respect of their capital components," she comments.

'Less impact'

However, Bennett is sceptical that government will be willing to adopt the zero-rating route in such a case, since it would reduce the income accruing from taxation.

"Under a zero-rating system, the contractor can claim back VAT paid on all materials as input tax, which makes it possible to reduce his prices.

"An alternative route, which has less impact on tax income while appearing not to tax a product, would be to declare property exempt, which has a similar effect to GST as it stands today.

"Under this system, although the final purchaser pays no direct tax, the developer cannot claim back any input tax on materials and consequently builds the VAT paid into his costs."

New system will hit students, part-timers

Tax shock for casual workers

320

Star 9/3/89.

By Winnie Graham

Part-time employees — including university students — who once escaped tax because they worked just one or two months of the year, now qualify for SITE tax — if they receive a monthly income of more than R446,50.

This is one of the anomalies the new SITE tax provisions has produced. Previously part-time workers were not taxed unless they earned more than R5 000 a year.

The provisions of SITE tax have been critisised as being "totally bewildering" and difficult to interpret. One top assurance company, Sanlam, has developed a bilingual programme to help people interpret the ramifications of the system. The Life Offices Association (LOA) has sent a memorandum to the Receiver of Revenue outlining its problem, related mainly to the shortage of time in gathering information to apply the tax.

Advantages

In spite of this, Government officials say SITE has major advantages for taxpayers.

The Deputy Director of Finance, Mr Ronnie Stadler, said this week that part-time workers were among the few who were adversely affected by SITE.

He said that anomalies relating to retirement annuities had been eradicated.

He said married women earning R20 000 or less a year, as well as others earning R12 000 annually, were now better off.

The "tax year" had been changed to "tax period" to accommodate the provisions of SITE — and this period could be one day or 12 months. The tax was automatically deducted by the employer. Although the part-time worker might earn less than the stipulated annual minimum, SITE was not refundable.

He said a student who earned R1 000 a month — and worked just one month a year — would be taxed R81, deducted by his employer. Under the old system he would not have paid tax.

"He is the exception," Mr Stadler added. "One might argue that anyone capable of earning R1 000 a month should be willing to contribute something to the Treasury, even if he only works for one month of the year."

He said 80 percent of those who paid SITE had scored. Unfortunately, most tax writers emphasised only the negative exceptions to the rule and had not highlighted the positive aspects of the new tax.

Married women earning R20 000 or less a year — and this represented the bulk of the population — were at an advantage while those who earned between R20 000 and R50 000 were marginally better off. Although these women were taxed jointly with their husbands, the couple qualified for the "joint assessment allowance" (JAA).

He said: "Married couples, where the wife earns R20 000 or less, will save roughly R2 000 or R3 000 a year through SITE. If she earns R20 001 she may have to pay roughly R400 more in tax, but SITE has nonetheless cut the overall tax burden for couples."

There were some teething problems and the private sector was having difficulty in understanding aspects of SITE, but once the provisions of the tax were explained — and this could be done in a two-minute telephone call — most employers had no further problems.

"I suggest anyone with problems telephone us." (012 325-2550).

Pharmacists support GST exemption

Sowetan 9/3/89

RETAIL pharmacists this week overwhelmingly supported moves to apply to the Minister of Finance to exempt prescription medicines from sales tax.

This initiative was accepted at a pharmacists' conference in Johannesburg. The National Committee of the South African Association of Retail Pharmacists (Saarp) will also appeal to the Minister that raw materials used in prescription medicines should be exempt from import surcharge.

The standardisation of clearly printed expiry dates on all medicines was also approved and the national committee will make representations to the Medicine Control Council in this regard.

BUDGET '89

Star 9/3/89

Some form of tax relief possible

320

Group MD of Saambou, Mr Christie Kuun, says that next week's Budget may be regarded as a credibility budget which will put to the test whether monetary and fiscal policy are a function of financial or political policy.

Wednesday's budget could hold out hope for tax relief coupled with strict fiscal discipline, but the nature of state expenditures might also be extended.

A neutral budget can be expected because of the government's serious intention to cool down the economy, to curb inflation but yet to retain confidence in the economy.

Although the additional Budget for 1988/89 eventually demonstrated that Government expenditures increased by 18 percent in contrast to the budgeted 12,6 percent, despite various efforts to prevent this happening, its growth of income was 23 percent during the first six months in contrast to a budgeted 17 percent.

It therefore can be expected that, because of the continued upswing in the economy, both state income and expenditure would be drawn into measures to cool down the economy.

The budget could thus be a combination of a short-term stability with a view to long term adjustments of structure, which are regarded as necessary.

It also may be accepted that the budget will be based largely on the findings of the Margo Commission.

In essence, this entails redistribution of the tax load from the individual to companies, and from direct to indirect taxation, as well as a broadening of the basis of taxation to lower the rates of taxation.

The taxation question in the budget will revolve around doing away with concessions.

It is in line with the Margo Commission's recommendations that better results may be obtained by reducing tax concessions and lowering rates of taxation.

However, to avoid higher consumer spending, it is more likely that rates will appear to be lowered, but because of fiscal delays — a result of inflation — the state will, in fact, not lose any income. It is also possible that in accordance with the Margo Commission, the rate of personal taxation may fall, but that GST may increase.

As a result of the higher than expected income because of increased income from GST, greater company profits and higher income from minimum company taxation, imports could drop sharply and the economy level out, and it is uncertain whether minimum taxation on companies could once more be applied.

The latter source drew an income of R676 million for the State instead of the budgeted R350 million.

The budget will be a guideline to the country's economic policy and businessmen will regard it as a spearhead for their own future planning.— Sapa.

REPUBLIC OF SOUTH AFRICA

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JOINT PRESS RELEASE

by the Minister of Finance,
Mr B. J. du Plessis MP
and the Minister of Economic Affairs and Technology,
Mr D. W. Steyn MP

EXPORT INCENTIVE MEASURES WITH SPECIFIC REFERENCE TO THE SCHEME FOR INCOME TAX REBATES (SCHEME D)

It has come to light that the claims for income tax rebates under the Export Incentive Scheme D are sometimes excessively high compared with the relevant export values. This situation is not acceptable in the present extremely tight financial circumstances of the State. The marketing allowance provided for in section 11*bis* of the Income Tax Act, 1962, is, therefore, with effect from 9 March 1989 being limited to a maximum of 20 % of the current export turnover as defined in the Act. Accordingly, the section is being amended by adding the following subsection:

"(3A) (a) For the purposes of this subsection, 'obligatory marketing expenditure' means marketing expenditure incurred by an exporter in pursuance of an obligation imposed upon him under an agreement formally and finally concluded by every party to the agreement not later than 9 March 1989, if any other party to that agreement would be entitled to claim damages, compensation or similar relief, whether in terms of the agreement or by way of action in a court of law, were the exporter to take steps to prevent the incurral by him of such marketing expenditure.

GESAMENTLIKE PERSVERKLARING

deur die Minister van Finansies,
mnr. B. J. du Plessis LP
en die Minister van Ekonomiese Sake en Tegnologie,
mnr. D. W. Steyn LP

UITVOERAANSPORINGSMAATREËLS MET SPESIFIEKE VERWYSING NA DIE SKEMA VIR BELASTINGKORTINGS (SKEMA D)

Dit het aan die lig gekom dat die eise vir belastingkortings onder Uitvoeraansporingskema D somtyds buitensporig hoog is in vergelyking met die betrokke uitvoerwaardes. Hierdie situasie is in die huidige uiters knap staatsfinansiële omstandighede nie aanvaarbaar nie. Die bemarkingstoelae waarvoor in artikel 11*bis* van die Inkomstebelastingwet, 1962, voorsiening gemaak word, word dus vanaf 9 Maart 1989 tot 'n maksimum van 20 % van die lopende uitvoeromset soos in die Wet gedefinieer beperk. Die artikel word dus gewysig deur die invoeging van die volgende subartikel:

"(3A) (a) By die toepassing van hierdie subartikel beteken 'verpligte bemarkingskoste' bemarkingskoste deur 'n uitvoerder aangegaan ooreenkomstig 'n verpligting wat hom opgelê is ingevolge 'n ooreenkoms wat nie later nie as 9 Maart 1989 formeel en finaal deur elke party tot die ooreenkoms gesluit is, indien 'n ander party tot die ooreenkoms geregtig sou wees om skadevergoeding, skadeloosstelling of soortgelyke verligting te eis, hetsy kragtens die ooreenkoms of by wyse van 'n hofgeding, indien die uitvoerder stappe sou doen om die aangaan deur hom van bedoelde bemarkingskoste te vermy.

Expanding export sector must be a priority

BUDGET '89

320

Star 10/3/89

By Chris Frame, National director at Price Waterhouse

A prediction as to the contents of this year's budget must, of necessity, amount to a simple guess in circumstances where income and expenditure levels basic to the budget have not in the past been translated into reality.

To be fair, most businessmen not totally dazzled by financial techniques which draw firm conclusions from unfounded assumptions, will recognise the fact that the "guestimate" must play a role in government as it certainly does in business.

However, to predict the impact of this year's budget on the pocket of the taxpayer is to indulge in whimsical guesswork.

A more rewarding exercise is to consider what changes should be brought about in the budget if we are to have a more appropriate fiscal system which will encourage a better economic performance.

If this country cannot increase it's long term economic growth rate it will have no means of creating employment for an increasing population. If we cannot reorientate our economy by directing more resources into the export sector, economic growth will continue to be constrained by an unresolved balance of payments problem.

In a perfect world everyone agrees that the fiscal system should be neutral between taxpayers, i.e. it should not favour one sector of the economy over another sector.

However in circumstances where South Africa must add to the usual Third World problems the inability to tap international capital or credit, we simply cannot afford perfection. The Government must use every means available to it to divert resources to expand the export sector of the economy.

Primary industries

It is important to understand that a large slice of that export sector constitutes our primary industries. While secondary industry has certainly increased enourmously since the war, our balance of payment still rests firmly upon primary industry performance.

We cannot afford to fail to exploit low grade gold mines and neither can we afford not to exploit our full base metal potential.

This implies a continual need to ensure the survival of marginal mines by fiscal or other methods, a careful look at ways and means of encouraging the exploitation of base metal resources (perhaps by way of the tax treatment of transportation and harbours) and lastly real fiscal encouragement to prospecting.

Incentives given to primary industries have become unfashionable in South Africa, but in terms of ensuring that our balance of payments difficulties do not increase in the short term, they are imperative.

We must concentrate on our primary industries because we enjoy a comparative advantage in the international market place. In relation to export incentives given to secondary industry we must follow the same principle, i.e. there is absolutely no point in subsidising industries which, by their record, cannot effectively compete in the open market.

The encouragement to ineffective expenditure implicit in the present fiscal incentives to exporters must be replaced by a system where only export performance is rewarded. This would indeed appear to be the government's approach but it is essential we see a start to the new system in this budget.

Such a system should consider the requirements of major export industries and provide incentives limited firmly to the generating of foreign exchange. We have seen this approach in the recent report relating to the motor industry. It must be applied to other industries as soon as possible.

It is likely the budget will introduce other suggestions made by the Margo commisson. One of those recommendations related to the taxation of foreign dividends. Again we must adopt a practical approach to the problem.

The development of SA-owned international companies is a vital part in countering sanctions, establishing world markets and in ensuring long term foreign exchange flows into the Republic.

The pressure applied by the international community has in fact had the effect of accelerating the development of our international companies abroad. Such development should not be threatened by reference to minimal tax accurals from foreign divided flow.

I have spoken about a necessity to begin a new programme of export incentives with this budget. I have also sounded a warning note concerning any fiscal intervention in the affairs of South Africa based international companies at this delicate stage in their growth.

Both these items refer in the main to large companies. Economic growth, however, still rests to a very large extent with the small businessman. The retraint imposed on the growth of such enterprises by a 50 percent corporate rate of tax, needs little emphasis.

Small business sector

It is unlikely that the budget will include any small business relief but it needs to be said that without such relief more and more small business growth will be channelled into the "informal" economy.

The small businessman cannot accumulate the necessary capital to achieve a rapid rate of growth under the present tax burden.

It is essential that the budget make reference to the introduction of Value Added Tax and that draft legislation is made available immediately thereafter. It is unacceptable for businessmen to attempt to make rational decisions in circumstances where the whole basis of indirect taxation is under review and has been under review for nearly two years.

A Value Added Tax must be put in place as soon as possible with the support of the majority of the private sector. Until the basis of the tax is known to all, many long term business contracts must be overshadowed with uncertainty.

If the budget introduces all or most of these scenariosthe fact that it also is unlikely to make many individuals richer should result in only temporary depression.

While the neutrality of the tax system in the developed world is not only fashionable but perhaps also a correct approach to the economic circumstances of those countries, fiscal intervention is a necessity in South Africa's present situation.

It is of course a requirement of such a policy that it is implemented by a civil service which is motivated by monetary reward and professional recognition.

Free SA's economy by abolition of taxes – book

All taxes except a simple sales tax or personal income tax should be abolished, a book published today by the Free Market Foundation says.

South Africa should become a world tax haven and "investment hotspot" by abolishing company taxes, mining taxes, customs and excise duties, petrol levies and stamp duties, according to the book "South Africa: The New Revolution" by Don Caldwell.

The taxes should be replaced by a single tax of either a 5 percent general sales tax or a flat 10 percent tax on all income over R10 000 a year.

Caldwell, who is associate economics editor of the *Financial Mail*, says that by freeing the economy, South Africa could achieve a bigger growth rate.

"By freeing the economy, South Africa could achieve 12 percent annual growth, which would wipe out poverty and in a generation make South Africans richer than the Americans and Swiss are today."

The myth that growth was limited to 3 percent by the refusal of foreign banks to roll over loans reflected the incorrect belief that foreign exchange was difficult to obtain.

EASILY ACHIEVED

South Africa could buy with rands all the foreign exchange it needed to repay foreign debt and buy imports.

He says South Africa could easily achieve 12 percent annual growth by abolishing exchange control; selling or giving away all government industries, buildings and land; dismantling most of central government; abolishing licences, permits and land use laws; abolishing corporate taxes and scrapping restrictions on imports and exports to become an international free trade zone.

South Africa would be wise not to follow Zimbabwe's path, he says.

Though Zimbabwe is often held up as a role model for South Africa after apartheid, it is, in fact, an undemocratic fascist state in deep economic trouble, he says.

"Independence was widely hailed for ending a seven-year guerilla war and decades of brutal white rule. Less hailed was the brutal black rule that followed."

The book catalogues the pain Zimbabweans have suffered since independence that transformed Rhodesia into Zimbabwe in 1980:

- President Robert Mugabe's North Korean-trained Fifth Brigade killed at least 1 500 minority Ndebeles in 1983 in an operation to squelch dissent.
- Mr Mugabe's network of vigilante youth groups has entered villages and burnt the houses, crops and people they found in them. – Sapa.

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PO, building society tax perks to stay till 1990

Business Editor

INVESTORS with tax-protected investments in the Post Office and building societies will continue to benefit for at least another year.

The Reserve Bank has told building society chiefs that the planned phase- out of tax concessions for building societies and Post Office investments has been postponed by a year to March 1, 1990.

This means that concessions and current tax protected investments will now be available to new and existing investors for at least one more year.

Tax concessions on building society investments will then be phased out over a five-year period.

"This is good news for anyone investing in a five-year fixed period tax protected investment because the tax concessions would be in force for the duration of the investment," says Mr Brian Short, NBS public affairs general manager.

There is however confusion over the suitability of investing in tax-protected investments which attract lower interest rates than the higher-rated fixed deposit investments.

"Recent analysis of tax free concessions as an investment medium show that anyone with a 25 percent marginal rate of tax (a married man earning R1 700 or a single person earning R1 350 a month) would be better off investing in a five-year protected investment — unless thay can find a fully taxable equivalent of 17,25 percent," he said.

"Likewise with the partly tax free investment at 12,75 percent a year, if you have a marginal tax rate of 35 percent (a married man earning over R2 500 a month or a single man earning R2 160) you would be better off in this investment than in a fixed deposit paying 15 percent."

He added: "With an inflation rate running at about 13,5 percent, investors are for the first time in many years earning a real rate of return and now the opportunity exists for South Africans to return to the savings ethic, which in the long term is good for the country."

● Group managing director of Saambou, Mr Christie Kuun, told the Afrikaanse Sakekamer in Cape Town this week he expected the taxation question in next week's Budget would revolve around doing away with concessions.

"It is in line with the Margo Commission's recommendations that better results may be obtained by reducing tax concessions and lowering rates of taxation.

"However, to avoid higher consumer spending, it is more likely that rates will appear to be lowered, but because of fiscal delays, a result of inflation, the State will, in fact, not lose any income."

Mr Kuun said it was also possible that in accordance with the Margo Commission, the rate of personal taxation may fall, but that GST may increase.

As a result of the higher than expected income because of increased income from GST, greater company gains and higher income from minimum company taxation, imports could drop sharply and the economy level out.

Star 10/3/89 320

Tax rebates are safe for another year

Own Correspondant

DURBAN — The planned phase-out of tax concessions for building societies and the post office investments has been postponed by a year — to March 1 1990.

Mr Brian Short, NBS public affairs general manager, says this means that tax concessions and current tax-protected investments will now be available to new and existing investors for at least one more year.

"It is our understanding that tax concessions on building society investments will then be phased out over a five-year period.

"This is good news for anyone investing in a five-year, fixed-period, tax-protected investment because the tax concessions would be in force for the duration of the investment."

There is however confusion over the suitability of investing in tax-protected investments which attract lower interest rates than the higher-rated fixed deposit investments.

"Recent analysis of tax-free concessions as an investment medium show that anyone with a 25 percent marginal rate of tax (a married man earning R1 700 or a single person earning R1 350 per month) would be better off investing in a five-year protected investment — unless thay can find a fully taxable equivalent of 17,25 percent.

Assocom cries out

Assocom has sharply criticised the February 22 press statement by Inland Revenue, the subject of last week's *FM* cover story, "Tax Shock." The statement, a follow-up to a December 22 release by Finance Minister Barend du Plessis, is aimed at pref shares and income swaps.

Both "schemes," in normal form, have always been regarded as legitimate tax avoidance. Evidently action was taken because the authorities believed the amounts of money involved were monstrous.

Assocom says that the pref shares proposal will "attack many transactions of a perfectly normal and regular nature not primarily designed to reduce tax payments."

Describing the attack as "somewhat cavalier," Assocom criticises the three-year cut-off period, adding that "to raise pref share capital rather than make loan arrangements is an entirely normal means of reducing company expenditure and costs."

More grave worries are voiced about inconsistencies between the two statements. The original release referred "quite clearly" to assessed loss companies. The subsequent release "extended the attack." The proposed section hits *all* companies' pref shares, regardless of their tax situation.

Moreover, the original release was "abundantly clear" that any law would only deal with schemes entered into "on or after December 22." The new proposal is retroactive. Assocom is understandably concerned that the original statement was "ignored."

In some of its strongest wording yet, Assocom comments: "With all respect, the proposed step appears to us to represent an excursion beyond the role of the fiscus and into the domain of private business decisions.

"It represents a somewhat aggressive stance towards normal private-sector decisions and operations. The action taken in publishing these proposals has frozen large numbers of business decisions and thus delayed the implementation of productive plans . . ."

Assocom wants the whole issue to be reconsidered. ■

Fiscal quarry?

For more than a year, details of one of the biggest families of potential tax avoidance schemes has eluded Inland Revenue. The "schemes," relating to large-scale property developments, particularly in the Johannesburg CBD, involve some of the most sophisticated tax planning ever.

At their centre is a non-taxable body; either a pension fund or a charity. After this come numerous other parties and legal instruments, including trusts and sole-asset companies. And, of course, nominee shareholders, one of commercial law's biggest dilemmas.

The aim of the property schemes is twofold. First, to write-off the capital (cost of property plus building) against tax as quickly as possible. Second, the avoidance of tax on an inevitably large profit when the development changes hands — typically at the end of the lease period.

Under the existing provisions of the Income Tax Act, both aims are not attainable. There is a provision for a minor tax concession on the capital cost of the development, but nowhere as near attractive as what the schemes in operation offer.

Typically, the lessor in the scheme is a non-taxable body. In itself this is an advantage, because a non-taxpaying entity will accept smaller returns than one which pays tax. The lessee, which unequivocally will end up owning the property, combines the cost of repaying capital with normal rent, and charges both to rent.

To repeat, this simply cannot be done under existing law. It is possible in the schemes because of the way the combined payment is being disclosed in audit statements. On both sides, the amount is, supposedly, a 100% rental — an operating cost which in law is clearly tax deductible.

In other words, the lessee gets to write off capital by calling it rent. Until the *FM* disclosed this family last year, Inland Revenue had no reason to query the rentals in question. But the ingenuity of the schemes by no means ends here.

The other main operating mechanism is a sole-asset owning company which owns the property and the building. At the end of an agreed time, the lessee acquires the shares of the property for a nominal value, a fraction of the percentage of the actual value of what the shares represent.

Again, this element of the scheme only works by how the transaction is disclosed. This is done, if at all, by a minor note in the financial statements to the effect that the company has acquired the entire equity of a property owning company.

In practice, the property and the building, particularly with SA's high inflation rate, would have appreciated to many times its original value. The profit on the sale, rated at market values, would, in many cases, be taxable as a profit.

Again, Inland Revenue has had no reason to query footnotes in the financial statements that equity has been acquired for what looks like small change. Many other tricks are used in the schemes.

One example is the Roman-Dutch principle of accretion: that if somebody mistakenly builds on property belonging to someone else, that building belongs to the owner of the land with no compensation due.

It is not clear how this principle is used in the schemes, but there is wide scope for speculation. What is clear is that every top accountant and lawyer in Johannesburg knows exactly how these schemes work.

Says one: "I can't give you details, because of professional rules. But if you want to see who's involved, just look at any large property development in the Johannesburg CBD in the past few years."

One main point arising is that Inland Revenue has the right to ask any of the parties involved to provide documentation. This is likely to start in the week ahead. The attitude at Inland Revenue is that, this time, it does not want to be caught late with a tax scheme involving massive amounts of money.

In the past, this genre of schemes has been hit by badly drafted, retroactive law. This time, Inland Revenue wants to pass an amending section in this sitting of parliament. But first it needs a more detailed idea of who is involved in the schemes, and what the documentation says. If the amendment goes through, and is retroactive to boot, many will end up with egg on their faces. ■

Taxpayers deserve relief from misery of bracket creep

Sk 11/3/89

320

DEREK TOMMEY

IT IS highly likely that the Minister of Finance, Mr Barend du Plessis, will announce lower income tax rates in his Budget speech in Parliament on Wednesday. This is necessary if fiscal drag is not to cripple South Africans financially.

What is not so certain is whether the reduction in these rates will be enough to lead to a decrease in the heavy burden which South African income tax payers are carrying at the moment.

Fisal drag is continuing to put a heavier tax burden on individuals. Rough calculations suggest that in order to offset the past year's fiscal drag and restore tax rates to what they were a year ago, Mr du Plessis will have to cut income tax rates by around 8 percent.

Unless he does this, South Africans will be paying a higher rate of tax than ever before.

If Mr du Plessis wants to significantly reduce the income tax burden he would probably have to cut the rate by between 16 percent and 20 percent. With a general election in the offing, this is a possibility. It would also go some way to restoring the balance of income tax between South Africa and the rest of the world.

While it is not possible say that South African income tax payers are the heaviest taxed people in the world, they are well up with the leaders.

In the United States married taxpayers earning up to $71 000 (R177 500)have a marginal tax rate of 15 percent. The marginal rate is then gradually increased, depending on a number of factors, to 28 percent for those earning up $149 250 (R373 000). People earning above this figure pay a flat 28 percent. The marginal tax rate is the percentage paid in tax on each additional dollar earned.

In South Africa married taxpayers earning between R13 000 and R30 000 have a marginal tax rate of between 17 percent and 35 percent, while those earning between R30 000 and R70 000 have a marginal tax rate of between 35 percent and 45 percent.

South Africa taxpayers hit their maximum tax rate of 45 percent at R80 000.

In Britain, following last year's tax reforms, there are only two marginal rates — 25 percent on earnings up to £19 300 (R83 000) and 40 percent thereafter.

Even allowing for distortions in income comparisons caused by the fall in the rand against the dollar and the pound, South Africans would seem to be heavily taxed compared with Americans and the British.

However, in next week's Budget most South Africans are expecting that Mr du Plessis will at least tackle the problem of 'fiscal drag' or 'bracket creep'.

Fiscal drag arises because South Africa has what is termed a 'progressive system' of income tax and this system does not recognise or take into account inflation.

		Marginal rate	Tax payable	Average tax rate
Annual income	R12 000	15%	R1 680	14,0%
+15 percent	R13 800	17%	R1 966	14,2%
Increase in tax paid: 17,0%				
Annual income	R18 000	25%	R2 860	15,9%
+15 percent	R20 700	27%	R3 549	17,1%
Increase in tax paid: 24,1%				
Annual income	R24 000	31%	R4 480	18,7%
+15 percent	R27 600	33%	R5 628	20,4%
Increase in tax paid: 25,1%				
Annual income	R30 000	37%	R6 460	21,5%
+15 percent	R34 500	37%	R8 125	23,6%
Increase in tax paid: 25,8%				
Annual income	R36 000	39%	R8 700	24,2%
+15 percent	R41 400	41%	R10 834	26,2%
Increase in tax paid: 24,5%				
Annual income	R48 000	41%	R13 540	28,2%
+15 percent	R55 200	42%	R16 544	29,9%
Increase in tax paid: 22,2%				
Annual income	R60 000	43%	R18 560	30,9%
+15 percent	R69 000	43%	R22 430	32,5%
Increase in tax paid: 20,85%				
Annual income	R72 000	44%	R23 740	33,0%
+15 percent	R82 800	45%	R28 520	34,4%
Increase in tax paid: 20,13%				
Annual income	R84 000	45%	R29 060	34,6%
+15 percent	R96 600	45%	R34 730	35,9%
Increase in tax paid: 19,5%				

Prices rose by around 15 percent last year. Most employers, to enable their employees to maintain their living standards, granted 15 percent pay rises.

These pay rises did not result in their employees becoming any wealthier than they had been before. They merely offset the effects of inflation on incomes and restored their standards of living to what it had been a year earlier.

However, the progressive tax system does not see it this way. It regards these pay rises as extra money in the hands of the employee. And the progressive system argues that if a person earns more money he can afford to pay more to the state. So it taxes this extra money at a higher tax rate.

This explains why, as can be seen from the accompanying table, people who receive a 15 percent pay rise end up paying between 17 percent and 25 more tax.

And although the pay rise is expected to let them maintain their living standards, income tax takes a much larger proportion of their income, thus making them poorer in real times.

● **In line with a possible reduction in tax, there could also be changes in the level of earnings which attract site tax, at present R20 000, to allow for inflation.**

S A's tax system could spark a flurry of takeovers

From DAVID CUMMING

JOHANNESBURG. — South Africa's penal tax system could soon create a flurry of takeover activity and see companies rushing into debt.

So says celebrated US free market economist, Professor Joel Stern.

Currently in South Africa to run seminars and consult with corporate clients, he said this week high taxes would see South African companies follow the example of US corporations which increased their gearing to finance leveraged buyouts.

"The reason is quite simple. It pays companies to avoid tax by eliminating earnings," Professor Stern said.

Typical gearing

"A typical gearing here is in the region of 30 to 40 percent. It should be nearer 75 percent," he said.

In the US, companies had taken this route either to pass funds on to shareholders in one huge payout or to finance takeovers. While small businesses might have difficulty raising finance for these purposes, there were many mid-size companies which could benefit.

"This is particularly the case in the current climate in which companies are doing well and therefore pay heavy tax bills."

Professor Stern said takeovers were not necessarily a bad thing. In the first instance, the shareholders of the company being taken over benefitted from the premium paid for their equity by the bidder. In the second, the takeover "artist" gained from the increased earnings which flowed from improving the company's performance.

"In the US, even the fear of being taken over has had beneficial effects. Managements which feel they may be takeover targets take steps to improve their company's productivity with the consequential benefits for the whole of society.

"The only losers in this situation are bad managers."

While the "clubby" nature of South African shareholding might make it difficult to launch successful takeover bids, Professor Stern believed they would still take place.

"There are some people here who I would have expected to become takeover artists who have not yet done so. An example is Malbak's Grant Thomas who has an excellent record of improving companies' operating efficiency."

He said the rash of takeover activity in the US had created some interesting situations. Thus the shares of companies which were likely to be bought out might already reflect a premium in the share price.

In the same way, investment analysts were constantly on the lookout for likely takeover targets, hoping to buy in before the share price rose.

Growth figures

Commenting on the South African economic scene in general, he said he did not believe official growth rate figures.

"I believe your growth rate is closer to 10 percent than to two or three. If you consider the money supply growth rate in the region of 25 percent and inflation at about 14 percent you are left with a real growth rate of about 10 percent."

He attributed this to the emergence of a large underground economy in which high GST encouraged cash and carry businesses to cheat and thus remain absent fom official figures.

The taxman can eat you alive in this jungle

A LAW of the jungle is that a predator will attempt to defend his kill from scavengers and in many cases will try to conceal it.

This is where the law of the jungle and the law of income tax part company.

Concealment of taxable income from the Department of Inland Revenue carries its own penalties and it is as well to understand the obligations placed on a taxpayer and the cost of non-compliance.

The law is simple. The Income Tax Act read together with the tax return form requires a taxpayer to make a full and true return, reflecting all amounts received or accrued by him.

The fact that a taxpayer believes he has incurred a loss or that an amount is in any event not taxable (ie being from a non-South African source or capital in nature) does not matter.

Of course, this does not deter some from hiding the details if not the whole transaction.

The usual justification is that the transaction concerned did not give rise to a taxable amount and that therefore no harm was done.

This may be true, but it is often an indication of some self-doubt in the "tax-free" reasoning which leads the taxpayer to take the additional step of camouflage.

Indeed, it is quite clear that taxpayers frequently refrain in the words of the judgment of one case "from taking advice on whether or not ... profits are taxable or are totally indifferent as to the question of taking advice on this question since, having decided the profits are not taxable, they no doubt have no desire to be disillusioned".

Article contributed by DAVID CLEGG, tax partner of Arthur Young.

In the above case, the taxpayer had failed to disclose the sale of shares in a company that had been converted in a share-block scheme for the underlying property to be disposed of.

Neither the transaction or any amount resulting from it was reflected in the taxpayer's return and the Commissioner levied penalty under s.76(1) of the Income Tax Act.

These penalty provisions provide for a maximum penalty of twice the tax over and above payment of the tax itself. (That is, treble tax — where a taxpayer "omits from his return any amount which ought to have been included therein or makes any incorrect statement in any return rendered by him".)

In the past, treble tax was an uncommon occurrence but it is no loger.

Allied to this question of non-disclosure and penalty is the problem of non-disclosure and the re-opening of old returns.

Most taxpayers have a quaint belief that after three years the last is dead and buried but unfortunately this is only true where there has been full disclosure of all material facts.

What is "material" is a matter of degree and perhaps opinion, but it can hardly be denied that keeping completely quiet about a transaction MUST be material.

However, it is probably true that nobody is obliged to present transactions in the worst light.

There are many cases — a transaction on the JSE being one — in which there may sometimes be real doubt as to the status of a gain.

In such a case, one is entitled to put forward the best possible case for the taxpayer, though not at the expense of omitting material information which would cast a contrary light.

It is suggested, in fact, that a factual description of a transaction together with the claim that the amount concerned is not taxable (or, in the case of an expense, is deductible) will generally be adequate, unless there are facts which make it abundantly clear that this cannot be so.

Careful attention to the framing of a return can therefore make all the difference on subsequent challenge by the Revenue Department.

There have been cases where the Revenue assessor has looked in astonishment at a return of assets and income vastly in excess of the disclosed assets and income in the deceased's tax return for preceding years.

The Receiver has then not hesitated to re-open assessments and to tax accordingly, with penalty calculated on lost interest.

A recent case (mercifully) held that in such a situation the deceased was beyond the punitive aspect of penalties and treble tax was inappropriate.

Some people place their faith in Krugerrands buried under an old tree stump, but you run the risk that you will die before telling loved ones the location!

In short, it is better to play by the rules and not by the law of the jungle.

Last-ditch appeal to Barend to reduce personal tax levels

CHRIS CAIRNCROSS

CAPE TOWN - Finance Minister Barend du Plessis has received a last-ditch appeal, before he presents this week's Budget, to take steps to sharply reduce the level of personal taxation.

In an open letter David Clegg, chairman of Cape Town Chamber of Commerce taxation committee, expresses grave concern at the extent to which fiscal drag has eroded living standards.

Clegg notes that while organised commerce fully appreciates that Du Plessis is aware of, and is concerned about, this phenomenon, "our constituents will not acquiesce in what is perceived as a lack of action ... to adequately redress the position".

Clegg illustrates the erosion of standards with the example of three individuals, married with two children, earning during the 1980 tax year, respectively R6 000 (Mr X), R12 000 (Mr Y) and R24 000 (Mr Z) — a reasonable spread of lower-to-middle incomes.

After making adjustments for the rise in the CPI, the actual after-tax incomes for the 1985 and 1990 tax years are compared with the 1980 equivalent.

In order for them to remain as well off in 1990 as they were in 1980, X's tax bill would have to be cut by R1 355, Y's by R5 417, and Z's by R9 122.

Clegg reminds Du Plessis that government's White Paper response to the Margo inquiry expressly says 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 than at present.

In last year's Budget an adjustment was made to the level at which the maximum marginal rate was introduced, but it was insufficient to offset the effects of fiscal drag.

Clegg says: "We earnestly believe that the problem is reaching critical proportions and point out that these figures provide only part of the picture.

"Increases in the rate of GST from 4% to 12% today add to the burden, as do increases in the fuel levy.

"The man in the street has now tightened his belt for long enough, and it is now the turn of government to tighten its own."

measures should be introduced to promote competition between schemes.

Response:

The proposals will be considered with others received.

(ai) Purport:

Amend section 33 to allow insurers to provide health care cover according to insurance principles.

Response:

The minimum requirements prescribed in the Act are of cardinal importance in health care cover. Insurers have not come to the Department with firm suggestions regarding amendments to the Act in respect of health care cover.

(aj) Purport:

More flexibility is required which should include catastrophic costs and sudden chronic illness;

the state should cover the chronically ill and the poor under a new system;

present system is curative orienated rather than preventive;

a government scheme, like workmen's compensation is advocated.

Response:

Those who only insure for catastrophe may in many cases become a burden to the state for their day-to-day health care;

the state assists indigent people. Government spending should, however, not be caused to increase as a result of the proposed developments in the medical schemes movement;

medical schemes insure their members against sickness. Preventive cover is, however, not the prime objective of a sick fund;

a national scheme cannot be supported because of the cost involved and all the possibilities of abuse.

(ak) Purport:

A social health scheme is proposed and the privatisation of schemes rejected.

Response:

A social scheme cannot be afforded by means of taxation levied on the relatively small proportion of the economically productive population.

(al) Purport:

Amend section 20(a)(f) to compel an employer to continue paying contributions in respect of retrenched workers for a period.

Response:

The Medical Schemes Act cannot be utilised to regulate conditions of employment.

(am) Purport:

Amend section 38(2) to allow a married woman to join a scheme of her choice without having to be registered as her husband's dependant under his scheme.

Response:

The provision is aimed at the protection of the rights of a member's dependants therefore, the proposal is not acceptable.

(an) Purport:

No claims bonuses and package deals are proposed.

Reponse:

Payment of no-claims bonuses would mean that the sick and elderly will have to subsidise the young and healthy's bonuses;

package deals may compel persons to call upon state facilities for treatment in respect of conditions or services not covered under such deals;

(2) yes,

there are several interested parties playing large roles in the medical schemes movement. Their inputs in amendments to the Act, are of real importance.

Government policy is that the most important of these parties much reach consensus on their differences before amendments to the legislation can be considered. These parties have not yet reached agreement on all the aspects that may be involved in amending the legislation. For instance — the Medical Association of SA and the Representative Association of Medical Schemes issued a joint press release recently regarding the matters on which they are still negotiating.

Management bodies for schools

*22. Mr K M ANDREW asked the Minister of Education and Development Aid:

With reference to his reply to Question No 7 on 21 February 1989, (a) what are the names of the persons serving on the management bodies at (i) Intshukumo Comprehensive School, Guguletu, and (ii) Malizo Secondary School, Khayelitsha, (b) when were they elected and (c) what are the names of the temporary teachers not re-appointed in respect of each of these schools?

B382E

The MINISTER OF EDUCATION AND DEVELOPMENT AID:

(a) (i) and (ii) In the view of the current circumstances and possible pressure on and intimidation of the members of the management bodies, I do not consider it desirable to make their names known.

(b) (i) Intshukumo Comprehensive School, Guguletu
7 August 1988

(ii) Malizo Secondary School, Khayelitsha
5 February 1989

(c) (i) Intshukumo Comprehensive School, Guguletu
P L Gagu
L Mafa
M P Kula
B W Mdingi

(ii) Malizo Secondary School, Khayelitsha
Mr X Lupuwana
Mr L J Sali
Miss T Majola
Miss N Y Nguga

Fezeka High School: Geography results

*23. Mr K M ANDREW asked the Minister of Education and Development Aid:

Whether the 1988 matriculation pupils at Fezeka High School, Guguletu, have received their Geography results; if not, (a) why not and (b) when is it anticipated that they will receive them; if so, (i) when did they receive them and (ii) what (aa) was the nature of and (bb) were the reasons for the delay in this regard?

B383E

The MINISTER OF EDUCATION AND DEVELOPMENT AID:

Yes;

(a) and (b) fall away.

(i) Results were made available on 4 January 1989.

(ii) (aa) and (bb) fall away.

Tax: deductibility of moneys for educational purposes

*24. Mr R M BURROWS asked the Minister of Finance:

(1) Whether he or his Department has initiated further investigations into the deductibility of moneys paid by 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;

(2) what is the current tax policy regarding individuals and/or companies who make donations to (a) tertiary institutions and (b) schools;

(3) whether there have been any changes in the above policy during the past five years; if not, why not; if so, what changes?

B384E

The MINISTER OF FINANCE:

(1) Yes.

(a) The provision of tax relief in respect of donations to primary schools.

(b) The Office of the Commissioner for

Inland Revenue in conjunction with the Department of National Education

(2) and (3)
In terms of section 18A of the Income Tax Act donations to any university or college (i.e. tertiary institution) or educational fund established for schools providing education beyond Standard Six are deductible for tax purposes up to an amount of R500 or 2 per cent of taxable income in the case of individuals and 5 per cent in the case of companies.

In paragraph 18.51 of its report the Margo Commission recommended not only that section 18A be retained but that it should be extended to cover donations to primary schools, subject, however, to tightening up control to eliminate avoidance, abuse and evasion.

The Government's response is to be found in paragraph 9.1.3 of the White Paper on the Report and reads as follows:

"The Government is aware of the many abuses involving this concession; but it supports the principle that the private sector should make a larger contribution to the growing financial needs of educational institutions. The Government therefore accepts the Commission's recommendation, but as far as donations to schools are concerned the administration of the scheme will have to be improved before it will be extended to include primary schools."

The investigation referred to in (1)(b) above is still in progress.

INTERPELLATIONS

The sign * indicates a translation. The sign †, used subsequently in the same speech, indicates the original language.

Own Affairs:

Private hospitals

1. Dr W J SNYMAN asked the Minister of Health Services and Welfare:

(1) How many private hospitals were registered with his Department during the latest specified period of 12 months;

(2) whether he contemplates taking action in respect of the high cost of private hospitalization?

*The MINISTER OF HEALTH SERVICES AND WELFARE: Mr Speaker, during the period 1 March 1988 to 28 February 1989, six new private hospitals and new operating theatre units were registered with the department. During the same period, 61 applications were received of which 40 were for the creation of new facilities. Of these, 28 applications were received from private hospitals, of which nine applications have already been approved. Twelve are still being considered, five have been rejected and two developers have cancelled their applications. Twelve applications for the creation of new free-standing operating theatre units were received. Three were approved, seven were rejected and two applications are still being considered. At the moment 23 private hospitals and 62 free-standing operating units are registered with the department in the Republic. The costs of private hospitalization and medical services are determined by the supplier, and not by the State. The Medical Association of South Africa does provide doctors with a guideline of average fees for medical services.

The scale of benefits—that is the tariff of fees—for medical schemes is determined by the Representative Association of Medical Schemes, for implementation by the medical schemes.

All complaints about tariffs are investigated by the Department of Health Services and Welfare in co-operation with the Representative Association of Medical Schemes.

During July 1988 a Bill was published by the hon the Minister of National Health and Population Development with a view to making provision for the appointment of a board for private hospitals. This board will consist of 15 members, who will be appointed by the Minister, and who will represent the four health departments, the South African Co-ordinating Consumer Council, the Medical Association of South Africa, the Representative Association of Medical Schemes, private hospitals, the South African Nursing Association and the Pharmaceutical Society and will include a legal practitioner and a person who is qualified in the field of mental health.

The duties of this board will be to advise the Minister on matters in which private hospitals are affected by statutory provisions, the promotion of a cost-effective service by private hospitals and on measures which are necessary to ensure the quality of service and the application of standards in private hospitals. Any submissions, recommendations or complaints with regard to the service provided by private hospitals will be investigated and considered. The head of the department who is responsible for the registration of the establishment, will be advised. In order to curtail the cost of hospitalization in private hospitals and institutions, it is now being considered, with regard to new applications . . . [Time expired.]

*Dr W J SNYMAN: Mr Speaker, it is very clear from the reply of the hon the Minister that there is much activity with regard to private hospitalization. In Schedule 1 of the Constitution, the registration and control of private hospitals—one of the subjects in section 14 of the Constitution—is regarded as a so-called own affair. We now find that in practice, apart from the fact that these private hospitals are anything but own affairs hospitals, they must, nevertheless, fill a vacuum because insufficient funds are being granted for provincial hospital services.

Firstly, this results *inter alia* in provincial hospitals being closed down as a result of a shortage of nursing personnel or general operating capital, and secondly, that nowadays certain expensive and highly sophisticated equipment is only available at private hospitals. We can therefore justifiably say that the standard of hospital services in the provinces is deteriorating, and this essentially affects our academic hospitals as well.

We recently received a report from an association at Tygerberg Hospital according to which it was found that the quality and the standard of training could suffer because of this. The academic hospital is more of a service hospital which has to provide certain services, and in reality it is actually suffering due to a lack of the correct equipment which it needs to achieve the necessary academic qualifications. We cannot escape from the fact that the standards in the private hospitals will also depend on the quality of the academic training which will be available.

The hon the Minister will now tell me that this part of the service does not fall under his department. That is true enough, but without the knowledge which is obtained from the academic institutions, the service in the private sector will also deteriorate at private institutions.

As a result of the vacuum which exists, we find on the other hand, as the hon the Minister mentioned in his reply, that there is a burgeoning of private hospitals, accompanied by consequent increases in costs with regard to hospitalization insofar as the public is concerned, a situation which has become totally unacceptable in the present economic situation in South Africa. The Association of Medical Schemes recently granted a general increase of 12% to private hospitals and an increase of 29% with regard to operating theatres and intensive care units. [Time expired.]

Mr H H SCHWARZ: Mr Speaker, I would like to ask the hon the Minister the following questions. Firstly, what actually is his policy in regard to the privatisation of hospital services and is it his policy to encourage the establishment of more private hospitals? Secondly, I would like to know from him why the private hospitals are regarded as a White own affair when I still have to see a private hospital which is not multi-racially staffed, and if it was not multi-racially staffed, it could not function. In addition to that very many private hospitals are open to all races. The logic therefore as to why this should be a White own affair absolutely escapes me.

Thirdly, I would like to ask if he realises what is happening to the middle classes in South Africa who are being squeezed in the sense that those who are entitled to get free or low cost hospitalization, can obtain it; those who are rich and well-off can afford to pay the tariffs, or their medical schemes can pay them; but middle-class people who do not have the benefit of medical aid schemes, or have to pay substantially in excess of what the charges are to be at certain hospitals, find it impossible to see that they get adequate medical and hospital services in South Africa.

Lastly, Sir, may I ask the hon the Minister if we are actually a caring society, because the measure of a civilised society is whether one cares for the aged, the incapacitated and for the sick. Does this administration show that it is a caring society? I think there is a very serious question mark over this administration as to whether it really cares for the people of South Africa. [Time expired.]

*The MINISTER OF HEALTH SERVICES AND WELFARE: Mr Speaker, I want to reply very frankly to the hon member for Yeoville by saying that this administration is very definitely responsible, that it carries out its responsibility towards the aged and less privileged people in South Africa to the full, and that with the funds at our disposal we do everything in our power to help everyone.

†Privatisation is one way of helping the State to possibly spend less. It is also a way of ensuring that the State does not have to subsidise those who are already covered by medical aid. Two thirds of our population are dependent on the State for basic health services and one third is self-supporting and belongs to some or other medical aid scheme.

One of the main arguments in support of the

GST rise to 15 pc now on the cards

Star 14/3/89 320

By Peter Fabricius,
Political Correspondent

CAPE TOWN — A general sales tax increase of two or three percentage points could be announced by Minister of Finance Mr Barend du Plessis when he presents his main Budget tomorrow.

This is widely expected in economic and political circles, unless there are dramatic developments on an early polling date.

Mr Harry Schwarz, Progressive Federal Party spokesman on finance, has already warned about the counter-productive and inflationary consequences of an increase in GST.

[illegible] said there was considerable talk in business circles that GST would be bumped up 3 percent to prepare for the introduction of VAT.

NO 'GOODIES'

This was denied by Government sources last week but now seems to be more likely.

President Botha's indication in a television interview on Sunday night that an election was unlikely this year, has increased the chances of a tough budget with little to please the man-in-the-street.

If the State President's view prevails, the Government will have little need to hand out "goodies" to the white voter.

National Party financial spokesmen have been predicting a "neutral, conservative" Budget.

Influences on equity and capital markets

By Dee Ashton of stockbroking firm Mathison and Hollidge

We have selected a number of measures which are likely to be introduced in the Budget and offer an analysis of the possible impact on both our equity and capital markets.

Surcharge and/or loan levy on companies.

This can be construed as a form of retroactive profits tax after last year's good earnings growth. Such a tax will also serve to address the current problem of excessively buoyant consumer demand from the supply side as it will feed through to the consumer in the form of higher prices.

A surcharge or levy of this nature will apply only to those companies already being taxed and will imply a reduction in profit and earnings after tax. Two sectors which come to mind are construction and engineering.

Last year was a particularly good one for companies and healthier balance sheets put them in a better position to absorb any additional taxation.

Overall, any impact is more likely to be psychological as funds which would have been used for investment in plant and machinery will be directed toward the fiscus instead. This perception might have a negative impact on the equity market, particularly on those companies with high interest bills.

Minimum tax on companies.

MTC affects the companies which do not pay tax at all or are taxed at a very low rate, for example the consumer companies. Insofar as this tax does not impact the balance sheet of a company, its effect is marginal in the long term, but it increases the borrowing requirement of the companies.

This will increase the interest payments, and reduce profits, adversely affecting those companies which have high interest bills, for example the furniture and retail sectors.

Privatisation and Prescribed Assets.

Privatisation raises the question of prescribed asset requirements, as does the move toward a deregulated and more efficient bond market. The Minister will certainly address these issues and clarify his intentions. If the prescribed asset requirement is abolished or even reduced (a more likely option), it will mean that a large pool of funds will be freed for investment elsewhere, either in the capital or the equity markets.

There is speculation that investors, will be able to convert their prescribed assets into equity from newly listed privatised parastatals. This would reduce the potential impact on currently listed equities.

Gilts rates should respond in the short-term by gaining 50 to 75 points, after which the original trend will resume, albeit off a higher base. Fund managers, particularly pension funds, will however retain a substantial portion of their gilts portfolio as they require the steady income flow to pay their members.

The exact method of privatisation, or the amount of capital required from the market has not yet been confirmed, however investment decisions will still be made using the same criteria as previously. If the newly privatised assets meet these criteria, investment may be directed away from substitute assets, for example Highveld Steel after the privatisation of Iscor, and into the newly listed asset. However these assets will have to offer attractive dividend yields or price-earnings ratios to be competitive.

The Marais Commission.

The Marais Commission made the following recommendations regarding the taxation of gold mines:

Lease payments on the mines and the existing surcharge on profits be scrapped; and that a uniform tax formula be adopted for all mines.

The latter is punitive in that tax would then be paid when the profit revenue ratio exceeds five percent (as opposed to the current six or eight percent).

If the resolutions of this commission are adopted, they will have a negative impact on high cost, low profitability, high capex mines. However, they will benefit the highly taxed, low capex mines such as Driefontein and Kloof.

PC warns high tax is stifling productivity

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CHRIS CAIRNCROSS

CAPE TOWN — Government has been warned that high levels of taxation have had a demonstrably negative effect on productivity, and for this reason it has become essential that its pattern of spending should be kept as low as possible.

The warning is contained in the President's Council (PC) report on a productivity strategy for SA, released in Cape Town yesterday.

Accountable

The report suggests that one method by which this can be achieved is by eliminating certain government activities, an option which is currently being addressed by the "function accountability programme" being carried out by the public service and through measures such as privatisation and deregulation.

The PC report also notes that more directors-general should be made accountable for ensuring that more productive use is made of government resources, as accountability is not clearly assigned at present.

The report also recommends that the Treasury can and should play a more prominent role to enhance productivity in the public service.

This can be done by properly assessing the extent to which departments adhere to set budgets and performance objectives.

It is recommended that the Treasury should in future assist government departments in setting productivity objectives and require feedback on their performance before the budget allocation for the next year is made.

The report notes an important element of state spending takes the form of subsidies, a practice which, it says, tends to be counter-productive.

It proposes that subsidies should have sunset clauses in which they would only be granted for a limited time to enable the organisation or industry concerned to obtain viability through productivity improvements.

Government spending on capital projects can in certain cases be unproductive, and the PC report recommends that a cost-benefit model be applied in every instance where significant capital expenditure is envisaged.

Noting that international experience has demonstrated that excessive taxes are damaging to productivity, the report suggests that many of the proposals contained in the Margo Commission report could materially benefit productivity in SA.

They include proposals to significantly reduce the number of income tax brackets, reducing company tax progressively to 40%, making the individual the unit of personal taxation, and changing depreciation on a sliding scale of 50/30/20 over a three-year period.

The aim of neutrality of taxation between the main sectors of the economy should stimulate productivity by ensuring that resources are allocated productively, the report says.

Ideal ratio

It adds that it is unfortunate no goals were set by the Margo Commission or the White Paper in regard to the ratio between direct and indirect taxes.

The report notes that such goals could make an important contribution to the productivity effort, and it is recommended that the Tax Advisory Committee investigate the possibility of establishing an ideal ratio for SA.

It stresses that the aim expressed by Finance Minister Barend du Plessis of reducing total public expenditure from 38% of GDP in 1984/5 to 34,5% in 1991/2 is highly desirable from a productivity point of view.

Parliament and Politics

Cape Times 14/3/89

Govt warned on high tax levels

320

Political Staff

THE government has been warned that high levels of taxation have had a demonstrably negative effect on productivity and that its pattern of spending should be kept as low as possible.

The warning is contained in the President's Council (PC) report outlining a productivity strategy for South Africa, released yesterday.

The report suggests that one method of achieving this is by eliminating certain government activities, an option which is at present being addressed by the "function accountability programme" being carried out by the public service and through measures such as privatisation and deregulation.

The report also notes that more directors-general should be made accountable for the productive use of government resources, as accountability is not clearly assigned at present.

This would be in line with generally accepted management principles in the private sector, where responsibility for performance of subsidiaries is usually delegated to the chief executives of the subsidiaries.

The report also recommends that the Treasury can and should play a more prominent role to enhance productivity in the public service by properly assessing the extent to which departments adhere to set budgets and performance objectives.

It is recommended that the Treasury should assist government departments in setting productivity objectives and require feedback on their performance before the budget allocation for the next year is made.

The PC investigation notes that an important element of state spending takes the form of subsidies, a practice which tends to be counter-productive.

It proposes that such subsidies should be granted for a limited time to enable the organisation or industry concerned to become viable as productivity improves.

Noting that international experience has shown that excessive taxes are damaging to productivity, the report suggests that many of the Margo Commission proposals could benefit productivity in South Africa.

They include the proposals to reduce the number of income tax brackets significantly, reducing company tax progressively to 40% and making the individual the unit of personal taxation.

The PC report notes that no goals were set by the Margo Commission or the White Paper in regard to the ratio between direct and indirect taxes.

The report notes that such goals could make an important contribution to the productivity effort and it is recommended that the Tax Advisory Committee investigate the possibility of establishing an ideal ratio for South Africa.

It stresses that the aim expressed by Finance Minister Mr Barend du Plessis of reducing total public expenditure from 38% of Gross Domestic Product (GDP) in 1984/85 to 34,5% in 1991/92 is highly desirable for better productivity.

No effort should be spared towards achieving or even bettering this goal.

Every senior official will have to set productivity goals in order to reach such an objective, the report concludes.

Budget: Rise in GST 320 'likely' 15/2/85

A GENERAL sales tax increase of two or three percentage points could be announced by Minister of Finance Mr Barend du Plessis when he presents his main Budget today.

This is widely expected in economic and political circles, especially now that an early election seems out of the question.

Mr Harry Schwarz, Progressive Federal Party spokesman on finance, has already warned about the counter-productive and inflationary consequences of an increase in GST.

He said there was considerable talk in business circles that GST would be bumped up 3 percent to prepare for the introduction of VAT.

This was denied by Government sources last week but now seems to be more likely.

President Botha's indication in a television interview on Sunday night that an election was unlikely this year, has increased the chances of a tough budget with little to please the man in the street.

Tax regarded as an unfair burden

Star 18/3/82 (320)

By Roy Cokayne

Many South Africans were close to a "tax revolt" especially as far as personal taxation is concerned, says Assocom chief executive Raymond Parsons.

"Many people have come to regard rising taxation as an unfair burden rather than a payment for government services, and they understandably engage in tax avoidance and evasion," he told the Pretoria Chamber of Commerce last night.

He said this issue was addressed by the Margo Commission Report and the public hope is that the Minister of Finance demonstrates his ability to considerably lighten the tax burden in today's budget.

But Mr Parsons conceded that on present evidence, this did not seem very probable. "If a shift from direct to indirect taxation is accepted, then there is likely to be an increase in GST from the present 12 percent" he said.

REPUBLIC OF SOUTH AFRICA
REPUBLIEK VAN SUID-AFRIKA

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Vol. 285 PRETORIA, 15 MARCH MAART 1989 No. 11772

GOVERNMENT NOTICE

DEPARTMENT OF FINANCE

No. 506 **15 March 1989**

SALES TAX ACT, 1978

INCREASE IN RATE OF TAX SPECIFIED IN SECTION 5

Under section 49A of the Sales Tax Act, 1978 (Act 103 of 1978), I, Barend Jacobus du Plessis, Minister of Finance, hereby make known for general information that in terms of a taxation proposal tabled by me in Parliament on 15 March 1989 the rate of sales tax specified in section 5 of the said Act is to be increased to the rate of 13 per cent, as set forth in that proposal, for the purpose of determining amounts of sales tax which in terms of section 8 of the said Act are deemed to have become payable on any date falling on or after 20 March 1989.

B. J. DU PLESSIS,
Minister of Finance.

GOEWERMENTSKENNISGEWING

DEPARTEMENT VAN FINANSIES

No. 506 **15 Maart 1989**

VERKOOPBELASTINGWET, 1978

VERHOGING IN BELASTINGSKAAL VERMELD IN ARTIKEL 5

Kragtens artikel 49A van die Verkoopbelastingwet, 1978 (Wet 103 van 1978), maak ek, Barend Jacobus du Plessis, Minister van Finansies, vir algemene inligting bekend dat ingevolge 'n belastingvoorstel wat op 15 Maart 1989 deur my in die Parlement ter tafel gelê is, die verkoopbelastingskaal vermeld in artikel 5 van die genoemde Wet verhoog staan te word tot die skaal van 13 persent, soos in daardie voorstel uiteengesit, vir die doeleindes van die vasstelling van bedrae verkoopbelasting wat ingevolge artikel 8 van genoemde Wet geag word betaalbaar te geword het op 'n datum wat op of na 20 Maart 1989 val.

B. J. DU PLESSIS,
Minister van Finansies.

BUDGET

Minister warned of taxation revolt

The Argus Correspondent

PRETORIA. — Many South Africans are close to a "revolt" against personal taxes, says Assocom chief executive Mr Raymond Parsons.

"Many people have come to regard rising taxation as an unfair burden rather than as a fair price for government services, and they understandably engage in tax avoidance and evasion," he told a meeting of the Pretoria Chamber of Commerce last night.

He said this issue was addressed by the report of the Margo Commission and the public hope was that the Minister of Finance would considerably lighten the burden in today's Budget.

But Mr Parsons conceded that this did not seem probable and that only marginal tax changes seemed likely.

"If a shift from direct to indirect taxation is accepted, then there is likely to be an increase in GST from the present 12 percent. This would also lay a new basis for the eventual changeover to a value-added tax (VAT) at a higher rate," he said.

● Details of the Budget will appear in later editions of today's Argus.

The major tests for today's Budget were its ability to contain State spending, keep the deficit before borrowing to a minimum, avoid tax shocks and reflect a credible and coordinated economic policy, said Mr Parsons.

These tests would be derived from at least four major policy documents to which the government was already committed: the economic strategy document (1987), the White Paper on privatisation (1987), the White Paper on the Margo Report (1988) and the anti-inflation policy document (1988).

Mr Parsons said the overriding first test of the Budget would be its success in reducing State spending.

"The Minister of Finance is committed to restraining the rate of increase in State spending and to rolling back the size of the public sector. In 1987 the Minister undertook to reduce the share of the State in the economy from 38 percent to 34 percent over a five-year period.

"This Budget must show what progress has been made."

● There were growing expectations among politicians that GST would be increased from 12 to 15 percent, reports The Argus Political Correspondent.

They expect this to be one of the unpopular features of a Budget, which is expected to have little or no good news for the man in the street.

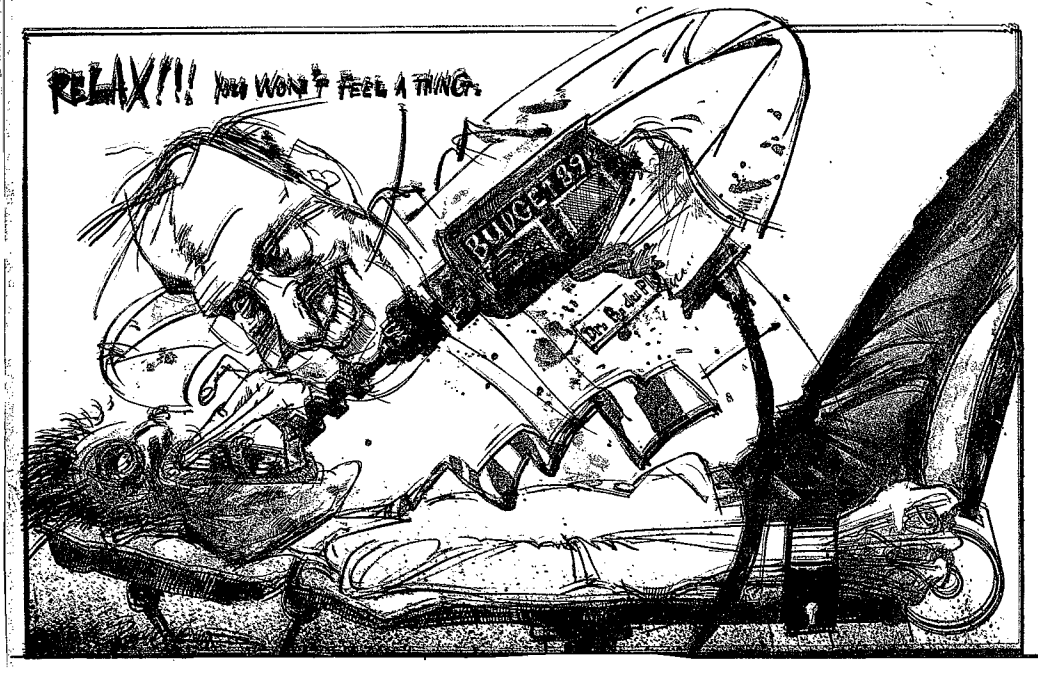
Mr Harry Schwarz, Progressive Federal Party spokesman on financial matters and Mr John Douw, Labour Party's spokesman, predicted a neutral, conservative Budget.

Mr Schwarz warned that increased GST would be counterproductive and would lead to higher inflation.

Mr Johan Heyns, chairman of the jont standing committee on finance and one of the National Party's chief spokesmen on finance, said he also expected a neutral Budget.

The Minister of Finance was more likely to have a "blood, sweat and tears" approach against the background of the need to take a long-term view to deal with the country's financial problems.

In political circles the impression was that the Minister had little room to manoeuvre as he was faced with uncertainties about the gold price and continued international pressure to isolate the country's economy.



Gold $395,95

GOLD traded at $395,65 an ounce in London today, against $395,45 at the close in New York last night.–Business Staff.

● See page 20.

Rise in GST could trigger consumer buying spree

Argus 15/7/89 320

The Argus Correspondent

PRETORIA. — Consumers can be expected to go on a spending spree if the widely anticipated increase in General Sales Tax to 14 or 15 percent is announced in today's Budget.

Previously the government gave at least a few days notice of an increase in GST, resulting in a scramble by consumers to buy particularly expensive and luxury goods before the tax rose.

However, the high rates of interest on credit transactions and the more stringent hire purchase conditions introduced by the government late last year could prevent this happening now.

SIXTH INCREASE

If GST rises today, it will be the sixth increase since its introduction at 4 percent on July 3 1978.

It was increased to 5 percent on March 1 1982 following an announcement by then Minister of Finance Mr Owen Horwood on February 11.

Five months later GST rose to 6 percent, where it remained until February 1 1984 when it was increased to 7 percent following an announcement by Mr Horwood a week earlier.

On July 1 1984 the tax was set at 10 percent, but specified basic foodstuffs were exempted. More than a month's notice of that increase was given.

GST rose to 12 percent on March 25 1985.

Star 16/2/89. (320)

warned not to be fooled

By MICHAEL CHESTER

Taxpayers were cautioned last night not to be hoodwinked by first impressions of the 1989 Budget that cuts in overall tax bills were on the way.

Director and chief economist of the Econometrix research unit, Dr Azar Jammine, advised taxpayers to keep a firm eye on estimates that the State still plans to push its revenue from personal income tax as much as 22,5 percent higher to a record R17 100 million.

Moreover, though the rate of general sales tax had been increased by only 1 percent, the overall impact threatened to boost total GST bills by 17,4 percent to R15 150 million.

Dr Jammine said it was time to take stock of the increasing share of the tax load the Government was foisting on the shoulders of individuals.

The share carried by individuals had now been increased to an unprecedented 60 percent of total tax revenue, double the size of the share in 1980.

Taxpayers would naturally welcome the higher threshold level before they stepped into income tax brackets, higher primary rebates, and concessions for married couples.

"But all the benefits will be swallowed by inflation and the fiscal drag that pushes them into higher and higher tax levels," he said.

Mr Chris Frame, director of the chartered accountants Price Waterhouse, was disappointed the Minister had made no reductions in progressive income tax rates, meaning that taxpayers would be forced higher up the marginal tax ladder at a faster pace because of the upward curve in inflation.

He reckoned fiscal drag had now become one of the Government's most powerful invisible tax collectors of all.

And the increase in GST, though not as big as widely forecast, was bound to accelerate the inflation rate.

GST up another point

BAREND'S BUDGET BLUES

Sowetan 16/3/89 · (320)



MRS Stephina Lelaka and Mrs Ellen Ledwaba went shopping yesterday to stock up before the 13 percent GST is introduced on Monday.

The boss is back!

With a smile on his face, PW strolls into Parliament

Sowetan 16/3/89

AN APPARENTLY self-assured President P W Botha retufned to Parliament yesterday for the first time since his mild stroke earlier in the year, and drew homage from all sides of the joint chamber.

Ministers and MPs from the Assembly and the Houses of Representatives and Delegates strolled across the floor to wish him well.

Striking in a dark suit, the old man of the National Party entered the Great Hall at 2,10pm as MPs and visitors assembled for the Budget.

Smiling and shaking well-wishers' hands, he took his place at the head of the government in the first front row bench.

There was little evidence of the NP leadership conflict as President Botha exchanged remarks in an apparently friendly manner with the leader of the party, Mr F W de Klerk and next to him Mr Chris Heunis, who acted in the capacity of Acting State President during Mr Botha's absence.

When Finance Minister Mr Barend du Plessis stepped up to the podium to deliver his Budget speech, the joint chamber expressed general agreement with his opening remark that Parliament was thankful that the President had recovered sufficiently to take his place in the building.

President Botha acknowledged the "hoor hoors" with a nod, then leaned forward to devote his attention to the budget speech.

From Page 2

GENERAL Sales Tax will go up from 12 to 13 percent on Monday, the Minister of Finance, Mr Barend du Plessis, said yesterday.

He said in his Budget Speech the extra revenue from this step is estimated at R1,150 billion for the 1989/90 financial year and R1,150 billion for a full year.

It should reduce pressure on monetary policy to counteract excessive demand in the economy, and would mean that upward pressure on interest rates would necessarily be reduced, which would benefit the whole economy — including bondholders, farmers and business undertakings.

Discipline

It would be clear, from the limitation of State expenditure for 1989/90 to 15 percent of the previous year's level, that the Government was serious in its commitment to fiscal discipline, and that this level of expenditure could not be further pruned now without serious problems.

As far as the tax and loan proposals were concerned, the Government was convinced that they were not only economically but also politically sound.

In the determination of the loan requirement it

Pik admits dispute

Sowetan 16/3/89

LONDON — South African Foreign Minister, Mr Pik Botha, said late last night that there was a dilemma over the leadership issue in South Africa, but he believed that with understanding it could be resolved without anyone getting hurt.

Mr Botha, who held talks earlier yesterday with British Premier Mrs Margaret Thatcher, confirmed that constitutionally the State President, Mr P W Botha, could not be forced to leave office against his will. But he told reporters: "There are more ways with understanding that this matter could be resolved in such a way that no one gets hurt."

"I remain convinced that we can do so because of the great appreciation for the President and the work he has done. I believe it could be done."



P.T.O.

Star 16/3/89 320



Rebates mean it is cheaper to be married

By Marika Sboros

Tax-wise, it is better to be married than to "live in sin" since yesterday's Budget announcement, as long as the wife is employed — and not by her husband — say tax experts.

Couples who have chosen to live together rather than marry because of the punitive tax burden on married working women may now want to reconsider in the light of concessions announced in the Budget.

The concessions have lifted the burden on married women and effectively abandoned joint taxation.

This was welcomed with some reservations by tax experts.

Under the old system, a married couple with the husband earning R60 000 and a wife earning R40 000, would jointly pay R30 367. Under the new system, the couple will pay R27 635 (R17,310 for the husband and R10 325 for the wife).

If they were unmarried, they would pay R29 980 under the old system, and R29 780 under the new.

The married couple will now pay R2 732 less than before, and R2 145 less than if they were unmarried.

Similarly, if the husband earns R20 000 and the wife R30 000, they would jointly pay R9 211 under the old system, and R8 995 under the new system. Unmarried, they would pay a total of R9 440 under the old system, and R9 240 under the new system.

Consulting economist Mrs Paula Huyshamer said the concessions were "marvellous" and she was thrilled that separate taxation had finally been achieved.

Nothing to offer workers say unions



Sowetan 16/3/89

MAJOR black trade unions have slated the budget, saying it increased the tax burden of workers while failing to address the social needs of the majority.

The biggest industrial union, the National Union of Mineworkers (Num) said the budget had nothing to offer to workers. It increased sales tax so that every black worker, in particular the black mineworker, will pay more to the Government.

"There is nothing which alleviates the plight of the unemployed and contrary to the Minister's claim that the budget promotes reform, it actually promotes a decline in the standard of living of black workers.

Apartheid

"It is clear that the bosses and the apartheid government will stop at nothing to ensure that workers are squeezed of every hard-earned cent to benefit the apartheid system.

"The time has come for workers to seriously consider whether the Government is justified in taxing people who do not have representation in the Government," said Num.

In its initial reaction, the National Union of Metalworkers of SA (Numsa) also lashed out at the budget, saying the allocation for housing and social services was "grossly inadequate."

Numsa spokesman, Dr Bernie Fanaroff, said the allocation for housing did not keep pace with inflation and would not resolve the 800 000 housing unit shortage.

Dr Fanaroff said it was obvious the Government was "shifting its housing responsibility to the private sector, which cannot provide for the majority."

The current housing crisis meant that the "unemployed and the rural population would be put on the rubbish heap."

The private sector provided housing ranging from R30 000/unit upwards, which 90 percent of Numsa members could not afford.

By increasing GST, the Government was transferring the tax burden from the wealthy to the poor. "We are opposed to GST and to direct tax. Personal tax should be increased for those on the upper end of the scale and tax for those on the lower end of the scale should be decreased," said Dr Fanaroff.

Site tax was inadequate in that it aimed at spreading the tax base "so that the wealthy could have their tax reduced while shifting the burden to the poor."

However, the white SA Confederation of Labour (Sacol) welcomed Finance Minister, Mr Barend du Plessis' remarks about corruption, the exploitation of the consumer and tax evasion.

• The Black Allied Mining and Construction Workers' Union (Bamcwu) said: "The increase in Sales Tax is not surprising because all capitalist societies thrive on excessive taxation of the working class to resolve their mismanagement of wealth."

"This shows that the present state does not serve the interests of the working class. If it did, all the money allocated for defence would have been used to create jobs and wealth for the majority," Bamcwu said.

Abolition of prescribed assets lauded

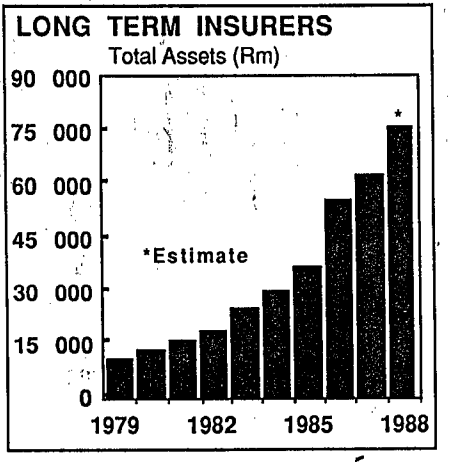
Assurers are delighted over their new tax deal

By Dave Cummings

Life assurers were cock-a-hoop last night over the Budget's abolition of prescribed asset requirements for institutional investors and the introduction of a new tax deal for the insurance industry.

Dr Brian Benfield of AA Life said he was delighted the Minister had seen fit, finally, to jettison the "folly of 1943".

"Our industry has been campaigning against prescribed asset requirements since they were introduced in 1943. The effect of this measure will be to free up the market and probably provide financial institutions, particularly life assurers, with a better return on investments," he said.



Welcomed

Mr Pierre Steyn, managing director of Sanlam and chairman of the Life Offices Association, welcomed both the taxation and prescribed assets moves. "The LOA has in the past regularly made representations for the lifting or the phasing out of the obligation on life assurers and pension funds to invest in government stock and other prescribed investments," he said.

He was convinced that it was a step in the right direction which would not necessarily see assurers suddenly selling government stock. On the contrary, even more could be invested in this field since any well-balanced investment portfolio needed stable investments with a stable income.

Future investments would, however, be made on merit, rather than under compulsion, which distorted investment terms such as interest rates.

On the question of the new tax regime, he said it was similar to that applied in countries overseas and was scientifically more justifiable than the existing system.

However, he expressed disappointment at the 45 percent level at which the tax would be levied. A more equitable level might have been 30 percent, roughly equivalent to the rate at which the average policyholder paid tax.

Mr Arnold Basserabie of Federated Life echoed his sentiments, saying he did not foresee a wholesale disinvestment in government stock, as long as it retained its marketability.

On the question of taxation, Dr Benfield said the new "I — E" formula was particularly welcome, since it was the only theoretically acceptable basis of taxation of insurers. "I am delighted to hear this, but the industry will have to study the definition of income and expenses before final judgment can be passed."

He said the 55 percent figure which insurers would be allowed to deduct from expenses appeared at this stage to be gratuitous and was probably based on the Minister's estimate of potential income from this source. There was nothing to prevent this figure from being adjusted in the future.

Positive impact

Mr Basserabie said this basis of taxation would have different effects on different companies but, on the face of it, would have a positive impact on his company's ability to pay bonuses. "We must still study the fine print on this one, but for the present we are assuming it applies only to life assurers' taxable business and not to their pension business."

Mr Donald Gordon, Liberty Life chairman said the prescribed asset move had come at a surprising time in the economic cycle. But he did not believe it would have a major immediate impact on investment patterns, particularly in the light of the relative shortage of suitable scrip on the market.

It would require greater judgment of institutional investors in future.

University of Stellenbosch.

Heavy tax increase dents Liberty's growth

Star 16/3/89

By Ann Crotty

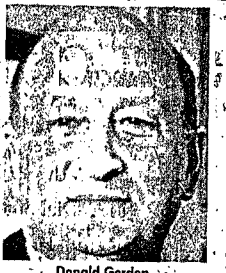
Despite a 96 percent hike in the tax charge, Liberty Life managed to report an earnings improvement of 18,1 percent which is not too far out of line with its long-term trend of an annual earnings increase of around 20 percent.

The group reported earnings of 730,2c (618,3c) a share for the 12 months to end-December from which it will be paying a total dividend of 530c (440c).

Total income was up just 12,3 percent with a strong performance from investments helping to counter a pedestrian increase in premium income.

Net income from investments and sundry income was up 29,7 percent to just over R1 billion (R795,5 million) and net premium income and annuity considerations were up 2,6 percent to R1,4 billion.

Referring to the increase in net premium income, Liberty Life chairman Donald Gordon points out: "The reduction of some R150 million in single premium business written in 1988 has the effect of obscuring the organic growth of the more important annualised premium income component reflected in the income statement, which although showing an increase of only R36,6 million, now has a much higher proportion of better quality recurring annualised premium income than in 1987."



Donald Gordon

Tax was up sharply to R99,4 million from R50,6 million. The steepness of the increase reflected the 75 percent increase in the effective rate of tax imposed on life insurance in 1988.

According to Mr Gordon, speaking ahead of yesterday's budget announcement of changes in tax on life assurers: "By any standards, taxation of this order must be patently excessive and not in the interests of encouraging personal savings or recognising the vital importance of life insurance.

"The tax paid is also equivalent to to 70,6 percent of Liberty Life's management expenses for the year, which clearly demonstrates the penal impact of the tax rate bearing in mind that the basis of taxation of life insurance companies precludes taxation being imposed on pensions business which normally constitutes the predominant proportion of a life insurer's operations."

Mr Gordon indicated that, as of yesterday afternoon, it was too early to assess the likely impact of the proposed tax changes on life assurers.

The balance sheet shows a 30 percent increase in assets from R11,1 billion to R14,4 billion.

Shares and mutual fund units comprise R7,4 billion (R5,7 billion) of the R14,2 billion (R10,8 billion) total investments. Government and semi-government stock accounted for R3,5 billion (R2,6 billion).

A break-down of the group's investment portfolio shows that the equity investments are dominated by just 16 blue chip counters.

FIT has reported earnings per share of 41,3c (31,7c) from which it has declared a dividend of 30c.

US trims trade deficit in January

Star 16/3/89

WASHINGTON — The US merchandise trade deficit narrowed to $9,49 billion in January, as the nation posted a rare trade surplus with Western Europe and the imbalance with Japan declined to its lowest point in almost four years, the US government reported yesterday.

The Commerce Department said the sharp 13,7 percent improvement in the overall trade deficit, the best showing since October, reflected a 6,9 percent drop in imports that was enough to offset a 4,3 percent decline in US export sales.

The improvement was better than many analysts had been expecting, although they cautioned against reading too much into a one-month swing.

The $9,49 billion January deficit would translate into an annual imbalance of $114 billion, compared with a deficit for all of 1988 of $119,76 billion.

While that would represent a small improvement, many economists are not looking for any change in the nation's trade performance this year.

They contend that the trade deficit has stalled out at a very high level, a forecast that would spell bad news for President George Bush's administration, which hopes an aggressive market-opening strategy will boost US export sales. — Sapa-AP.

Rise in GST runs counter to Margo Commission

By John Spira

The proposed increase in GST from 12 to 13 percent runs totally counter to the Margo Commission proposals.

Mr Justice Margo and his team, whose efforts were funded by the nation's taxpayers, now face the ignominy of having virtually all their proposals ignored by the Government.

The Commission was unequivocal in its rejection of high rates of GST, suggesting that they were inflationary (yesterday's Budget is intended to be anti-inflationary), encouraged avoidance and resulted in intense public resentment of the entire tax regime. Thus:

- Sales tax has more direct impact on prices than does income tax — where the timing of tax payments and the redistributive forces in the market disguise the impact. Many studies have shown that prices have risen by more than the tax amount imposed.
- With the increase in the rate of GST to 12 percent, those instances where there is double taxation — for example, capital goods used in production, non-exempt consumables, certain non-exempt services to traders, etc — are becoming a problem.
- Whereas in the past many retailers would have sold their goods on the inclusive basis, today in virtually every instance the purchaser is confronted with GST as a separate item when he pays for his purchases. This has obviously increased the visibility of the tax — a fact that should not be underestimated when seeking causes for the apparently increasing antagonism to GST.

In the sensitive political situation in which South Africa now finds itself, with resistance to tax assuming political overtones and extreme pressure to provide the social and other services necessary to satisfy the expectations built up in the last few years of political change, this problem is a critical one.



Mr Justice Cecil Margo (right) hands over his tax proposals to Finance Minister Barend du Plessis last year.

It is also significant that, according to international experience, retail sales taxes tend to run into serious difficulty if rates approach 10 percent and South African experience certainly supports this.

Figures supplied to the Margo Commission indicate that the level of evasion could be as high as 15 percent (the IMF Report of May 20 1985 suggests that it could be as high as 28 percent) and it appears to be growing.

On the basis of the Budget estimate of R9 425 million for GST for 1986-87, if evasion were, say, 10 percent, the amount lost would be R1 050 million, or R105 million every one percent.

It seems that the current, relatively high, rate of GST has much to do with the present problems. When the GST was first introduced the rate was 4 percent and the system was designed with this in mind.

The rate increases have exacerbated the distortions caused by the wide base selected for the tax. This has led to the granting of exemptions which have eroded and further distorted the base, greatly increased the incentive to evade the tax, and generated the unpopularity of and thus the resistance to the tax.

The Margo Commission found that "most of the major problems with GST appear to have developed when the rate was increased from 7 percent to 10 percent with effect from July 1 1984". "The Commission recommends that the rate of GST be reduced, preferably to 4 percent, the rate for which the system was originally designed."

VAT report ready for presentation to Cabinet

A comprehensive document on Value Added Tax will be presented to the Cabinet soon and an outline of the Government's proposals might soon be published for comment, the Minister of Finance, Mr Barend du Plessis, announced yesterday.

In the expanded version of his Budget speech he said that the decision to move from GST to VAT was to have been incorporated in a Bill submitted to Parliament this year after a draft had been published for comment.

In fact, a Bill had been drafted many months ago but required considerable refinement and it had been decided that it served no purpose to publish it in that form.

It was referred to the Tax Advisory Committee and visits by international VAT experts helped the task group to crystalise views on major matters of principle inherent in the VAT system.

"A comprehensive document on VAT has now been prepared and will shortly be submitted to Cabinet for consideration."

Important decisions had to be taken before the consultative process with the private sector could begin but it was hoped the Government's proposals could be published before very long.

Thereafter the Government would call for comments and arrange for consultations with representative organisations such as Assocom and the AHI. If this process was not too protracted, a final bill could be prepared in the second half of this year and presented to Parliament in 1990. — Sapa.

Star 16/3/89

320

Budget of no reward for majority, says union

More tax for less service

By Adele Baleta and Mike Siluma

Major black trade unions have slated the Budget, saying it increased the tax burden of workers while failing to address the social needs of the majority.

The biggest industrial union, the National Union of Mineworkers (NUM) said the Budget had nothing to offer to workers. It increased sales tax so that every black worker, in particular the black mineworker, will pay more to the Government.

"There is nothing which alleviates the plight of the unemployed and contrary to the Minister's claim that the Budget promotes reform, it actually promotes a decline in the standard of living of black workers.

"It is clear that the bosses and the apartheid Government will stop at nothing to ensure that workers are squeezed of every hard-earned cent to benefit the apartheid system.

"The time has come for workers to seriously consider whether the Government is justified in taxing people who do not have representation in the Government," said NUM in a statement.

In its initial reaction, the National Unioh of Metalworkers of SA (Numsa) said the allocation for housing and social services was "grossly inadequate".

Numsa spokesman Dr Bernie Fanaroff said the allocation for housing did not keep pace with inflation and would not resolve the 800 000 housing unit shortage.

He said it was obvious the Government was "shifting its housing responsibility to the private sector, which cannot provide for the majority".

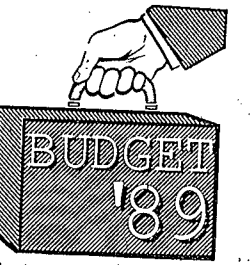
The current housing crisis meant that the "unemployed and the rural population would be put on the rubbish heap".

The private sector provided housing ranging from R30 000 a unit upwards, which 90 percent of Numsa members could not afford.

By increasing GST, Government was transferring the tax burden from the wealthy to the poor.

Increases in the police and defence allocations reinforced the view that South Africa's problems could not be solved until apartheid had been abolished.

However, the white SA Confederation of Labour (Sacol) welcomed Finance Minister Mr Barend du Plessis's remarks about corruption, the exploitation of the consumer and tax evasion.



Sacol supported Mr du Plessis's comments about the pro-sanctions lobby and hoped that Government would take definite steps in this regard, particularly on the labour front.

Sacol said it realised that SA had a "unique constitutional and economic dispensation", but urged the Government to take steps to curb the expenditure of the "independent" states, which received funds from South Africa.

It regretted that GST was to be increased.

SA aid to Namibia slashed by 62 pc

Political Staff

CAPE TOWN — South Africa has slashed its financial assistance to Namibia by 62 percent with only R120 million going to the territory this year.

Last year R350 million was estimated, but only R313,8 million was eventually allocated.

The internal parties have repeatedly expressed concern about the reduction, saying it will give Swapo an advantage in the forthcoming elections. ●

Star 16/3/89

The State President's department has been allocated R1,8 million for the year to enable him to pay the costs of the Administrator-General to run the territory in the transitional period.

was anticipated at the beginning of the year," Mr du Plessis said.

a rate of only about 1 percent," Mr du Plessis concluded.

Mining taxation cuts welcomed, but there's also disappointment

Star 16/3/89

Finance Staff

Anglo American's tax consultant, Mr Marius van Blerck, said he was extremely disappointed at the Government's failure to lay down a timetable for the implementation of the Marais Commission's recommendations on mining taxation.

The Minister of Finance, Mr Barend du Plessis, announced in his Budget yesterday a small change in mining taxation, which would cost the State about R31 million in lost revenue from gold mines and R22 million from other mines. But he said that no timetable for the other recommendations could be specified.

The new comprehensive tax formula for mines will consolidate the existing formula tax and the surcharge of 25 percent, and will slightly reduce them.

The maximum theoretical marginal rate will fall from 70,5 percent to 68,72 percent, while for non-gold mines the surcharge of 15 percent above and beyond the normal tax will be reduced to 12 percent.

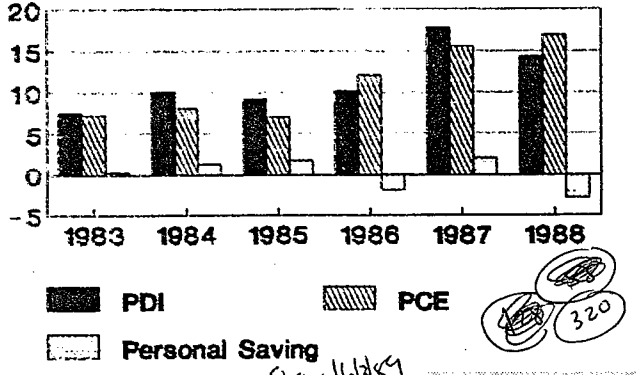
Mr van Blerck said he welcomed the reduced tax rate as a first step in implementing the Marais Commission's recommendations, although the reduction itself was not really significant.

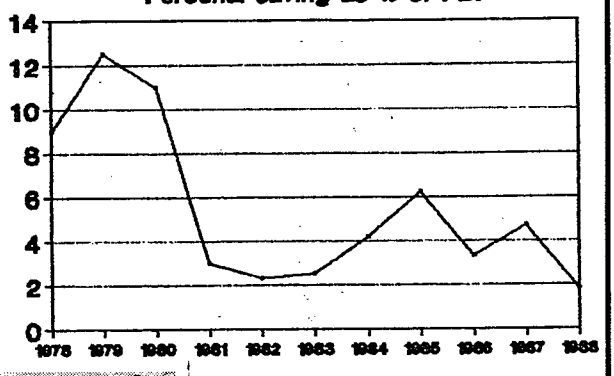
However, failure to specify a time table would create considerable uncertainty in the mining industry, delay decisions and affect its long-term planning.

The Chamber of Mines yesterday welcomed the commitment to the future of the mining industry reflected in the Budget. The chief executive of the Chamber, Mr Tom Main, said: "The tax concessions announced by the Minister of Finance are an important first step towards implementation of the recommendations of the Marais Technical Committee on Mining Taxation.

"The new formula tax for gold mines and the reduction of the surcharge on non-gold mines from 15 percent to 12 percent are precisely in line with the first year phase-in recommended by the Marais Committee.

"They are a move towards a reduction in the overall rate of mining taxation and thus represent a very welcome reversal of the trend in recent years. While the Minister has indicated that he will consider further reductions on a year by year basis, the Chamber hopes that he will find it possible to adhere to the timetable proposed by the Marais Committee," Mr Main said.





Finance Staff Stew 16/3/89

Tax burden has a role in decline in savings

The sharp decline in personal savings to record lows in recent times was most probably caused in part by the increase in personal taxes.

This reluctant acknowledgement was made in the *Statistical/Economic Review* which is released annually on the eve of the Budget speech.

"Over the past few years, direct taxes on individuals as a percentage of their current income increased from 6,2 percent in 1980 to 11,3 percent in 1986. There was then a moderate decline to 10,4 percent in 1988. During the same period, individuals' propensity to save declined from 11 percent of disposable income in 1980 to only 1,7 percent last year.

"Though there are various factors that contributed to this decline, for example interest rates, inflation and inflationary expectations, and the availability of credit, the increase in the tax burden has probably also played a role.

"While the increase in corporate savings during this period partly compensated for the decline in personal savings, the sum of corporate and personal savings, expressed as a percentage of the gross domestic product, nevertheless declined from 10 percent in 1979 and 17,5 percent in 1980 to only 5,9 percent last year.

"At the same time the central Government absorbed a larger part of these savings, as evidenced by the increase in the Government's deficit before borrowings as a percentage of private savings (excluding provisions for depreciation) from an average of 37,1 percent in the Seventies to to 46,3 percent in the Eighties. This ratio amounted to 78,1 percent in 1988," says the *Review*.

Masa against medicine GST

The Medical Association of South Africa (Masa) said last night it was disappointed the Minister of Finance had not abolished General Sales Tax on medicine in this year's budget.

A spokesman for Masa said the association had made repeated calls for the abolition of GST on medicine and would once again approach Mr du Plessis. — Medical Reporter.

Opposition parties both unimpressed

Political Staff

The one percent GST increase announced by Finance Minister Mr Barend du Plessis yesterday was "entirely undesirable" and unnecessary, Mr Harry Schwarz, Progressive Federal Party finance spokesman said.

And the increased personal tax rebate was "insignificant".

It was only a fraction of the amount budgeted to be collected from GST and was "minuscule" compared to the increase of R3,14 billion in personal tax last year.

The Budget was "disappointing" and a "failed opportunity to determine real priorities".

Mr Gasper Uys, Conservative Party finance spokesman said the Budget was "very uninspiring", especially for farmers, and the under-privileged.

There was nothing in it for social pensioners and the increase in GST would hit the less privileged and social pensioners and would fan inflation.

As a result of fiscal drag, net personal income tax would in effect increase, in spite of the increase in primary rebate.

He welcomed the concession to working wives but said he criticised it because it only applied to those earning a salary. If a working wife was a partner in a professional practice, for instance, she would not benefit.



Mr Schwarz . . . tax rebate is "insignificant".



Mr Uys . . . nothing for pensioners.

Rise in GST will increase cost of buildings

By Frank Jeans

The one percent rise in GST is likely to increase the cost of buildings by about 0,5 percent, said Mr Neil Fraser, executive director of the Building Industries Federation (Bifsa).

However, for contractors and sub-contractors, this increase would be covered by the existing price adjustment formula.

"We welcome the fact that the Government has allocated additional cash to the SA Housing Trust," said Mr Fraser. "The additional sums for the Trust must have a positive effect on the building industry as a whole."

"The allocation of R11,8 billion to education is also a welcome announcement," said the Bifsa director, "and hopefully, will provide additional building requirements."

The lifting of the prescribed investments for long-term insurance companies might have a positive effect for the building industry as it could encourage long-term institutional investors to plough some of their funds into the housing and building markets.

"I believe this has been a relatively lenient Budget and one which will have a positive effect on cooling down the economy and curbing the excessive expenditure."

Tax relief for married women who work is one bright light

320 By Malcolm Fothergill 320 Star 16/3/89

Tax specialists have welcomed the relief given in the Budget to married women who work.

They describe it as an adventurous and welcome concession that goes a long way towards separate taxation of working couples.

In future, all women who work for pay, no matter how much they earn, will be taxed under the SITE (Standard Income Tax on Employees) system.

This means their earnings will no longer be lumped together with those of their husbands.

Previously, the upper limit for people to be taxed under SITE was R12 000 a year for a man or an unmarried woman and R20 000 for a married woman.

Now, all married women working for pay — but not those who receive their income from investments or who work for their husbands or who are partners in a firm — will be taxed separately.

The effect on married taxpayers' pockets, say tax specialists, will be considerable.

Aiken & Peat's Ed Hoffman says most married women taxpayers will benefit "quite significantly" and many more women are likely to find it worth their while to work.

Ernst & Whinney's Ken Walton says the Government should be congratulated for this relief, if for nothing else. "It's a bold and adventurous decision that is bound to help the country. We're still not quite there with separate taxation, because to get the relief a woman has to be an employee and not a partner, and because investment income won't qualify.

"But the vast majority of women will now be paying only 25 percent tax, less a rebate of about R90 a month, whether they earn R20 000 or R200 000 a year.

"This is a step in the right direction. Some years ago, couples were getting divorced for tax reasons. Now they can comfortably remarry!"

Fisher Hoffman Stride's Anthony Chait says the Minister "is to be commended on the major refinements to the SITE system so soon after its introduction last year".

The increase in the SITE limit from R12 000 to R20 000 for men and unmarried women will relieve many senior citizens of the need to submit an income tax return, he says.

Arthur Andersen's Kevin Wiles also welcomes the SITE changes — but says one would have expected to see some consideration given in the Budget to the effects of fiscal drag. He also has reservations about the timing of the 1 percent increase in General Sales Tax from 12 to 13 percent. "We don't understand why this should become effective on March 20."

Most businesses have one-month accounting periods, he points out, which means they will have to submit returns for the month of March with sales differentiated into those before March 20 and after March 20. "Rendering returns for March will be particularly awkward for businesses. The effort that will be involved hardly seems to be justified by a week's revenue."

Price Waterhouse's Chris Frame also has reservations. Extending the SITE system to all married women will cause a "major administrative upheaval", he predicts, as the system is complicated. He also has reservations about the changes in the tax system applied to mines.

Here, the Minister announced a small reduction in tax. "But it isn't much, and the surcharges haven't been done away with, they have been consolidated in the rates of tax, which seems a less than straightforward way of doing things."

Aiken & Peat's Alister MacKenzie says the bottom line for mines is that the top marginal rate payable by gold mines goes down from 70,5 percent to 68,72 percent; for diamond mines the effective rate goes down from 56,25 percent to 56 percent; and for other mines the effective rate drops from 57,5 percent to 56 percent. This is not much, he points out, "but every little helps". However, mining lease payments — the "State's share of profits" — were not referred to in the Budget speech. This remains a fairly heavy charge on mines, he says.

In general, the tax specialists described the Budget as "very mild", "cautious, with very few fireworks" and "a non-event".

Bad times ahead for strapped consumers

By MELANIE GOSLING

The South African consumer, squeezed from all sides by price hikes, increased GST, rocketing interest rates and fiscal drag, may well feel the only way out of the economic straitjacket is to head for the hills and revert to a system of barter.

The SA Consumer Council says South Africans are facing one of the toughest financial years yet. They predict an inflation rate this year of a minimum of 15 percent — probably higher — which is a 3 percent jump in less than a year.

LIVING STANDARDS

"It is frightening. Standards of living will drop generally and the consumer will have no option but to tighten his belt," a council spokesman said.

Ten years ago the consumer could work to a budget and be fairly confident that he would be able to stick to it, say economists. Today increases every few months make a mockery of personal budgets.

"People who worked out they could afford to buy a house at a 12,5 percent interest rate a little over a year ago are now faced with a massive increase to 19 percent. Many people simply could not cope and have lost their homes," the spokesman said.

Similarly many people who bought cars at the hire purchase rate of 18 percent 18 months ago had their vehicles repossessed when the HP rates shot up to the current 22 percent, he said.

Housewives League president Mrs Lyn Morris says many people can no longer afford to own a house.

"This has serious consequences for society. Having a roof over one's head and security of tenure is tremendously important physically and psychologically. Without it a family has no feeling of security," Mrs Morris said.

She points out that the GST increase from 12 to 13 percent means that the consumer will actually be paying 8,5 percent more on goods.

"One had hoped that the Government would therefore have given the consumer some tax relief but with no move to reduce fiscal drag the consumer has in reality suffered an increase in tax."



The Bureau for Economic Research says the Government's lack of provision in the Budget to ease fiscal drag by changing the tax structure means that effectively most people are now taking home less money than they did before their salary increases.

The tax on petrol had hit the consumer hard because of the increased cost of filling his tank and the ripple increases he had had to pay for in food and services. In September last year there had been a 15 percent petrol-price hike and a further 11 percent in January this year.

EASY TAX

"What is worrying is this is such an easy tax for the Minister to increase. He doesn't need parliamentary approval. It is such a devastating increase because immediately petrol goes up, so do just about all goods and services," Mrs Morris said.

Last month provincial hospital prices rose by 150 percent and private hospital fees by 12 percent. These came after increases in doctors' fees and medical aid tariffs last year.

Economists say there are hidden increases in Government spending which many consumers do not see. Professor Geert de Wet of the department of economics at the University of Pretoria believes these are cause for great concern.

"The Government's current expenditure is budgeted to increase by 17 or 18 percent while capital expenditure will decline. That means the infrastructure is not being expanded," he said.

The Government is therefore spending less on services and goods (like dams, roads, and hospitals) and more on running the country (eg salaries, fuel).

"This is not something that strikes the consumer directly, but it will hit him in the end."

INTEREST RATES

Professor de Wet said the rocketing interest rates were a direct result of the fact that Government expediture was not controlled.

Is there likely to be any relief for the consumer or will he continue to be caught in a upward spiral of debt?

The SA Consumer Council says relief is unlikely.

"It is time to be realistic. To increase one's debt now is risky. The economy is unstable. Consumers will have no option but to tighten their belts."

GST increase yet 'another blow' — consumer bodies

By Sally Sealey

Consumer bodies and supermarket executives view the 1 percent increase in general sales tax as yet another blow to the hard-pressed consumer.

"The consumer, and more particularly those in lower income brackets, will be hardest hit and one wonders how long they can keep on absorbing these increases," said the deputy managing director of Checkers, Mr Sergio Martinengo.

Mr Martinengo condemned the increase in State expenditure, saying it was still far too high.

CONSUMER

He said the consumer could be grateful that excise duty was limited to non-essential items

The Consumer Council considered the Budget "comparatively mild", but saw another tough financial year ahead because of the relatively few concessions.

Consumer Council director Mr Jan Cronje said: "The fact that GST has been increased and income tax has not significantly been reduced is contrary to the proposals of the Margo Commission."

Mr Gordon Hood, managing director of the OK, said the rise in sales tax was "regrettable". However, he welcomed concessions to pensioners, working women and the lower income groups "as these are the people who are suffering most from the effects of inflation".

Mr Hood said the Minister should give urgent attention to the plight of those whose disposable incomes were seriously affected by a GST increase.

Spokesman for the National Black Consumer Union, Mr Eldridge Matebula, said: "We are flabbergasted at the rise in GST. The Government is insensitive to the needs of the consumers who are already hard hit by unemployment and the high inflation rate."

The president of the Housewives' League, Mrs Lyn Morris, said: "The League is not very happy with the 1 percent increase in GST because it has an effect on everybody."

Mrs Morris welcomed tax rebates for the over 65s, benefits to married women and primary rebates.

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Soweto's wealth pours into Johannesburg

Joint tax base vital for 'apartheid city'

By Jo-Anne Collinge

The establishment of a single tax base for Johannesburg and Soweto is the only long term basis for the sound development of South Africa's largest township, according to a detailed report on the Soweto rent boycott.

The report was prepared by a private planning consultancy, Planact, and was commissioned by the Soweto Delegation, a collection of high-profile community and church leaders who have sought to negotiate a solution to the rent crisis with the township authorities.

The report says the three-year-old Soweto rent boycott took hold largely for economic reasons and it is therefore not reasonable to think that boycotting households will contribute financially to the resolution of Soweto's debt crisis.

The debt of the township is estimated to be at least R701 million, of which at least R200 million can be ascribed to arrear rent and service charges.

This debt and the totally inadequate provision of infrastructure in Soweto are viewed in the report as symptoms of the "apartheid city" pattern, where townships are cut off from the business centres where residents earn and spend most of their money.

The report notes: "Approximately 283 000 Sowetans, who worked in Johannesburg, earned over R2 billion in 1987. Sowetans spent about R1 billion in Johannesburg's CBD in 1987.

Income

"However, because Soweto is defined as a separate city, Sowetans do not benefit from the economic development of Johannesburg.

"The healthy economic base of Johannesburg generates an enormous income for the Johannesburg City Council (JCC) which, in turn, has a sufficiently large surplus to subsidise white ratepayers. None of the JCC's income finds its way back into Soweto."

The report says that regional service councils, which impose levies on businesses to fund township development, are an attempt to deal with the negative consequences of the "apartheid city" syndrome.

Not only are they an added bureaucracy, but they do not get to the root of the problem, it claims.

"They ameliorate the consequences of Johannesburg's exploitation of Soweto (but) do not eliminate the structural foundations of a system that transfers wealth from the poorest to the richest sectors of the city.

"It follows that no development policy for Soweto will succeed until Johannesburg and Soweto are treated as one urban economy."

Other major policy recommendations to resolve the rent boycott and develop Soweto are:

- The arrear amounts owed by householders must be written off. The "bridging finance", presently paid by the province to keep the Soweto Council going should be treated as a non-recoverable loan or as a grant.
- The housing stock must be transferred to the ownership of the residents of Soweto on terms to be negotiated. It is recommended that a democratic and accountable Community Housing Trust be established for the purpose.
- Soweto's infrastructural services must be upgraded to an acceptable standard.
- An affordable service charge formula must be worked out so that the population of Soweto can pay what is demanded of them.

This would seem to rest on cross-subsidisation between Johannesburg and Soweto, the report observes.

Govt proves incapable of countering taxation spiral

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CAPE TOWN — Despite its stated intention of reducing the effect of fiscal drag, the Government was not able to announce significant measures to counter progressive taxation.

Income tax on individuals is forecast to rise by a further 22,5 percent to R17,1 billion in spite of no change to standard tax rates.

This follows the increase of 18,5 percent in personal taxes garnered from individuals during 1988/89.

This large jump is based on the expected rise in wages and salaries, taking into account bracket creep and the growth in the taxpaying corps.

To counteract this, the Minister announced increases in these primary rebates:

- Married persons from R1 100 to R1 250.
- Unmarried persons from R750 to R850.

Married persons under 65 will pay R150 a year less in tax while unmarried persons in the same age group will pay R100 a year less in tax.

The additional rebates for people over 65 will go up from R500 to R1 450.

Worries about GST rise

The president of the South African Agricultural Union, Mr Kobus Jooste, said yesterday that organised agriculture had no major objections to the Budget provided the Government adhered to it: "History has taught us, however, that this is seldom the case."

Mr Jooste said it was a pity that GST had been adjusted since it aggravated the problem of already high input costs.

Mining taxation cuts welcomed, but there's also disappointment

Star 16/3/89

Finance Staff

Anglo American's tax consultant, Mr Marius van Blerck, said he was extremely disappointed at the Government's failure to lay down a timetable for the implementation of the Marais Commission's recommendations on mining taxation.

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Mr van Blerck said he welcomed the reduced tax rate as a first step in implementing the Marais Commission's recommendations, although the reduction itself was not really significant.

However, failure to specify a time table would create considerable uncertainty in the mining industry, delay decisions and affect its long-term planning.

The Chamber of Mines yesterday welcomed the commitment to the future of the mining industry reflected in the Budget. The chief executive of the Chamber, Mr Tom Main, said: "The tax concessions announced by the Minister of Finance are an important first step towards implementation of the recommendations of the Marais Technical Committee on Mining Taxation.

"The new formula tax for gold mines and the reduction of the surcharge on non-gold mines from 15 percent to 12 percent are precisely in line with the first year phase-in recommended by the Marais Committee.

"They are a move towards a reduction in the overall rate of mining taxation and thus represent a very welcome reversal of the trend in recent years. While the Minister has indicated that he will consider further reductions on a year by year basis, the Chamber hopes that he will find it possible to adhere to the timetable proposed by the Marais Committee," Mr Main said.

A burgeoning personal tax loa

Argus 16/3/89

TAXPAYERS were cautioned last night not to be hoodwinked by first impressions from the 1989 Budget that cuts in overall tax bills were on the way.

Director and chief economist of the Econometrix research unit Dr Azar Jammine advised taxpayers to keep a firm eye on estimates that the state still plans to push its revenue from personal income tax as much as 22,5 percent higher to a record R17 100-million.

Moreover, though the rate of general sales tax had been increased no more than from 12 percent to 13 percent, the overall impact threatened to boost total GST bills by 17,4 percent to R15 150-million.

Thus, consumers faced overall tax bills of a whopping R32 250-million.

Dr Jammine said it was time to take stock of the increasing share of the tax load the government was hoisting on the shoulders of individuals, while it refused to cut back on gross over-spending by the state.

The share carried by individuals had now been increased to an unprecedented 60 percent of total tax revenue, double the size of the share carried by them in 1980.

Dr Jammine said the Minister of Finance had made no moves whatsoever to curb government over-spending — the root of economic problems — by making allowance for expenditure to go up yet another 15 percent.

Taxpayers would naturally welcome the higher threshold level before they stepped into income tax brackets, the higher primary rebates, and concessions for working married couples.

"But all the benefits will be swallowed by inflation and the fiscal drag that pushes them into higher and higher tax levels," he said.

"In the end, the Minister will have tightened everyone's belt a few more notches — while state spending steams ahead unchecked."



BUDGET EDITIONS: This is how The Argus brought its readers up to date as the Budget unfolded in Parliament yesterday afternoon. As Finance Minister Barend du Plessis launched into his Budget speech, The Argus was the first with what the government has in stock for the year ahead, in the Late Final. This was followed by a slip edition with the latest developments and finally with the Budget Special, and with it, all the details.

THE in-depth analysis on this page of the main points of Finance Minister Barend du Plessis's Budget for 1989 was compiled by The Argus Finance Staff in Cape Town, Johannesburg, Pretoria and Durban.

It's better to be married than 'live in sin'

TAX-WISE it's better to be married than to "live in sin" since yesterday's Budget announcement, as long as the wife is employed and not by her husband, say tax experts.

Couples who have chosen to live together rather than marry because of the punitive tax burden on married working women, may now want to reconsider in the light of concessions announced in the Budget.

The concessions lifted the burden on married women, and effectively abandoned joint taxation for married couples.

This was welcomed with some reservations by tax experts around the country.

Miss Anne Pappenheim, a partner in Deloitte, Haskins and Sells, in Johannesburg, and Mr Walter Steinberg, a tax partner from Arthur Anderson and Associates in Cape Town, agreed that in most cases it was now better for a couple to be married than single, if the wife was a salaried earner.

Under the old system, a married couple with the husband earning R60 000 and a wife earning R40 000, would jointly pay R30 367. Under the new system, the couple will pay R27 635 (R17 310 for the husband and R10 325 for the wife).

If they were unmarried, they would pay R29 980 under the old system, and R29 780 under the new system.

The married couple will now pay R2 732 less than before the Budget announcement, and R2 145 less tax than if they were unmarried.

Similarly, under the old system, if the husband earned R20 000 and the wife earned R30 000, they would jointly pay R9 211, but R8 995 under the new system. If the couple were unmarried they would pay R9 440 under the old system, and R9 240 under the new system.

The married couple will pay R216 less in tax than under the old system, and R245 less under the new system than a couple living together.

But Miss Pappenheim pointed out that while the Budget announcement was a bonanza for employed married woman, it did not cover the woman who was not salaried.

"The bonanza does not cover the independent, professional woman, or other non-salary earners such as women trading for their own account, and women who earn their income in association with their husbands — for example, a woman who works for her husband's partnership or company.

Consulting economist Mrs Paula Huyshamer said the concessions were "marvellous" and she was thrilled that separate taxation had finally been achieved.

This would prove the incentive many married women were waiting for, to re-enter the job market, Mrs Huyshamer said.

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Another tough year ahead for consumers

THE man-in-the street faces paying more income tax through fiscal drag, higher sales tax and more costly liquor, cigarettes, tobacco and soft drinks, following yesterday's Budget.

The R65,5-billion Budget tabled in Parliament by the Minister of Finance, Mr Barend du Plessis, pushed up government spending by 12,4 percent.

It featured a one percent increase in General Sales Tax to 13 percent; small primary tax rebates but no protection from "fiscal drag", which will increase personal taxation; duty increases on hard liquor, beer, cigarettes and cold drinks; and tax relief for married women.

Allocations for the police, the defence force, health services and education rose steeply.

The PFP's spokesman on finance, Mr Harry Schwarz, said the Budget was one of disappointment, lost opportunity and failure to determine real priorities.

Economists said in spite of South Africa's high rate of inflation, the Minister of Finance had not adjusted the income rates to account for fiscal drag.

"This must be the first time in three years or so that he has not done this," said Mr David Mohr, the Old Mutual's economist.



The result was that the income tax burden on most people would rise sharply. Most taxpayers would pay far more income tax than last year.

To account for fiscal drag, rates would have to be reduced eight percent, said economists.

Mr du Plessis yesterday increased the basic rebate by R150 — equivalent to a tax cut of R12,50 a month without allowing for fiscal drag.

Economists said the increase in general sales tax to 13 percent would increase the cost of living by about one percent and increase the tax paid on purchases by about eight percent.

They saw working wives earning more than R20 000 a year as the only real beneficiaries of a Budget described by Mr du Plessis as "neutral and meant to be restrictive".

Economists said one of the few bright rays in the Budget was the provision for wives earning more than R20 000 now to pay Site instead of normal income tax, cutting their maximum tax rate from 35 percent to 25 percent.

The Associated Chamber of Commerce expressed disappointment that the Budget had not encouraged savings by reducing the tax burden for those taxpayers who had the propensity to save, and regretted the failure to tackle the problem of fiscal drag.

Assocom said the government could limit the increase in spending to 15 percent only if strict financial discipline was maintained.

The South African Co-ordinating Consumer Council considered the Budget as "comparatively mild", but saw another tough financial year for consumers because of the relatively few concessions made on their behalf.

Consumer bodies and supermarket executives see the one percent increase in General Sales Tax announced in the Budget as yet another blow to the hard-pressed consumer.

Mr Chris Frame, director of the chartered accountants Price Waterhouse, was disappointed that the Minister had made no reductions in progressive income tax rates, meaning that taxpayers would be forced higher up the marginal tax ladder at a faster pace than ever because of the upward curve in inflation.

He reckoned fiscal drag had now become one of the government's most powerful invisible tax collectors of all.

And the increase in GST — though not as big as widely forecast — was bound to accelerate the inflation rate.

However, if it succeeded in dampening consumer demand, it may even yet serve a useful purpose.

Tax consultant Mr Nic Nel responded to the Budget by setting the wheels in motion to form a nation-wide tax association to seek far speedier progress in tax reform.

"Tax reform on a major scale has become imperative," he said. "As a first move, we need the establishment of an association of experienced tax specialists who can review the poor performance to date and set out totally new ideas.

"One of the worst errors in the 1989 Budget, by raising GST on one side and raising tax thresholds on the other, has been to foist more of the government tax burden on lower-income groups at a moment when the whole load needs to be redistributed."

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GST rise counter to Margo proposals

THE proposed increase in GST from 12% to 13% runs totally counter to the Margo Commission proposals.

Mr Justice Margo and his team, whose efforts were funded by the nation's taxpayers, now face the ignominy of having virtually all their proposals ignored by the government.

The commission was unequivocal in its rejection of high rates of GST, suggesting that they were inflationary (yesterday's Budget is intended to be anti-inflationary), encouraged avoidance and resulted in intense public resentment of the entire tax regime.

Thus:

● Sales tax has more direct impact on prices than does income tax — where the timing of tax payments and the redistributive forces in the market disguise the impact. Many studies have shown that prices have risen by more than the tax amount imposed;

● With the increase in the rate of GST to 12%, those instances where there is double taxation — for example, capital goods used in production, non-exempt consumables, certain non-exempt services to traders, etc — are becoming a problem; and

● Whereas in the past many retailers would have sold their goods on the inclusive basis, today in virtually every instance the purchaser is confronted with GST as a separate item when he pays for his purchases. This has obviously increased the visibility of the tax — a fact that should not be underestimated when seeking causes for the apparently increasing antagonism to GST.

In the sensitive political situation in which South Africa now finds itself, with resistance to tax assuming political overtones and extreme pressure to provide the social and other services necessary to satisfy the expectations built up in the last few years of political change, this problem is a critical one.

Schwarz lashes GST increase

Political Staff

THE 1 percent GST increase announced by Mr du Plessis was "entirely undesirable' and unnecessary. said Progressive Federal Party finance spokesman Mr Harry Schwarz.

And the increased personal tax rebate was insignificant. It was only a fraction of the amount budgeted to be collected from GST and was "minuscule" compared to the R3,14-billion in personal tax increase last year.

Mr du Plessis had engaged in "accounting exercises" to convert a real tax surplus of R1,614-billion last year to one of only R294-billion.

This, taken with the extra R1 billion allowed for contingencies, showed the GST increase and the burden on consumers could have been avoided and concessions could have been granted.

"The budget was disappointing and a failed opportunity to determine real priorities".



Mr Schwarz

The PFP's major difference with the government was that it wanted a cut in real state spending.

Government spending was set to increase by the amount of the expected inflation rate for the year, so that in effect there was no decrease in real state spending.

It was especially serious that capital expenditure was being cut while state consumption spending increased.

Among other points raised by Mr Schwarz were:

- There had been no increase for social pensioners; and

Champagne and expensive wine were left unscathed by the increase in excise duty.

Conservative Party finance spokesman Mr Casper Uys said the budget was "very uninspiring, especially for farmers and the under-privileged."

There was nothing in it for social pensioners.

As a result of fiscal drag net personal income tax would in efect increase in spite of the increase in primary rebate.

He welcomed the concession to working wives but criticised the fact it applied only to those earning a salary. Working wives who were partners in professional practices would not benefit.

Tax reform is dead — experts

By Dave Canning

DURBAN — The national Budget was disappointing proof that tax reform in South Africa was dead, Durban business and professional people were told on Wednesday.

Speaker after expert speaker at a top-level seminar in the city lashed out at the Government's lack of financial discipline and direction — and stressed that the already over-taxed public faced an increased burden and higher inflation.

Even Dr Kees van der Pohl, a top business figure and local director of the Trust Bank, chairman of the seminar, appealed for the next government to be elected on the basis of economic policy rather than ideology.

Mr Roelof Botha, son of Foreign Minister Mr Pik Botha and the Federated Chamber of Industries' senior economist, warned that the country was moving closer to a centrally planned economy. He said it did not require a revolution, but creeping socialism, to establish a Marxist government.

He urged the Government to study the benefits and revenues which would flow from lower tax rates.

Dr Piet Strydom, head of strategic research at Sanlam's top company Sankorp, said that the Government was unwilling to tackle the major problems of inflation and high taxation because it was the only beneficiary. Unhappily, yesterday's Budget would do nothing to support the economy.

Dr Strydom described the 1 percent increase in GST as a disaster.

He said the Finance Minister had ignored a report by the International Monetary Fund that there were severe dangers in increasing GST above 8 percent.

The advantage of such tax — including VAT, which is to follow — should be its low rate on a broad base. The IMF showed that pushing a tax to such heights created distortions and drastically narrowed the base.

"We have mucked up a perfect tax system," he said. And, now that the rest of the world was having second thoughts about the wisdom of a Value Added Tax, South Africa had decided it was time for its introduction!

Dr Strydom exposed the Minister's "fancy footwork" over borrowing figures. Against a deficit-before-borrowing target of 3 percent of GDP, the Minister claimed to have reduced it to 4,1 percent (from 4,4 percent last year). However he had omitted to mention that in 1988/9 he had been helped by massive unexpected increases in revenue — including the petrol levy, import surcharge and fiscal drag.

Mr Charles Mackenzie, national director of taxes at Arthur Young, said the Budget figures were most worrying when seen in comparison with last year's Budget, and not the revised figures which the Minister had relied upon. This showed department after department continued to over-spend.

Tax reform was dead — the Government had heeded the Margo report only in so far as this had boosted its revenue. It had ignored Margo provisions in favour of alleviating the burden on individuals.

Individuals, already overtaxed, would pay 22,1 percent more this year, largely as a result of fiscal drag. The SITE concessions to married women would not cost the Government anything and the higher rebates were negligible.

Star 17/3/89 (320)

Financial independence 'a must'

By Marika Sboros

Wednesday's Budget announcement on separate taxation for married women caught lobbying groups by surprise, but the move has been roundly welcomed.

It also throws the spotlight once again on the need for women to achieve and maintain financial independence, says Mrs Babs Kabak, co-convenor of the Women's Legal Status Committee (WLSC), a group which has lobbied for separate taxation for married women since its inception in 1975.

Mrs Kabak says the Budget announcement that married salaried women would in future be taxed separately from their husbands was most welcome, though unexpected in this particular Budget at this particular time in South Africa.

"But it is a very good first step. The Treasury now recognises salaried women as independent entities from their husbands.

DISCUSSION NEEDED

"The Minister of Finance has indicated that in the next Budget he will look at extending the concessions to all forms of income for women, including any investments they have, as soon as it is feasible from a national Budget point of view."

Married women must sit down with their husbands and discuss an equitable distribution of their salaries, Mrs Kabak says.

"Women have come a long way in South Africa," Mrs Kabak says. "They should keep on the road to financial independence and watch their expenditures carefully."

It is common practice for a woman to put all her salary money into everyday expenditure of the home, such as food, rent, utilities, domestic worker's salary, children's needs, while her husband's income goes on the large investments, such as mortgage, car and investments, she says.

"Women are advised to sit down with their husbands and plan their financial expenditure so that each shares in the everyday expenditure as well as the larger investments," says Mrs Kabak.

SMALL STEP

Ms Sharon Lain, an executive consultant for Southern Life, says the concessions for married salaried women are "a small step in the right direction", but do not encourage the entrepreneurs.

"But there is a large section of working married women running their own businesses who are now suffering discrimination.

"In today's financial climate, we need to do everything possible to increase the profitability of businesses."

With inflation and the increase in GST, women must now pay greater attention than ever before to personal financial planning, Ms Lain says, and make sure that they invest in areas that have a track record of beating inflation, or they will be in a situation of "money shrinkage".

Women should be looking at products offered by life insurance companies (provided that the companies' track records show that their investment growth exceeds inflation), such as tax sheltered investment plans, retirement annuity plans and unit trusts, Ms Lain adds.

Higher tax rate hits NTC

Finance Staff

Higher interest charges and tax payments hit National Trading Company (NTC) profits for the year to end-December, with earnings per shared declining by over 20c to 74,6c. The total dividend fell by 10c to 35c.

While operating income increased by 33 percent to R17,06 million on a R70 million rise in turnover to R319,7 million, finance charges rose by R2,44 million and tax payable surged from R1,95 million to R5,32 million.

The company also announced that a deal has been finalised, which will see NTC sell part of its trading divisions to Natmac Holdings, which is owned jointly by NTC and MacSteel.

Following on this deal NTC will sell its 50 percent holding in Natmac to MacSteel.

(320) FM AM
17/3/89.

TAX ESCAPE HATCH

The dreaded new proposed addition to the Income Tax Act, Section 103 (5), contains an escape hatch — but it's a retroactive one.

Part of the section states that the new (anti-avoidance) section will apply to "any transaction, operation or scheme concluded before December 22 1988, if the taxpayer is at liberty to terminate the operation of such transaction, operation or scheme without incurring liability for damages, compensation or similar relief."

This is not the Double Dutch it appears to be. All it does is assume that certain parties to income swaps (hit by S 103 (5)) predict a change to law, often because they know that the transaction sails very close to the wind.

If the law is in fact changed, all parties bail out of the transaction, without incurring penalties, and so on, and re-write the transaction if it's still beneficial. This is juggling with the tax system: tails you win, heads you win.

The other type of transaction, where parties sign on the basis that they believe that the scheme *might be contested*, but worth going ahead with, is the escape hatch. The parties must not be able to terminate the transaction, unilaterally or otherwise, without incurring damages.

Such transactions, though predicated on avoiding tax, contain at least one element of normality. So the taxman has been a little kinder than usual with the application of new retroactive law.

distribution of a dividend to creditors and are anxious, "in view of the 200 000 cheques to be sent out," to get up-to-date addresses of anyone with a claim on AAM. The address is: AAM in Liquidation, Box 9595, Johannesburg 2000.

TAX AVOIDANCE

Inspectors moving in

Top-grade Inland Revenue inspectors in Johannesburg have unearthed two major property finance schemes in the past week that are the subject of close investigation.

One, involving a life office, revolves around the cunning presentation of taxable interest income as a non-taxable capital gain by revaluing property.

"If that 'impossibility' seems strange," says a partner in one of the Big Eight accounting firms, "Inland Revenue has seen nothing yet." The schemes are based on non-disclosure and legerdemain. During the past year, after an *FM* report, Inland Revenue has been looking for "strange" notes in financial statements through which these schemes seek legitimacy.

Some leading property developers or their spokesmen have denied participation in schemes that Inland Revenue is now unearthing. That these schemes exist has been verified by a lawyer, merchant banker and business executive in a position to know.

One of Inland Revenue's main concerns at this stage is the involvement of tax-exempt bodies. It has found the figures involved so alarming, and the practice so widespread, that it is contemplating a material change in the law.

This would involve the removal of tax-exempt status of bodies under Section 10 (1) (f) of the Act — ecclesiastical, charitable and educational institutions of a public nature. These bodies would then pay the nominal corporate tax rate of 50%.

This implies that the tax-exempt status of pension funds and the special tax dispensation of life offices — especially if some are involved in the schemes — would also fall under the spotlight. But this could be overshadowed by events.

One particular enterprise has been identified by the authorities as the common factor in most of the property schemes. It was involved also in some fanciful bloodstock and film schemes that have come under official scrutiny.

The SA Institute of Chartered Accountants is still formulating an answer to the *FM*'s query on how disclosure could have deteriorated to a point where Inland Revenue has to raid enterprises to seize documents.

Of course, others involved in tax and investment are also involved. Most, if not all, have taken "professional advice" on schemes they have signed. One reaction from professionals is that as Inland Revenue has refused to give rulings on proposed tax schemes, they are involved in an increasingly grey area.

Inland Revenue's reaction is that rulings have become pointless because what comes in with some tax returns is different from what was ruled upon.

In many cases, Inland Revenue adds, the substance of schemes submitted — as opposed to form — is artificial. To give rulings on such schemes, it argues, is to incite the creation of yet more fanciful ones.

The principle fault lies in a tax system that has become antiquated and complex in the face of growing business sophistication and which is at times inadequately administered. This gives rise to a vicious circle. Tax authorities are increasingly appalled at the conduct of taxpayers and react by seeking wider discretionary powers. Taypayers, for their part, find as a result that their confusion is compounded and, as tax burdens rise, take increasing liberties.

Was not this the situation that the Margo Commission was supposed to address and begin what was held out to be a process of tax reform? ▩

TAX REFORM

Bashing savings

Assocom has released details of a plea to government to reform fundamentally personal taxation, particularly treatment of interest and dividends. The first R1 000 interest income for a personal taxpayer is exempt from tax; one-third of dividends are tax-free with the rest taxed at the taxpayer's top marginal rate.

The system is scrappy in that personal deductions for interest and dividends are made only on filing tax returns. Much remains undeclared and undetected. One of the answers to the problem, explored by Margo, was the imposition of a withholding tax on investment income.

This, applied at source of payment, Margo said, would do much to bring undeclared investment income to the fore. Taxpayers would claim a credit against the issue of a certificate of deduction.

Margo said that for interest income however, the limited exemption should be maintained and no withholding tax introduced. But in the Margo White Paper, government said it believed that there are many advantages to be had from a withholding tax on investment income.

It added that the idea should be referred to the permanent Tax Advisory Committee for exploration. Subsequently, Deputy Finance Minister Org Marais said that investigations could be made into freeing the first R10 000 of dividends *and* interest income from tax.

Another possibility was to tax interest and dividends at a low rate and remove their other tax advantages. Dividends, of course, suffer the well-known disadvantage of being subject to double taxation: they are paid from taxed income, and taxed again in the hands of personal recipients (and life offices and close corporations).

Margo recommended that double taxation of dividends be abolished, which has not been done. Assocom argues that this would be much simpler than imposing what would inevitably be a complicated withholding tax of, say 15%.

The administrivia of a withholding tax, added to the new obligations on companies of complying with the standard income tax on employees (Site), would be a minefield. Government, of course, is wary of abolishing taxes if there is no compensating element.

Margo suggested that a 15% withholding tax would make the abolition of double taxation of dividends tax-neutral.

Assocom says this misses the point: people would end up in as bad a situation as before (call a tax a tax).

What is far more important, says Assocom, is realisation that savings are crucial in SA, and savings are too low. The implication is that Margo's recommendation to abolish double taxation on dividends should be done without compensating on the basis of revenue neutrality.

Interest, says Assocom, falls into a different category.

Noting that it is the intention to phase out interest (and related) tax concessions on Post Office, building society and Treasury instruments (now postponed until March 1990), Assocom asks if the tax system has any role at all to play in the encouragement of savings.

"The question may arise as to whether there is really any basic merit in introducing limited tax-free amounts or low-rate withholding taxes on interest payments." To bolster this, it quotes Margo as saying that taxation should not be used to achieve extraneous objectives.

"As long as there is a failure to attain the comprehensive income tax reform envisaged by Margo, there is probably something to be said for more effective concessions for interest and dividends."

But Assocom argues that "first prize" would go to thorough-going reform of the personal tax system.

This would include the introduction of fewer and wider personal income tax brackets, recommended by Margo. Inflation, "the chief discouragement to savings," would have to be recognised by adjusting tax rates to recognise actual inflation rates. ▩

GST monster gets more teeth

By JOSHUA RABOROKO

THE General Sales Tax has been given more poisonous teeth to bite to death businessmen, men in the street, unemployed people and in fact in everybody.

This is the opinion of Soweto's black tax and business consultant, Mr Matsheru Matsheru, who was giving his view on the government's increase of sales tax from 12 to 13 percent.

In a lengthy article, Mr Matsheru says however, the question which still boggles the shocked tax payers is why the GST rate has been increased.

Generally speaking, the increase or decrease of any tax is influenced by the social and political pattern of the country.

Therefore, one can assume that the economic factors that led to the rise of GST have been caused by the following factors:

- To recover the loss the government suffered as the result of the recent increase of the civil servants by 15 percent;
- A preparation for the value added tax at a higher tax rate early next year.

It is stomach-turning to realise that the private sector and other people are condemned to tax, to support sometimes unproductive civil servants and unproductive ideologies.

This is a horror story for the small businessmen, especially those who do not qualify to get exemption certificates so as to be exempted when they buy their goods. It is estimated that more than 57 000 vendors were dissatisfied when the R50000 rule was implemented last year.

This tax punishment imposed upon the small traders especially during these economic hardships shows that not only sinners go to hell, but even innocent and obedient people may go anywhere simply by a mere stroke of the legislative pen.

This will inevitably create a cash flow problem on those small businessmen and will also kill their initiative. This is a brutal irony because the State must be seen to encourage the growth of small business, instead of doing just the opposite.

Mr Matsheru's article criticises the Government on numerous issues pertaining to sales tax.

Some of the points raised by Mr Matsheru have to do with the fact that small business people have to identify the nature of their transactions.

They are also expected to identify whether their trade is taxable and if taxable, find out whether exemption can be claimed.

It must also be found out about the taxable value of the trade and where and when it is taxable.

MONEY MATTERS | Derek Tommey

Wives gain as hubby loses out

FINANCE Minister Barend du Plessis may have thought he was making life easier for working couples when he announced in his Budget that the earnings of working wives would be taxed separately from those of their husbands.

He may have believed that he was reducing marital friction in two-income families about who pays what income tax. But a close look at budget provisions suggests he may have removed one cause of conflict to create another. One reason is that his Budget apparently makes the working wife a little richer while making the husband decidedly poorer.

The Government's failure to adjust tax rates for fiscal drag means the husband has to pay significantly more tax this year than last. He may have more bits of paper left over after paying tax, but these will buy much less.

If he is the family's main provider he will find it much more difficult to maintain his family's living standards.

However, his wife may feel she is better off. The switch to the SITE tax system means working wives will bring home more bits of paper. This will not cause conflict if the wife shares her increased take-home pay with her family. But if she believes the extra is hers to spend or save there could be trouble ahead.

This brings us to the second reason why Mr du Plessis may have created cause for conflict.

Analysis of the tax tables shows that despite so-called tax cuts for working wives, many working couples will still pay more tax this year than last.

A working wife is being misled if she believes the change in tax system automatically gives her family more money to spend.

In this week's Budget the Government did hardly anything about fiscal drag. As a result, most recipients of inflation-linked pay increases will be paying 25 percent more tax this year than last year — when the increase should only be 15 percent or so if living standards are not to be reduced.

In other words fiscal drag is resulting in their paying about 8 percent more tax than they should do.

To keep this year's income tax to the same level as a year ago, tax rates should have been cut by about 8 percent. This, of course, did not happened.

So while working wives may feel they are better off after tax, in many cases their families are worse off because this year's total tax bill will be higher. The following lists show which couples will be better off after tax than they were last year and those that will be worse off.

Couples receiving bigger after-tax income in real terms will be those in the income brackets where tax savings exceeded 8 percent. Couples in tax brackets where the savings are less than 8 percent will effectively pay more tax this year.

Husband earns R20 000. Wife earns...
R25 000 (tax saving of 5 percent)
R30 000 (tax saving 2,3 percent).
R40 000 (tax saving 4,3 percent).
R50 000 (tax saving 3,9 percent).
R55 000 (tax saving 2,5 percent).
R60 000 (tax saving 1,9 percent).

Husband earns R40 000. Wife earns...
R20 000 (tax saving 7,5 percent).
R30 000 (tax saving 9,1 percent).
R40 000 (tax saving 10 percent).
R50 000 (tax saving 9,5 percent).
R55 000 (tax saving 8,4 percent).
R60 000 (tax saving 7,4 percent).
R70 000 (tax saving 5,6 percent).

Husband earns R60 000. Wife earns..
R25 000 (tax saving 6,1 percent).
R30 000 (tax saving 7,5 percent).
R40 000 (tax saving 9 percent).
R50 000 (tax saving 11,1 percent).
R55 000 (tax saving 8,3 percent).
R60 000 (tax saving 7,4 percent).
R70 000 (tax saving 6,1 percent).

Husband earns R80 000. Wife earns...
R50 000 (tax saving 7,8 percent).
R55 000 (tax saving 7,3 percent).
R60 000 (tax saving 6,7 percent).
R65 000 (tax saving 6,1 percent).
R70 000 (tax saving 5,6 percent).

Sales tax up to 13% from today

ARGUS 20/3/89 320

By TOM HOOD, Business Editor

GENERAL sales tax goes up today from 12 to 13 percent.

The increase, announced by the government in last week's Budget, will add about R8 a month to an average family's groceries, according to consumer organisations.

The new rate has been criticised as being difficult for shoppers to calculate.

"Shoppers should be warned to take along a pocket calculator because they will be at the mercy of shop tills," said a Housewives League spokesman today.

The league said it was unhappy about the GST increase because it would affect many families who could not afford it and would fuel inflation.

TWO CALCULATIONS

"The Minister of Finance should rather raise the R1,25-billion it represents by pruning government spending."

Traders are upset that the government did not make the rise effective from the end of the month.

They now have to estimate their turnover up to yesterday and calculate GST according to one formula, then estimate turnover for the rest of this month by another formula.

GST increases are normally effective from the beginning of a month to facilitate the changeover of automatic tills and make it easier for traders to complete their monthly returns to the Receiver of Revenue.

But by raising the tax two weeks ahead, the government will rake in at least R15-million extra, as well as curb any spending spree ahead of the increase.

A spokesman for the Association of Chambers of Commerce said today that there were complaints that not enough time was allowed to get cash registers altered.

"We asked the tax authorities for a week's extension but they were not prepared to give more time. The objection was that they did not want a consumer splurge in advance of GST going up," said Mr Bill Lacey, Assocom's economist.

GST and your newspaper

Good news for Argus readers: The GST increase will not mean an increase in the price of the daily or weekend editions of the newspaper.

'Sick' tax evasion exposed

GRETA STEYN

COMMISSIONER for Inland Revenue Clive Kingon last week uncovered another company tax avoidance scheme which he described as "morally sick."

Speaking at an Assocom conference on the Budget on Friday, Kingon said: "We came across a scheme just this week involving the gross misuse of well-known charitable organisations."

He declined to provide any more details, but said his department encountered new tax evasion schemes daily.

"I call it tax evasion, not avoidance. I speak about this from the heart when I say our country has become morally sick. Billions of rands are going round and round in book entries to milk the tax system, and the individual eventually has to pick up the tab. While this continues, material tax reform will not be possible."

There was evidence that chartered accountants advised their customers not to consult the receiver on the tax-saving implications of certain transactions. The matter was dealt with in footnotes to financial statements, which accountants told their clients would not be noticed by the Receiver.

One of the most "horrifying" schemes "involved preference shares, Kingon said. Its potential loss to the fiscus was R700m a year.

His personal view was that the corporate tax rate should be 35% instead of the current 50%, but the prevalence of tax avoidance schemes had made it impossible to reduce the tax burden.

If the tax burden could be spread more evenly, while government spending was contained, "there would be no need to feel so sore", Kingon said.

Joint taxation has not been totally abolished, says a tax consultant

New taxation does not go far enough

Sowetan 21/3/89

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By SIZA KOOMA

THERE is no need for married couples to get excited about the abolishment of the joint taxation system, at least not now.

This is the feeling of Mr Matsheru Matsheru, a Johannesburg tax consultant.

Mr Matsheru feels that the Government's decision to apply the Standard Income Tax on Employees (SITE) system on all married women, regardless of income, is only a step towards total abolishment of joint taxation.

• Presently the SITE system applies to those married women who earn below R20 000 a year. In the new proposal all married women, irrespective of how much they earn, will in future all be subject to the system.

They will be offered relief of submitting tax returns as SITE is deducted by their employers from their total annual remuneration at the end of the year, on resignation or death.

The company deducts 25 percent of the earnings on behalf of the State.

"This only means that the money that is not remuneration, like bank interest on investments, will still be taxed jointly with the husband," Mr Matsheru said.

"Joint taxation therefore has not been totally abolished. We are only on the second phase of the total scrap. The first step was when the Government decided that married women earning below R20 000 should no longer be taxed jointly with their husbands. That was last year. And now it has moved a step further and decided to include all married women.

"We are hopefully moving towards the stage where married couples will each fill individual tax returns. But whether the last ox will reach the kraal is still very doubtful," he said.

Mr Matsheru said that he admired, though, that the proposals will bring some relief to society.

"The wife will enjoy confidentiality. She will no longer have to tell her husband how much she earns. Her status will also be elevated from that of a minor to a major. What happens now is that the husband is taxed on behalf of himself and his wife. The woman is not regarded in her own capacity as having children.

"She cannot claim for child or medical expenses. She is only part of her husband's burden."

Mr Matsheru believes that the new taxation law will also bring an end to cohabiting.

"Couples who were afraid to marry because of the tax system will now be free to tie the knot. Divorce will also be discouraged. All those people who divorced because of the pressures that married life put on their financial affairs would now remarry."

He said that there could possibly be a great trek of skillful women going back to commerce and industry since some married women preferred to stay at home rather than be in employment.

"This cheap relief does not mean that husbands and wives should plan separately for tax purposes. Married couples must still plan together.

"The husband has to know how much the wife earns in non-remuneration income so that he can include it in his tax returns. Witholding such information from their spouses might lead to husbands making incorrect statements to the taxman. This can only mean financial trouble for both of them," Mr Matsheru said.

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GST: Workers 'worse off'

THE rise in general sales tax this week and a possible increase in the bread price meant workers could be worse off this year than last year, the Garment and Allied Workers Union has warned.

"The budget is an attack on the living standards of workers," said a Gawu spokesperson.

"It raises the cost of living and erodes the gains made by workers in the living wage campaign.

"The rise in GST means about R17 of a machinist's weekly wage of R129,50 goes to the government in GST, leaving the worker with R4 of the R21 increase won last year.

"Should bread prices increase as a result of the subsidy cut, workers will be even worse off than they were last year," he said.

PROPERTY TAXATION

(320) FM/MC 24/3/89

Ducking and diving?

Sharp shooters from Inland Revenue (IR) have taken aim at institutional property developers for alleged tax avoidance scams, but there appears to be some doubt over whether this will hit bull's eye.

On the one hand, details have been announced of proposed new sections of the Income Tax Act to block certain tax avoiding schemes (*Economy* February 24). On the other hand, IR is reported to be closing in on what it sees as one of the biggest families of tax avoidance schemes — one which centres around wheeling and dealing on large scale property developments.

However, developers, institutions and brokers seem largely unperturbed.

The proposed amendments to the Income Tax Act relate to section 103(5) and deal with the financing of schemes through dividend interest swaps; pref share finance; variable rate debenture finance and round tripping of funds between the financial institutions and the corporate sector. The new law will be backdated to December 22 1988, but will be retroactive.

At the same time, IR is reported to be hot on the trail of certain sophisticated avoidance schemes which, among other things, use non-taxable bodies such as pension funds or charities to sidestep taxation. In the first place the developer writes off, as quickly as possible, the capital cost of the development against tax. The second round of avoidance takes place when the development changes ownership. Large profits are disguised as rentals which are tax deductible.

Of these sophisticated tax avoidance schemes, property economist Erwin Rode says he doubts that it would be in the interests of the institutions to become involved, particularly with SA's history of retroactive legislation. "To get involved in these clever schemes would be folly, and it is doubtful that many would even consider doing so."

A similar view in respect of section 103(5) of the Tax Act is expressed by J H Isaacs executive chairman Les Weil. He says: "On none of our major development or sales deals, particularly with institutions, have we found it necessary to resort to structures such as dividend/interest swaps or pref share finance, so we don't see the section impacting on our normal business of dealing with private and institutional property investors."

He adds that the proposals are probably bound up with the implementation of the Margo recommendations on equivalents of the tax status, an objective with which no one could argue.

"In property investment one really bases the investment on standard property criteria such as weighing initial yields, reversion, quality of tenant, against alternative equity or prescribed assets as investments. And as long as there is high inflation, interest in property, not only by institutions, but by general investors, will remain high.

"Proof of this in the past few months has been the escalation of property unit trust prices which have risen by 30% to 40%."

As far as IR's belief that major avoidance schemes are being operated in institutional property, Weil says the IR's steps should be seen as being in line with the recommendations of Margo. "Of course it is a little disconcerting to have the uncertainty of retroactive legislation hanging over one, but that applies as much to any other business as it does to property, particularly with our complicated tax structure. It means so much time that could be spent more productively is devoted to tax planning and looking at the taxation implications of transactions."

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Weil says a more simplified structure, ideally a flat rate for all business and personal tax, such as that imposed by Hong Kong, would solve many of the problems. "That would mean less attention devoted to the vexed issue of tax and one would tend to make all parties less alarmist."

From an institutional point of view Southern Life says, in its view, none of its transactions fall foul of the proposed amendments to section 103(5). It adds that if one assumes life offices, pension funds and property trusts (the major component of the property market), conduct business on similar lines to Southern Life, then the question of the desirability of the legislation becomes irrelevant.

"However, if there are corporations using tax breaks to support marginal bottom-line performance on speculative property developments, then perhaps the amendments could be desirable if they curb unwarranted development which simply leads to an oversupply of accommodation." ■

LIFE ASSURERS' TAX (320)

New dispensation

The authorities and the life industry agree on the method of calculating tax on life offices, but the rate of tax to be applied is still a problem area.

The new formula for taxable income is *revenue minus expenditure.* That sounds simple, but the crucial element is what constitutes expenditure. In his Budget proposals, Finance Minister Barend du Plessis included 55% of annual average selling expenditure for the current and four preceding years, as well as 55% of any other expenditure in the year of assessment.

However, assurers may not deduct that part of expenditure which relates to the one-

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third of dividend income which is tax-free anyway.

For life offices, this formula could be an improvement on the majority recommendation of the report of Judge Cecil Margo's Commission of Inquiry into Tax Reform.

"Whether it is," says Dorian Wharton-Hood, joint MD of Liberty, "depends on whether the 55% applies to total expenditure or expenditure relating only to taxable business, and also on the mix between taxable and non-taxable business of each life office."

The majority report was based on the premise that the business of life assurance is separate from the policyholders and must be taxed like any other business at the company rate of 50%. To achieve this a formula was worked out allowing for deductions of actual expenses, including investment, administration and management expenses, but excluding selling expenses — by far the biggest component. This would have made some companies taxable on up to 85% of income.

Fortunately for the industry, government has accepted the minority view that life assurers are trustees and income levels of policyholders must be taken into account; an average tax rate of policyholders should be agreed and applied to the insurer as trustee.

Says tax consultant Willem Cronje: "This was far more attractive to the industry because the average rate of possibly 35% would be lower than company tax of 50%. The rate now chosen, however, is the top individual marginal rate of 45%. But the minister appreciates that accepting the trustee principle implies the rate will have to move down towards the average of policyholders'."

Says Theo Hartwig, convenor of the industry tax committee: "The proposals are acceptable, provided we move quickly to full implementation of the trustee principle. That implies a lower tax rate than 45% and allowance of full expenses."

Sanlam's Chris Swanepoel agrees. "The present 45% is not tax-neutral, except for highest paid policyholders. Something like 30% would seem much more appropriate."

Cronje, however, would prefer it to stay at 45%. "If it goes below this it will open up opportunities for artificial tax avoidance schemes for individuals."

The present proposals will leave the quantum of tax more or less where it has been over the past year — when the rate was an effective 35% of investment income. This was achieved by taxing only 70% of income at the company tax rate of 50%.

Assurers are satisfied for now that the principle of selling expenditure is accepted. Says Hartwig: "We trust that in a reasonable time 100% of expenses will be deductible."

The new formula is not likely to diminish seriously the ability of life assurers to attract savings in an inflationary environment.

At issue is only about 30% of assurers' total income as they are not taxed on pensions and retirement annuities (RAs). (These are taxed on payout, in the hands of pensioners and annuitants.)

And as long as inflation remains high, products of the life offices will continue to divert savings from deposit-taking institutions which offer negative real returns.

Even with inflation, regulation by function rather than institution would bring an element of relief. If the function of a product, rather than wh[illegible]s it, were at issue, tax rates could rel[illegible]e to term of investment. In the past, this suggestion has been endorsed by both life and deposit-taking institutions.

Meanwhile, competitors' criticism of the new dispensation is likely to be as loud as in the past. Only high real positive interest rates are likely to redress the balance between various types of financial institutions.

Another issue still to be resolved, says Cronje, is recognition of the difference between mutual and incorporated assurers. The latter pay dividends to shareholders without paying tax on this transfer. "As long as the distinction is not made, shareholders benefit from the exempt status of pension and retirement annuity business, so are taxed at an artificially low rate."

Says Hartwig: "The profits arising to the company from doing pension and RA business should, strictly speaking, be taxed."

maximum and minimum level M3 could reach each month to meet the target. Money supply can still be on track even though annual growth, as reported in any one month, is above 14%-18%.)

"This seems to be an indication that growth in credit demand is slowing," says Rand Merchant Bank economist Rudolf Gouws. "Let's be thankful for small mercies because the Budget doesn't give much hope for interest rates to come down. These figures could be an indication rates don't need to go higher, despite government finances."

Other January figures:

- M1A, R19,14bn (up 19,47% in a year);
- M1, R39,17bn (15,14%);
- M2, R93,27bn (33,51%); and
- M0 — the monetary base — was R8,93bn (35,4%), and R9,1bn in February (33,1%). ■

Out of site, out of mind

(320)

One memorable thing about the 1989 Budget will be that it highlighted the standard income tax on employees (SITE), rated as a major tax reform of recent times. While the changes in the Budget touted "separate" tax for married women, is this really the case?

There is no clear answer. Technically, SA now has an *effective* separate tax for *some* married working women. SITE is a final tax: the amount a woman pays monthly according to the SITE tables is all she will pay. There are no refunds of SITE and no calls to "pay in" after the end of the tax year.

The feature of the 1989 Budget is that the previous R20 000 ceiling for SITE for married working women has been abolished. In other words, all working married women who qualify to pay SITE are now on the system, regardless of their income.

Qualifying income falls into two distinct, mutually exclusive, categories:

☐ Income subject to SITE, which does not accrue to her husband; and

☐ Income deemed to accrue to her husband.

Income subject to SITE is "net remuneration," defined as for PAYE: salary as an employee, including all fringe benefits.

The second category, that does not qualify as "net remuneration," comprises:

☐ A receipt taxable at average rates (for example, a lump sum from a pension fund);

☐ Any remuneration of which 1% or more represents deductible expenditure incurred in earning it;

☐ Part-time remuneration;

☐ "Net remuneration" itself, if she is the breadwinner;

☐ Any annuity payable otherwise than by a pension or retirement annuity fund;

☐ Remuneration from any trade carried on in partnership or association with, or in any way connected with any trade carried on by, her husband; and

☐ Remuneration derived from a private company of which her husband is a director or sole, main or a principal shareholder.

By implication, this includes specific earnings, like travel allowances or directors' fees.

In other words, a married woman with a "straight" job (such as, say, a secretary), with no other income, will have a happy and easy time. At the end of the tax year, her IRP5 form, reflecting SITE deducted, goes in with her husband's tax return.

Her income does not accrue to her husband — but for the advantage of not disclosing her income to her husband, a feature of a truly separate tax system.

Then take the case of a more entrepreneurial woman, who has, say, a full-time job as a secretary, earns commission selling make-up at work, and has dividend or interest income.

Only income from her work as a secretary is subject to SITE. The balance accrues to her husband and must be filed in the joint tax return. It is subject to maximum marginal tax rates, and the couple could end up "paying in" — one of the main things SITE tried to avoid. Again, she has the psychological disadvantage of disclosing her income.

While most working married women may fall into the "pure" SITE category (having no non-net remuneration income), it's difficult to conclude that SA now has separate tax for husband and wife.

To the extent that a wife's income *is* taxed separately, tax rates now vary between 25% on the first R20 000 and 38% for amounts above R40 000. Says Ernst & Whinney's Roger Bramwell: "Though these rates appear comparatively low, it should be remembered that the benefit of the wife's earnings allowance and joint assessment allowance will be lost for income taxed separately."

How do the new SITE rules affect the bottom line — the bank balance? According to a table released with the Budget, a working couple saves cash at every level of combined income.

The table omits "other" forms of income earned by the wife, and assumes that both receive no increases 1988-1989 to 1989-1990. With no real increase — just 15% to compensate for expected inflation — the position looks different (see table).

Certainly, real salary increases in the year ahead mean a working couple will pay more tax than before. Those who associated the new "separate" tax dispensation with tax savings are horribly wrong.

Government knew better, of course. Estimated tax on individuals for 1989-1990 is 22,5% above the *revised* estimates for 1988-1989. And SITE retains idiosyncracies. It remains a major administrative burden for employers. And because it is a final tax, if the husband incurs a material tax loss on his own account, SITE his wife has paid remains unrecoverable.

ON SITE WITH TAX

1988/89

Salary			Tax Payable				
Husband	Wife	Total	Husband	Wife	On assessment	Total	% of salary
20 000	25 000	45 000	2 267	5 348	233	7 848	17,4
40 000	25 000	65 000	9 170	5 348	1 010	15 528	23,8
60 000	25 000	85 000	17 470	5 348	1 317	24 135	28,3

1989/90
Assume inflation adjustment of 15%

Salary			Tax Payable				
Husband	Wife	Total	Husband	Wife	On assessment	Total	% of salary
23 000	28 750	51 750	2 940	6 485	—	9 425	18,2
46 000	28 750	74 750	11 470	6 485	—	17 955	24,0
69 000	28 750	97 750	21 180	6 485	—	27 665	28,3

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No way through the woods



Richard Rubin is at Arthur Andersen.

If it is true that one can lose sight of the wood for the trees, our VAT scenario bears the characteristics of a dark, mystifying and impenetrable jungle. And as anyone who has lost the way in a wilderness will testify, where vegetation is thick and undergrowth dense, it can be exasperatingly difficult to gain a perspective; let alone find a path to clarity.

When one brushes aside the verdure, the basic issue is whether VAT ever will, or should, appear on the statute books, rather than the proposed VAT treatment of capital, export goods and other specific situations. The majority view is that VAT will probably appear — though few people are prepared to even guess when.

Confidence in its eventual appearance is not so much because of statements by government (which are likely to be disbelieved after the public announcements setting dates for draft legislation and implementation) but for two other factors. Firstly, a retraction — especially at this late stage — is likely to be perceived as more embarrassing than further delays; and secondly, now that CBT and the "main package" has been turned down, to reject VAT (which effectively underlies the "alternative package") is to fly in the face of the remaining major proposal of the Margo Commission Report. As things stand, most issues accepted in the White Paper have yet to be implemented.

But while the taxpaying public awaits with baited breath the draft legislation, this in all likelihood has (or could have) been in existence for some time. After all, VAT is not exactly a new tax internationally and, on the procedural side, sales tax legislation offers many a useful precedent.

Yet nothing is released.

The conclusion is that it is not the mechanics of drafting that is holding the show up. More likely the show *is being held up* by political expediency (a new tax is seldom popular) or because broad policy issues relating to VAT have yet to be determined.

But aren't major policy issues affecting a decision normally determined before — or at least at the time of — the decision itself? While it can be imagined that questions such as the VAT treatment of farmers, mines, the TVBC states, foodstuffs, and so on, are causing political debate and headaches, one wonders why a decision on such fundamental issues was not taken before the announcement accepting VAT, citing 1988 as the year for draft legislation. After all, they are central to the feasibility and therefore choice of VAT.

At which point one may well be tempted to ask why those issues which are peculiar or crucial to the *SA* situation were not addressed by the commission itself. While a good deal of research seems to have been undertaken regarding VAT as a system and the experience overseas, comment is lacking on the potential adaptation of a VAT-type system in the SA regional context; and even the most ardent adherents of tax reform and harmonisation may find it difficult to compare the SA econo-political background to that of countries in Europe, or maybe New Zealand.

It would be comforting to know these differences had been considered, as well as potential means of adapting the tax to local circumstances. If so, the product of that research could be of inestimable value to Pretoria. But if I were to guess, a study of the SA VAT-relevant circumstances might well have resulted in a rather different (non-VAT) conclusion. ▣

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FM. 24/3/89

TAX — 2 (320)

The bubble grows

Inland Revenue has taken a further step towards a head-on collision with chartered accountants (CAs). Commissioner Clive Kingon, speaking at an Assocom post-Budget seminar, voiced concern at the "morals" of some corporate tax schemes.

He also said there is evidence CAs are advising clients not to go to the authorities for rulings on tax-efficient schemes. "The matter is dealt with in footnotes to financial statements, which accountants tell clients will not be noticed by the Receiver."

Some CAs, of course, interpret this as an attack on all CAs. Moreover, it is argued that Kingon has powers under Section 105 of the Income Tax Act to report questionable conduct to CAs' elected. Why, the argument continues, make a public smear?

But what appears to be happening is that Inland Revenue is simply being overwhelmed by near-daily discoveries of questionable professional conduct. Early this week, for example, it received a copy of a letter by one of the "Big Eight" firms, advising a (large) client that it should not seek rulings from Inland Revenue; further, that it should be extremely careful about drawing Inland Revenue's attention to a particular scheme.

This comes in the wake of a tax "raid" by a top-grade Revenue squad in Johannesburg, probing a large family of property deals that have been kept "secret" primarily by non-disclosure.

The Institute of Chartered Accountants is increasingly concerned at perceptions of declining standards in the profession. A proposed statement on "maintaining standards," to be issued next month, is with its lawyers.

The statement will call on all and sundry to report suspected cases of unprofessional conduct to the institute for investigation. Regarding tax specifically, an institute statement meanwhile appears to apply, dated October 1983 and headed "Taxation & Professional Ethics," which says that the commissioner expressed concern that "certain members" may be taking chances in completion of tax returns of companies.

"By their actions these members may in effect be conniving with taxpayers to evade tax." How much has since changed is not certain, but the institute now seems to be on the defensive. ■

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PRESS RELEASE

by the Commissioner for Inland Revenue in connection with schemes for the avoidance of income tax

In my press release dated 22 February 1989 details were given of the proposed legislation in connection with certain of the income tax avoidance schemes referred to by the Minister of Finance in his press release of 22 December 1988.

Since then comments have been received from various bodies in the private sector and, although the proposed legislation was generally well received, it seems clear that it is too wide in some respects and will affect transactions which are not regarded as being undesirable. In the circumstances it has been decided to amend the proposed legislation as follows:

1. By the insertion after section 8D of the Income Tax Act, 1962, of the following section:

"8E. (1) For the purposes of this section—

'affected instrument' means—

(a) any redeemable preference share which the relevant company is obliged to redeem in whole or in part within a period of three years from the date of issue thereof, or which may at the option of the holder be redeemed in whole or in part within the said period, or in respect of which the holder has a right of acquisition which may be exercised within the said period; or

(b) any other share, if—

(i) the holder has a right of acquisition in respect of such share which may be exercised within a period of three years from the date of issue thereof; and

(ii) such share does not rank *pari passu* as regards its participation in dividends with all other ordinary shares in the capital of the relevant company or, where the ordinary shares in such company are dividend into two or more classes, with the shares of at least one of such classes, or any dividend payable on such share is

PERSVERKLARING

deur die Kommissaris van Binnelandse Inkomste in verband met skemas vir die vermyding van inkomstebelasting

In my persverklaring van 22 Februarie 1989 is besonderhede verstrek van die voorgestelde wetgewing met betrekking tot sekere inkomstebelastingvermydingskemas waarna die Minister van Finansies in sy persverklaring van 22 Desember 1988 verwys het.

Sedertdien is kommentaar van verskillende instansies in die private sektor ontvang en alhoewel die voorgestelde wetgewing oor die algemeen goed ontvang is, is dit duidelik dat dit in sommige opsigte te wyd is en transaksies sal raak wat nie as ongewens beskou word nie. In die omstandighede is besluit om die betrokke voorgestelde wetgewing soos volg te wysig:

1. Deur na artikel 8D van die Inkomstebelastingwet, 1962, die volgende artikel in te voeg:

"8E. (1) By die toepassing van hierdie artikel beteken—

'effektiewe datum' 23 Maart 1989;

'geaffekteerde stuk'—

(a) 'n aflosbare voorkeuraandeel wat die betrokke maatskappy verplig is om binne 'n tydperk van drie jaar vanaf die datum van uitreiking daarvan in die geheel of gedeeltelik af te los, of wat na die keuse van die houer binne die genoemde tydperk in die geheel of gedeeltelik afgelos kan word, of ten opsigte waarvan die houer 'n verkrygingsreg het wat binne genoemde tydperk uitgeoefen kan word; of

(b) 'n ander aandeel, indien—

(i) die houer 'n verkrygingsreg ten opsigte van bedoelde aandeel het wat binne 'n tydperk van drie jaar vanaf die datum van uitreiking daarvan uitgeoefen kan word; en

(ii) bedoelde aandeel nie in gelyke mate staan nie wat betref sy aandeel in dividende met alle ander gewone aandele in die kapitaal van die betrokke maatskappy of, waar die gewone aandele in bedoelde maatskappy in twee of meer klasse van aandele verdeel is, met die aandele in ten minste een van die bedoelde klasse, of 'n

Govt amends slated tax-avoidance laws

KAY TURVEY (320)

INLAND Revenue has significantly amended widely criticised tax legislation aimed at clamping down on tax avoidance schemes involving preference shares and dividend interest swaps.

In a Press release issued by the commissioner last week, he said comments received from "various bodies in the private sector" had shown the legislation proposed in February was "too wide in some respects and will affect transactions which are not regarded as undesirable".

Tax consultants welcomed the announcement.

Deloitte partner Willem Cronje said the new proposals were toned down and considerably less damaging as much of the retrospectivity had been eliminated.

It is now proposed that only dividends paid on shares redeemable within three years or subject to a guarantee will be taxed as interest in the hands of the recipient as from March 23. On a cash-flow basis the proposed legislation was no longer retrospective, Cronje pointed out, and could not hit dividends paid years ago.

On dividend interest swaps, only tax-driven schemes will now attract tax and tax neutral transactions will be left alone.

However, dividend income and interest income swaps between life offices and companies will now be outlawed.

Variable rate debentures will not be legislated against at this stage. Undesirable practices would be dealt with in terms of existing provisions of the Income Tax Act.

The fourth tax avoidance scheme targeted for legislation — round-tripping — is not included in the release.

Change is within grasp — Thatcher

HARARE — British Prime Minister Mrs Margaret Thatcher last night signalled her support for co-ordinated efforts by Western powers and the Soviet Union to resolve the problems of southern Africa.

In the keynote address of her African tour, Mrs Thatcher told a banquet in her honour, hosted by President Mugabe of Zimbabwe, that the Namibia settlement, developments within South Africa and the constructive role of the Soviet Union held out greater hope for peace and stability in the region.

Speaking after a conference with Mr Mugabe and President Chissano of Mozambique, at a site on the countries' joint border, Mrs Thatcher added: "We must make use of these new opportunities."

She said southern Africa's problems would be high on the agenda for her discussions with President Gorbachev in London next week.

Mrs Thatcher praised the Soviet Union for its role in the Namibia negotiations and welcomed what she called the greater realism of its recent statements about the region.

NEGOTIATED SETTLEMENT

Over the past few months Moscow has been stressing the need for a negotiated settlement in South Africa and appears to be nudging the African National Congress away from a military confrontation with Pretoria.

Striking an upbeat, almost exhortatory note, Mrs Thatcher declared: "A new mind, a new heart and a new spirit is what we now need in southern Africa as a whole. I believe great changes for the better are within our ability to bring about."

Mrs Thatcher made it clear that she was determined to increase contacts with Pretoria.

"It is not through South Africa's isolation or through sanctions that we will attain what we most want to see — the release of Nelson Mandela, the suspension of violence, and the opening of negotiations about a political future," she said. — The Financial Times News Service.

Economists call for rise in sales tax

By Sven Lünsche

Economists have called for a further rise in GST to limit to reasonable levels an almost inevitable rise in interest rates.

Calls for a higher bank rate, which would allow commercial banks and building societies to raise a wide range of interest rates, emanated from economists and bankers this week in the wake of a continued strong demand for credit.

Government sources, however, seem adamant that a further rise in interest rates should be held back as long as possible.

The Director-General of Finance, Dr Chris Stals, said yesterday that there was no real upward pressure on interest rates, as money and capital markets had risen to unrealistic levels and were not based on sound facts.

The Reserve Bank was also taking pressure off the money markets to curb the upward trend in short-term interest rates.

Despite these moves, industry sources feel interest rates need to be raised, but should not be the only method in curbing expenditure. They fear bond rates above the 20 percent level could lead to numerous house repossessions.

● The gold price in Hong Kong slid back today to an opening rate of $484,10.

● See Page 12.

Restrictions

The Star is being produced under the severe restrictions of the emergency regulations.

Reserve Bank acts to hold down rates

Finance Staff and Sapa

The Reserve Bank is attempting to take pressure off the money market in order to prevent a rise in interest rates.

And senior government officials are also playing down the need for a further rise in rates.

The recent rise in short-term money market rates — the BA rate touched the 17 percent level for the first time in almost four years this week — has led to calls for higher interest rates by bankers and economists.

But the Director General of Finance, Dr Chris Stals, said yesterday there was no real upward pressure on interest rates.

Dr Stals said on television that interest rates on the money and capital markets had risen to unrealistic levels and were not based on sound facts.

He said big borrowers were confirming that rates were artificially high by not being prepared to borrow at these levels.

The market had not given the budget a chance to work and had over-reacted to proposals on prescribed asset requirements.

Despite the government's negative stance on higher rates, the recent surge in money market rates has led to led to suggestions that fiscal measures, in addition to higher interest rates, should be used to curb the demand for credit. This could include a further rise in GST.

The shortage on the money market stands at just under R3 billion and is an indication of the heavy upward pressure on interest rates.

Mike Haskins, a director of the Securities Discount House, says that while seasonal elements such as year-end tax payments played their role in the liquidity shortage, there was still a high level of demand for cash.

He added that the Reserve Bank was attempting to take pressure off the market until an inflow of Government funds to the market begins in April. Yesterday alone the Bank had bought R500 million of short dated securities.

Mr Haskins pointed out that commercial banks were paying 20 percent for their money and lending at 19 percent, a situation that would automatically force rates up as margins were under severe pressure.

He added that a rise of two to three percent in the Bank rate would be required but doubted if the authorities would do this. He felt they would rather bring in smaller increases over a period of time until the desired results had been achieved.

Policy not working

Dr Hans Falkena, economist at the UBS, said fiscal and monetary policy would have to be tightened if the economy carried on in its current pattern. He said at present the steps taken by the authorities appeared not to be working.

Dr Falkena commented that a new monetary and fiscal package could be introduced before the middle of the year. This could well consist of a further one percent hike in GST and one percent rise in the bank rate.

Colin Dunn, excecutive chairman of the Discount House of SA said he did not expect any increase in GST so soon after the budget. He pointed out, however, that the budget increase should have been in the order of two to three percent rather than one percent.

Mr Dunn said there could be increases of one percent in both the bank rate and GST in six to eight weeks time followed by another similar package within another six weeks after that.

(320) BDay 31/3/87

PROTESTS HELP EASE PROVISIONAL TAX COLLECTION

KAY TURVEY

THE Receiver of Revenue has moderated his campaign to accelerate collection of provisional tax, after protests from commerce and industry.

Aiken & Peat reports in its latest newsletter that certain revenue offices had been comparing the half-yearly results published by companies with their first provisional tax returns and then requesting an additional first payment.

This speeded up collections and "significant additional amounts were collected in this way", the report says.

Revenue chief director legislation Hannes Hattingh said requests from businesses had led receivers to relax their stance, as an additional first payment could give taxpayers a significant cash flow problem.

Aiken & Peat says Commissioner of Inland Revenue Clive Kingon decided the introduction of the third provisional payment in 1986 had already had a significant impact and therefore this campaign could be reviewed.

Companies with a taxable income above R20 000 a year are subject to third provisional tax payments.