TAXATION — 1990

JANUARY — APRIL

Venters extension given certain tax concessions

BDay 3/1/89 (320)

ANALYSIS:
BARRY SERGEANT

VENTERSPOST management has disclosed that the gold mine's R210m extension has not been affected by tax ring fencing rules.

Chairman Mike Tagg says Venters is not expected to pay tax for "quite a few years", after announcing its R210m rights issue last week.

But the mine has to earn profits before it can benefit from this tax concession. After losses for the past three quarters, profits do not look likely for Venters for the next few years, though next week it is expected to announce a break-even for the December quarter. The mine is a marginal and a strong rise in the gold price could change the bleak profits-outlook dramatically.

The rights issue is to finance mining in Venters's extension area, which has higher grades than the existing mine. Tagg says that Venters's production costs — in today's money — are expected to fall from about R1 100 to about R900/oz.

Details

From this year, Tagg says, Venters will start to pay a lease formula of Y = 10 - 80/X — which will not have a material effect on the bottom line. Venters had been paying royalties, claim licence fees and *mynpachten* dues.

Moreover, management has given — in general terms — details of how the rights issue will affect the capital structure of Venters. Current shareholders' dividends will not be diluted until July 1 1992. The full details of the rights issue will be announced this Friday.

Venters will issue R210m through the issue of combined units. These will consist of a number of deferred shares plus the option to acquire further deferred ords in about 18 months — at a price to be fixed when the terms of the issue are announced. About R160m will be raised by the issue of the deferred shares now and about R50m when the options are exercised.

Venters has 20,2-million ordinary shares in issue and, separately listed, 4,8-million deferred ordinaries. These will rank *pari passu* with the ords on July 1 1992, taking the total ords to 25-million. Including the options (which will be given a separate listing), it is envisaged that, on July 1 1992, Venters will have about 50-million ords, and no other class of capital. To be successful in the market, it can be expected that the new deferred ords will be offered at about a 20%-25% discount to the deferreds in issue, quoted yesterday at 900c. It seems that 700c is a likely offer price.

Tagg agrees that the stronger gold price, which helped to add more than R125m to Venters's market capitalisation in the past three months to take it to about R250m, had a substantial effect on deciding the ratios that will apply in the rights issue.

But the mine will remain a marginal at the current gold price. Tagg says that everything possible has been done to contain unit costs. Venters's September 1989 quartely costs were R1 074/oz — leaving it in the red on the gold price. In the extension area, yields will be an expected 4,3 grams a ton, 16,2% higher than the existing 3,7.

Tagg says that the higher grade, along with lower working costs in the extension area, will mean overall costs of about 25% less than the "old" mine, or about R900/oz. The mine, currently milling 140 000-tons per month (tpm), will be "replacing" tonnage with activities in the extension area — rather than adding to overall output.

From July 1992, Tagg expects that the extension area will be contributing tonnage which will eventually represent about 60% of the total output of 140 000-tpm with the balance coming from the "old" mine.

Replace

Using today's money, this gives overall working costs of about R900/oz. On the September quarterly rankings of about 60 gold mines, this moves Venters from the 38th most expensive producer to 26th.

Tagg says the proposal to replace output at Venters, rather than add to it, by mining the extension, was one of the main reasons the authorities agreed not to ring fence the new area. Other material factors were that Venters was not expanding output or infrastructure.

The capital structure of the rights issue was decided upon about four months ago. Tagg says that if it was known that gold would strengthen to its current levels, the structure could well have been different. "If gold stays up, shareholders may get some of their rights issue money back."

But Tagg says that the most important consideration in the rights issue was to keep Venters going. "By doing this, Venters will be around to gain the substantial benefits of any major rise in the gold price."

Different accounting needed for coal mines

BDay 4/1/90

CHARLOTTE MATHEWS

COAL mines are an exception to the general mining sector in various respects and different accounting policies are necessary, Davis Borkum Hare analyst Manny Pohl says in a paper on coal mining taxation.

Pohl recommends that coal mining companies, which adopt a variety of accounting methods, use the amortisation approach with the comprehensive method of accounting for deferred tax.

"This is in the best interest of shareholders if a liberal dividend policy is adopted," he says.

Tax laws reflect the fact that mines are wasting assets. Mining operations can therefore deduct from mining income the capital expenditure incurred in carrying on mining operations.

It follows that before a mine has reached the production stage it cannot deduct capital expenditure, which is accumulated until mining commences. In the early years of a mine's operation it has a material tax relief.

After production has begun capital expenditure on shaft sinking and equipment can be deducted for tax purposes.

The Margo Commission said the justification for allowing immediate write-off of capital expenditure was that mining was exceptionally risky.

But, says Pohl, coal mining is less risky than other types of mining.

Surplus

320

The market is mainly domestic and dominated by Eskom, a contract market with no price risk, unlike the volatile export markets. The current situation is that Eskom has a surplus of available coal and the only new colliery development will be for the export market.

"This market changes from feast to famine within months and a three-year capital expenditure programme could be aborted overnight."

Pohl says Witbank Colliery and Gold Fields Coal follow the principle of deducting capital expenditure as an expense, while Amcoal and Trans Natal Coal Corporation spread the tax relief over the expected life of the mine.

"Clearly this policy would ensure that the after-tax earnings attributable to shareholders is directly related to the profitability of the company and not the stage of the development of the mine."

A company which uses the partial method of accounting for deferred taxation could become liable for tax in bad times, which will severely affect after-tax profits.

A company that uses the comprehensive method may never become liable for tax and therefore reduces profits and builds up a permanent cash reserve that is not distributed to shareholders.

Pohl recommends that the comprehensive method be adopted with a reduction in dividend cover to ensure that dividends are not affected.

Govt spreads tax net over more state enterprises

320

4/1/90.

By Derek Tommey

The Government is making a major effort to raise money from its assets — even before it privatises them.

In the next year or so tax receipts from state enterprises being prepared for privatisation could run into billions of rands.

This will be a most welcome development for the ordinary taxpayer as part of the increased revenue is expected to be used to cut personal income tax.

Iscor, which was privatised last year, has always paid tax so the Government cannot expect much extra revenue unless, in private hands, profits are boosted.

But from April 1, the profitable part of the South African Transport System (Sats) will start paying company tax. This will be the first time that the Government has received any compensation directly for the large sums of money it has invested over the years in this enterprise.

Posts and Telecommunications is expected to become liable for company tax early next year. And there is a strong possibility that the other big state corporation, Eskom, will also join the ranks of taxpayers.

It has to report shortly on what the effect will be on its tariff structure if it has to start paying tax.

Pieter van Huyssteen, chairman of the Goverment's Privatisation Unit, said in an interview that following an Act of Parliament last year Sats would be converted into two companies from April 1.

The loss-making commuter services will be put into one of the companies which will have it own board, but will be run by Sats. The remaining profitable part of Sats will be placed in another company.

This second company, as it will be making profits, will be liable for tax from April 1.

This company will have five sub-sections - airways, harbours, the pipe line, rail services and road services and each will be operated commercially in order to develop track records to make them acceptable to investors.

Mr van Huyssteen said that legislation was to be submitted to Parliament this year to convert Posts and Telecommuniations into two companies.

The postal services would be in one and the telecommunications services in another.

This would probably happen early next year when both companies would also become liable for tax.

Meanwhile, Eskom is preparing a report on what the impact on the economy would be if it became a taxpayer. The report should be ready soon.

Mr van Huyssteen said it had been argued that by exempting Eskom from tax South Africans got cheap electricity.

It may be that any increase in Eskom's tariffs as a result of it becoming a taxpayer would be offset by users charging the higher tariffs against their taxable incomes so there would be little benefit to the Receiver.

He said it was important that tax neutrality be maintained.

It was possible, he said, that Foskor, which produces phosphoric acid and fertiliser, could be privatised later this year.

● The Government stands to collect tens of billions of rands as it implements its privatisation programme. According to figures given in Parliament last year Sats has a book value of R14 billion, but its replacement cost is R56 billion.

Eskom has fixed assets of R28,6 billion and Post and Telecommunications has fixed assets of almost R8 billion.

Compared with these figures, the R3 billion which the Government received from Iscor's privatisation does not seem to be so imprssive.

Of course, the biggest reward to the Goverment and every South African will come if the privatising of these organisations leads to the more effecient and productive use of their assets.

If this happens, the resultant profits and tax revenues should play an important role in raising living standards.

F/M 5/1/90 (320)

INCOME TAX F/M 5/1/90

Slashed write-offs

UCT professor of economics Brian Kantor says the change in depreciation allowance from the Margo formula of 50:30:20, to a straight-line 20% a year, still leaves an unscientific basis for corporate income tax.

That is, if we want a tax system genuinely neutral in macro-economic effects, as well as non-discriminatory between different factors of production and between equipment with varying working lives. (320)

The original formula, says Kantor, was heavily biased in favour of machinery with a long working life — if a scientific calculation is made of what depreciation is actually suffered on a present value basis.

A serious problem with applying a scientific rate of depreciation is that accountants and Receivers then have to grapple with estimates of working life, instead of a generalised mechanical formula.

Kantor argues problems such as this are a powerful argument against taxing corporate income in the first place.

He prefers taxation of consumption — which has major theoretical attractions but, for political and administrative reasons, is unlikely to win acceptance. A second-best solution, concedes Kantor, is to tax corporate income but to make the basis of depreciation for tax purposes as close as possible to economic reality, even if there are administrative difficulties.

To tilt the playing field of the tax system in favour of capital-intensive means of production, when black unemployment is so serious, is the height of folly. To avoid policy decisions that increase unemployment is worth any amount of haggling between tax accountants and Receivers of Revenue.

These important issues aside, it is disruptive to change so important a formula at such short notice, even to put an end to tax schemes which take advantage of it.

Government should have realised that so artificial, even overgenerous, a provision was tailor-made for SA's ingenious and sophisticated tax-avoidance industry.

Specific anti-avoidance provisions could have been introduced instead. In particular, it should not have been difficult to devise an amendment which prevented a duplication of the initial 50% write-off through transactions not at arms' length within the same group of companies.

It might have been better to enact an anti-avoidance amendment to the Income Tax Act and reopen the entire question of how depreciation should be calculated on an arithmetically sound basis.

Government should ask itself whether there is any real reason it still cannot do this, with the 20% straight-line formula as an interim measure.

Kantor's last word is that accountants and lawyers "who do not understand the economics of tax" have been accorded far too much influence in determining the structure of taxes. F/M 5/1/90 (320)

These advisers also, he argues, labour under the psychological disadvantage that, in their private practices, they devise anti-avoidance schemes for clients.

When they don the hat of adviser to government they tend to overcompensate — the poacher-turned-gamekeeper syndrome. The result is often mechanistically punitive legislation which takes no more account of economic reality than the tax arrangements it supersedes. ■ F/M 5/1/90 (320)

Call on govt to reconsider plant taxes

CAPE TIMES 8/1/90 (320)

Own Correspondent

JOHANNESBURG. — The cost of imported plant and machinery makes it 214% more expensive for an SA industrialist to start business than his Japanese counterpart.

This figure, from a Federated Chamber of Industries (FCI) study, is set to rise if changes to tax depreciation rules proposed by government are promulgated.

Comparative premiums over the US, Britain and West Germany are 118%, 139%, and 159% respectively.

The figures are based on tax depreciation rules that were changed in favour of the fiscus in December. An effect of the changes will be to increase the premiums quoted even further.

The study, in response to government's call for comment on an investigation into depreciation policy, is now being used by the FCI to encourage government to reconsider its decision.

Government's proposal, from the Department of Finance, is to change the tax write-off of plant and machinery from 50%:30%:20% over three years to 20% a year over five years. If promulgated as proposed, the effect will be retroactive.

FCI Fiscal Policy Working Group chairman Bob Cole says: "The impact of the higher costs on fixed costs will make it all but impossible for SA manufacturers to become internationally competitive. Fixed costs represent upfront costs, which are impossible to change, and apply for the duration of the asset's useful life.

"Government's only option is to change fixed costs to make them internationally competitive. Up to now, the chosen policy option has been a continual depreciation of the currency to boost nominal returns.

"This is one of the reasons we need a weak rand — government could never afford to subsidise to that extent."

The FCI's econometric model, which uses 18 variables, shows that a piece of plant and machinery costing a Japanese businessman R1m costs R2,1m by the time it is ready for commissioning in SA.

The difference comprises, among other things, the import surcharge, import duties, GST and RSC levies.

The largest single addition is R408 000 — the premium on the purchasing-power parity between the rand and the yen. This represents the discount on the purchasing-power ability of SA's currency occasioned by high inflation, political factors and a weak BoP situation.

When finance costs over 10 years are added to the equation, the cost is R4,4m, representing a 214% premium on the cost to a Japanese businessman.

The FCI model, which estimates averages for changing rates over the 10-year period, shows 16,3% and 4,8% prime and 14% and 1,5% inflation for SA and Japan respectively.

Another reason for the 214% premium is that Japanese tax law allows a 10-year tax write-off of the cost of plant and machinery. The FCI model is currently being updated to reflect the proposed SA changeover from 50%:30%:20% over three years to 20% a year over five years.

The result will be a premium to the SA businessman even higher than 214%. The FCI says this will make it practically impossible for SA industry to become a major contender in the international manufacturing arena.

Call to govt on tax depreciation

320

FCI releases shock data on plant imports

B/Day 8/1/90

THE cost of imported plant and machinery makes it 214% more expensive for an SA industrialist to start business than his Japanese counterpart. This figure, from a Federated Chamber of Industries (FCI) study, is set to rise if changes to tax depreciation rules proposed by government are promulgated.

Comparative premiums over the US, Britain and West Germany are 118%, 139%, and 159% respectively.

The figures are based on tax depreciation rules that were changed in favour of the fiscus in December. An effect of the changes will be to increase the premiums quoted even further.

The study, in response to government's call for comment on an investigation into depreciation policy, is now being used by the FCI to encourage government to reconsider its decision.

Government's proposal, from the Department of Finance, is to change the tax write-off of plant and machinery from 50%:30%:20% over three years to 20% a year over five years. If promulgated as proposed, the effect will be retroactive.

FCI Fiscal Policy Working Group chairman Bob Cole says: "The impact of the higher costs on fixed costs will make it all but impossible for SA manufacturers to become internationally competitive. Fixed costs represent up-front costs, which are impossible to change, and apply for the duration of the asset's useful life.

"Government's only option is to change fixed costs to make them internationally competitive. Up to now, the chosen policy option has been a continual depreciation of the currency to boost nominal returns.

BARRY SERGEANT

"This is one of the reasons we need a weak rand — government could never afford to subsidise to that extent."

The FCI's econometric model, which uses 18 variables, shows that a piece of plant and machinery costing a Japanese businessman R1m costs R2,1m by the time it is ready for commissioning in SA. The difference comprises, among other things, the import surcharge, import duties, GST and RSC levies.

The largest single addition is R408 000 — the premium on the purchasing-power parity between the rand and the yen. This represents the discount on the purchasing-power ability of SA's currency occasioned by high inflation, political factors and a weak BoP situation.

When finance costs over 10 years are added to the equation, the cost is R4,4m, representing a 214% premium on the cost to a Japanese businessman.

The FCI model, which estimates averages for changing rates over the 10-year period, shows 16,3% and 4,8% prime and 14% and 1,5% inflation for SA and Japan respectively.

Another reason for the 214% premium is that Japanese tax law allows a 10-year tax write-off of the cost of plant and machinery. The FCI model is currently being updated to reflect the proposed SA changeover from 50%:30%:20% over three years to 20% a year over five years.

The result will be a premium to the SA businessman even higher than 214%. The FCI says this will make it practically impossible for SA industry to become a major contender in the international manufacturing arena.

B/Day 10/1/90

Tax proposals will hit tax avoidance schemes — expert

Business Day Reporter

THE withdrawal of the 50%:30%:20% tax allowance on capital goods was an attempt to end tax avoidance schemes, a partner in accounting giant Aiken & Peat, Ron Rankine, said in a Press statement last night.

Referring to the proposal to change to a 20% a year tax write-off over five years, effective December 15 1989, Rankine said the change would end certain tax avoidance schemes.

The measure would end schemes such as the one in which a taxpayer bought equipment, for example, for R1m and claimed a 50% write-off in year 1. At the start of year 2, the taxpayer sells the plant to an associate company for R1,5m, claiming inflation and import surcharges had forced up the current market value.

"The seller suffers a recoupment of the first year's allowance. But the associated company which bought the equipment is able to claim allowances on a significantly greater cost. Since seller and buyer are 'related parties', there are considerable tax benefits."

320

Investment

"The key is the use of the term 'connected person', which applies to the relationship of seller and buyer companies where both are managed, controlled or owned directly or indirectly by substantially the same people."

Rankine said if government's intention was to clamp down on schemes to avoid or postpone payment of taxes built around the 50%:30%:20% formula, it could have achieved this without changing the formula intended to encourage investment in plant and machinery.

The grounds for move "appeared to carry much more weight than the view expressed by Deputy Finance Minister Org Marais in a December 15 1989 Press release that 'the country could not afford the accelerated write-off rate represented by the three-year 50%:30%:20% concession'.

"Marais's reasoning that the concession made capital goods 'too cheap' appeared to fly in the face of a now well-established practice of granting generous first year capital goods tax allowances that went back to 1975."

Rankine said if Marais's intention was to "hammer perceived abuses", his proposed "connected persons" restriction could have done the job without depriving manufacturers, agricultural co-operatives and hoteliers of the 50%:30%:20% write-off.

Downturn will lead to tax cuts

320

Star 10/1/90

By Derek Tommey

The Budget — just about the biggest economic event of the year — is a little over two months away. This means that the Department of Finance still has a fair amount of hard thinking to do if it is to resolve by Budget Day some of the financial matters bothering business and the general public.

People would obviously like to see some reduction in taxation in the March budget. But they will also expect announcements about the lifting of the 60 percent import surcharge, clarification on what constitutes capital gain and when Value Added Tax is to replace GST.

Latest tax revenue figures remain extremely buoyant, apparently much to the surprise of the authorities.

In the '89 Budget the Minister of Finance, Mr Barend du Plessis forecast tax revenues of R55,2 billion, which was some 25 percent higher than the previous year's estimates but only 11,1 percent up on the previous year's actual collections.

In the eight months ended November collections totalled R41,8 billion. This was 38,4 percent more than the Treasury received in the same eight months of 1988-89 if the R3 billion received from Iscor's privatisation is included, and 28,5 percent up if this money is excluded.

What this suggests is that total tax collections this year could exceed R60 billion and provide room for some reasonable tax cuts in 1990-91. Such cuts are badly needed. Even Government officials admit that income tax rates in South Africa are excessively high and that the ordinary South African has been having a raw deal.

Fiscal drag

However, a decision to cut taxes and the level to which they should be reduced appears to hinge on how the economy performs in February and March. If the economy shows signs of running down some reasonable tax cuts are likely.

But the cuts will be limited if the economy shows signs of being overheated — although some reductions will obviously be needed to counter fiscal drag.

The Minister of Finance, Mr Barend Du Plessis, has promised to make a statement on the import surcharge around budget time. While the import surcharge has not had much apparent effect on curbing imports — the job for which it was intended — it has turned out to be a prolific source of revenue, bringing in some R2,5 billion to R3,0 billion a year.

It is likely the Treasury will not want to lose such a large cash inflow at one fell swoop so there is a possibility that the surcharge will be reduced only in stages over the next two years or so.

The uncertainty about capital gains and how they should be taxed has led to considerable criticism of the tax system recently and has also led to calls for the clarification of these matters.

Currently, it seems that the Treasury is considering determining what is a capital gain and liable for tax by the length of time the investment is held — which is the position in the United States. In addition capital gains taxes are likely to be levied at a much lower rate than income and company tax rates.

If the Treasury decides on this route it would seem a sensible solution to ticklish problem.

However, there are still apparently a few problems surrounding the introduction of Value Added Tax and it is a question of wait and see whether these can be cleared up in time for the Budget.

Nampak fears bigger tax bill

ZILLA EFRAT

THE proposed change in the tax treatment of depreciation could knock 21c a share off Nampak's earnings in the current year, said chairman David Brown at yesterday's AGM in Johannesburg. (320)

Brown announced a R100m tissue wadding mill was to be built at Klip River, near Johannnesburg, and would be commissioned towards the end of 1991.

In addition, he said Nampak experienced a disappointing rate of improvement in its trading results in the first quarter of the current year, but should nevertheless report "better operating results" in the first half.

Brown attributed "disappointing" growth to customer destocking, competition, pricing and industrial action at both Nampak's and customers' operations.

Nampak is the first listed company to publicly quantify the effects of the proposed tax depreciation system.

In sharp criticism of the authorities for moving the tax goalposts without adequate warning and proposing changes from the 50:30:20 formula to a 20% straight-line basis, Brown said its adoption "will have an adverse effect on the 1990 and subsequent results". BDay 11/1/90

It could add R10m to Nampak's tax charge this year based on the 1990 group capital-expenditure budget of R260m, reducing earnings by 21c a share.

Brown said the proposals put Nampak, as well as many other companies, in a

☐ To Page 2

Nampak tax fears

(320) ☐ From Page 1

worse position than the 25% straight-line allowance in force prior to the current 50:30:20 basis. He emphasised the damaging implications that such arbitary changes held for foreward investment planning.

Brown believed the new Klip River wadding mill and Metal Box glass factory in Natal might escape the proposed system on at least a portion of their capital costs as the contracts were finalised before the changes were announced. However, until the legislation was promulgated he could not be sure of the situation.

In the year ended September 1989, Nampak's earnings rose 28% to 458c a share. In the annual report, Brown said 1990 held "prospects for continuing real growth" but warned that the growth rate could slow compared with the previous year.

BDay 11/1/90

Outrage at mooted tax plan

BDay 12/1/90

320

BARRY SERGEANT

GOVERNMENT's proposal to change tax depreciation rules in its favour has raised howls of outrage from most quarters. The mooted change, from 50%:30%:20% of the cost of plant and machinery to 20% a year over five years, substantially increases the net present-value cost of plant and machinery.

Announced on December 15, and effective to that day when legislation is passed by Parliament, the proposal affects long-term corporate plans. The high cost of plant and machinery necessarily means such items form an integral part of such plans.

Earlier this week, the Federated Chamber of Industry (FCI) released a study based on computer modelling of the 50%:30%:20% tax depreciation system. One result was that an SA industrialist pays 214% more in *nominal* terms for plant and machinery, including finance costs over 10 years, than his Japanese counterpart.

The controversial purchasing power parity (PPP) equation was part of the model. This assumes that equal units of purchasing power in two countries do not trade at 1:1 in international currency markets. The difference in PPP between, say, Japan and SA is explained particularly by the outlook for inflation, political factors and balance of payments situations.

But the esoterics of international comparisons seem to have detracted from the basis, and rationale, for tax depreciation. In SA, capital (which includes plant and machinery) is ignored for tax purposes. Capital gains, say on the gains realised in the sale of a residential house owned for 40 years, are not taxed.

Encourage

Losses of a capital nature are also ignored by tax authorities, as are investments in capital assets, such as shares held with a (legally acceptable) investment intention in mind. But plant and machinery has long occupied a special place in the legislature's heart.

First, the initial costs are often near-prohibitive, and time-honoured policy has it that SA needs to encourage exports, particularly of manufactures. So over the years, plant and machinery has qualified for special tax allowances.

To ensure that investment in plant and machinery is not made purely to exploit the tax system, tax allowances are only realisable against taxable profits. The incentive to invest in plant and machinery is no more alluring than the incentive to produce profits.

As recently as mid-1985, 130% of the up-front cost of plant and machinery could be written off against income, over periods from five to 10 years. The figures were big enough to attract top brains in corporate finance, accounting and law.

The allowances, created to boost flagging private fixed investment, did not present onerous challenges to the creative talents of taxation spivs, people paid to spot unproductive tax opportunities. There was massive abuse of the allowances, the pinnacle of which was the creation of notorious mechanisms dubbed "lessor trusts."

The then Finance Minister Owen Horwood responded by clamping down, passing the first significant retroactive tax law in SA history.

In subsequent years, plant and machinery tax allowances were tinkered with, in common with other fundamental sectors of the tax system. There were some serious discussions about plant and machinery tax depreciation; theory and practice.

The Margo Commission on tax was appointed in November 1984, culminating in government's White Paper released in 1988. The 50%:30%:20% tax depreciation was given the blessing of the legislature. Corporate planners in charge of billions of rands of capital investment proceeded accordingly, and as reasonably as the circumstances allowed.

Double sold

On May 26 1989, government called for comments on depreciation policy. For those who responded, the body evidently in charge was the Department of Trade and Industry. On December 15, a completely unexpected announcement came from the Department of Finance announcing a five-year straight-line depreciation in equal parts.

Private sector experts are convinced that the announcement was a response to an abuse of the provisions. Aiken & Peat partner Ron Rankine said because the legislation lacked a definition of "connected person" (to be inserted), some plant and machinery was being "double sold" among essentially the same parties.

The second sale would be at a much higher price, defended on inflation and import surcharge grounds, and the tax abuser would have an ear-to-ear smile. But, as in 1985, the abuses could have been dealt with by rectifying badly drafted law.

Known cases could have been attacked in the courts, moreover, by the authorities under Section 103 of the Income Tax Act. In the meanwhile, the howls of outrage continue over the proposed changes.

If promulgated, the amendments will apply retroactively to capital goods bought into use by manufacturers, agricultural co-operatives and hoteliers from December 15. Mining (qualifying for a 100% write off of capex) is unaffected, and farmers can still apply the 50%:30%:20% except for livestock.

In financial 1990, multinational Barlows plans to spend R1,9bn on capital projects. While much of this is allocated for its mining interests, how much planned capex was based on the 50%:30%:20% formula?

What hurts about the new impost is its suddenness; it violates one of the most sacred principles of taxation, certainty.

Perhaps this should now be the over-riding concern of the legislature.

Fedhasa takes government to task over allowances

Star 13/11/90 (320)

THE Government seems determined to cut every possible tax allowance or alleged loophole, even to the detriment of job creation and generation of foreign exchange, says Fedhasa, the voice of the country's hotel industry.

Fedhasa was reacting to withdrawal of the 50:30:20 tax allowances on capital goods, a move which directly effects investment and refurbishment of hotels.

The organisation says it must seriously question whether the Department of Finance understands the value of the tourism industry to the country and the damage it is causing with its rash policies.

"How a move like this can be made at a time when South Africa is on the brink of a tourism boom, when the country is strapped for foreign exchange and when employment prospects for the broad masses are poor, is beyond our industry's understanding," says Mr Fred Thermann, Executive Director of Fedhasa.

Without adequate infrastructure or the necessary high standard of accommodation. South Africa's incipient tourism boom could be nipped in the bud.

"We are anticipating more than a million foreign tourists this year. Sheer word of mouth is a powerful way of telling the world what we have to offer and if these tourists have a bad experience, we could set our tourism industry back ten years.

"There appears to be no unanimity on the issue either. Some parts of Government understand the value of tourism. The Board of Trade and Industry (BTI) for instance, is investigating a tourism blueprint, designed to maximise South Africa's enormous tourism potential.

"Apparently however, one hand of Government does not support the other and all we have seen so far is a determined effort to make the hotel sector less viable than ever."

"Fedhasa is aware of significant hotel projects which were scrapped as a direct consequence of this. Now, barely six months later, the incentive have been watered down even further with the announcement that equipment allowances are a flat 20 per cent pa.

Tax changes to go ahead, insists Org

B|Day 15/1/90. (320)

BARRY SERGEANT

GOVERNMENT will not withdraw its proposed changes for plant and machinery tax depreciation rules under any circumstances, says Deputy Finance Minister Org Marais. The changes, which raise firms' costs, have brought howls of outrage from commerce and industry, which is lobbying intensely for their withdrawal.

But private sector tax experts, who cannot be named for professional reasons, now say that schemes abusing previous tax depreciation rules were valued at hundreds of millions of rands. In one large corporation, the amount "was well in excess of R500m", said one professional.

The proposed tax depreciation changeover, from 50%:30%:20% over three years to 20% a year over five years, was announced on December 15. The changes will be effective from that date when the proposal is made law by Parliament.

On Friday, Fedhasa, voice of the country's hotel industry, said the changes would be "in spite of extensive lobbying by the hotel industry, which has an extremely strong case for improving incentives".

It said: "It seems government reacts on a kneejerk basis without due consideration for all the implications — then often has to revise its stance when the true implications are brought to their attention."

The changes do not affect mining, and farmers only marginally.

Marais' determination to press ahead with the change is just the latest development in the row which the original announcement on December 15 occasioned.

Marais said he could not comment on the new disclosures about the high value tax depreciation avoidance schemes had come to represent. But he said it was "likely that the proposed change-over would have to be seen in the context of the March Budget".

He said that tax changes intended for inclusion in the Budget were a long way from finalised, and it was premature to say "whether or not companies would be better off overall". He said it was never his intention to "raise expectations ahead of the Budget".

The pre-Budget announcement was read by private sector tax experts as reaction to

☐ To Page 2

Tax changes

B|Day 15/1/90

320 ☐ From Page 1

abuses of the pre-December 15 system. Plant and machinery were being "double sold", the second time at substantially higher prices.

But the amounts of money involved were generally said to be "immaterial".

Private sector experts now say the schemes were so large that government was forced to step in ahead of the Budget.

Marais, who is working on a five-year tax reform plan, and the "savings plan" disclosed by Finance Minister Barend du Plessis last year, has already given several hints that companies will see some relief in the Budget.

In government's bid to "level the tax playing fields" between different enterprises, Marais has said that government wants to lower the official 50% company tax rate. The actual, as opposed to official, tax rate was now an average of about 30%, because of the effect of tax allowances.

As more allowances were abolished or phased out, greater scope was given to lower the official company tax rate. Marais agreed that this rate was highly visible, and was perceived to be high, particularly in the international context.

Analyst fears tax on gilts

320

Diagonal Street

DEREK TOMMEY

Did you know that in the past 18 months you could get a reasonably accurate dollar-rand exchange rate figure simply by dividing the dollar gold price by 1 000? Try it. Star 17/11/90

And did you know that if the financial rand discount fell below 15 percent, foreigners buying SA shares would get smaller dividends than SA investors?

These are some of the insights contained in a survey of recent heavy investment in SA gilts by foreigners.

The survey is by Tim Williams, head of mining research at London-based brokers, Corporate Broking Services.

But he believes that because of uncertainty about whether a withholding tax will be imposed on payments of Eskom interest overseas, foreign investors should keep away from these stocks until the Budget.

Foreigners have made a handsome profit in the past year by investing in SA stock and Eskom 168, in particular. At the beginning of last year this stock, if bought through the finrand, was giving a yield to redemption of around 26,7 percent. By the beginning of October it had dropped to 23,9 percent and to 21,7 percent last weekend — giving an overall capital appreciation of around 23 percent.

He says factors behind the increased interest in Eskom stock overseas include the improvement in the gold price, together with the general sentiment that a new bull market is under way; the perceived improvement in the political outlook and the renegotiation of the overseas debt within the standstill net.

This has led to foreign demand for financial rands and to its discount dropping sharply from 38 percent at the beginning of last year to 27,3 percent at the end of December and to 24 percent at present.

But its strength has been all the more remarkable in the light of the recent huge movements of cash out of SA since the sale by Hanson of the rump of GFSA and its gold mining holdings, the sale by RTZ of big chunks of BP Minerals and the sale by BP of its coal interests.

Much of the recent buying is believed to have come from hard-nosed centres in Germany, Austria and Switzerland where bankers feel that a yield to maturity on medium-dated stock of more than 20 percent represents a good reward.

The general view is that the risk of default on payment of SA debt of this kind is low. But a fall in the gold price would lead to a drop in the exchange rates of the commercial rand and finrand.

He says there is growing feeling in Europe that the new leadership is serious about sorting out the economy and that inflation is about to fall as government spending is curtailed.

All this sounds like a strong buy recommendation, says Mr Williams. But there is a worry that a withholding tax might be levied on interest payments overseas.

A 15 percent tax is levied on dividend payments and it has been argued that dividends and interest should receive the same treatment.

On the other hand, if SA wanted to encourage foreign equity investment and eventually get rid of the financial rand, the tax on dividend payments overseas would have to go, he says.

Because of uncertainty about what will happen to the non-resident shareholders' tax, Mr Williams recommends that purchases of SA gilts should be deferred until after the Budget. In the meantime, investors should investigate the gold share market.

New taxation system introduced

Sowetan 18/1/90 (320)

General Sales Tax will be replaced by Value Added Tax later this year. Soweto tax consultant, MATSHERU MATSHERU, looks at the new tax. We will regularly be carrying articles on tax as a service to our readers.

THE 12-year-old General Sales Tax, which will be replaced by the new and unknown Value Added Tax (VAT) later this year, following the Margo Commission's acceptance that indirect taxes have a permanent place in the South African tax system.

Why change from GST, which is an indirect tax to another form, namely VAT?

The Margo Commission has discussed this at great length and concluded by saying:

* there is evidence of extensive tax evasion as GST is not an effective tax-collecting machinery;

* foodstuffs do not form part of the GST base. VAT will provide an opportunity of restoring food to the base and the needy will be assisted in a more targeted fashion;

* the implementation of VAT would bring South Africa in line with other countries in the customs union.

VAT is an indirect tax based on the total consumer spending on goods and services in the domestic economy.

South Africa is to use the invoice method type of VAT.

VAT is a multi-stage tax that is levied at every stage of production and distribution.

In other words, VAT will be collected at each stage of the trading cycle, thereby reducing the possibility of tax evasion.

With GST, the total tax is collected from the end user, whereas VAT will be collected at each stage.

VAT will be included in the price of goods and therefore will be invisible to the consumer.

This invisibility will make VAT more viable politically.

It is also believed that under the VAT situation, the revenue authorities can raise and lower the rates easily depending on the state of the economy.

In principle, VAT has the following advantages:

* it should be more efficient than GST;

* it will be more difficult to evade:

* it can encourage exports;

* it should also ensure a quicker tax collection.

VAT will create cash flow problems for many businesses.

This is because they will have to pay VAT up front when they purchase raw materials of stock.

At present, of course, these items may be bought free of GST by traders who have GST certificates.

European experience shows that cash management and credit control skills are vital in handling VAT.

Therefore, a business with good credit control and cash management skills will flourish, whereas a business without these skills may encounter cash flow problems.

In order for VAT to be successful in South Africa it must also apply in the Transkei, Bophutatswana, Venda and Ciskei (TBVC).

It is reliably believed that these states have accepted the VAT system in principle.

This consensus will facilitate the collection of VAT in the Rand Monetary Area.

The transition period from GST to VAT will require an intensive and wide-ranging re-educational and promotional campaign so as to:

* familiarise business people and the public at large with the VAT system; and

* avoid the confusion that arose when GST was introduced to this country in 1978.

Capital gains and the tax factor

Money Matters 320

MAGNUS HEYSTEK

WITH the stock market soaring to new highs on an almost daily basis (prior to this week's correction) many smaller investors have taken advantage of sharply rising share prices and have ventured back into the market, taking profits along the way.

This once again raises the eternal question: what is the attitude of the Receiver of Revenue in such cases? At what stage will the smaller investor be taxed on the profits of share transactions?

The principle in question here applies to all kinds of transactions like property sales, Krugerrands or any other kind of investment. Previous disputes in this regard have always centered around the intention of the investor when the investment was originally made.

Star 20/11/90

In a celebrated case in the Special Income Tax Court several years ago a private investor appealed against the decision of the Receiver to tax him on the profits made on the resale of his Krugerrands, bought some years ago. His argument was that his original intention when he bought the Krugerrands was that it should be a long-term investment. However, a deterioration of his health forced him to sell some of the coins to pay for his medical expenses. His argument was accepted.

In the absence of any legislation defining what exactly constitutes a capital gain or a trading profit, this area is very much a nightmare for individual investors. The same applies to large mining conglomerates.

Many large mining houses currently hold billions of rands worth of equities on the Johannesburg Stock Exchange but are afraid to sell as they would run the risk of being taxed on the profits.

This is locking up very valuable capital which the mining houses need for further expansion but until this matter is resolved, they will not sell despite the fact that they bought the shares many years ago.

The smaller investor, however, is going to find it extremely difficult to pursuade the Receiver that a number of share dealing transactions over a short space of time will be anything but speculation. Under these circumstances it would be better to play fair and provide him with a full list of all share transactions and pay the tax required.

If this route is followed, then several legitimate expenses will be tax deductible, like in any other business operation. All expenses incurred in making a profit on the JSE (or any other investment area) will be tax-deductible. These include finance costs, telephone calls to one's stock broker, entertainment of stock brokers or analysts, costs of business magazines and also the cost of a personal computer and the software necessary to analyse individual shares.

A further advantage is that any losses on the share dealings will be tax-deductible as well.

Large speculators on the JSE would also be able to make a very good case for deducting all or a part of an office at home if it is used in the process of speculating on the stock market.

Does this method mean that an individual will necessarily be taxed on all his share transactions? Not if the Receiver is informed that the particular investor has two accounts, one clearly a share dealing account and the other a long-term investment account.

All speculative deals are included in the first one while long-term investments are made in the other. This will prevent all share dealings from being taxed.

In some cases, particularly if the amount of money involved is large, it would make sense to register either a private company or a closed corporation through which all dealings are made.

GKO OF HARTEBEESPOORT writes: In 1988 my "independent" investment consultant advised me to invest R20 000 in Sandiv unit trusts. At the time I was too naive to enquire into the why's and wherefore's.

According to my own amateurish calculations, my investment has in little less than 2 years increased 42,7 percent in value.

This impressed me no end, until I noticed in last Saturday's finance

TAX PLANNING

EC legislation could boost SA exports

Star 22/1/90

Finance Staff

Environmental legislation in the EC could boost local production of exhaust systems fitted with platinum-based catalytic converters and bring in R2 billion in exports a year.

It is reported today that three manufacturing plants are already on the drawing board, with the first to be built within a couple of weeks by Algorax in Port Elisabeth.

The company expects to export 1 million converters a year from 1991 with the help of technology provided by majority shareholder Degussa AG of Germany.

Two other German companies, linked to local car manufacturers, were also reported to be setting up their own plants but this could not be confirmed.

SA mines 80 percent of the world's platinum.

Lower revenue figures underscore slowdown

Star 22/1/90

320

By Derek Tommey

The slowdown in the economy is starting to show up in the Government's tax figures.

The latest Treasury statement shows that inland revenue receipts, which include general sales tax, grew by only 8,7 percent in December to R4,09 billion from R3,76 billion a year ago.

In sharp contrast, Inland Revenue receipts in November, after excluding the R3 billion received from the Iscor issue, grew 33 percent to R3,3 billion from R2,54 billion a year earlier.

Slower growth

An analysis of the figures suggests that slower growth in general sales tax receipts could be the main reason for the weaker revenue figures.

At the end of October, GST receipts amounted to R9,4 billion and were running 31,2 percent ahead of last year's.

But in November they amounted to only R1,4 billion, which was 19,2 percent ahead of last year.

This brought down the growth in general sales tax receipts in the first nine months of the fiscal year to 30,8 percent.

Figures for December's GST receipts will only become available in four weeks' time.

Other indications in the Treasury statement of a weaker economy include the lack of buoyancy in Customs and Excise receipts.

Government income from customs duties dropped 11,2 percent in November.

In that month they brought in R201,2 million, against R226,6 million in November last year.

Although excise duties in November were 16 percent higher than a year ago at R202,1 million, this is almost no increase at all in real terms.

The import surcharge has also been affected. It shows only a four percent growth in November to R240,9 million from R230,8 million a year earlier.

However, the Government has a winner in the fuel levy.

This produced R325,5 million in November, some 63 percent more than it did a year ago.

In the eight months to November, the levy produced R2,6 billion — up from R1,47 billion a year ago.

Preliminary figures for the nine months to December show that the taxman received a total of R46,4 billion, some 35 percent more than in the same period last year.

At the same time, expenditure continues to surge ahead.

For the first three quarters of the fiscal year, the Government had already spent 78 percent of the budgeted amount of R66,525 billion.

Defence spending

Spending from April to December totalled R51,87 billion, compared with the R40,93 billion spent over the same period in 1988.

Defence spending at R7 billion was almost 27 percent ahead of the previous year and will once again swallow a major portion of this year's revenue before cuts in spending, announced over the last few weeks, take effect.

The SA Police also exceeded its budgeted estimates, with spending over the first nine months 33,5 percent higher at R1,99 billion.

While the Treasury statement does not contain a breakdown of provincial budgets, it does show that the Transvaal has been a heavier burden on the central Government this year than the other provinces.

Tranfers from the state revenue account to the Cape in the nine months to December were 17,2 percent higher than last year at R1,98 billion.

Transfers to Natal were 9,6 percent higher at R1,07 billion and transfers to the Free State were 15,9 percent higher at R670 million.

But transfers to the Transvaal were 32,8 percent up at R2,45 billion.

It has not been possible to determine exactly what was responsible for the steep increase in the contribution to the Transvaal.

Taxman recovers R1bn in unpaid '89 taxation 370

Own Correspondent Cape Times 23/1/90

PRETORIA. — Inland Revenue income tax audits plus GST investigations resulted in the recovery of nearly R900 million in unpaid taxation last year, according to a finance department spokesman.

And if penalties are added the total comes to just under R1 billion — illustrating that the expenditure on extra staff was a drop in the bucket compared with the unearthed fiddles.

And this year, because of a bigger inspectorate staff, it will be even more hazardous to try to beat the system and fiddle returns.

Income tax audits resulted in a "pick up" of R698m, and while unpaid GST discovered amounted to R185m, penalties imposed on GST dodgers totalled R107,4m during the year.

During last year 43 000 GST cases were investigated.

The spokesman said the GST inspectorate of about 600 would be increased this year, drawing the net tighter and making it more difficult to avoid the full tax liability. Many of the 150 qualified CA's and B Com graduates who applied to join the departments's staff last year will be taken on.

ED 77 too radical for 'historic' accounting

(320) By Ann Crotty

Consider the following:

"Management is responsible for the preparation, integrity and objectivity of the financial statements . . ."

"In our opinion, the statements fairly present the results of operations . . ." (auditors).

"The financial statements are prepared on the historical cost basis . . . The group recognises that financial statements prepared on an historical cost basis do not disclose true profits . . ."

These statements, all of which come from the same annual report, seem to highlight the absurdity of presenting financial information — based on historical costs — to shareholders. It also suggests that the time and money invested in preparing annual reports is misspent in so far as it may produce among shareholders the misleading impression of being well informed.

In his report on the Exposure Draft 77 Mr Tucker Kleinenberg, technical manager at Price Waterhouse, notes that the user of financial statements which contain such comments as quoted above, is being told by management, "with the concurrence of the auditors, that the basis of preparation does not permit disclosure of true profit, but that nevertheless management vouches for the integrity of the statements" adding that: "This annual report differs from most only in that the inefficacy of the historical cost basis is empha sised. Most leave this unsaid."

The preparation of financial statements on the basis of historical costs reflects what has been described as a tendency for accounting to become 'an organisational comforter despite the lack of meaning in accounting figures.'

Precise fiction

Mr Kleinenberg points out that in a related context (accounting for intangibles) the Financial Times' Lex column noted: 'It is surely better to try for imprecise reality than settle for precise fiction.' As Mr Kleinenberg sees it, adherence to the historical cost basis for preparation of financial statements leads to precise fiction.

While he strongly supports the principle of current value statements he sees a number of problems arising from the radical nature of the ED 77 proposals.

"The ED is firmly based on the American 'conceptual framework'. However that framework has not yet received general acceptance from accounting practitioners who tend to be uncomfortable with financial statements that are not transaction based."

In reviewing the ED 77 proposals Mr Kleinenberg refers to its treatment of three areas which have caused much controversy in accounting circles: deferred tax; accounting for intangibles and; off-balance sheet financing.

"By accepting the concepts of comprehensive income and the present value of assets and liabilities, ED 77 'assumes' these problems out of existence.

"A balance sheet prepared in line with the ED 77 principles contains no deferred tax. Liabilities are shown at net present value (npv) discounted from the expected date of settlement. The date of settlement of the deferred tax liability is unknown, ie the period is infinite. Because a liability discounted (at any rate) for an infinite period has an npv of zero, there is no need to provide for it."

Off-balance sheet financing, which would be disclosed as part of the npv of liabilities, is similarly dispensed with.

Intangibles are shown in the ED 77 balance sheet as the sum of the present values of the annual after-tax stream of royalties saved.

Mr Kleinenberg acknowledges that ED 77 makes a convincing case for recognising comprehensive income and the fact that the value of money is not constant. But he believes that: "The suggestions in the ED, while intellectually satisfying, and valid in terms of economics, are so radically different from accepted accounting practice that there seems little possibility of their general adoption.

"In addition the elements of subjectivity and choice allowed for in the ED, are likely to produce materially differing results and asset values depending on the bases and assumptions applied. And, it is likely that widely varying discount rates will be applied by different enterprises and this will further hamper comparability between enterprises. As a result financial statement users may be unfairly influenced.

R900m in unpaid taxes recovered

B/Day 23/1/90 (320)

GERALD REILLY

PRETORIA — Inland Revenue income tax audits and GST investigations resulted in the recovery of nearly R900m in unpaid taxation last year, said a Finance Department spokesman yesterday.

And if penalties were added, the total came to just under R1bn.

This illustrated that the expenditure on extra staff was a "drop in the bucket" compared with the unearthed "fiddles".

This year, because of a bigger inspectorate staff, it would be even more hazardous to try and beat SA's tax system.

Income tax audits resulted in a "pick-up" of R698m, while unpaid GST discovered amounted to R185m.

Penalties imposed on GST dodgers during the year totalled R107,4m.

Last year, 43 000 GST cases were investigated.

The spokesman said the GST inspectorate of about 600 would be increased this year, drawing the net tighter and making it more difficult to avoid the full tax liability.

Meanwhile, many of the 150 qualified CAs and B Com graduates who applied to join the department's inspectorate staff last year will employed.

However, some had pulled out because of the reduction in national service from two years to one year.

In the past, many had preferred two years in the armed services, he said.

The spokesman said that at the end of last year about 185 000 salary- and wage-earners had failed to submit their 1989 returns.

This amounted to about 10% of the total.

About 43 000 non-returns, or 18% of the total, were from the Johannesburg area and 24 000, or 13%, in the Pretoria receiver's area.

DP finance spokesman Harry Schwarz said Inland Revenue was still inadequately staffed when the potential for tax recoveries was taken into account.

"This is one of the few activities in the public service for which it is worthwhile increasing staff numbers," he said.

The more inspectors uncovering tax dodgers the greater the volume of recoveries from an unknown but probably large pool of unpaid taxation, he said.

Tax plea for students

ST Times 28/11/90 (320) 28/11/90

REX DREW . . . tax benefits needed for individuals

THE nascent Association of Private Colleges promises to be another force dealing with SA's ailing education system.

The association, which should come into existence in April, has among its objectives the maintenance of high standards at private colleges. It hopes to present a united front in lobbying the authorities on educational issues.

Founder member and Executive Education College managing director Rex Drew says the dual problems of a skilled manpower shortage and high unemployment will be on the top of the association's agenda.

The association intends putting a proposal to the Government for tax benefits to be given to individuals attending private colleges. Mr Drew says such tax concessions would help the colleges and help to ease the shortage of skilled workers.

Private colleges attract mainly individuals who finance themselves.

"We believe that individuals attending colleges, paying for themselves and enrolling for courses which are directly connected with their occupation and will further their careers, should receive some form of tax relief.

"At present, companies sending employees to colleges can claim tax benefits. Individuals furthering their education out of their own pockets receive no such tax relief."

Mr Drew says a developing trend in SA which could help to ease the skills shortage is the re-education of older people, particularly women. This is already happening in the UK.

He says one of the reasons for this trend in the UK is the highly competitive schooling system, which means young graduates are not keen to fill secretarial and clerical jobs.

"Women who have reared their families are looking for something to do. It is important that they get out of the mindset whereby they were secretaries before they married, and will become so again.

"Women are exposed to a great deal of marketing in their daily lives, and some have gone into marketing management. The view that a woman's place is at home and in the kitchen is changing slowly in SA. Women have a vital role to play in filling skilled jobs."

Mr Drew says the association will promote this trend. It will stress the importance of both external and in-house company training. Organisations traditionally reduce spending on external training in bad times.

Sowetan Business

320

Unravelling all the problems of taxes

The government is, generally speaking, a non-profit-making organisation. Therefore it needs to be provided with finance in order to carry out its duties. Throughout the Western world the financing required is mainly generated by the imposition of taxes upon persons and the business sector.

In order to reduce the effect of taxation, responsible governments are at pains to spread the tax base as widely as possible. By this is meant that the total finances required by the government are spread among as many sources of revenue as can be justified.

Thus, in South Africa today we have a variety of forms of taxation. Principally, these can be broken down into two major categories, namely, taxes on wealth and taxes on income.

By taxes on wealth is meant the amount of money and value of material possessions, including the rights to future income, which a person or company may have. Taxes on income, on the other hand, means the amount, earned in monetary or other terms by the employment of one's capital and labour.

Direct and indirect taxation.

Each of these two major forms of taxation may be subdivided into indirect and direct taxes.s

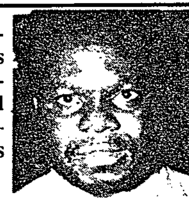
Direct taxes are those which immediately and directly reduce one's income and wealth. Indirect taxes, on the other hand, reduce one's wealth and income indirectly through the taxation of transactions which are related to or follow upon the accumulation of wealth or earning of income.

Direct taxes on wealth.

A common form of direct tax on wealth is estate duty. Estate duty is a tax which is levied where the net value of the deceased estate exceeds R1-million. The rate of tax is at present 15 percent of the net value of the estate.

A second form of direct taxation on wealth is donations tax. This is levied at a flat rate of 15 percent on the value of donations in excess of R20 000 a year made by individuals and private companies. There are

MATSHERU Matsheru continues his backround into value added tax, to be introduced later this year.



numerous exceptions from donations tax but, by and large, it is a form of estate duty in advance of death and its purpose is to prevent tax planners from splitting their income among family members.

There is another popular form of direct taxes on wealth levied by many western countries but this is not, at this stage, levied in South Africa - this is taxation of capital gains. Another tax on wealth is the imposition by local authorities of property tax, such as assessment rates on fixed property.

Indirect taxes on wealth.

This would include transfer duty of transfers of fixed property, stamp duty on transfers of marketable securities (eg shares), and marketable securities tax, which is levied on stock exchange transactions.

Indirect taxes on income.

The most extensive indirect tax on income in South Africa is general sales tax. Sales tax is levied on most sales of corporeal movable goods (eg televisions), taxable services (eg repairs to motorcycles) financial leases, rental agreements, using goods from stock in one's business for one's own use, accommodation and board and lodging.

There are many exclusions and exceptions from sales tax, which adds to the complexity of an already perplexing tax system.

Another important indirect tax on income is customs and excise duties, which are levied on the value of imports an certain locally manufactured goods. Regional services council levies is another form of indirect taxation on turnover and salaries and wages.

Other forms of indirect taxation of income include a variety of stamp duties on various transactions and a multitude of licences, such as trading licences, vehicle licences, road transport licences, television and radio licences, bicycle licences and dog licences.

Direct taxes on income.

The most common form of direct tax on income in South Africa is normal tax. It is levied upon individuals, companies and other taxpayers, such as trusts and estates.

A second form of direct tax on income is undistributed profits tax which may be levied on companies in receipt of dividend income.

Golden rule is to keep the customer satisfied

NO matter what line of

Expect no major tax concessions

Weekly Mail Reporter

INTEREST rates will remain high this year and there are unlikely to be significant tax concessions when the government presents its budget in March.

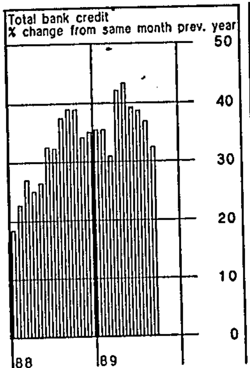
That's the message in two economic reviews released this week. The *Standard Bank Review* and United's *Economic Monitor* stress the need for monetary and fiscal policies to remain tight this year in the expectation of large foreign capital outflows. They also point to the domestic factors, particularly the continued high money supply growth, which require curbs on economic activity be maintained.

United estimates a surplus on the current (trade) account of South Africa's balance of payments of at least \$2,2-billion (around R6-billion) will be required to cover foreign debt repayments due this year and other capital outflows. Standard says debt repayments could be as high as \$2,4-billion. Gold and foreign exchange reserves are totally inadequate to meet anticipated capital outflows so the country will have to generate substantial surpluses on the balance of payments current account.

But non-gold exports are unlikely to increase as they did last year because of slower world economic growth and weaker global commodity prices, says Standard.

In United's more optimistic view, the higher gold price will probably help the current account and "despite the general OECD slowdown, strong economic growth in Japan and West Germany, which are our major trading partners, will leave some room for export expansion". But on the negative side imports could still be growing so that the current account is expected to equal capital outflows, leaving gold and foreign exchange reserves little better than before.

Standard estimates exports rose 8,5 percent in volume terms last year, after recording 5,7 percent growth in 1988 and the increase in revenue was greater than this because of higher prices received for exports. United points out although South Africa's trade account position improved in rand terms, the improvement in dollar terms was less marked. But exports of base metals, semi-precious metals and minerals went up by between 10 and 20 percent in dollar terms, while agricultural exports grew by well over 85 percent on the previous year



Demand for credit began falling as interest rates rose

Graph: Standard Bank

On the import side, machinery and "unclassified" (which includes oil) both decreased in dollar terms by around four percent. But vehicle imports increased by some 10 percent since demand remained high among corporate and small business buyers.

The need for stringent policies makes it unlikely the government will have much room to stimulate the economy in the March budget, says United. Tax revenues (which have grown faster than budgeted) will decline as economic activity slows. Large scale tax relief is unlikely — though United notes there may be some form of bracket creep adjustment and tax relief on interest earnings. It is also possible the government will introduce separate assessments for married women.

Interest rates are expected to remain high through 1990 because it is vital to maintain real interest rates (that is, higher than the inflation rate), says Standard. "It is therefore likely that the list of financial casualties will lengthen during the course of the year and that individuals will continue to feel the burden of high interest rates." But, the bank's economists add, real interest rates will mean lower inflation and improved economic growth in the medium and longer term.

United adds that positive real interest rates will also benefit the economy in that they will check the "free" fall in the value of the rand and encourage savings rather than expenditure.

United predicts a 13,5 percent inflation rate for this year. Although the cooling in economic activity is expected to reduce inflation, food prices are likely to be rising at a faster rate because subsidies will probably be cut in the March budget.

26/1 – 1/2/90

VALUE-ADDED TAX F IM 26/1/90 320

Heading towards trouble

Government is set to implement value-added tax to replace general sales tax. An internal document setting out the guidelines for administering the new system is circulating at Inland Revenue. And the Budget speech is expected to announce that VAT will be introduced next year.

Despite the advanced preparations for VAT's introduction, tax experts, who decline to be named, argue that government and Inland Revenue have gravely underestimated the administrative effort involved in getting a VAT system up and running. In addition, VAT is not as evasion-proof as many people have assumed.

These critics say there will still be major losses of revenue through fraud. To make matters still worse, the GST system has been collecting extra revenue by imposing the tax at multiple levels. Businesses pay GST on many types of services bought from other businesses.

The purchasers in turn add GST to the selling price of their product, which means GST is imposed twice. Indeed, in some cases, there can even be treble GST. This revenue would be lost under VAT.

The critics argue that it is not too late to reconsider VAT in the light of the many difficulties that certainly will be encountered. The GST system, imperfect though it is, is functioning adequately and can be improved.

The critics point to the immense administrative machine required in Britain to police VAT. Some 770 staff work at the two mainframe computers that handle the processing and verification of returns. More than 35 000 traders are visited monthly, notably to explain their duties and to check on the honesty and accuracy of returns. And 4 400 inspectors are required for this work, while a further 2 800 deal with registration and deregistration.

About 12% of all returns are completed incorrectly, while a further 80 000 businesses do not fill them in at all, forcing the authorities to make their own assessment. Another 8 000 a month are happy to wait for a letter of immediate demand or a visit from the bailiff before paying up. Enforcement requires 600 headquarters staff and 800 field staff.

The SA critics point out that the government White Paper on VAT acknowledged that it would impose "a great administrative burden" on Revenue and on the private sector.

As for evasion, the critics argue it's purely guesswork that more tax can be collected with VAT. The problem with VAT is that it's extremely difficult for Revenue to match specific purchases with specific sales, which is required to prove evasion under a VAT system.

It's naive to believe that astute and unscrupulous traders, having access to a series of documents proving one and the same transaction, will not be able to pull the wool over Revenue's eyes.

The critics do admit, however, that VAT may have three advantages. First, it will prevent the common abuse under a GST system in which businesses make purchases for personal use but say they're for resale. Second, in areas where GST is being evaded on all sales — typically by traders in black urban areas — at least some tax would be collected under VAT. And third, it will eliminate the use of trading areas in the four independent states to evade GST.

Problems, problems, problems

Yet other problems could arise with VAT. Government has indicated that VAT will have a single rate. If it reverts to a multiple-rate system — either to reduce the regressive effects of a single-rate structure or to provide subsidies for particular areas or economic activities — administrative costs could well increase by 50%-80%. If SA is to end up with a multiple-rate system of indirect tax after all, it would be better to stick with the current system because GST is far easier to administer in a multi-rate format.

In addition, the responsibility to ensure compliance shifts from purchasers, who must claim an exemption from GST if they qualify. So large companies have had to ensure that their purchasing departments have been adequately instructed on the GST rules governing the goods and services they purchase.

Under VAT, tax will be payable on all purchases and there will be no onus on the purchaser to claim or refrain from applying for an exemption.

Under a VAT system the vendor will have to fill in a return and decide when to claim a VAT credit on tax paid on inputs. This will involve training and managing large numbers of VAT personnel.

According to the critics, government was persuaded to introduce VAT by the unpopularity of GST at 12%, and by evidence of extensive, uncontrollable evasion. Government was also convinced by the International Monetary Fund's view that VAT is likely to increase receipts by 60% of the amount now being evaded.

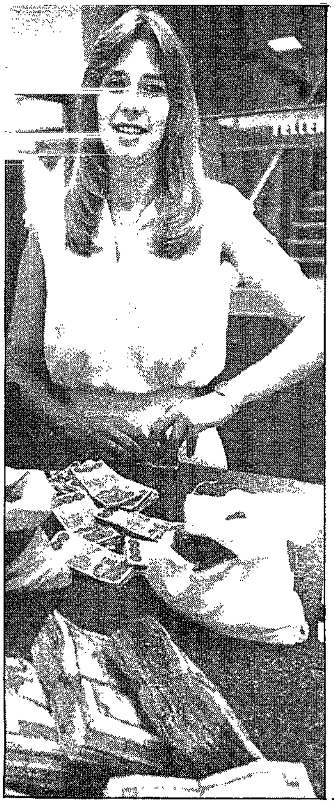
It appears that Inland Revenue may not have sufficiently evaluated all the potential limitations of a VAT system. There is a strong case for deferring the introduction of VAT while studies are made of the problem areas. Otherwise, businesses may be calling for the return of GST in a few years. ■

Govt considering capital gains tax

Star 27/1/90

(320)

DEREK TOMMEY



CASH PROFITS: Buying and selling shares can be profitable, but the Govt will want its share if you were out to make a quick buck.

SOUTH Africans could soon have a capital gains tax. However, it is believed that it is likely — at least initially — to be an extremely modest one.

However, even a limited capital gains tax could have some effect on the share market, say stockbrokers.

Speaking at the opening of the Johanneburg Stock Exchange extension yesterday, the Minister of Finance, Mr Barend du Plessis, said that he had asked the Tax Advisory Committee to give urgent attention to removing the uncertainty on whether the proceeds of various transactions should be regarded as capital or income for tax purposes.

He had received a number of representations for greater clarity on this matter, he said.

Taxpayers will welcome the Minister's announcement for these representations follow numerous clashes between them and Inland Revenue on what constitutes capital and income.

The reason for these clashes is that South Africa does not tax capital gains.

Receiver's decision

Consequently, if the profits from the sale of assets are regarded as capital gains the seller does not have to pay tax on them. But if the profits are regarded as income, then half has to be paid to the Receiver of Revenue.

The cause of the problem is that the Receiver of Revenue judges whether a profit is capital or income by the intention of the purchaser when he acquired the asset, which can give rise to considerable conflict.

For example, if the purchaser bought an asset to make money then the profit would be income and taxable. But if he bought the same asset as a long-term investment, then the profit is a capital gain and not subject to tax.

In such cases there obviously is scope for considerable differences of opinion between the Receiver of Revenue and the purchaser on what were his intentions when he bought the asset in question.

Because of this many sectors of business, and particularly the Johannesburg Stock Exchange, have been calling on the Government to give a simple definition of a capital gain. In exchange for this greater certainty these sectors have indicated that they are prepared to accept a mild capital gains tax.

The JSE is particularly keen on this solution as it believes it will encourage institutional investors to sell many of the shares that are now being withheld from the market for fear of being taxed.

The sale of these shares would raise hundreds of millions of rands for the institutions for new investments and also generate greater activity on the stock exchange.

Current thinking in Government circles seems to be that anything defined as a capital gain should be taxed at a low rate, possibly 10 percent. And that this rate should further decrease the longer an asset is held before it is sold.

It also seems likely that the new tax will be limited to stocks and shares. This would avoid the problem of Inland Revenue having to determine whether, say, company stores were bought for income or long-term investment.

The introduction of a capital gains tax could change many investment ideas, said a broker. At the moment the institutional investors are going for shares offering high capital appreciation.

Dividend tax

But with the possibility of having to pay tax on these gains, they could in future go for shares offering high dividends.

The exemption of dividends from tax would also encourage such a move.

In his speech Mr du Plessis referred to a number of other possible tax changes.

He said the differences that exist between the treatment of debt and equity capital were being investigated by the Tax Advisory Committee.

This is believed to refer to the possibility of bringing the amount of tax levied on the interest paid to a lender in line with the tax on dividends. At present one third of dividend payments are tax free, which means that interest receipts are subject to greater tax.

But Mr du Plessis mentioned in his speech that the Government had accepted in principle the Margo Commission recommendation that tax on dividends in the hands of resident individuals, life insurance companies and close corporation should be abolished.

Interest payments

This suggests that the Government might be considering the complete abolition of tax on interest payments to lenders.

But the other side of the coin would be that interest payments by a borrower would no longer be fully or even partly tax-deductible.

A tax consultant said such changes would have major implications for business and it was doubtful whether any action on this matter was likely to be taken this year.

Mr du Plessis also said that the taxation of companies and their shareholders had attracted much research and comment.

In what must be one of the frankest remarks made by any Finance Minister he admitted that there is measure of double taxation in this area.

"Various ways have been evolved to achive relief from economic double taxation by the integration, partially or fully, of company tax and income on dividends," he said.

International double taxation agreements might restrict the freedom of Governments to take action, he said. But then emphasised that there was no case for concluding that the international tail should wag the domestic dog.

INSIDE

EXPORTS:
● The growing emphasis on exports is expected to contribute significantly to an improved balance of trade this year — page 3.

EUROPE:
● Does Comecon have a future in the new Europe taking shape? — page 3.

PROPERTY:
● A historic mill in Knysna is being rejuvenated into a modern shopping complex — page 3.
● One of Cape Town's leading property developers calls for first-time-home-buyers'subsidiesto be revised — page 5.
● Durban investment company pays R5,3-million for two properties in Claremont — page 5.

STOCK MARKET:
● Week's closing prices — page 4.

CIVILS:
● Four civil engineering contracts worth R34-million awarded for upgrading services in Western Cape townships — page 5.

PENSIONS:
● Martin Spring discusses a common fallacy about retirement — page 5.

Savings is key in tax

w/t ARG4s 27/1/90 320

Less to paying

By TREVOR WALKER
Business Staff

SAVINGS will be the key to significant personal tax reductions in 1991, although some measure of relief is expected in this year's Budget on March 14.

Treasury sources said the average South African wage earner would have it easier in 1990 and could look forward to a very much easier 1991 if personal savings were to show a meaningful increase this year.

Personal savings levels dropped from 10,2 percent in the 1970s to 3,2 percent in the 1980s, and to 1,8 percent of disposable income in the first half of 1989.

Party pledge

The National Party committed itself to reducing taxes in its referendum manifesto last year and it is understood Finance Minister Mr Barend du Plessis is determined to make a start with this pledge to the voters.

What form the tax cuts will take has not yet been decided, but at the very least allowances for fiscal drag or bracket creep in the tax tables are expected.

Government spending or the deficit before borrowing will definitely be reduced in 1990, but if people really begin to cut their spending on luxury consumer goods then the Treasury will be able to reward this thrift with meaningful cuts in 1991.

The sources said the government was committed to reducing spending. The Reserve Bank had begun to bring the money supply under control and the third leg of the equation — consumer spending — could play a very meaningful role if this was switched into savings.

The exchequer budgeted to spend R65 billion in 1989 and it is expected this could rise by 13 percent this financial year to around R74 billion.

The Treasury is drawing up the Part Appropriation requirements, and given the larger than expected increase in tax revenues this year it is possible, as was the case in the present financial year, a major portion of government borrowing will have already been completed by Budget date or soon thereafter.

Lower spending on defence is expected to be used in other areas, but also to reduce government debt, which costs about R9 billion a year to service interest charges.

Education will again be granted a meaningful increase and the demand from other social services will also put pressure on spending.

Speculation was that the import surcharge would be abolished, but this appears unlikely since it brings in about R2 billion a year and is too large to abolish at a stroke.

Mr Rudolph Gouws, chief economist at Rand Merchant Bank said the government was clearly moving in the right direction and the use of the proceeds from the Iscor flotation to reduce government debt was welcomed by business.

Mr Du Plessis at the time of the issue said it would help government to reduce its interest bill by R500 million a year and this did not take into account the R140 million dividend paid by Iscor just prior to the privatisation of the company.

The money spent on weapon systems and the development of Armscor over the past 10 years had to be viewed as insurance, but this now appeared to have run its course, political sources said.

However it did not mean this huge investment in capital could be summarily terminated.

Tax plea for students

S/Times 28/11/90 (320) 28/11/90

REX DREW . . . tax benefits needed for individuals

THE nascent Association of Private Colleges promises to be another force dealing with SA's ailing education system.

The association, which should come into existence in April, has among its objectives the maintenance of high standards at private colleges. It hopes to present a united front in lobbying the authorities on educational issues.

Founder member and Executive Education College managing director Rex Drew says the dual problems of a skilled manpower shortage and high unemployment will be on the top of the association's agenda.

The association intends putting a proposal to the Government for tax benefits to be given to individuals attending private colleges. Mr Drew says such tax concessions would help the colleges and help to ease the shortage of skilled workers.

Private colleges attract mainly individuals who finance themselves.

"We believe that individuals attending colleges, paying for themselves and enrolling for courses which are directly connected with their occupation and will further their careers, should receive some form of tax relief.

"At present, companies sending employees to colleges can claim tax benefits. Individuals furthering their education out of their own pockets receive no such tax relief."

Mr Drew says a developing trend in SA which could help to ease the skills shortage is the re-education of older people, particularly women. This is already happening in the UK.

He says one of the reasons for this trend in the UK is the highly competitive schooling system, which means young graduates are not keen to fill secretarial and clerical jobs.

"Women who have reared their families are looking for something to do. It is important that they get out of the mindset whereby they were secretaries before they married, and will become so again.

"Women are exposed to a great deal of marketing in their daily lives, and some have gone into marketing management. The view that a woman's place is at home and in the kitchen is changing slowly in SA. Women have a vital role to play in filling skilled jobs."

Mr Drew says the association will promote this trend. It will stress the importance of both external and in-house company training. Organisations traditionally reduce spending on external training in bad times.

High inflation, tax make them go it alone

320

THE SPURS TO SMALL BUSINESSES

By David Carte

HIGH inflation and taxation, together with increasing workloads, are making salaried employment unattractive.

At the same time, the breakdown of the extended family system among urban blacks has made the consequences of unemployment harsher than ever.

These are two reasons why the number of entrepreneurs seeking an existence in the informal sector is rising, say two experts at the Centre for Developing Business at Wits Business School.

[redacted]

In a paper titled Megatrends in Small Business in SA, Ian Clark and Eric Louw analyse the supply and demand for entrepreneurs.

An improving environment has increased the ranks of those prepared to go it alone. They say: "Media attention, exposure to success stories and a growing awareness of the failure of communism are all contributing to a broader acceptance of free enterprise and self-employment."

Mr Louw and Mr Clark report that opportunities for gaining business skills are proliferating and a wider range of support services has become available.

The availability of capital for new ventures is improving. The authors report that more and more women are starting their own businesses — and succeeding.

On the demand side, Mr Clark and Mr Louw find that small businesses are well suited to rapidly changing environments.

"The growing wealth of the black community, a function of political reform, urbanisation and upward mobility, has also influenced demand. More people spend more money on transport, housing, entertainment and food. However, because of political factors, big business has difficulty in gaining access to this market.

"The massive growth in housing means the need for a host of other services and products accessible to township residents — carpeting, furniture, and electricians, for example. Entertainment, sport, private education, the preparation and distribution of food and the provision of health care are other areas which have grown.

Eric Louw ... success stories encourage newcomers

Ian Clark ... costs must also be taken into account

"We may expect to see a rapid rate of both entry and exit at the lower (smaller) end of the spectrum. Moonlighting will become an area of massive growth as people attempt to supplement their incomes.

"While retail will remain the largest small-business sector, services will experience the greatest growth. The middle to upper end of the spectrum will have the greatest proportion of very profitable firms, although entry and exit will be rapid. Finally, at the top end, firms will become increasingly sophisticated and assertive.

"More competition is likely to push down profits and the rate of entries and failures will increase. Cottage industries are likely to continue to proliferate.

"Many Western countries have displayed a progressive transition through four different dominant economic cultures.

"The first is an agricultural norm. This is replaced by a civil service orientation, which then matures into a culture dominated by large corporations. The final stage seems to be a strong entrepreneurial culture.

[redacted]

"This is where SA appears to be moving, but it still has a long way to go. And it may never get there if a reasonable rate of economic growth cannot be sustained, or if a relatively free-market-driven economy is replaced by a centrally controlled socialist one."

In another paper, Small Business Policy: Stepping Down from the Side of the Angels, Mr Clark and co-author Gillian Godsell highlight the need for a considered small-business policy.

They say there are negatives to the small-business equation and warn against seeing small business as a panacea. They argue that the costs as well as the benefits must be measured.

"We have devoted our energies towards abolishing laws and regulations and postponed the more difficult issue of producing creative enabling legislation, or non-legislative means of encouraging an enterprise-friendly climate.

"In education we have focused on transferring skills rather than shaping values. We have measured our progress in terms of rands spent rather than wealth created, we have counted jobs created and maintained, and have shied away from the consideration of the intangibles such as wellbeing, job satisfaction and independence.

"At the moment what we have from the State is a benevolent aura and degree of goodwill. This is no substitute for policy.

"While small businesses require less capital, are subject to low entry barriers and often employ the unskilled ... what is happening is that agricultural subsistence, for which there is no space, is being replaced by pavement subsistence for which there is space (of sorts) and a market (of sorts).

"If we are to move from a nation of employees to a nation of entrepreneurs, the social costs as well as the economic benefits are likely to be high.

"We will move away from the group safety nets provided by medical aid, provident and pension funds. We will then have to come to terms with either an increased State provision of facilities ... or the idea that no one is to take responsibility for those outside the modern sector's structured provisions."

[redacted]

A danger is highlighted: "Small business may be seen, most particularly by blacks, as a dead-end street reserved especially for blacks, while endless corporate or professional vistas are open to whites.

"By lifting as many restrictions as possible, are we going to turn black consumers and employees who cannot move out of the townships into a sort of second-class consumer or employee, not deserving the same sort of protection as consumers and employees elsewhere?"

Tax plea for students

(320) 28/11/90

S/Times 28/11/90

REX DREW . . . tax benefits needed for individuals

THE nascent Association of Private Colleges promises to be another force dealing with SA's ailing education system.

The association, which should come into existence in April, has among its objectives the maintenance of high standards at private colleges. It hopes to present a united front in lobbying the authorities on educational issues.

Founder member and Executive Education College managing director Rex Drew says the dual problems of a skilled manpower shortage and high unemployment will be on the top of the association's agenda.

The association intends putting a proposal to the Government for tax benefits to be given to individuals attending private colleges. Mr Drew says such tax concessions would help the colleges and help to ease the shortage of skilled workers.

Private colleges attract mainly individuals who finance themselves.

"We believe that individuals attending colleges, paying for themselves and enrolling for courses which are directly connected with their occupation and will further their careers, should receive some form of tax relief.

"At present, companies sending employees to colleges can claim tax benefits. Individuals furthering their education out of their own pockets receive no such tax relief."

Mr Drew says a developing trend in SA which could help to ease the skills shortage is the re-education of older people, particularly women. This is already happening in the UK.

He says one of the reasons for this trend in the UK is the highly competitive schooling system, which means young graduates are not keen to fill secretarial and clerical jobs.

"Women who have reared their families are looking for something to do. It is important that they get out of the mindset whereby they were secretaries before they married, and will become so again.

"Women are exposed to a great deal of marketing in their daily lives, and some have gone into marketing management. The view that a woman's place is at home and in the kitchen is changing slowly in SA. Women have a vital role to play in filling skilled jobs."

Mr Drew says the association will promote this trend. It will stress the importance of both external and in-house company training. Organisations traditionally reduce spending on external training in bad times.

Complete tax separation expected

BDay 29/1/90

(320)

GRETA STEYN

GOVERNMENT is expected to implement complete separate taxation of married couples in the coming Budget — a move which would inhibit growth in tax revenue in the current fiscal year, the UBS says in its latest Economic Perspective.

Other factors mitigating against a repeat of the tax windfalls of the past two fiscal years were the expected revision of import surcharges, lower growth in personal and company tax due to the slowdown in the economy and the fact that the minimum tax on companies and the loan levy were "once-offs".

Bracket creep would continue to be a factor in the 1990/91 fiscal year, but "government has promised some relief from the insidious effects of inflation", the UBS says. As a result of these factors, the revenue growth rate of 16% is seen for the next fiscal year.

On the spending side, "a number of positive as well as negative influences are emerging". Positive factors included lower defence spending, and the end of budgetary aid to Namibia.

"In addition, high-level private sector consultants in government may make a difference to the current expenditure structure and succeed in limiting expenditure in the medium run. A final positive influence is saving opportunities provided by privatisation and deregulation, for instance limiting administrative costs."

However, spending growth would be underpinned by long overdue salary increases for essential public servants, such as nurses, and the rest of the public sector was likely to demand higher incomes as well. Forward cover losses would have to be addressed, and it was unlikely government would succeed in cutting the growth rate in expenditure. Another year of spending growth of 15% was therefore predicted.

These spending and revenue scenarios implied a budget deficit of about R8bn — or about 2,9% of GDP.

"The government has expressed the wish to limit the budget deficit to 2,5% of GDP. As this will imply that the government will finance little or no current expenditure with loan finance, achieving this target will be signficant. However, for government not to extend its share in the economy indefinitely, the budget deficit rate should be equal to the potential growth rate of the economy, which is nearer to 2%."

On the fiscal and monetary policy mix, the UBS said the stance would have a beneficial effect on the economy as a whole and would go a long way towards allowing government to attain its macro-economic goals in 1990.

Balance sheets might get a new look 320

Tax handling of equity and debt probed

B/Day 29/1/90

BARRY SERGEANT

THE structure of corporate balance sheets is set for dramatic changes when investigations into equalising the treatment of debt and equity by the beefed-up Tax Advisory Committee are completed.

Yesterday Tax Advisory Committee chairman Prof Michael Katz said the current tax and company law systems favoured debt above equity. "This has led to a serious deterioration in the structure of balance sheets, with most companies being under-capitalised."

The initiative follows growing pressure for tax reform to unleash tens of billions of rand sterilised in the JSE. This reached a new level on Friday when Finance Minister Barend du Plessis opened the new R36m JSE annexe.

He admitted: "A healthy degree of impatience with regard to tax reform in SA remains an important initiative towards rapid implementation of new principles and the elimination of distortions."

Du Plessis mentioned the necessity for rules differentiating between capital and income; double taxation of dividends; marketable securities tax; and the uneven treatment of debt and equity.

Katz said in an interview yesterday that the committee was urgently investigating all the matters mentioned by Du Plessis.

Treatment of gains on realisation of assets, in particular securities, constituted one of the most difficult areas in tax law.

He said that parallel to the investigation was one into the distinction between debt and equity. "Returns on equity are eventually double-taxed in the hands of individuals and insurers. This undermines neutrality, which harms balance sheets."

Equity was "desirable", but the prevailing tax system favoured loan capital.

"Company law also favours debt above equity, as the provider of loans ranks concurrently in the case of insolvency. The bottom line is that companies are, generally, inadequately capitalised. This problem needs urgent attention here."

Katz said that "hybrid instruments" — mixtures of equity and debt — were also receiving top priority. This was particularly so in the new futures market, where instruments were offered at a discount, confounding the application of tax rules in force.

This part of the committee's investigation included marketable securities tax. In the case of futures, the impost could effect prohibitive results because margins were so thin.

Katz stressed the investigation into capital gains constituted two entirely separate studies.

"The first is how to distinguish between capital and revenue. There is an overwhelming belief in the economy that the failure to have a more objective test for the difference is having the effect of sterilising the mobilisation of capital."

Katz said that this part of the investigation was focused on finding "objective criteria". With such criteria, it would be possible to distinguish between capital gains (currently zero-rated for tax purposes) and revenue gains (taxed up to 45% for individuals and 50% for companies).

The second part of the investigation was that, "having determined that a particular gain is a capital gain, what should happen to it?"

● Picture: Page 3
● Comment: Page 10

Changes to Tax Act would bring 'holiday'

B/Day 1/2/90 LINDA ENSOR (320)

HOLDERS of life assurance policies would enjoy an immediate tax holiday were the Sixth Schedule of the Income Tax Act to be abolished with immediate effect.

And says Tony Davey, Southern Life's deputy GM of legal and tax services, investors who foresaw the likelihood of such a tax holiday "could invest massive amounts into single premiums now, and reap the benefits of an almost immediate tax haven."

Speaking at the Wits University's Centre for Continuing Tax Education yesterday, Davies said if the schedule were abolished, a dual system of monitoring policies would have to be implemented until all existing policies, currently subject to the Schedule, had matured.

Controversial

The Schedule sanctioned an exit tax on the gain element (proceeds less premiums) of any policy not conforming to its provisions. This constituted double taxation as the assurer had already paid tax.

Davies adopted a controversial view in arguing for the retention of a simplified version of the Sixth Schedule.

"The development of dynamic insurance products would be severely curtailed if the Insurance Act strictly defined a life policy, as what is currently a non-standard yet lawful policy, would become illegal."

Proponents of abolition have argued that it is proper for the Insurance Act to define the products of the life assurer, rather than the Income Tax Act.

Davies said defects in the schedule could be remedied.

"The only solution is to treat the insurer as a conduit pipe and tax the income bonus in the hands of the individual policy owner. A simplified form of the Sixth Schedule could achieve this objective."

FM 2/2/90 (320)

PUBLIC ACCOUNTS

Clashing signals

A few weeks ahead of the Budget, a remarkably buoyant picture of State revenue and expenditure has emerged.

An unprecedented rise in government balances in the last half of 1989. **(See table right)** is being partly sterilised, for instance by paying R1bn to the Reserve Bank towards forward cover losses. And — unusually for recent years — government has been able to transfer about R1,3bn to the stabilisation account. Yet the positive balance ballooned to over R5bn by the end of the year.

One windfall item has been R3bn for the privatisation of Iscor. But regular items of revenue have grown too.

Analysis of figures is hampered by ad hoc taxes. And strong aggregate figures for income tax (nearly R1bn over-Budget) conceal specific issues. Income tax receipts for companies for 1989 will have been reduced by replacement of the 50:30:20 capital allowance formula, by a limited straight-line 20% a year rule.

So the ending of the minimum tax on companies will be countered by higher receipts from companies. As for individual income tax receipts, these will have been pulled up by fiscal drag. Customs surcharge, points out Nedcor chief economist Edward Osborn, is also running over-Budget — to the tune of some R900m.

But, at this stage of the financial year, there have been many individual departmental overruns: House of Assembly (R320m); Health (R152m); Police (R121m); Development Planning (R304m); and interest payments (R337m). Savings against Budget have been achieved in Defence (R454m); Trade & Industry (R334m); and Transport (R128m).

Voices have been raised against undue optimism, even though government has indicated a further R1,5bn will come off the Defence vote. Vastly more needs to be spent in three key areas — police, health and education. Breakdown threatens in all three with black education a key zone of underfinancing.

A sensitive area is that of income tax on the middle-income group, which has experienced a sharp drop in real after-tax income in recent years, through inflation and the progressive income tax scale (which has remained unadjusted for some time now). This is politically sensitive for government as economically dissatisfied middle-income voters are a key part of the catchment area for recruitment to the CP.

This area has also become an administrative quagmire for Inland Revenue. The Site system has produced as many difficulties as it solved.

One way to cut through many of these problems at a stroke would be to tax wives' *earned* incomes separately from their husbands'. This reform could be the dark horse in the Budget speech. There has also been speculation there could be a substantial increase in the deduction (R1 000) on taxable interest and building society dividends as an

AT THE YEAR END

State revenue

1989-1990 (Rm)

	Budget	Pro-rata or expected Apr-Dec	Actual Apr-Dec
Revenue	55 068	41 301	43 539
Expenditure			
Votes	64 017	48 013	47 899
Contingency	1 000	—	—
Deficit	−9 949	−6 712	−4 360
Redemption			
Loans*	−3 211	−1 152	−1 740
Bonds	−380	−285	−513
External	−83	−66	−156
Total finance needs	13 623	8 215	6 769
Financing			
Loans*	13 031	9 773	8 919
Bonds	100	75	33
External	200	150	24
Levy	0	0	708
Surrenders, etc, net	0	0	356
Total finance	13 331	9 998	10 040
Finance surplus	−292	1 783	3 271
Privatisation proceeds**			2 900
Treasury bills	—	—	1 210
Stabilisation a/c	—	—	−1 311
Forex losses	—	—	−1 000
Increase in balances	−292	+1 783	+5 070

* Excluding loan consolidation of R30 311 000.
** Included by Ministry of Finance with Inland Revenue.

Source: Nedcor

FM 2/2/90 (320)

incentive to save.

There is hope too that the 50% standard income tax rate for companies could be reduced.

Another area where revenue could be sacrificed is reform of the sliding scale for mining taxation. But this is a complex issue, as mines now benefit from the 100% write-off of capital expenditure.

Whatever government decides, it has far greater freedom of action than in the past, as the gold mining take is a smaller proportion of total revenue.

It would be reckless to forecast a generous Budget and the *FM*'s best guess is there will be big shifts in relative advantage between groups such as middle-income individuals and companies.

Osborn argues we could see a Budget which holds the deficit before borrowing for 1990/1991 to a relatively modest R7bn-R8bn, which would reflect a ratio of deficit to GDP of 2,6%. This compares favourably with a probable 3% for 1989/1990 — an outcome which is likely to reduce long-term interest rates because of reduced public-sector borrowing requirements. ■

Warning to the dodgers: the taxman cometh

STAR 3/2/90 (320)

CHRIS MOERDYK

INGENIOUS methods of tracking down tax dodgers will be used this year in an effort to collect even more than the almost R1 000 million in missing tax uncovered during the Receiver's successful 1989 campaign.

In an amazingly frank interview with Saturday Star this week, chief director of Inland Revenue Mr Schalk Albertyn was quite open about how his 750 tax inspectors went about flushing out tax evaders.

IS THIS FINGER POINTING AT YOU? Inland Revenue's Mr Schalk Albertyn has a team hunting.

Exotic cars

Rumours that the so-called "tax policemen" noted registration numbers of exotic cars; attended art auctions to see who was spending fortunes on objets d'art; and flipped through society magazines to update the latest additions to the list of rich and famous, were all quite true, he said.

But these, he added, were only a few of the many ingenious methods his inspectors used.

He was quite happy to divulge a number of other tricks of the trade, but Saturday Star agreed to respect his request "not to give the entire game away" — because, the more evasion there was, the more honest taxpayers had to pay.

But Mr Albertyn's tax policemen don't roam the empty streets at night. Nor do they wear uniforms and kick doors down in the early hours of the morning with guns and batons drawn.

South Africa's 750 tax policemen believe they are a lot more discreet than their shoot-first-and-ask-questions-afterwards counterparts in the television serials.

Instead of years of police college training in everything from marksmanship to riot control, the trouble-shooting taxmen are armed only with pocket calculators, B Com degrees, or Chartered Accountancy certificates.

When it comes to tracking down tax dodgers, they're as efficient as any flatfoot force anywhere in the world.

The figures speak for themselves.

Last year they recovered almost R1 000 million in unpaid income and general sales tax.

In doing so, they became virtually the only sector of South Africa's massive bureaucracy that comfortably paid its own way.

Following the success of last year's campaign, another 150 recruits have been added to the inspectorate in an effort to make life a lot more difucult for tax dodgers.

Says Mr Albertyn: "The honest, law-abiding taxpayer has nothing to worry about.

"Our tax inspectors all carry identity cards, but these do not give them the right to force their way into homes and offices.

"To do this they need a search warrant, and only three senior officers at Inland Revenue have the power to sign warrants.

"I can assure you that our inspectors need a considerable amount of evidence and a strong argument to persuade anyone to sign a search warrant."

In spite of the popular opinion that anything the taxman does infuriates the public, the tougher they get with miscreants the more the honourable taxpayer should like it.

Quite simply, because the less tax that is lost to the country the less it has to be made up at Budget time by those who cough up and pay year after year.

Mr Albertyn said the term "tax policemen" wasn't at all inaccurate. The inspectorate was doing nothing less than policing the payment of taxes.

"But we insist they behave with discretion and professionalism at all times, and that they do not get involved in harassing taxpayers.

"We do not believe that tax fiddlers are necessarily criminals."

Mr Albertyn said his inspectors did have a significant advantage because of the psychological make-up of the typical tax-evader.

"They generally love to brag about it all."

Strict checks

However, the inspectors don't go round trying to get people to inform on their neighbours.

On the other hand, if the inspectorate receives reports of possible evasion, they act on it — but not without considerable checking first.

As Mr Albertyn put it, the more dodgers can be tracked down, the more equitable the tax system would become.

Continuing evasion simply means that honest payers carry an unnecessary burden and, while many might consider evasion as some sort of sport, it is a dangerous game for which the honest payer is paying.

South Africa's tax policemen are proving they are a force to be reckoned with — as the dodgers who had to pay out more than R100 million in penalties last year will testify.

Sl Times 4/2/90. (320)

Employers can ease workers' tax burden

By Julie Walker

EVERYONE is grateful for a payrise, but those wishing to save should consider asking their employers to use a deferred compensation scheme.

The key is overcoming the fact that up to 45% of any additional salary goes to the Receiver of Revenue.

Deferred compensation is a way of allowing a person to accumulate capital for retirement without paying 45% in tax.

Julian Kotze of AA Life explains the system.

Instead of giving the salary increase as cash, an employer takes out a life policy on the life of the employee and pays the premiums.

The maturity benefit under the policy will be paid to the employee on retirement. Furthermore, the premium is tax deductible to the employer as a legitimate business expense.

Some important tax concessions apply.

- Provided requirements are met, the first R30 000 will be tax free. This tax exemption is over and above any lump sums available from pension, provident and retirement annuities. There are no restrictions as to how the cash must be invested either.
- An amount equal to three times the average annual remuneration in the three years before retirement qualifies for the average tax rate. The balance is taxable at the marginal rate.
- The excess tax-free lump sum can be spread in equal instalments over three consecutive years for income-tax calculations.

JULIAN KOTZE . . . generous free cover offer

Mr Kotze says AA Life's deferred compensation policy has introduced generous free cover limits and minimised medical formalities.

Deferred compensation is flexible, offers a pension for life, a cash lump sum, or a combination of them

Life cover at low cost is included, thereby covering one's dependents in the event of death before retirement.

Even if you resign, the plan can be transferred to the new employer with the parties' agreement, or there can be a repayment of the total contribution made by the company, or of the value of the policy, whichever is greater.

Deferred compensation is only one of the means employers should consider in the remuneration packages offered to the people who are the company. All employers espouse the view that "people are our biggest asset", and should not burden them with tax liabilities when a bit of application could make everyone better off.

Expense

One way could be the payment of full medical-aid contributions by the employer instead of by the employee.

Employers can claim the extra cost to them as a tax-deductible expense, and can also make it up by granting a lower pay rise to employees than would otherwise have been given.

Employees benefit because they no longer pay the medical-aid contributions out of after-tax income.

How to beat the Receiver

S/Times 4/2/90 (320)

AS February 28 approaches, many taxpayers' thoughts turn to what they might do to save a bob or two from filling the taxman's kitty.

Letter boxes are usually stacked with insurance companies' promotional literature telling you to buy a retirement annuity (RA). They list all the advantages of RAs and tell you that you could save hundreds or even thousands of rands in tax. It is the truth, but you will actually have fewer rands to spend currently than if you had not bought an RA at all.

Nonetheless, if beating the taxman is your aim, this is what you can expect by taking out an RA before February 28.

Single persons or married couples where the wife does not pay Site (standard income tax on employees) may deduct from their income their total contributions to RAs up to the greater of 15% of their non-pensionable taxable income, or R3 500 less any current contributions to a pension fund, or R1 750.

For married couples where the wife pays Site, she is entitled to deduct RA contributions up to the greater of 15% of her non-pensionable taxable income subject to Site, or R1 750 less her current contributions to a pension fund, or R875.

This gives an effective combined total of the greater of 15% of non-pensionable income, R5 250, less pension fund contributions, and R2 625.

The husband's deductions remain the same.

Ernest Mazansky, partner at Kessel Feinstein, says that although recent tax changes make it worthwhile to put some RAs into the wife's name, it should be done only after the husband's deductible allowances have been used.

This is because he effects a maximum saving of 45%,

ERNEST MAZANSKY ... RAs in wife's name

whereas a Site-paying woman is charged at a top rate of 38%.

Fringe benefits usually form part of non-pensionable income and thus qualify for the 15% rule.

The whole business of Site has caused more confusion than any other tax amendment.

With certain exclusions, a married woman pays Site. She is taxed separately from her husband on remuneration, and as a rule, Site is not refundable.

Her employer should be notified of her contributions to an RA, but if he has not been, the employee can apply to the Receiver for a refund of Site overpaid.

Prudent

Another instance where overpayment can occur is when a monthly salary varies. Most employers with computerised payrolls are unlikely to overcharge employees over a whole year, but some adjustment will be needed in February.

Although the onus is on the employer to get it right, prudent employees will check to make sure the Site calculations are correct.

That the tax system lacks neutrality is accepted, and the revenue authorities appear to be striving for a more equitable system. Until then, professional tax advisers will earn a good living by offering advice on how to pay less tax — legally.

The Star
Finance

NEI wilts under high tax burden

By Ann Crotty

A weaker than expected performance from the diesel division and a hike in the tax rate resulted in a disappointing earnings figure from NEI in the 12 months to end-December.

But, in view of the group's excellent track record and the restricted availability of the shares, the drop in earnings from 527,6c a share to 519,7c should do little to dampen investors enthusiasm.

Most of the damage was done by the hike in the tax rate which shot up from 37,5 percent to 46 percent and in financial 1989 cost the group R27,4 million compared with financial 1988's tax bill of R18,9 million.

Despite the weakness in the diesel division, group turnover was up 34 percent to R587 million (R438,7 million). Operating income was up 20,6 percent to R69 million (R57,3 million).

MARGINS

The squeeze on operating margins is only apparent as operating profit in any one period cannot be directly related to turnover in that period. However chief executive Blitz Bieber did point out that there was pressure on margins in certain areas.

Net financing costs were up 39,6 percent to R9,4 million (R6,8 million). So, by the time that the pre-tax income level is reached, the 34 percent hike in turnover is reduced to a 18 percent improvement from R50,5 million to R59,6 million.

After allowing for the tax bill, net income shows an increase of only 1,4 percent to R31,9 million (R31,5 million). An increase in shares in issue (to fund two small acquisitions) meant that eps was down to 519,7c.

At the half-way stage when earnings were up 8 percent, Mr Bieber had indicated that full year earnings growth could be in the region of 6 percent. At that stage it was hoped that the tax rate could be held below 46 percent.

In addition the extent of the slowdown in the transport sector and its impact on NEI's diesel division had not been foreseen.

Mr Bieber points out that the diesel side of the group's business (which accounts for around 30 percent of turnover and operating income) reacts very quickly to swings in economic activity.

Performance at the electrical division was fairly pedestrian with increased competition squeezing margins. Mr Bieber says that in 1990, turnover will not be chased at the expense of margins.

The good news is that mechanical division had a very good year. In addition, at this stage the order books in all three divisions are pointing to strong performances for at least a year or two down the track.

With the hike in the tax rate now out of the way (Mr Bieber believes that exports and capital investment will ensure that the tax ceiling stays at around 46 percent) future pre-tax earnings growth will be fairly reflected in distributable income.

For 1990 Mr Bieber, who retires in July, is looking to eps growth of around 5 percent above inflation.

STAR 7/2/90 (320)

art Tmp 8/2/90

320

Sales tax earns 27% more

Political Staff

SALES tax revenues, worth R12,9 billion, increased by 27% during the 1988/9 financial year, Mr Peter Wronsley said yesterday.

"This amount represents 26% of the total ordinary revenue of the state for the year," he said. The exact amount earned by the government during the year from GST was R12 944 789 749.

Tax collections set to exceed forecast

B/Day 8/2/90

GERALD REILLY

320

PRETORIA — Income tax and GST collections for the current financial year will overrun — substantially — Finance Minister Barend du Plessis expectation, DP finance spokesman Harry Schwartz said yesterday.

Reacting to the latest collection figures supplied by the directorate of inland revenue Schwartz said, "For years now they have been underestimating tax revenue — and they've done it again. However, the overrun will go to decrease the deficit before borrowing in the March budget."

According to the department, "in the first nine months of the year income tax collections totalled R21,8bn against a budget expectation for the whole of the financial year of R29bn.

GST collections of April-December amounted to R12,3bn.

For the financial year Du Plessis budgeted for a total of R16,3bn.

Schwartz said it was obvious the excess of income tax revenue over budget estimates would be considerable.

He said February was a "big" tax collecting month.

Economists agreed a substantial tax excess over what was budgeted for was likely.

BUSINESS

VAT is set to hit consumers

W/E ARGUS 10/2/90 320

By TREVOR WALKER
Business Staff

THE introduction of Value Added Tax (VAT) would not be appropriate under present circumstances and would hit the man in the street particularly hard, tax specialist at Ernst and Young, Mr David Clegg said.

To replace the present level of revenue the government pulls in via the 13 percent GST, the new VAT tax would have to be set at around 16 to 17 percent.

This would be necessary to make up for the losses on intermediatory payments on items such as capital goods.

Capital goods tax payments account for about 25 percent of the total GST revenue receipts and unless the government were to cut back drastically on its revenue requirements, the consumer would have to be loaded with the bill.

Having to pay 16 or 17 percent VAT at the end of a weekly or monthly grocery shop would be hugely inflationary for the ordinary wage earner.

Ernst and Young tax experts said at a seminar this week they expected Finance Minister Mr Barend du Plessis to refer to the introduction of VAT in his budget speech on March 14.

He has said the authorities would allow business at least six months before introducing the tax. However, the Ernst and Young experts said the Minister could well introduce the tax later this year and not even wait for next year's budget speech.

Mr Clegg said companies should be gearing themselves up to meet the introduction of VAT and at the very least appoint a person full time to oversee the conversion to this form of tax. Responding on an ad hoc basis would be costly.

He said one of the attractions of VAT was that it was self policing and, according to the Margo report on the subject, it could reduce lost revenue under GST due to fraud by as much as 60 percent.

GST was budgeted to raise R1,15 billion in the tax year ending next March. VAT is used widely in Europe and the average level is around 16 percent, but it is as high as 30 percent in some countries, while Canada is soon to introduce VAT at nine percent.

Croeser hints tax cuts will be minimal

(320)

BARRY SERGEANT

FINANCE Director-General Gerhard Croeser has confirmed that containment of the deficit before borrowing will take precedence over tax cuts in this year's Budget.

Speaking at the Eastern Province Building Society economic conference in Port Elizabeth on Friday, Croeser hinted that tax cuts in the Budget would be marginal.

Economists expect, at best, minor adjustments to compensate for the effects of inflation.

Croeser put paid to expectations of meaningful tax-cuts, adding that economists should not under-estimate the authorities' resolve to contol government spending. He expected this to be very close to the R65bn budgeted for in March last year. If this turned out to be the case, it would be one of the best performances for more than a decade.

Croeser said that any over-run would be small, and attributable to costs involved in various privatisation activities. He predicted that the deficit before borrowing would be lower than 3% of GDP at the end of the current fiscal year — well below the 4% budgeted in 1989.

Croeser said it was likely the authorities would try to keep the deficit at this level, or even lower, in the Budget to be tabled in Parliament on March 14.

Focusing on containing the deficit before borrowing would limit the scope for tax cuts. In the current fiscal year, the cost of servicing government debt, including the deficit, has run into billions of rands.

... spread its tentacles across the

Forestry tax schemes fall through

Political Staff STAR 14/4/90

Investors who sank millions of rands into forestry plantation schemes have burnt their fingers after huge tax concessions they had been promised fell through, it has emerged.

The problem is that many of the tax benefits promised are not available under present law.

Inland Revenue has refused a number of claims running into millions of rands submitted by investors in these schemes and has issued a warning to others not to get involved without establishing the real tax benefits.

The Commissioner for Inland Revenue, Mr Johannes Hattingh, said in a statement yesterday he had instructed his Receivers of Revenue to "identify the schemes and investors in the schemes with a view to challenging any claims for tax benefits to which they are not entitled under present legislation". (320)

The clampdown follows the emergence of several schemes to attract investment in plantations.

"It would appear that the main purpose of the schemes is tax avoidance, but many of the schemes are in my opinion highly artificial and the promised tax benefits are not necessarily available under present law," Mr Hattingh said.

"For example, a scheme recently examined promises investors that for an investment of R3,5 million, they will enjoy a tax deduction in the first year of an amount of R20 million."

Scientific developments 'not impressive'

By Norman Chandler, Pretoria Bureau

South Africa is not exploiting scientific and technological developments, says Dr Brian Clark, president-elect of the Council for Scientific and Industrial Research (CSIR).

Writing in the CSIR publication, *Technology Impact*, he says that although South Africa has a reputation to be proud of in many scientific disciplines "our record as a nation in the exploitation of science and technology is far less impressive," he added.

Dr Clark said the country's five premier scientific disciplines were ornithology, water resources, general and internal medicine, ecology and zoology.

"We are however noticeably weaker in fields such as microelectronics, information and computer technology and advanced materials.

"The ability to increase and expand international market penetration depends to a large degree on products and services based on new technologies emerging from scientific advances. . . ."

A report in *Technology Impact* says that a new data processing system for the interpretation of signals from European earth resources satellites had been developed by the CSIR despite international boycotts and technical problems.

that may prevent the ...

Consider the tax implications

6109 12/2/90 (320)

THE tax implications of expenditure on car repairs and improvements should be seriously considered by employees receiving vehicle allowances, says accountants Aiken & Peat partner Patrick McGurk.

Assuming an employee owns a vehicle, but is financing it through a travel allowance provided by his employer, his tax position when it comes to upgrading the vehicle will depend on whether:

- The work done constitutes a repair to the vehicle or an improvement;
- The employee is claiming against the allowance on the basis of the actual costs incurred, or the gazetted rate for the category of vehicle used.

"Where the employee's claim is based on the actual costs, a repair would qualify for immediate deduction whereas an improvemnt would not.

"The improvement would need to be capitalised to the cost of the vehicle and would effectively be claimed over the life of the vehicles," says McGurk.

It is not easy to determine whether work done constitutes a repair or an improvement, but useful guidelines are:

- A repair involves the replacement of a part that has become impaired, for example wear on new tyres. However, installation of a new air conditioning system cannot be regarded as a repair unless there was previously an air conditoning system in the vehicle;
- A repair should be distinguished from an improvement.

Generally a repair restores an asset to its original condition whereas an improvement creates a new asset or results in an increase in the capacity of the asset.

If, for example, the engine capacity of the vehicle is increased from, say, 2000cc to 2100cc, the work done clearly constitutes an improvement.

An anomoloy arises when an improvement is made to the vehicle and the employee claims costs based on the gazetted rate.

The "fixed" cost deduction available is based on the "value" of the vehicle.

"Value" in turn is defined as the original cost, cash value or value of the vehicle at the time the employee first obtained the right to use it. Thus no tax relief would appear to be available on the value of the improvement.

McGurk says, this point effectively applies to repairs made because a fixed rate per kilometre is deductible, any major repairs could result in the employee losing out as the fixed rate would not cover the actual costs.

STAR 14/2/90 (320)

Competition from informal sector unfair, says building chief

Property & Construction

FRANK JEANS

Commerce and industry is suffering from the unfair competition of the informal sector and the sooner the recommendations of the Margo Commission of Inquiry on Taxation are fully implemented the better.

This was the message to the building industry from Mr Phil Watters when he stepped down as president of the Master Builders Association (Witwatersrand).

Mr Watters told the annual meeting: "Notwithstanding statements by the State President that 'all will be equal before the law' we find a daily stimulation by the government of the informal sector to the detriment of the formal sector.

"This category of business does not have to comply with rules, regulations and laws which puts them in a very strong bargaining position especially under circumstances where the government has not, as yet, defined the 'informal sector'."

Mr Watters urged the implementation of the Margo findings so as to achieve a more balanced taxation base for the formal and informal sectors.

Praising his association for its excellent service in the industrial relations field, the outgoing president said discussions were taking place with some black trade unions on conditions of employment and on the future structure and co-operation on collective bargaining for the industry as a whole.

"We have one black trade union which is a party to the Industrial Council but with the non-participation of the two other black unions in the council bargaining system we face a representation problem which might lead to the Minister not publishing our agreement so far as the general worker category is concerned.

"It would be a tragedy if due to the trade unions' refusal to participate in the system thousands of employees would lose their social fringe benefits established through the Industrial Council.

"It is impossible for trade unions to negotiate these benefits with individual employers and therefore, they stand to lose more than anybody," said Mr Watters."

320

ape Times, Thursday, February 15, 1990 5

South Africans are overtaxed, says De Klerk

By BARRY STREEK
Political Staff

SOUTH AFRICANS were overtaxed and people were leaving the country because of the tax structure, President F W de Klerk has admitted.

The government was committed to dynamic programmes to improve the quality of life of all South Africans, he said on an ABC Nightline interview with Mr Ted Koppel.

"It takes money. That is why social policies don't make sense for South Africa.

"We'll have to have growth from which to finance this.

"This is the one point where sanctions have hit us — in keeping our growth down," Mr De Klerk said.

Mr Koppel commented: "Either growth or higher taxes for those who now have the money. Are you prepared to raise taxes?"

Mr De Klerk replied: "Oh, we've already overtaxed. People are leaving South Africa because of our tax structure.

"The real solution, the economic solution, lies in bringing down taxes, in giving incentives to the private sector to invest, in creating a stable climate within which they can invest."

Mr De Klerk said that by using the country's potential in a framework of a free economy, large sums of money could be applied to improve the living conditions of all those who suffered from poverty and the lack of education.

320

A nightmare for the taxman

FUTURES and options are notorious for progressing at speeds that leave most other aspects of the financial landscape struggling to catch up — and tax is no exception.

Derivatives are notoriously difficult to tie down and categorise for purposes of taxation because of the time element involved and the fact they are linked to (ie, derived from) specific underlying assets.

These problems were discussed in a 1989 international tax survey by Aiken & Peat.

If settlement always results in the actual delivery of the underlying instrument, tax treatment may look to the underlying commodity.

If, on the other hand, delivery of the underlying instrument is clearly impossible — such as in a future on a stock index — the tax charge is more likely to arise on the gain or loss realised on the instrument itself.

With an option, delivery may be contingent upon another event — say, the holder deciding to exercise the option — in which case the tax charge may initially fall on the instrument itself, with a subsequent revision if the option is exercised.

On the timing side, there are the problems of amounts received or paid at the inception of a contract (margin), regular payments during the life of the contract (variation margin) and gains and losses realised on disposal or close-out of the resulting position.

Deemed

Then there is trading versus income. At what point will, say, a pension fund (using the derivative markets with increasing frequency) be deemed to be trading?

Will gains be assessed as capital or income? When does legitimate hedging become pure speculation?

In Australia, the tax authorities tend to look to the *outcome* of the transaction to determine whether it is a hedge. In the UK, it is the *intention* that is more relevant.

Even then, says the Aiken & Peat report, a transaction originally entered into as a hedge may well cease to be a hedge if the underlying asset liability or risk position is disposed of or closed out.

The SA tax authorities are looking into these issues, says Hennie Smit of the Receiver of Revenue.

"We have drawn up a report which is being studied at the moment."

Smit will not comment on what form of taxation will eventually result, saying only that a lot will depend on "intention".

If the eventual taxation of derivatives in SA is unduly punitive or vague, it will almost certainly hurt liquidity the way MST (Marketable Securities Tax) has hurt liquidity on the JSE. This is already happening overseas.

A recent survey conducted by Arthur Andersen on behalf of Liffe (London International Financial Futures Exchange) and LTOM (London Traded Options Market) has found evidence of "unclear and restrictive" taxation in the UK.

Says Arthur Andersen partner Victor Levy in the November '89 edition of Global Investor: "Many institutions may thus turn away from London towards rival European markets . . . where progressive legislation encourages institutional investment in futures and options."

He argues for sufficent clarity on taxation of derivatives to allow UK fund managers to make investment decisions without always worrying about the Receiver.

Practical

He would also like the current definition of hedging to be replaced by a more practical statutory definition of *efficient portfolio management* which would recognise current investment techniques.

SA has perhaps a greater interest in getting such issues right, if only because its fund managers cannot vote with their feet by going off-shore.

73% of SA's tax 'paid by 1,7% of public'

CAPE TIMES 16/2/90.

PARLIAMENT. — A total of 1,7% of the total taxpaying public paid 73% of the country's tax, the Deputy Minister of Finance, Dr Org Marias, said yesterday.

He said during the Second Reading on the Mini Budget that "500 000 of our taxpayers pay 73% of our tax".

The tax system did not present a wonderful picture, Mr Marais said. South African gold mines were taxed 78% compared with Australian gold mines which, until this year, had not been subject to any tax. That would change this year.

Tax evaders were also a big problem in South Africa, but it was not a good idea to raise personal tax.

"We must also give attention to the phasing out of general sales tax," he said, adding that GST higher than 10% led to tax evasion and put pressure on the retailer. — Sapa

Fresh food may be taxed

STAR 16/2/90 (320)

Political Staff

CAPE TOWN — Tax exemptions on fresh foodstuffs may fall away in the next year or so.

This emerged yesterday in the mini-budget's second reading debate when Finance Minister Mr Barend du Plessis told Parliament he favoured scrapping the relief.

Milk, regular bread, meat, vegetables, fruit, eggs, fish and meat are among the produce now free of sales tax.

The exemptions were aimed at poor people, he said, and they cost the Treasury about R3,6 billion a year. But only R700 million of that helped the poor who could generally not afford cooling facilities to keep the produce fresh.

Mr du Plessis said he would rather give that R700 million back to the poor, thus ensuring only they benefited.

Observers think it unlikely that Mr du Plessis will announce an end to fresh produce exemptions in the main Budget on March 14.

They believe the exemptions will lapse during the introduction in the next year or so of Value Added Tax (VAT) as a replacement for the present system of general sales tax (GST).

Scrapping exemptions on consumer taxes would also be in line with the Margo Commission's findings on the country's tax system.

New deal for married couples

Bday 16/2/92

(320)

MARRIED couples should review the role of RAs in their retirement portfolios in the light of SITE and the amendments to the Income Tax Act regarding RA deductions.

AA Life legal services manager Retha Roux says increased RA deductions are available to a married couple where the wife is taxed separately under SITE.

She advises that in this case, a woman should have her own RA to fully exploit the tax saving opportunity in both contributions and later after retirement.

She would then be taxed separately on the annuity, instead of jointly with her husband. This results in a dramatic increase in the net after-tax return on the RA.

AA Life has not yet introduced one of the new-style all-equity based retirement annuities but plans to begin one in March.

Sought-after way of reducing a high tax rate

320

THE maximum allowable tax deductions on retirement annuity contributions and on the one-third amount which may be commuted to cash at maturity has in recent years been described as too low by many tax consultants.

Does the relaxation of prescribed asset requirements and greater potential return mean a new perspective?

Ernst Young partner Ray Eskinazi believes not in cases where an employer-contributed provident fund might take the place of an RA in employees' retirement portfolios.

Option

He says a provident fund offers a greater tax advantage than an RA, is equally protected from creditors, yet has the option of being entirely commuted to cash at retirement.

Whereas an RA is taxed at the investor's marginal rate of tax, the provident fund is taxed at the investor's average rate of tax, which is lower.

Eskinazi says: "These relatively disadvantageous tax considerations at retirement are in no way offset by the removal of prescribed asset requirements on RAs."

However, he concedes that if a person taking retirement has a significant lump sum that is taxable, to put the maximum allowable 15% of this into a single premium RA would be advisable.

Coopers & Lybrand tax consultant Pascale van der Elst believes that for the individual who already has pension and provident funds and life assurance policies but still requires a method of reducing taxation, RAs are a good choice.

They are also very valuable for the self-employed individual with no other pension scheme. He says one of the most important advantages to the RA's place in a retirement plan is that, as it is not employer-provided, the individual loses no benefits by changing employment.

Eskinazi says that as an employer may pay up to 20% of an employee's salary in the form of contributions to RAs, provident and pension funds, they can be very tax-effective as part of a salary package.

Contributions to an RA are deductible according to circumstance as follows: whichever is the greatest of: 15% of non-retirement funding income (which excludes income derived from any retirement funding employment); or R3 500 less other allowable pension fund contributions; or R1 750.

Van der Elst describes the RA as "a much sought-after tax deduction needed to reduce an individual's high tax rate."

One way of seeing the tax advantage, says Price Waterhouse's Martin McAusland is that although the annuity purchased after retirement is fully taxable, it is at the lower rate of taxation applicable to the investor's reduced income bracket.

This means that, in a way, the investor is deferring taxation to take advantage of a lower marginal rate.

Sanlam marketing actuary Jacques de Villiers says it is "particularly those people in the higher income brackets who do well by putting their money into RAs".

"Many people are unaware that RA contributions may be deducted for tax relief from not only earned income, but also, for instance, from investment income and even from pensions.

Discretionary

"Someone retiring with a larger income than is needed could put some of that discretionary income into a retirement annuity planned to mature before his or her 70th birthday.

"When such policies mature, these pensioners will have given themselves a substantial raise.

"A word of advice to married couples is to take the annuity in the wife's name if she is younger than her husband.

"This also makes sense when the wife is a taxpayer and the husband's maximum contribution for tax relief has been reached."

INCOME TAX FM 16/2/90 (320)

Slow assessment

It has been widely rumoured that a serious backlog in tax assessments has built up in the office of the Johannesburg Receiver of Revenue and that there are undue delays in issuing assessments to film producers.

Commissioner for Inland Revenue Hannes Hattingh confirms "a moderate backlog" in the issue of assessments for the 1989 tax year and says it can be ascribed to "initial teething problems" in the Site system, as well as the blanket extension of the deadline for the submission of the 1989 returns from June 6 1989 to July 14.

Hattingh says special measures have been introduced and "the issue of assessments is expected to be on course before the start of the 1990 assessing season." He says, too, there were backlogs at a number of other offices, but they have been eliminated.

Hattingh says secrecy provisions prevent him from commenting fully on assessments for the film industry. But Revenue did say earlier assessments of taxpayers involved in film ventures were being dealt with by the Johannesburg Receiver. "These have been scrutinised and numerous assessments have recently been issued."

FM 16/2/90 (320)

INCOME TAX FM 16/2/90 (320)

Hannes hits out

Commissioner for Inland Revenue Hannes Hattingh has fired another broadside at taxpayers — this time against those taking advantage of concessions to plantation owners. The target is the use of partnerships to derive these benefits.

Informed sources feel Hattingh is aiming far too wide because most — or all — of the activities are within the tax law. Revenue will not find it easy to amend the Income Tax Act to prevent the manoeuvres as long as it is thought desirable to give such concessions.

A recent Revenue press statement complains of "schemes" being marketed that offer investment in plantations through partnerships. Under paragraph 15 of the First Schedule to the Income Tax Act, expenditure incurred in establishing plantations may be deducted in full by individual taxpayers. Inevitably, investment in plantations has come to be regarded as a tax shelter for those who earn their income in other ways.

Revenue cannot really argue that a sleeping partner in a plantation is in any different tax position to an active partner. Nor can it complain that the sophisticated and ingenious tax industry markets schemes which make the concession available to business and professional men within the letter of the law. After all, their money flows into the operation just as much as that of the active partner.

Revenue has further grouses:

☐ Expenditure mentioned in the contracts governing a scheme can be claimed in the year the contract is concluded even though money has not actually been spent;

☐ Interest on outstanding amounts owed by the scheme partnership can be capitalised for up to 15 years by promissory notes and other instruments;

☐ Endowment insurance policies, which it is claimed are standard policies under the Sixth Schedule to the Act, can be used to make tax-free investments; and

☐ Interests in the partnerships can be sold to ensure the proceeds are capital in nature.

Revenue says many schemes are artificial, while the promised tax benefits may not be available under present law. One recent scheme promises that, for an investment of R3,5m, they will enjoy a deduction in the first year of R20m.

The commissioner has instructed receivers "to identify schemes and investors with a view to challenging any claims for tax benefits to which investors are not entitled. Persons considering investments in these schemes are advised to satisfy themselves they are entitled to the tax benefits."

If a scheme falls within the letter of the law, the only administrative remedy available to Revenue is section 103 of the Act, which authorises the raising of assessments in certain specified circumstances.

To summarise a complex provision, Revenue must show abnormality of means or the grant of contractual benefits which would not arise in an arm's-length transaction. On the face of it, without fraud (that is, if there is a genuine contract to plant trees), S103 does not seem to apply. To complain that schemes are — in the commissioner's opinion — artificial is not enough.

If marketers of schemes use legitimate commercial mechanisms, such as promissory notes or couple them to legitimate forms of assurance (endowments complying with the Sixth Schedule), this does not open the door to S103.

US tax authorities dealt with this problem through a general provision which sets a ceiling on tax benefits which can be obtained from special concessions, relative to cash commitment. Such a provision may limit the concession to 200% of cash outlay.

If the commissioner's directive is not intended simply to harass taxpayers operating in a legitimate way, he will have to consider such a general amendment. The only other option is to do away with the special concessions which attract the tax industry. ■

F/M 16/2/90

F/M 16/2/90

cial bank is in line with five years ago.

However, what will really determine the cost (and profit) performance will be the effort to change the corporate culture. A "quality programme" has been instituted, as have incentive schemes for staff, and Cronje says all new business will have to be profitable by specified criteria. "Changing culture means adapting to a more competitive environment," he says. "10 years ago there was no competition but today it is highly competitive and that is not going to change."

In the life assurance sector, Volkskas has a 30% stake in the enlarged Momentum Life, formed by last year's merger of Momentum and Lifegro. Here Volkskas has exposure to a highly rated investment advisory operation and the cross-selling potential in the life company's large client base. In time Momentum should be a cash generator.

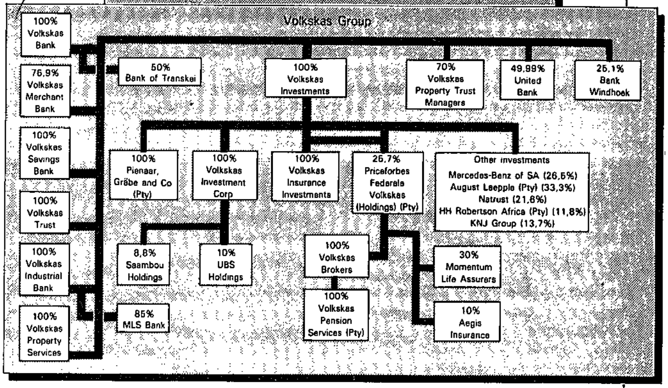
The stake in United Bank has offered exposure to broader markets. An open question is what could emerge from a closer marriage between UBS Holdings and Volkskas — and whether this would be sought. The CE of a major competitor believes their cultures are sharply different. At the UBS, he says, "they are tougher nuts . . . far more aggressive." One banks analyst finds potential synergy difficult to imagine. However, Cronje feels that further *toenadering* is likely, such as common use of systems.

The other question is: does Rembrandt have a game plan for its holdings in financial services? Some banking analysts are recommending Volkskas as a long-term hold, on the assumption that restructuring will eventually come. Other Rembrandt financial interests include 30% of Momentum, 22% of Sage Holdings and 10% of Stanbic. For now such prospects are largely speculative.

Medium term, the share price is more likely to depend on whether management can persuade the market that profitability is rising. EPS for the six months to end-September rose 26,6% and the full-year result will probably remain robust.

The group should have reaped tidy profits from its large cheque account balances during the phase of rising interest rates, though the same may not apply when rates ease. Competition will remain severe, including, perhaps, a more vigorous Bankorp with Derek Keys in the chair. If Volkskas can show sustainable growth, the share rating must improve. Meanwhile, many investors will prefer to wait and see. *Andrew McNulty*

Group structure



CAPITAL ALLOWANCES

F/M 16/2/90.

Searching for a balance

(320)

■ The key to a workable and acceptable tax system lies in consultation

Is this any way to run taxation policy? Government's abrupt slashing of industry's depreciation allowances from the year-old 50:30:20 basis to a straight-line 20% has yet to be fully assimilated. But lurching from (possibly) overgenerous to (arguably) stringent rules without consultation or proper economic study is the height of *ad hoccism*. The change was with immediate effect from December 15.

Industry obviously needs appropriate depreciation rules at a time of double-digit inflation. That is precisely why it was — and is — important for government and industry to put their heads together on the issue. And that's why the abrupt change in the rules by Deputy Finance Minister Org Marais generated a heated response from organised commerce and industry and the accounting profession.

The essence of the criticism was that industry would no longer be able to afford the cost of replacing or adding to its stock of capital equipment. Government's contention was that the previous formula was overgenerous and had been abused.

Highly sophisticated tax consultants had put the 50:30:20 regime and its predecessor (which introduced a first-year 50% allowance in 1985) to good use in "avoiding or postponing income tax."

Within the law — Section 12B of the Income Tax Act — it had become possible in successive tax years to resell the same machinery within the same group of companies at market value and claim the 50% allowance more than once, provided the vendor had brought the asset into use in a previous year of assessment.

Government's accusations may have validity but fail to lay the blame where it belongs — on bad draftsmanship. This, primarily, was what made it possible for groups to do well out of the allowance, despite the fact that the vendor company would be taxed on its recoupment to the extent of the original allowance. (The market value of the machinery would have risen well above its original purchase price despite the period of use.)

TABLE 1

INDUSTRIAL GIANTS

Effective tax rate

Company	Rate (latest Financial Year)
AECI	41,0%
Amic	32,8%
Malbak	30,1%
Sappi	2,7%

To counter this sort of manoeuvre, government proposes to incorporate an anti-avoidance amendment which severely restricts a second claim for a 50% allowance within the same group achieved through an intra-group sale. 12B will still apply to farming assets and machinery acquired through agreements entered into before December 15.

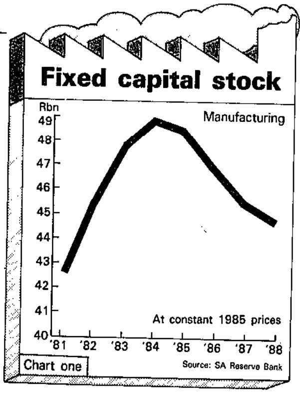
The effect will be to restrict even the new 20% allowance (or the old allowance in the case of agreements entered into before December 15 last year) for the first year of ownership to the lesser of the cost or market value of the equipment where there is a sale to a "connected person."

What exactly is a connected person? In relation to a company it is any other company managed, controlled or owned directly or indirectly by substantially the same people. There is a similar rule if there is a sale from a natural person to a company.

Tax experts have responded by pointing out that if Inland Revenue's concern about avoidance were the issue, the matter could have been dealt with by announcing an intention to enact an anti-avoidance amend-

P.T.O.

F/M 16/2/90 (320)



ment.

It is, or should be, common cause that offending multiple claims have been reasonably dealt with. But it's widely held that the 50:30:20 formula should have been left on the statute book as a necessary provision in inflationary times for the health of manufacturing industry. Sufficient cash flow needs to be preserved to permit replacement or extension of plant and machinery.

In an entirely rational system, it would be logical to charge depreciation from year to year on the inflation-adjusted value of plant and machinery over its actual working life. To apply any rigid and mechanical formula is to bias the system in favour of machinery with a long working life.

The practical problem with such rationality is that it would impose additional work on hard-pressed receivers of revenue and company accountants who would have to demonstrate the market value of the machinery from year to year as well as adduce arguments about working life.

It is relevant to note the systems applied in certain major industrial countries (**table 2**). West Germany has the most elaborate and scientific system; while the UK, with an uninspiring industrial track record, has a fairly generous rate. This might suggest that depreciation allowances are perhaps not the major factor in industrial effectiveness. In any event, none of the countries cited has an inflation rate nearly as bad as ours, which probably restricts any inferences to be drawn from overseas experience.

In SA, fixed capital stock in manufacturing (at constant 1985 prices) rose significantly from 1981 to 1985, and then began to decline (**chart one**). Until June 30 1985, the taxpayer was entitled to a 30% investment allowance not subject to recoupment on resale of the machinery, plus a 25% initial allowance in the first year on new plant used in a process of manufacture. The taxpayer was also entitled to an annual wear-and-tear allowance, under Section 11(e) of the Act, computed on the cost of the asset less the initial allowance.

The wear-and-tear allowance was determined by reference to the expected economic life of the asset and the number of daily shifts during which it was used. In some cases, points out Marcienne Jacobson, a consultant in the tax department of Deloitte Haskins & Sells, this allowance was as high as 25% a year.

Consequently, a taxpayer whose factory operated on a three-shift basis could write off 73,75% of the cost of new plant and machinery in the year it was first brought into use, provided this was done on the first day of the financial year. Over the entire life of the plant he could write off a total of 130% of the purchase price of the asset.

With effect from July 1 1985, the 30% investment allowance was abolished, Jacobson explains, and the initial allowance was increased from 25% to 50% for all new and unused plant and machinery used in a process of manufacture or similar process. The wear-and-tear allowance remained. So a taxpayer whose factory operated three shifts could still write off 62,5% of the cost of plant in the year it was first brought into use. The balance was written off at 25% a year over the remaining years.

From January 1 1989, the taxpayer could claim only 50% of the cost in the first year, but was entitled to higher write-offs than before in the second and third years. According to Philip Dieperink, a Deloitte Haskins & Sells tax partner, until the introduction of Section 12B, Revenue granted such an allowance of 25%, and even of 33,3% in cases where the machinery was being worked on three shifts. But, when Section 12B was introduced, Section 11(e) was expressly amended to deny a taxpayer the allowance when 12B was available.

Table 2

DEPRECIATION RATES

Plant and machinery

Country	Rate (%)	Method
United Kingdom	25	Reducing balance
Australia	10-15	Reducing balance
Italy:		
Plant	3-4	Straight line
Machinery	10-14	Straight line
Germany:		
10 years useful life	10	Straight line
15 years useful life	7	Straight line
10 years useful life	30 max	Reducing balance
15 years useful life	21 max	Reducing balance
United States:		
Plant	12,7	As per tables
Machinery	20 basic rate	As per tables

The latest press statement has not indicated that the proposed Section 12C will be accompanied by an amendment to 11(e) denying a wear-and-tear allowance where a 12C allowance is available. But this seems probable. The result will be that some taxpayers will be worse off than when they were able to claim an initial 50% allowance and had access to the benefits of 11(e). They will quite probably be restricted to the 20% straight-line allowance of the future 12C.

The relationship between adverse changes to the depreciation regime and capital investment is, therefore, suggested, though not proved, because other factors might well have been involved.

In any event, the importance of depreciation to business is well demonstrated by the relationship of net domestic investment and provision for depreciation for private business enterprises as a whole (**chart two**).

The depreciation regime now summarily abolished could (even before January 1 1989) result in remarkably low tax rates for industrial companies engaged in heavy capital expenditure. The effective tax rate applicable to manufacturers across the board must, in calendar 1989, have been substantially lower than the nominal 50% rate (see **table 1**). This explains, though it does not excuse, the panicky way in which the depreciation regime was changed yet again.

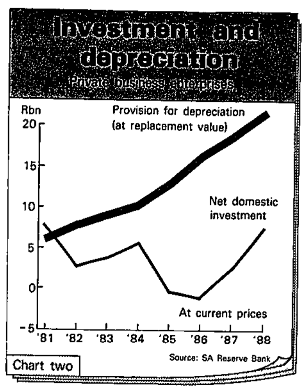
It can be noted that a recent study by the former FCI showed that some 60% of manufacturers were working only one shift a day while only about 10% worked a full three shifts.

It is difficult to avoid the conclusion that government proceeded purely reactively in the face of evidence of heavy tax avoidance stimulated by an earlier overgenerous provision and accompanying slack draftsmanship. All this without adequate economic analysis. The *FM* suggests that:

□ The anti-avoidance amendment limiting multiple access to the capital allowance within the same group can be accepted as sound tax law;

□ The 20% straight-line allowance should be regarded strictly as an interim measure, pending the results of thorough econometric studies (including reference to overseas experience) which would indicate what system of write-offs corresponds most effectively to economic and business reality; and

□ Serious consideration should be given to the retention of 11(e) in some or other form, pending the results of the comprehensive study. Multiple-shift operators need to be rewarded reasonably generously. Several investigations into industrial efficiency, with specific reference to poor export performance, have drawn attention to failure to work multiple shifts as a serious weakness. ■



MINING TAX F|M 16|2|90 (320)

Blocking growth

To maintain gold production, now about 600 t a year, "SA needs to start several new deep-level mines before the end of the century," says the latest Bank of Lisbon *Economic Focus*. Mobilisation of capital resources to achieve this is, however, seriously hampered by lack of clarity on capital gains tax.

"Billions of rands of shares are not traded because holders are unsure whether the proceeds will be taxed . . . there is no definition in SA tax law of capital or income."

Large sums are at stake because the "long-term nature of investments by mining houses in mature operations means their book values are so small that, on sale, almost 50% of the proceeds could be subject to tax."

The situation is reflected in low turnover on the JSE, which averages about 4% of issued capital a year, compared with 35% in London, 57% in New York and a huge 380% in Taiwan. In a more favourable trading environment "substantial amounts of cash to fund new mines could be raised by selling tax-mature investments."

Ultimately, this would expand the tax base, as new mines created employment and eventually made greater profits which would be liable to tax.

FINANCIAL MAIL FEBRUARY 16 1990

FM 16|2|90 (320)

Economic Focus suggests: "The answer is to reduce or abolish the 50% tax rate on dealing profits. Alternatively, the tax could be discarded where cash released from the sale of shares is directed into new projects. Another suggestion is to introduce a time ruling for the holding of shares, such as six or 12 months. A gain realised after this date would be nontaxable." ■

Economics of 'upliftment'

MIKE ROBERTSON

CAPE TOWN — SA needed a social market economy to provide upliftment for disadvantaged people, Finance Minister Barend du Plessis said yesterday.

He was replying in the debate on the second reading of the Part Appropriation Bill, to DP finance spokesman Harry Schwarz who said capitalism was associated with apartheid in the eyes of many blacks.

Schwarz went on to say that those opposed to the kind of nationalisation being propounded by Nelson Mandela and the ANC needed to project a system which was not associated with apartheid, had been proven to be effective and gave opportunity to those who had previously been deprived.

Schwarz said the answer to socialism was not to contrast it with old-time capitalism but with West Germany's social market system.

Du Plessis said Schwarz had made a "tremendous contribution" to debate on the kind of economic system that was needed.

Government, he said, had never argued for a cold, free-enterprise, capitalist system.

In its distribution of taxes over the past few years it had shown considerable compassion for the poor but it had been restricted by its process of reconstructing the economy.

Earlier Schwarz had attacked panic selling on the JSE following Mandela's comments on nationalisation. People doing this, he said, should have read ANC policy documents and would have realised that what he was saying was nothing new.

Du Plessis agreed that panic selling was uneccessary. He firmly believed the ANC would realise its support of nationalisation was archaic and would revise its stance. Otherwise it would never succeed in presenting itself as a powerful player on the political stage.

He said he agreed with Schwarz that the answer to uplifting disadvantaged people did not lie in redistributing existing wealth, but in creating new wealth.

Du Plessis added that while he agreed that there should be no discrimination in the provision of social services, it would not be possible to achieve this immediately.

South Africans would have to "stick it out a little longer" while the economy consolidated and by the final quarter of next year it would be in a position to sustain a period of high growth.

Only 2% of taxpayers shouldering SA's burden

CAPE TOWN — A total of 1,7% of the total taxpaying public paid 73% of the country's tax, Deputy Minister of Finance Org Marais said yesterday.

During the second reading on the mini-Budget he said that "500 000 of our taxpayers pay 73% of our tax".

Government had to be more efficient in spending government money.

The tax system was not wonderful; SA gold mines were taxed 78% compared with Australian gold mines, which, until this year, were not taxed.

Tax evaders were also a big problem in SA, but it was not a good idea to raise personal tax.

"We must also give attention to the phasing out of general sales tax."

GST higher than 10% led to tax evasion and put pressure on the retailer.

At the end of the day the public was not paying 18% GST but almost 30% because the product was being taxed at every stage it went through before being sold to the public.

To audit GST was almost impossible.

If government administered its expenses well, and the right tax system was used, then "we can look at extras for health and education".

DP finance spokesman Harry Schwarz said yesterday the Finance Minister's challenge this year was to present a Budget as an instrument to further negotiation and not just to right past fiscal errors.

Speaking in the second reading debate he said: "This year's Budget will be delivered in quite a different setting to any previous one.

"The Minister's needed to produce a Budget that, in disciplined spending and reform in taxation, would put the economy, in a co-ordinated effort with the Reserve Bank, on a healthy path. — Sapa.

BD 16/2/90 320

B/Day 16/2/90

WORLD

3/14

Economic problems plunge Sweden into political crisis

STOCKHOLM — Sweden plunged into a political crisis this week, unable to resolve economic problems created by its own prosperity: too many unfilled jobs and people with too much money to spend.

When government ordered affluent Sweden to tighten its belt, it ignited an uproar from workers and economists, and united the splintered political opposition.

Last week, the ruling Social Democrats proposed an emergency two-year austerity programme, including a freeze on wages, prices, rents, local taxes and corporate dividends.

In the face of an unexpected public fury, they withdrew a proposed prohibition on strikes, replacing it with mandatory arbitration.

On Wednesday, the Social Democrats lost a nine-to-eight vote in parliament's labour committee, virtually ensuring that the package would be defeated by the full 349-member Riksdag (parliament).

Prime Minister Ingvar Carlsson said he would not stay in office if the package failed to win parliament's approval. Critics charged that while Eastern Europe was proclaiming the futility of regulation and central control, Sweden was defying the flow of history. — Sapa-AP.

SA is overtaxed — Barend

(320) B/Day 20/2/90

MIKE ROBERTSON

CAPE TOWN — South Africans were being overtaxed, Finance Minister Barend du Plessis said yesterday.

He also admitted government had underestimated revenue flowing from just about every source in the current budget.

He said that the reason for this was that the economy had not cooled off as quickly as government had expected it to.

As a result, revenue from GST was much higher than government expected it to be.

The phasing-out of certain tax allowances had also made it impossible for government to correctly predict what revenue personal income tax would yield.

In addition, import surcharges had not had the effect government had expected in reducing imports. Consequently revenue from this source was also much higher than government had anticipated.

Du Plessis said government also had not adequately addressed the issue of fiscal drag. There had also been a significant increase in the number of taxpayers.

Revenue from company taxes was higher than expected, and private sector salary increases were much higher than government anticipated, with the resultant increase in tax payments.

● See Page 5

Now Barend says we're overtaxed

CAPE TIMES 20/2/90 (320)

Political Staff

THE government had underestimated revenue from just about every source in the current budget and South Africans were being overtaxed, the Minister of Finance, Mr Barend du Plessis, said yesterday

The reason for this, he said, was that the economy had not cooled off as quickly as the government had expected it would.

As a result revenue from GST was much higher than expected.

The phasing out of certain tax allowances had also made it impossible for the government to predict correctly what revenue personal income tax would yield.

In addition import surcharges had not had the effect the government had expected in reducing imports. As a result revenue from this sources was also much higher than expected.

Mr Du Plessis said the government had also not adequately addressed the issue of fiscal drag. There had also been a significant increase in the number of taxpayers.

Revenue from company taxes was also higher than expected and, finally, private sector salary increases were much higher than anticipated, with the resultant increase in tax payments.

The Additional Appropriation Budget, which exceeded his March estimates by just R164m or 0,3%, demonstrated the government's resolve to control public expenditure, Mr Du Plessis said.

This hard-won discipline would have to be maintained if the government was to implement fiscal reform needed to put the economy on a sustainable growth path as well as supporting the emerging socio-political reform process.

He said the revised estimate of expenditure was R65,181bn.

Releasing details on how the government planned to spend privatisation revenue, Mr Du Plessis said R87,9m of the R3bn raised by the Iscor flotation would be used to pay for the costs of the listing. The remainder would be available for reducing public debt.

'Rich benefited'

THE state lost income of R3 600 million on the sales tax exemptions on foodstuffs but it was estimated only R700 million of this went to the benefit of the poor, Mr Barend du Plessis, said yesterday.

"We must not let other people benefit," he said in reply to criticisms by the Labour Party's finance spokesman, Mr Les Abrahams, of planned moves to abolish the exemptions on sales tax.

"I would much rather vote for subsidies for poorer people.

"We must find another way to help poorer people," he said.

B/Day 20/2/90. (320)

Tax relief of up to R3bn 'not enough' to lighten burden

GRETA STEYN

GOVERNMENT should be able to give tax relief of up to R3bn in next month's Budget — but this will not be enough to alleviate the tax burden in any real sense, says economist Louis Geldenhuys of stockbrokers George Huysamer.

Although a revenue boom such as the one in the current fiscal year is unlikely, Geldenhuys believes relatively strong increases should give government the scope to alleviate fiscal drag and start phasing out punitive import surcharges.

Geldenhuys believes that — with no changes in the existing tax structure — a rise of 13,7% in revenue is possible.

"Much has been made of the tax windfalls in the past two fiscal years. But a good part of the boom in revenue was not a once-off and will continue to keep the inflow into the state's coffers at a comfortable level," he said in an interview.

Inflation was an important factor pushing up the income from individual taxes, while company profits could still increase in real terms.

"Companies can cope much better with high interest rates compared with the previous downswing and also have not incurred the same foreign exchange losses. Apart from mines, an increase of 15% in the revenue from companies' tax is not impossible."

GST could rise to 13,5%, mining taxes could decline and income from customs and excise and the fuel levy could remain virtually unchanged. This optimistic scenario on the revenue side, coupled with an expected increase of only 10% in government spending, should provide the scope for tax cuts.

Without any tax relief, such a spending and revenue scenario yielded a deficit before borrowing of only R4,7bn, or 1,7% of GDP. Scope existed to widen the deficit to the same size as the current fiscal year — about 2,7% of GDP.

Aid sought in tax reform process

LESLEY LAMBERT

CAPE TOWN — The Tax Advisory Committee (TAC), which advises Finance Minister Barend du Plessis on tax issues, has invited academic institutions and the private sector to assist it in the tax reform process. (320)

In a statement issued yesterday which spelled out the progress of current tasks and announced future research projects, the TAC said it would consider academic and private sector research documents when making recommendations to Du Plessis.

Among the issues being studied by the TAC, whose main task is to facilitate the tax reform process initiated by the Margo Report, are the tax treatment of pension funds and retirement funds, the taxation of dividends and the question of fiscal decentralisation.

It is also attempting to clarify the distinction between capital and revenue for tax purposes and the tax treatment of identified capital gains.

The TAC has targeted the tax system's role in the economy as a major future project. A researcher will examine ways of neutralising distortions caused by inflation on the tax structure and emphasis is to be placed on means of encouraging domestic savings.

The council will identify the changes needed to adapt the tax structure to the trend in privatisation. In the longer term, it will investigate issues including income tax evasion, tax incentives, tax expenditures and personal income tax with regard to SITE.

The Star Wednesday February 21 1990 7

2 million tax returns in post soon

320

Pretoria Correspondent

More than two million income tax returns are to be posted shortly as the Directorate of Inland Revenue embarks on its weighty annual task.

Of these 1,4 million are salary and wage earners and 677 000 taxpayers in the business, farming, professional and investment categories.

Mr Des Goosen, director of operational development, said the date of issue for returns would be April 5 and the return date would be June 4. All returns would be posted to taxpayers before the end of March.

The largest number of returns — almost 297 000 — will be dispatched to the Johannesburg vicinity.

The directorate has told regional offices in larger centres to run an after-hours service to help people complete their tax returns.

The service will be between 4 pm and 6 pm on weekdays.

In addition a new service will also be offered for taxpayers.

Mr Goosen said a telephone assistance service will only be for taxpayers who derive their income from salary and investments. This service will be available from 8 am to 4 pm and will be used on a trial basis in the Transvaal this year.

The numbers to call will be published on the cover page of the tax returns.

Mr Goosen called on taxpayers not to use this number for all queries. Other queries should still be directed to the local Receiver of Revenue's office.

He called on taxpayers to furnish details of bank or building society account numbers. Money due to them will be paid into the accounts.

Star 21/2/90 (320)

Social services in line for a boost in Budget

By Sven Lünsche

Spending outlays in the 1990/91 Budget will shift significantly to social services, like education and health services, Finance Minister Barend du Plessis said yesterday.

Delivering the key-note address at the Frankel Kruger Vinderine 1990 Investment Conference, Mr du Plessis said that substantial savings would be achieved in this year's Budget, which will be tabled in Parliament next month.

Apart from the reduction in defence spending, Mr du Plessis also indicated that expenditure on public works would be significantly curtailed.

"Even in sectors like education and health services, there will be a shift in spending to areas where it is more urgently required," he said in response to a question.

"For example, we will not build new hospitals for the white community, as on average only 51 percent of the beds are occupied.

"The education Budget will focus mainly on black education, where there is a desperate shortage of classrooms and qualified teachers, while white schools already have a more than adequate supply of staff and facilities," Mr du Plessis said.

"The pattern of government spending will in future reflect greater preference for developing our human resources in the form of education and training and the provision of essential socio-economic services."

The Government has already displayed its commitment to financial discipline and "our intention is to re-establish the Budget as a tool of economic management and to reduce the rate of increase in government spending and the deficit before borrowing," Mr du Plessis said.

"It is our aim ... to reduce the overall incidence of taxation of individuals, and in this way to promote saving, investment and economic growth.

"We are also according high priority at present to the question of tax reform. The tax changes we have in mind are being phased in over time and good progress has already been made in this direction."

Turning to monetary policy, Mr du Plessis said there was at present no need to consider any further tightening of the government's economic policy at this juncture.

"Growth of the various components of total gross domestic expenditure (GDE), with the exception of private consumer spending, are moving in a downward direction.

"The authorities are keenly aware of the danger of overkill, but there are no indications that such a point has already been reached or is in the offing."

Providing a detailed breakdown of the level of domestic spending, Mr du Plessis said that GDE increased in real terms by 5 percent during 1988 and 3,5 percent in 1989.

"This indicates that economic activity has remained at a very high level.

"Investment in inventories — which declined sharply in the fourth quarter last year and was the main reason behind the sharp decline in total domestic expenditure during the quarter — can fluctuate widely and a rebuilding of inventories at this stage could consequently give rise to a resurgence in the level of spending."

Mr du Plessis added that the restrictive monetary and fiscal policies had allowed the authorities to no longer rely extensively on the exchange rate to realise a surplus on the current account.

Major tax reforms for mines

Cape Times 21/2/90

320

Own Correspondent

JOHANNESBURG. — Finance Minister Barend du Plessis yesterday committed government to major tax reform for mines, and hinted that the changes could be included in next month's Budget.

During question time at the Frankel Kruger Vinderine conference in Johannesburg, he said: "Obviously we are over-taxing the mining industry.

"Taxing a mine at 78% is terrible. That must certainly be addressed."

He said the tax package for the Budget would be finalised at the weekend, and added, to the obvious approval of conference delegates: "So hold thumbs. Maybe something will happen.

"Our room for maneouvre on the tax front is restricted — but we have accepted the gold mines are overtaxed."

He noted the "law of diminishing returns" was operating with regard to government's revenue from taxing the mining industry. Although the tax rate was high, the yield was dropping.

However, adjustments in tax write-offs for capital spending in the mining industry would also have to be made.

He was also asked which areas of government spending, other than on defence, were likely to yield savings during the next fiscal year. He responded by saying the full impact of the reduction in defence spending would only be felt in another two or three years' time.

"But we will also see savings in Public Works and certain aspects of hospitals. We will stop building white hospitals," he said, noting that only 51% of beds were filled annually in hospitals reserved exclusively for whites.

Du Plessis emphasised there would be a shift in spending emphasis, from non-social to social expenditures such as health and education.

Earlier in his speech he said: "We cannot effect ... changes overnight, but we are according high priority at present to the question of tax reform and the determination of priorities for government spending."

Major tax reforms for mines

Cpt Times 21/2/90

320

Own Correspondent

JOHANNESBURG. — Finance Minister Barend du Plessis yesterday committed government to major tax reform for mines, and hinted that the changes could be included in next month's Budget.

During question time at the Frankel Kruger Vinderine conference in Johannesburg, he said: "Obviously we are over-taxing the mining industry.

"Taxing a mine at 78% is terrible. That must certainly be addressed."

He said the tax package for the Budget would be finalised at the weekend, and added, to the obvious approval of conference delegates: "So hold thumbs. Maybe something will happen.

"Our room for maneouvre on the tax front is restricted — but we have accepted the gold mines are overtaxed."

He noted the "law of diminishing returns" was operating with regard to government's revenue from taxing the mining industry. Although the tax rate was high, the yield was dropping.

However, adjustments in tax write-offs for capital spending in the mining industry would also have to be made.

He was also asked which areas of government spending, other than on defence, were likely to yield savings during the next fiscal year. He responded by saying the full impact of the reduction in defence spending would only be felt in another two or three years' time.

"But we will also see savings in Public Works and certain aspects of hospitals. We will stop building white hospitals," he said, noting that only 51% of beds were filled annually in hospitals reserved exclusively for whites.

Du Plessis emphasised there would be a shift in spending emphasis, from non-social to social expenditures such as health and education.

Earlier in his speech he said: "We cannot effect ... changes overnight, but we are according high priority at present to the question of tax reform and the determination of priorities for government spending."

Major mine tax reform ahead

GRETA STEYN

(320)

FINANCE Minister Barend du Plessis yesterday committed government to major tax reform for mines, and hinted that the changes could be included in next month's Budget. BDay 21/2/90

During question time at the Frankel Kruger Vinderine conference in Johannesburg, he said: "Obviously we are overtaxing the mining industry.

"Taxing a mine at 78% is terrible. That must certainly be addressed."

He said the tax package for the Budget would be finalised at the weekend, and added, to the obvious approval of conference delegates: "So hold thumbs. Maybe something will happen.

"Our room for maneouvre on the tax front is restricted — but we have accepted the gold mines are overtaxed."

He noted the "law of diminishing returns" was operating with regard to government's revenue from taxing the mining industry. Although the tax rate was high, the yield was dropping.

However, adjustments in tax write-offs for capital spending in the mining industry would also have to be made.

He was also asked which areas of government spending, other than on defence, were likely to yield savings during the next fiscal year. He responded by saying the full impact of the reduction in defence spend-

☐ To Page 2

Tax reform BDay 21/2/90

(320)

☐ From Page 1

ing would only be felt in another two or three years' time.

"But we will also see savings in Public Works and certain aspects of hospitals. We will stop building white hospitals," he said, noting that only 51% of beds were filled annually in hospitals reserved exclusively for whites.

Du Plessis emphasised there would be a shift in spending emphasis, from non-social to social expenditures such as health and education.

Earlier in his speech he said: "We cannot effect … changes overnight, but we are according high priority at present to the question of tax reform and the determination of priorities for government spending."

Limits to tax reform for mines — analyst

Star 24/4/90 (320)

The extent to which tax reforms could be applied to mines would depend largely on how the government managed to keep its expenditure in check, says tax consultant Eric Louw of Coopers and Lybrand.

Mr Louw was commenting on the Minister of Finance's statement at the Frankel, Kruger, Vinderine Inc investment conference on Tuesday that taxing a mine at 78 percent was too high.

"If government expenditure levels are maintained at those of the past 10 years, then there will be little chance of mine tax reform being implemented," he said.

While savings resulting from Defence Force budgetary cuts will be of help, it must be realised that the government will be expected to spend more on health and education which could negate any savings, Mr Louw says.

"The Minister has been making many promises lately, but now it remains to be seen how well he balances his Budget. And he has quite a number of dilemmas to face."

However if the tax base was broadened, which could happen with the introduction of VAT, then a tax reduction of mines would be possible, Mr Louw said.

According to Mr Louw, mines would benefit greatly from some form of tax relief. Profitability would be increased and make more funds available for capital expenditure for expansion.

The Minister said at the conference that government was committed to major tax reform for mines which could be included in next month's Budget.— Sapa.

South 22/2 - 28/2/90

'Scrap food tax!'

(320)

By CHIARA CARTER

A CAMPAIGN to keep down food prices is being planned.

The National Unemployed Workers' Co-ordinating Committee (NUWCC) has slammed the proposal by the Minister of Finance, Mr Barend du Plessis, to scrap tax concessions on all fresh foods.

It will also approach the mass democratic movement (MDM) to launch a campaign to keep food prices down.

At the second debate reading of the mini-budget in parliament last week, Du Plessis said the concessions cost the treasury more than R3,8 billion; only R700 million of this reached the poor.

Poverty

NUWCC spokesperson Kevin Patel said the organisation was "appalled" at Du Plessis' proposal.

"This means greater poverty for all South Africans," Patel said.

He said the NUWCC wanted to know how the minister had calculated the benefits for the poor.

The organisation wanted the government to increase food subsidies instead of increasing taxation.

Sources within the government said the government is planning to introduce a food stamp system.

Patel said, given the existence of 14 welfare departments and an estimated six million unemployed, the introduction of a food stamp system would be a "bureaucratic nightmare".

Too much tax — Barend wasn't joking

CAPE TIMES
22/2/90
320

Own Correspondent

PRETORIA. — When the Minister of Finance, Mr Barend du Plessis, confessed a few days ago that South Africans were being overtaxed and that government had underestimated the tax flow, he wasn't joking.

This is clear from the latest tax collections figures issued yesterday by the Department of Finance's division of Inland Revenue.

The massive increase in revenue in the nine months to end-December last year from GST, income tax and company tax, other than mining companies, was R6,933bn for an April-December total of R31,776bn.

Persistently high consumer spending resulted in GST collections of R12,256bn, up from R9,520bn in the first nine months of the 1988/89 financial year.

Bracket creep

Individual income tax swollen by bracket creep and greater numbers of taxpayers increased from R9,520bn in January-December 1988 to R13,092bn in the same nine months last year.

Other than mining companies, taxation increased by R520m to R6,428bn.

And in January, the tax flow continued strong with R2,927bn more collected from companies to a total of R9,355bn, R1,590bn more from GST to a total of R13,846bn, and R1,786bn more from individuals to a total of R14,878bn.

In the month of January alone the total collected from the three taxes amounted to R6,303bn, making a ten-month total of R38,079bn.

And according to inland revenue, February and March are big collection months, particularly February with the second and last provisional tax payments for the 1989/90 financial year.

Barend's 'overtaxed' cough up R31,776bn

GERALD REILLY

PRETORIA — When Finance Minister Barend du Plessis confessed a few days ago that South Africans were being overtaxed and that goverment had underestimated the tax flow, he was not joking.

This was clear in the latest tax collections figures issued yesterday by the Department of Finance's division of Inland Revenue. BDay 22/2/90

The massive increase in revenue during the nine months to end-December last year from GST, income tax, and company tax other than that from mining companies was R6,933bn, bringing the April-December total to R31,776bn.

Persistently high consumer spending resulted in GST collections of R12,256bn, up from R9,520bn during the first nine months of the 1988/89 financial year. 320

Individual income tax swollen by bracket creep and and increased numbers of taxpayers increased tax paid from R9,520bn in January-December 1988 to R13,092bn in the same nine months last year. Other-than-mining companies taxation increased R520m to R6,428bn.

In January the tax flow continued strongly, with R2,927bn more collected from companies to a total of R9,355bn, R1,590bn more from GST to a total of R13 846bn, and R1 786bn more from individuals to a total of R14,878bn.

In the month of January alone R6,303bn was collected from the three taxes, making a 10-month total of R38,079bn.

According to Inland Revenue, February and March are big collection months, particularly February, with the second and last provisional tax payments for the 1989/90 financial year.

F/M 23/2/90 (320)

ANOTHER WINDFALL

There is speculation that the unexpected leap in Inland Revenue in January is due largely to a 100% increase in year-end company tax, compared to end-1988 payments. The increase in receipts from individual taxpayers is expected to be 32%.

While a detailed breakdown of revenue figures has not yet been published, an Exchequer account statement, gazetted last week, shows a 68% increase in inland revenue to R7bn in January (January 1989: R4,1bn).

The income was received in December but not reflected, leaving recorded inland revenue at R4,1bn (R3,8bn). The impact was felt in January.

This is the State's second windfall in the past three months. In November R2,9bn flowed in from the sale of Iscor, pushing inland revenue to R6,4bn that month. This was well up on the R2,5bn of the previous year and brought revenue for the fiscal year to end-November to R35,7bn (R25,6bn). In the year to end-December, it was R39,8bn (R29,3bn) and to January, R46,8bn (R33,5bn).

Says Nedcor chief economist Edward Osborn: "The January increase is extraordinary. Up to December revenue receipts were in the same ball-park as budgeted, but with income tax and import surcharges in excess of budget estimates. This leap suggests some unknown windfall or acceleration of income tax receipts otherwise expected in February and March.

"It is hardly conceivable that budget officials underestimated revenues so badly. If so, there should be an inquiry into the system of budget estimation, because the basis for budget formulation is grossly inadequate, the budget has lost credibility and, worse, is downright wrong.

"If, on the other hand, the January figure indicates a new level of inland revenue receipts, the fiscal year will end with no deficit before borrowing, against a budgeted R9,9bn." ■

FM 23/2/90 (320)

BAREND DU PLESSIS FM 23/2/90

Taxing problem (320)

Buoyant tax revenue (see "Another windfall") will create a sharply lower-than-expected deficit before borrowing this fiscal year. As a percentage of GDP it will be well under the original estimate of 4,1%, says Finance Minister Barend du Plessis.

Despite this, he says the slowdown in the economy, which will reduce future tax revenues, will "inhibit our ability to introduce ... this year substantial tax reforms."

Figures provided by Du Plessis this week show that, despite attempts to restrict growth in spending, it is still rising. He told the Frankel Kruger Vinderine annual investment conference in Johannesburg that, while aggregate real domestic expenditure in 1989 was about 0,5% lower than in 1988, this was due largely to a reduction in commercial and industrial inventories in the fourth quarter.

"If total real inventory investment is excluded from real GDE, the remaining components increased by 5% during 1988 and 3,5% in 1989. This indicates economic activity has remained at a relatively high level."

A big contribution came from real government consumption expenditure which increased by 4,6% (1,6% in 1988). However, Du Plessis points out, this was due largely to the seasonally adjusted annual increase of 42% in the first quarter — which does not fall within the current fiscal year.

"This will not be repeated in the current fiscal year."

Other 1989 statistics from Du Plessis:

- Private consumption expenditure rose by almost 3% (1988: 5%); and
- Real gross fixed investment 4% (8,6%).

Du Plessis ... inhibitions

Private consumption expenditure rose slightly in the fourth quarter though household outlays on durable and semi-durable consumer goods stayed down. Other components of GDE fell that quarter.

There is consequently "no need to consider further tightening of monetary and fiscal policies but, equally, it leaves no scope for relaxation of these measures."

Inflation of 14,7% in 1989 (12,9%) was fuelled by rising import inflation: increases in prices of imported goods of 10,3% in the first quarter and 30,7% in the second, as the rand depreciated. Imported inflation then declined from 17,4% in the third quarter to 3,4% in the fourth quarter.

Rand depreciation played a major role — "not only directly but also indirectly. Higher rand export prices were obviously passed on to local buyers of these products, whereas import prices often served as a yardstick for upward adjustment of domestic prices even if the products were not directly imported." ■

Taxman replies on movies

BD 23/2/90 (320)

BARRY SERGEANT

COMMISSIONER for Inland Revenue Hannes Hattingh says tax assessments for movies are only issued after careful case-by-case consideration.

He was reacting last night to complaints that certain film tax assessments recently issued — involving tens of millions of rands — had completely disallowed all expenses claimed.

A tax partner in an accounting firm said these final tax assessments were overdue by a minimum of five years. The failure to issue such assessments has been directly linked to the virtual demise of the SA film industry, and the chaotic state of the subsidy system.

Last night Home Affairs Minister Gene Louw called a meeting in Pretoria today to address members of the SA film industry.

The tax partner added: "After years of vacillation, Revenue has finally decided to act in assessing partners in tax schemes. A number of assessments have been issued where the participation in the film partnership has been totally ignored.

"The expenditure and allowances have not been granted, and the income from the film has not been taxed. In at least one case both pre Section 24 of the Income Tax Act (meant to finally clarify the matter) and post S 24 F film participations have been ignored.

"These include films on which *favourable* directives were previously issued by the office of the commissioner, and on which taxpayers totally relied." Due to the complexity of movie tax structures, all such schemes were sent to a centralised point in Johannesburg for inspection.

The Tax Advisory Committee has unofficially suggested that film tax assessments should be issued in favour of the taxpayer, except in the most blatant cases of "rough cuts". These are movies shot abroad and edited and spliced in SA, but put forward as qualifying for all SA tax allowances.

But, said the tax partner: "It is surprising that the actual expenditure has also been disallowed, and not only the export marketing allowances. In many cases the expenditure in question is not subject to the discretion of the commissioner, but is subject to an objective set of rules."

Tax cuts on the way

CM-Tms 24/2/90

320

Judge rules on fired imam

— PAGE 3

Swazi ghost

MBABANE. — Swazi schoolgirls boarding at the Nzarene Church High School in Manzini claim that a ghost is haunting their dormitories. A senior teacher retorted that if pupils believed in Jesus they would not believe in "such nonsense". Sapa

Ray in coma

HOLLYWOOD. — Johnnie Ray, 64, the Fifties singing star whose hallmark was shedding real tears as he crooned his hits, was in a coma yesterday after suffering total liver failure.

Tunnel toll up

AT the Huguenot Tunnel toll plaza, motorists will now pay R2,25 per axle for light vehicles and R6 per axle for heavy vehicles.

A rebate of 20% on the amount will be granted when R500 debit cards are purchased simultaneously. — Sapa

crack of dawn

Are you from the BBC, CBC or the CCB?

DRESSED FOR THE CARNIVAL . . . These three women in bright national costumes will be part of a parade in Adderley Street today to publicise the four-day 1990 Community Chest Carnival which opens at Maynardville on Wednesday. From the left are Hayley Norman, 19, who will be at the Norwegian stall during the carnival, Johanna Badings, 22, of the Netherlands Pavilion, and Ielhaam Regal, 17, of the Cape Malay Tea Garden. Picture: ANNE LAING

By ANTHONY JOHNSON
Political Correspondent

THE government yesterday promised South Africans a "substantial" cut in personal tax — starting with next month's budget — and announced a 10% pay hike for nearly a million civil servants from April 1.

Teachers will be getting an additional 12% pay boost from March 1, while further increases — backdated to April 1 — will be announced later for certain categories of public servants such as nurses, police and security personnel.

Parliamentarians at the level of an MP or higher will receive R12 000 more a year, amounting to an increase of 15,9% for MPs and 7,6% for ministers.

Members will also have their secretarial and constituency office allowances increased from R10 000 to R18 000 a year — boosting the annual package for an ordinary MP to R105 000.

The improved remuneration package applies to everyone who is paid by the exchequer — and excludes railways and post office staff and local authorities, who have separate sources of income.

'Modest' increase

Announcing the 10% non-pensionable allowances for civil servants, the Minister of Administration and Privatisation, Dr Wim de Villiers, said that increases — along with the cuts in personal tax — would "make a contribution to the improvement of the in-pocket position of everyone".

He said the government realised that the general increase was "a modest one" but it was the maximum that could be afforded when the need to curb government expenditure was taken into account.

But he immediately added: "It is also important to bear in mind that government is committed to implement, over a period of time, a substantial decrease in personal income tax. It is foreseen to start this process in the forthcoming budget."

MP's 'high costs'

In a separate statement, the Minister of Constitutional Development and National Education, Dr Gerrit Viljoen, said the 10% allowance from April 1 was in addition to the March 1 increase announced for college and school-related educators.

Funds will also be made available to universities and technikons for salary adjustments.

Announcing the increases for parliamentarians, President F W de Klerk said the increases had been implemented after consultations with all of the political parties represented in Parliament.

Mr De Klerk said the government was considering giving further attention to legislation for the creation of a statutory body which would determine the remuneration of political office-bearers "and thereby remove this issue from the political arena".

Mr De Klerk said attention needed to be drawn to the fact that MPs had to incur "abnormally high costs" to earn their salaries. MPs did also not receive an annual increment, a 13th cheque or housing loans.

Post Office employees will also receive a non-pensionable salary adjustment from April 1.

The Minister of Mineral and Energy Affairs and Public Enterprises, Dr Dawie de Villiers, said it would not exceed 10% of the Post Office's salary bill, and would be calculated on a differentiated basis.

● Public servants not happy — Page 3

Mr Orlando.

Deferred compensation schemes policy, etc).

An employee who ...

Star. 24/2/90 (320)

'Revolutionary' program available

THE latest version of a locally designed and developed software program, Tax Partner, which the authors claim will revolutionise tax reporting for public accountants, tax consultants, financial directors, insurers and insurance brokers, is now available on the South African market.

The product is an expert system developed by Software Partners, a joint venture between Coopers & Lybrand and Keysource, a member of the Siltek group of companies.

Mr Ivan Ferrer, managing director of Select Software, which markets Tax Partners, described the product as the "Rolls Royce" of South African tax packages.

"Tax Partner is a comprehensive solution to the problems associated with reporting to the Receiver and keeping up with the changes in tax legislation.

"It comprises four complementary features: administration, computation, wear and tear and Scheduling."

As a rule, tax administration and calculations are labourious, repetitive, mundane and complicated.

Tax Partner is a uniquely comprehensive solution to these problems.

"Tax Partner first became available in September 1987 and since then has grown in sophistication to the extent that, for example, some calculations like the Joint Assessment Allowance or Wife's Earnings Phasing-In Allowance, which are currently done manually at the Receiver's offices, are automatically calculated by Tax Partner," Mr Ferrer said.

Tax Partner's computation feature automatically invokes the legislation for company or individual income taxes and tax rates for a given year.

A single computation might involve many thousands of calculations.

These are accomplished in less time than any one minor manual computation, with far greater accuracy.

This gives the user time to examine relevant "what if" scenarios using the product.

Tax Patner knows South African income tax and understands complex areas such as farming, UPT and lump sum benefits.

Multicompany corporates can be captured as separate divisions and a corporate consolidated summary of the tax situation produced.

ceives a lump

available free of charge from any of its offices throughout the country.

Savers' interest should be protected — Iscor chief

320

Star 24/2/90

FINANCE STAFF

GREATER tax relief on interest earned by small savers would help fight inflation and aid the country's economic recovery, says a leading industrialist.

Mr Marius de Waal, chairman of Iscor, said at Old Mutual's annual meeting in Pinelands recently that the simple test to determine whether South Africa would make the grade in the coming decade lay in a recovery in people's capacity to save. The first step was to contain inflation.

The Government's strategy here should be based heavily on the curtailment of State spending. There must also be a strong focus on a policy of real interest rates (rates higher than inflation). "Real interest rates should preferably be supported by tax relief on interest earned by individuals."

Book offers advice on hedges against taxation

Star 24/4/90 (320)

WITH the tax year rapidly drawing to a close, tax payers are frantically searching for ways to reduce their taxable income.

The person who is not familiar with the various tax concessions available or tax-reducing methods, can easily fall prey to the immediate temptation that a retirement annuity is the only hedge against taxation.

"Tax planning requires a responsible and critical analysis of each individual's circumstances" says Mr Arnold Berns, MD of Berns, Block Associates.

Eroded

"Very often tax advisers place too much emphasis on tax-free investments which provide immediate tax relief while in the long run the capital growth on such investments is completely eroded by inflation, leaving the investor with very little income at all."

Berns, Block Associates is one of the few firms of Financial Planners in South Africa capable of offering and providing a comprehensive tax planning service from its own in-house resources and through its associated companies.

In his recently published book, "TAX you can pay LESS!" Peter Feinberg, an associate of the firm, describes more than 50 simple examples on how to increase your take-home pay.

The book deals mainly with taking advantage of fringe benefits and suggests ways to structure pay packages to maximise disposable income and how to save tax through correct planning.

Feinberg, for example, addresses the question often asked by both employers and employees: "Which is better — a company vehicle or a vehicle allowance?"

He discusses considerations aside from the fringe benefits tax, both from the employee's and the employer's point of view and finally provides an answer to whether such a scheme is worthwhile.

The book is also available through Berns, Block Associates at R24,95 excluding GST.

SITE law opens opportunities for women

Star 24/2/90 (320)

SITE legislation has not only given tax relief to married couples but has also created an incentive for working wives to provide independently for their financial security through retirement annuities.

An amendment last year to the Income Tax Act enables a married woman who is subject to SITE to deduct RA contributions in her own right in addition to those of her husband.

The husband's maximum level of deduction was at the same time restored to what it was prior to 1988 legislation, which effectively split the allowable contribution between husbnd and wife.

A married woman SITE taxpayer is now entitled in her own right to an annual tax-deductible contribution up to the greatest of 15 percent of her own non-pensionable taxable income, R1 750 less her current allowable pension fund contributions or R875.

This is on top of her husband's annual allowable contribution of the greatest or 15 percent of his non-pensionable taxable income, R3 500 less allowable pension contributions or R1 750.

Commercial Union life marketing manager Mr Erik Steenfeldt points out that this concession opens the way to tax relief through extra RA contributions by working wives whose husbands are already contributing the maximum allowable contribution or for husbands whose wives are already contributing the maximum allowance contribution.

"I believe that it is wise for women to make independent provision for their retirement years and that many working wives will make use of this opportunity to do just that while reducing their current tax," said Mr Steenfeldt.

"Women who have not made their own financial plans for retirement are vulnerable if there is a divorce, particularly towards the end of their careers when it is too late for them to start building up adequate retirement funds."

Mr Steenfeldt added: "This opportunity for secondary retirement provision has come at a time when the abolition of prescribed assets has led to the creation of dynamic investment opportunities in the form of equity-based RAs such as Commercial Union's Personal Equity plan. Couples who already have standard retirement plans such as company pension fund membership should not miss the chance to enhance their retirement provision and benefit from additional current tax relief."

Couples can reduce marginal rate

WORKING married couples may restructure their business interests to reduce their marginal tax rate.

Working wives operating their own close corporations or companies have the opportunity to reduce their marginal rates to 35 percent, providing their husbands are not members of their CCs, or substantial shareholders in their companies — as in this case the 22,5 percent deduction allowance on the wife's earnings will not apply.

"Obviously she has to be making a substantial contribution to the business, this cannot be a merely cosmetic re-adjustment of ownership," says Mrs Anne Pappenheim, partner, Deloitte Haskins & Sells. "She may, however, employ her husband in the CC without affecting the allowance claimed on her earnings."

Income earned by a married woman from a private company in which her husband is the principal shareholder is not included in the definition of "net remuneration", and therefore not subject to SITE. Income will of course be subject to PAYE unless he is a provisional taxpayer, and she is a company director or equivalent in a CC.

Therefore if the husband is the main shareholder in the company in which the wife is working, they will pay a maximum marginal rate of 45 percent, compared with 35 percent on the wife's net earnings, or the maximum rate of 38 percent under SITE.

Receiver's PAYE warning is vague and unenforceable

Star 24/2/90 320 320

JUSTIN COWLEY of Ernst and Young

ON SEPTEMBER 25 1989 a press release was issued by the office of the Commissioner for Inland Revenue in terms of which the Revenue sought to attack schemes resulting in the non-payment of Pay As You Earn (PAYE).

The press release referred particularly to the use of close corporations which contracted the services of employees to their former employers, and purported to act as independent contractors.

Particular occupations referred to include draughtsmen, artisans and computer programmers, but the release was not restricted to these categories of employment.

The press release cautioned "employers" who failed to deduct employees' tax that they may be held liable for such failure in circumstances where they either exercised control over "another person" in the manner in which is duties were performed or as to hours of work, or where the amounts due were paid at regular intervals.

While it is true that in certain cases the creation of such a close corporation and the manner of its operations might be subject to successful attack, a broad statement such as that issued by the Commissioner for Inland Revenue is without justification and also so vague as to be unenforceable in law.

The Act in fact excludes a company and close corporation from the definition of "employee" for PAYE purposes.

Consequently, it is unlikely that Revenue's press release is enforceable, unless the interposition of the close corporation between the employer and the employee can be set aside as a pure sham.

Where, for example, an employee resigns his employment and proceeds to render the same services to the same "employer" through the medium of a close corporation, but retains all the other attributes of an employee, including membership of pension and medical aid funds, use of company cars, right of annual leave etc, the Receiver could probably attack the structure.

On the other hand, where a bona fida close corporation enters into a properly drawn contract to provide certain services through its own employee(s) to a client who pays the agreed fees on (say) a monthly basis, the Receiver does not have the powers to insist that the client deducts PAYE from the payments.

This applies even where the close corporation has only one client who happens to be the former employer of the individual(s) concerned, provided only that the original employment link is clearly severed, as above.

The question even arises whether the close corporation in such a situation has a claim against the client for non-payment of part of its fee where a portion has been withheld in the apparent form of PAYE.

Although the press release referred only to close corporations, the principles apply generally to companies and individuals ostensibly acting as independent contractors.

Thus in practice the Receiver will be seeking to apply the press release on an even broader front — one can imagine clients of well-established consulting companies and firms insisting on a directive being produced or PAYE being deduced (at a rate of 45 percent or 50 percent) from its payments.

While this would be a gross overreaction, it clearly illustrates the difficulties created by the commissioner's attitude. When such uncertainty exists for taxpayers it is incumbent on the Receiver to take steps to address the situation and enact suitable provisions to clarify the action required from employers.

Certainly it is a basic tenet of tax and in the prevailing environment it is grossly unreasonable to expect employers to act as instructed by a vague and clearly unenforceable release.

TERMINATION OF LEASE : G S T CONSEQUENCES *

Was the leased property returned to the lessor?	YES	No GST consequences.
NO		
Does the former lessee continue to use the property without payment or for a nominal rent which is less than 10% p.a. of the deemed sale value?	YES	Deemed sale - GST payable on cash value stated in lease less 20% p.a. or market value at Receiver's discretion.
NO		
Did the lessee purchase the asset?	YES	Sale. GST payable on consideration. **
NO		
Was the original lease extended on substantially the same terms (except for a variation of the rental) AND the residual value on termination of the first lease was at least 10% of the original cash value?	YES	No GST consequences. But note that if the lease is extended in these circumstances and the lessee subsequently ceases to pay any rental, this will trigger a deemed sale.
NO		
Was the original lease extended at a rental exceeding 10% p.a. of the deemed value BUT the residual value on termination of the first lease is less than 10% of the original cash value?	YES	GST is payable on the rentals.

NOTES : * This diagram assumes that the original financial lease was entered into on or after 1 September 1983.

** The Receiver of Revenue will often attempt to levy sales tax on the market value rather than the actual consideration. If the lessor and the lessee are acting at arm's length this practice has no support in law.

IT WAS the great Irish advocate and statesman, Sir Edward Carson KC, who said his only qualification for being put in charge of the Navy was that he was all at sea.

GST has been in force since July 1978 and, almost 12 years later, many are still at sea, says Ken Walton a partner of Ernst & Young. The sales tax legislation is imperfect. In addition, the practice of the Receiver of Revenue differs from the law in certain areas. Legislation relating to the termination of financial leases is particularly perplexing.

The above diagram may assist businessmen who lease motor cars, aircraft, manufacturing machinery and plant and the like to chart the right course and avoid an unexpected demand for sales tax and penalties.

SITE — employers face problem with casuals

Star 24/2/90 320

ONE often feels that 90 percent of one's time is spent solving 10 percent of one's problems! Implementing the SITE system is no exception, according to Mark Crisp of Deloitte Haskins & Sells taxation division.

Once one becomes familiar with the rules, the SITE system is reasonably easy to implement for a full-time employee. The problem arises, in the main, in respect of casual or part-time employees.

In an attempt to bring some clarity, a definition of "standard employment" was introduced for the current year of assessment. There are three parts to the definition. However, the most important part states that an employee will be in "standard employment" if he or she is required to render services to one employer for a period of at least 22 hours in every full week (ignoring temporary absences).

If an employee falls outside the definition of standard employments the employee will not be taxed in terms of the SITE system.

Conversely, if an employee ordinarily works for less than 22 hours per week, he or she would be considered to be deriving "part-time remuneration" and the employer is required to deduct employees' tax at a flat rate of 25 percent. The only exception to this rule would be if the employee declares on his or her IRP2 that this is his or her only employment, in which case the employer, if this declaration is considered valid, may apply the appropriate daily, weekly or monthly tables.

Where the employee is not in standard employment, the employer would show the employee tax deducted as PAYE on the IRP5.

A special concession made by the fiscus is that where a casual worker is employed for a single day only, and will not be employed for more than five days in total, during the year of assessment, no employee tax need be deducted if the remuneration for the day does not exceed R40.

However, unless one is in the last week of February, it is virtually impossible to know for certain as to whether any employee will qualify in terms of the "five-day rule". For practical purposes an employer is thus left with the choice of taxing all casual employees or of treating all casual employees earning no more than R40 a day as falling within the exception.

Clearly the second choice is far more attractive, bearing in mind that the employer is obliged to deduct tax at the rate of 25 percent unless the employee makes the declaration on a IRP2. In addition, there is the practical problem of having to issue a vast number of IRP5s.

Not being in standard employment, these employees do not fall into the SITE system. As such, what would be relevant is the total income of such employee for the year of assessment. For example, if such an employee was a single person, he or she would have had to obtain employment for approximately 60 percent of the time at the top rate, ie R40, before earning sufficient income to be subject to tax (based on 260 days per annum). In the case of a married man with two children whose wife is not working, he would have had to obtain casual employment almost 100 percent of the time at the top rate of R40 to be liable for tax.

With many of these casual employees being unsophisticated, and therefore unlikely to lodge a tax return, it is a great temptation for the employer, bearing in mind the administrative responsibility, eg deduction of tax and issuing of IRPSs, to simply "short-circuit the system" and not to deduct any tax at all.

Clearly this is an unacceptable situation, both from the point of view of the fiscus and of the employer. There is thus a need for more practical yardsticks to be set to relieve the employer of the administration burden in respect of these casual employees but on a simpler basis, which still protects the position of the fiscus.

Star 24/2/90 (320)

TAX PLANNING SURVEY

Tax prospects: mixture of good and bad news

Some consider penalties for late submissions extortionate

JOHN MELLITCHEY, MD Bubbs Taxaid

WITH the new tax year looming many will be wondering what lies ahead? Is it possible that the taxpayer can or will be hit any harder? I am sure that the answers will be a case of good news for some and bad news for others. Let us look at the tax calendar for the year, its implications and some of the omens looming large.

TAX CALENDAR

February 28 1990 — deadline date for the Second Period 1990 Provisional Tax Payment (the IRP6 form).

June 6 (approximately) 1990 — deadline for the Year End Tax Return often referred to as the buff form (IT12/IT12S). The exact date appears to be a State secret at this point (heaven alone knows why).

August 31 1990 — deadline date for the Third Period 1990 Provisional Tax Payment (the IRP6 form). This is "voluntary" and only for those with taxable incomes above R50 000 pa.

August 31 1990 — deadline date for the First Period 1991 Provisional Tax Payment (the IRP6 form).

Naturally close corporations and companies will have their year-end tax form deadline relative to their financial year-end which might not be February.

Often people believe these tax deadline dates are more guide dates for the submission of returns. While others will have found, in the last year, this is certainly no longer the case. Penalties are regularly being levied and what is worse they tend to increase in severity with each late submission.

Extensions are obtainable for the June deadline. Applications must be made in writing to the Receiver, so it is ad)visable to communicate direct or get your tax consultant to sort it out.

JOHN MELLITCHEY ... looks at tax prospects.

Never accept a verbal or telephonic extension by any of the Receiver personnel.

Penalties for late payment of provisional tax are so steep that some consider them to be extortionate, ranging from 10 percent to 20 percent of the tax figure paid plus interest.

I do not think that anyone will deny that the individual in South Africa has been the hardest hit "tax-wise" in the last few years. This has naturally led to many "schemes" being devised and implemented and this has resulted in an almost paranoia by officials trying to attack the problem (schemes) and not treat the cause (tax system). While there is no doubt that tax avoidance is the legal right of the individual (I wonder if this fits into the group concept) at most Receivers the mere thought of avoidance is deemed to be a treasonable offence, deserving at least the death penalty or even worse a visit to the local office. This might be said in jest but it still a fair reflection of what many feel.

The situation is likely to get a lot worse before it gets better (I am sure I have also heard that before). Tax queries from the Receiver have come thick and fast, except even more this year. It is almost certain that the Receiver's staffing problem will increase, which, in turn, is good and bad news. This could reduce the "heat" but will, no doubt, also increase the prospect of "errors" in assessments. You will be well advised to check your submissions and assessments very carefully.

There is no doubt that the centre stage this year will be dominated by small close corporations (of which there are thousands). Recently there have been a number of press statements regarding the use of CCs as a disguise for normal employees. The main problem with these press statements is that the real impact is likely to be much wider and more in-depth and costly both for "employers" and the members of close corporations concerned.

Star 24/2/90 (320)

FAIZEL MAHOMED, FILPA, joint managing director of Bottom Line Consultants (Pty) Ltd

Legal shelters often ignored by directors

THE use of legitimate tax shelters is often an overlooked advantage of operating a business as a closed corporation (CC) or as a company, rather than as a sole trader or partnership.

A tax shelter is an investment that will allow you to deduct your contributions from your taxable income and pay tax, if any, later, at a more favourable rate. Ideally this investment should provide a return tax greater than the inflation rate.

Several insurance-related investment products take advantage of the deductions allowed by the Income Tax Act. This makes them ideal tax shelters.

The Income Tax Act allows the director or the member to enjoy the following deductions:

- Contributions to a Provident Fund by the employer up to 20 percent of remuneration;
- Contributions to a deferred compensation scheme by the employer up to 10 percent of remuneration;
- Contribution to a retirement annuity fund (RAF) by the employee (assuming he does not contribute to a pension or provident fund) up to R3 500 per year.

This means that the director/member can shelter 30 percent of his remuneration plus R3 500 in a given tax year.

The contribution to the provident fund and the deferred compensation scheme will be deducted from the company's, or

FAIZEL MAHOMED ... tax shelter is an investment.

the CC's, taxable income, while the retirement annuity contribution will be deducted from the director/member's personal taxable income.

The above contributions are deducted from taxable income.

When these investments mature in the future, the provident fund and the deferred compensation scheme are paid as lump sums, while only one-third of the retirement annuity fund can be taken as a lump sum.

The balance of two-thirds of the RAF must, by law, be taken as a monthly pension/annuity. This annuity will be taxed at the marginal tax rate (at that time) of the retiree.

The Income Tax Act allows a certain portion of lump sums from these investments to be tax-free while the balance of the lump sum will be taxed at the average rate of tax in the year the lump sum is paid.

The tax-free amounts of the lump sums are as follows:

- Retirement annuity funds and provident funds (combined);
- Deferred compensation schemes R30 000;
- The greater of R120 000 or (R4 500 times the number of years of membership).

Thus, the total tax free amount is R150 000. This does not seem to be much when your total lump sum at retirement could be well in excess of this amount.

What happens to the balance of the lump sum? As mentioned before, these are taxed at the average tax rate in the year of retirement.

Part of the deferred compensation lump sum (three times the annual salary) is taxed at the average tax rate and the balance at the marginal rate.

The provident fund and RAF lump sum in excess of the tax free amount is taxed at the average rate only.

The marginal rate of tax is the tax that will be paid on each additional rand of income.

The average rate is the total tax divided by the total income. For example, if a married person's taxable income is R80 000, his marginal rate will be 45 percent while his average rate will be 34 percent. If his income is R40 000, his marginal rate is 41 percent and his average rate is 25 percent.

Planning

With careful planning, the average rate of tax in the year of retirement can be reduced to the minimum tax rate (currently 14 percent).

Thus, the director/member can save tax at the 45 percent marginal rate. In return he/she can get R150 000 of the lump sum tax free and the balance taxed at an average rate of, say, 14 percent.

Taxpayers to foot 'R3bn failure' bill — Schwarz

320

BD 25/2/90

CAPE TOWN — Parliament was being asked to retrospectively regularise a major failure of administration, with the taxpayers having to foot the 'bill', DP finance spokesman Harry Schwarz said yesterday.

Speaking during the first reading debate on the Transport Services Unappropriated Expenditure Bill, he said the loss in the value of the rand — which had necessitated the Bill — had been due to the unfavourable image of SA caused by the NP government.

Although it should get credit for now trying to rectify the situation, it would have to bear the results on its conscience.

Schwarz said he had never in his 16 years in Parliament seen such a Bill, which was due to mismanagement and inadequate control.

Parliament was now required "just to put its rubber stamp on R3bn of the taxpayers' money".

Deputy Mineral and Energy Affairs and Public Enterprises Minister Piet Welgemoed said the government's idea was not to sweep the matter under the carpet, as had been suggested by Schwarz, but to put it on the books so that future investors in Sats could see what the situation was.

Jurg Prinsloo (CP Roodepoort) said the Bill was proof of the "absolute incompetence" of the government as far as money matters was concerned.

Myburgh Streicher (NP De Kuilen) said it was known that there had been investigations in the past on foreign exchange losses.

The government was fully confident that Sats's management would have learned from mistakes of the past.

The first reading was approved, with the DP and CP voting against the Bill. — Sapa.

VAT in 1991 despite snags

S Times 25/2/90.

(320)

FINANCE Minister Barend du Plessis is expected to announce in his Budget speech that VAT will be implemented by October 1991.

But he will do so against advice from accounting firms.

Pim Goldby senior consultant Rob Collins believes that the implications of VAT will be so wide that the Government should remain with an amended version of the Sales Tax Act.

Comment

Mr Collins says: "We suspect that a draft version of the legislation will be released for public comment within six months.

"The Government will discuss it with financial institutions, farmers, the mining industry, exporters and importers, professional services, the TBVC countries, Namibia and the BLS countries.

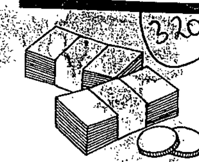
"The feedback will probably be reviewed in Parliament and we expect the new tax to be implemented in mid-to-late 1991."

By Robyn Chalmers

The biggest impact of the new tax will be on accounting systems, placing a huge administrative burden on both Inland Revenue and business.

It could also have a negative effect on the ordinary man because it could fuel inflation, especially if the VAT rate is higher than for GST.

Overtaxation hits SA badly



MONEY TALK

320

C/News 25/2/90

FINANCE Minister Barend du Plessis admitted this week that South Africa is hopelessly overtaxed and that something must be done about it.

Not only do individuals pay among the highest tax rates in the world (which has become a major cause of emigration of highly trained people) but even our richest mines are suffering as a result of an effective tax rate of up to 80 percent.

Addressing the Frankel, Kruger, Vinderine investment conference in Johannesburg, Du Plessis said: "Taxing a mine at 78 percent is terrible. That must certainly be addressed."

He told delegates the tax package for next month's Budget would be decided this weekend and would hopefully offer some relief.

Government revenue has been at record levels and it is likely the final figures for the tax year to end March will show government finances are in a healthy state. But that has been achieved at a high cost.

As a result of international sanctions, especially financial, our economy has shown very little real growth, which means that the higher tax revenues are achieved by digging deeper into our pockets.

There are growing signs that this pattern of taxation is working against itself.

Overtaxing the productive section of the population – those citizens with business flair or special skills who create jobs for others – simply means they become demotivated.

Some of them will emigrate as their skills can be sold overseas. They are not forced to fight an uphill battle to make ends meet in South Africa.

Australia, Canada, America and even Britain welcome scarce skills with open arms, pay them well and tax them less.

The simple truth is that people will work hard and take risks only if they are suitably rewarded. If the Receiver digs his hairy hand too deeply into their pockets when they achieve success, they start spending too much money and energy in trying to work out schemes to avoid tax instead of getting on with the job.

The Margo Commission of Inquiry into tax matters warned about this a few years ago. It pointed out that a real fat cat industry has sprung up around tax avoidance schemes, employing some of the country's best brains.

As far as our mining industry is concerned, one wonders how many new mines would have been in existence today had our taxes been more reasonable. Here again, one should ask the question: Why should businessmen stick their necks out and take huge risks if the reward is so small in the end?

It is an established fact that not a single country in the modern world has achieved wealth and success without keeping taxes low.

Unfortunately, South Africa is no longer a part of this exclusive club. Lets hope Du Plessis will make a positive start in this direction next month.

System of land tax suggested

320

LESLEY LAMBERT

CAPE TOWN — A controversial submission that income and corporate tax should be replaced with a broadly based land tax, has been made to the Cape Town City Council's inquiry into rating systems.

The submission has been made in the personal capacity of the Board of Executor's new property MD Peter Meakin, who argues that tax on land values would be cheaper and simpler than other forms of rating.

Meakin's submission is based on estimates that a tax on the value of land alone would cover municipal budgets. If a full land tax was introduced, it would also bring in enough revenue to make up for the loss of income and company taxes.

He argues that while the current tax system discourages growth, a land tax would enhance it becaue the payment of full tax on the value of land would represent a cost that would induce people to put their valuable sites to full use.

This would be especially appropriate in the Cape Province where land and property are taxed separately. B/Day 26/2/90

Sanlam forecast for the Budget

320

LESLEY LAMBERT

CAPE TOWN — Tax concessions in the 1990/91 Budget will be limited if Finance Minister Barend du Plessis plans to maintain the current year's budget deficit of an estimated 2,4% of the gross domestic product, says Sanlam economist Johan Louw.

Sanlam's view is that Du Plessis will budget for a deficit of not much more than R7bn (2,5% of gross GDP), which will leave him about R2bn for tax concessions.

Louw believes the concessions may include a reduction in the rates of the import surcharge, which contributed approximately R2,6bn to the exchequer in the past year.

To encourage personal savings, Du Plessis may increase the tax-free interest income of individuals but Louw warns he is unlikely to be overly generous in countering the effects of inflation on individuals' pockets. An increase of only R100/R150 in the primary rebate for unmarried/married people, for example, would result in a loss of about R500m in revenue.

GST is expected to be replaced by value-added tax (VAT) in the 1991/92 fiscal year. BDay 28/2/90

Du Plessis will be introducing his Budget in March against the background of an economy which has not yet cooled sufficiently. This, says Louw, together with the low level of foreign exchange reserves, will compel him to formulate his Budget proposals to have a moderately restrictive effect on the economy.

On the whole, the Budget is likely to contribute to a levelling off in the growth of corporate profits.

Little hope for tax cuts — Sanlam

Sow 28/2/90

320

CAPE TOWN — If the Budget to be tabled on March 14 is restrictive, individual spending capacity will remain under pressure, Sanlam says in its *Economic Survey*.

Should this be the case, suppliers of durables could be affected.

The expected sharp cut in government spending in certain departments could have an adverse effect on some sectors and industries in the private sector — for example, the electronic industry and companies concerned with the manufacture of defence equipment and road-building.

On the whole, the Budget should contribute to a levelling off in the growth of company profits.

"Insofar as the Budget proposals help cool the economy further and ease the general liquidity situation, decreases in short-term interest rates can be expected from the middle of the year," says Sanlam.

It says bank prime lending rate will be around 18 percent at the end of the year.

"If the Minister (of Finance, Barend du Plessis) wishes to limit the 1990/91 Budget deficit to more or less the same level as the estimated 2,4 percent of the current financial year, he will have little room for reducing taxes.

"We believe he will budget for a deficit of not much more than R7 billion and this would leave him with about R2 billion for tax concessions."

Possible tax proposals include:

- A reduction in the rates of the import surcharge.
- An increase in the interest income of individuals that is exempt from tax to encourage saving.
- Tax relief to individuals to counter the effect of inflation.
- An announcement that GST will be replaced by VAT in the 1991/92 fiscal year only.

Sanlam expects an average inflation rate of 14 percent this year, against 14,7 percent last year. — Sapa.

Tax takes the shine off M&R

Star 28/2/90 (320)

By Derek Tommey

Contruction and engineering giant Murray and Roberts had a highly satisfactory six months to December last year though a sharp increase in taxation has tended to conceal this. It also expects to continue to do well in the six months to June.

Mr Ractliffe

It has increased its interim dividend by 21 percent from 33c to 40c a share.

The interim report issued today shows that in the first half of its current financial year the company managed to squeeze a 28 percent increase in operating profit from a 19 percent rise in turnover.

Group turnover rose from R1 64 billion to R1,95 billion while operating profit grew from R102,6 million to R131,4 million.

Interest payments remained comparatively small at R11 million (R9,3 million) but a 62 percent increase in tax payments from R31,0 million to R50,2 million left a taxed profit of R70,0 million — only 12,4 percent ahead of last year's R62,3 million.

However, reduced payments to outside shareholders and also on debentures and preference shares, and small non-operating profit resulted in the company showing attributable earnings of R67,6 million — a 35 percent increase on last year's R50,0 million and equal to 241c (181c) a share.

Mr Jeremy Ractliffe, commercial director of Murray and Roberts, said that the construction group had done well in the first half of the year, increasing its contribution to group earnings by 48,7 percent to R33,9 million. Other divisions had also increased their contributions - the engineering division from R4,0 million to R7,7 million, the property division from R4,2 million to R9,5 million, the supplies and services division from R30,5 million to R34,3 million and the industrial division from R45,6 million to R48,2 million.

The market is expecting a profit increase of between 15 percent and 20 percent, and the company expects to achieve these figures. But Mr Ractliffe pointed out that the company faced low growth, a depressed economy and high interest rates which were likely to have an increasing impact in the second half of the year.

Star 1/3/90 (320)

SACB calls for tax tables to be restructured

In two submissions made in Cape Town yesterday to the Economic Affairs Commmittee of the President's Council, the SA Chamber of Business (SACB) recommended that tax tables be restructured.

The SACB pointed out that South Africans have been subjected to consistently higher individual tax rates over many years through the fiscal phenomenon of bracket creep. It therefore suggests that in the interests of equity, the tax tables be restructured.

Particular attention should be given to those individuals with monthly incomes of between R2000 and R4000, since it is believed that these persons bear an inordinately high tax burden, the SACB says.

Other recommendations include;

- Completely separate taxation of married couples;
- Reduction of the corporate tax rate to equate the maximum marginal individual rate and;
- Abolition of the import surcharge, more particularly in respect of capital and intermediate goods.

The SACB believes that efforts to curb inflation by securing public cooperation will be of limited effect, mainly because the underlying causes of inflation will remain unchanged.

To that end improving the competitive environment will reduce the occurrence of price exploitation, and in this respect the process of deregulation should be be actively fostered, the SACB says. — Sapa

Call for rates to be equated

(320)

BARRY SERGEANT

IN ITS submission on the March 14 Budget to Deputy Finance Minister Org Marais, the SA Chamber of Business (SACB) appealed for the corporate tax rate (now 50%) to be reduced to equate the maximum marginal individual rate (now 45%). BDay 1/3/90

In its submission, the SACB also asked for the abolition of the import surcharge, which "has not had the desired effect of curbing imports and was not designed as an additional source of revenue, more particularly in respect of captital and intermediate goods".

Moreover, following a recommendation of the Margo Commission, the SACB asked that the double taxation of dividends should be removed. The SACB reiterated earlier submissions that its three recommended tax reductions could be financed by the change in depreciation allowances.

The SACB believed the 50%:30%:20% write-off over three years for industrial equipment, which has been changed to 20% a year straight-line over five years, should be retained.

However, if the proposed write-off was adopted, the SACB said it believed it was essential that the additional revenue collected as a result of the change be used to finance its proposed changes.

The SACB said it was encouraging "that government had, especially through recent statements by the President and the Minister of Finance, admitted that it has to be more efficient in spending public funds".

B/Day 1/3/90 320

BUSINESS DA

Cuts in personal tax likely in Budget, says Schwarz

GERALD REILLY

PRETORIA — There will be a little comfort for wage and salary earners in the March 14 Budget.

According to DP finance spokesman Harry Schwarz, there will almost certainly be a reduction in personal tax to counter fiscal drag.

The only other concession which taxpayers could expect was a scheme to encourage savings. This could take the form of tax relief on interest earned.

Schwarz said expectations should not go much further than these two possible concessions.

Meanwhile, Volkskas economist Adaman Jacobs said perhaps the most urgent issue for taxpayers was the need to eliminate or significantly reduce the impact of fiscal drag.

Jacobs said it was clear the deficit before borrowing would be about a third less than budgeted for — probably between R6bn and R6,5bn.

The reason was not that government was spending less, but that tax revenue had risen sharply way beyond the Budget estimate.

He estimated the revenue overrun at about R4bn, including substantial bracket creep revenue.

Jacobs said in the first nine months of the financial year spending had been lavish but had in the current quarter fallen drastically.

The result was a big build-up of funds.

BARRY SERGEANT reports the SA Chamber of Business (SACB), in its recommendations to Deputy Finance Minister Org Marais on the Budget, has asked for personal tax tables to be restructured.

"South Africans have been subjected to consistently higher individual tax rates over many years through the insidious fiscal phenomenon of bracket creep. In the interests of equity, it is suggested that the tax tables be restructured.

"Particular attention should be given to those individuals with monthly incomes of between R2 000 and R4 000, since it is believed that these persons bear an inordinately high tax burden."

Taking taxpayers for a ride

B/Day 1/3/90

320

Business Day Reporter

A DETAILED guide on how to abuse decentralisation incentives has been included in a secret report by a panel of experts into the government's regional development policy.

The experts, appointed by the SA and homeland governments, said the incentives were "susceptible to abuse" and opinion was that "the degree of abuse has been curtailed significantly, and may even have reached tolerable levels".

In the regard to the maximum cash concession of R120 per worker per month, the abuses include:

- Falsification of employment figures when compiling wage and salary sheets, sometimes corroborated by auditor certificates;
- Employing people not really needed for the manufacturing process when the average base employment figure was computed, particularly seasonal and casual workers;
- Falsifying capacity utilisation claims to distort the actual number of shifts per worker per day;
- Claiming wages not paid to employees on unpaid sick leave;
- Deliberately holding labour in reserve with a view to expansions;
- Cheating on wages. "In view of the size of some of the work forces, seasonal labour adjustments and absenteeism, it is hard to know how many people should be in a factory at any one time, or, more importantly, to know whether the number of workers in a factory tally with the number the industrialist claims are working there.

"There is also sometimes a discrepancy between the amount claimed and the amount actually paid to the workers."

Abuses of the rental concession, based on the cost of erecting standard factory flats according to development corporation specifications, led to rentals in industrial development points sometimes being higher than in metropolitan areas.

"The question of incorporating escalation clauses into rental agreements remains a controversial practice. There is some inconsistency among development corporations in this regard."

There was also a tendency to inflate asset values so as to qualify for a higher interest concession.

"There are allegations of companies procuring loans for new machinery but installing used equipment, thus leaving cheap capital to be passed back to a holding company. What makes these loans doubly attractive is the ease with which they can be obtained; it is alleged that in many instances the same application would have been rejected by a commercial bank."

Real practical difficulties had been found regarding control over claims for transport rebates.

"Some concessionaires are said to claim the rebate for goods dispatched from their factories, although these are procured from elsewhere. There is the practice of manufacturing goods in one locality where the rebate does not apply and sending these goods to a branch located in another area which does qualify for the private road transport rebate, from where the goods are dispatched to their final destination on a subsidised basis."

Actual rebate claims were sometimes falsified.

Finally, the report noted, the housing subsidy for senior personnel was sometimes abused by beneficiaries who sublet subsidised properties.

Getting to know how your taxes are spent

By THAMI MAZWAI

ON Thursday the Sowetan Business - Old Mutual pre-Budget supplement will be published to give our readers backround knowledge on Finance Minister Barend du Plessis's Budget speech next Wednesday.

Although the Budget speech will only be delivered next Wednesday, March 14, the articles will help you understand why the Government will be taking specific measures.

Old Mutual economist, Andre Roux, has written four articles. (320)

The housewife, ~~man~~ in the street and business will now have a chance of analysing Government thinking when it comes to spending our money.

Analyse

More importantly the student will get technical information from an expert, who will also analyse past budgets and what their shortcomings were.

Among the titles to be dealt with are inflation, interest rates, fiscal and monetary policy in general, the deficit and taxes facing us this year.

The day after the Budget speech we will carry all the details, comment from the experts at Old Mutual, the man in the street and our business leaders. Sowetan 5/3/90

As the Budget affects our lives, and particularly in the light of current developments in the country, make sure you get your copy of this special supplement.

You will now know how your taxes will be spent in the coming year, and how the Government will deal with inflation and the ever-rising cost of living.

This supplement will be part of your *Sowetan Business* package this Thursday.

As we promised when *Sowetan Business* was launched last year, we will demistify the economy.

Landmark decision resolves tax debate

BDay 5/3/90

GRETA STEYN (320)

A LANDMARK tax decision has been handed down in the Appellate Division which could save companies with debtors millions of rand in tax and which has resolved a decades-old legal controversy.

Last week's decision ends a legal battle between the Receiver of Revenue and Edgars Group company People's Stores.

According to Kessel Feinstein partner Ernest Mazansky, the decision resolves the debate over the meaning of the word "accrued". It affects any company that grants credit terms. These companies will now recover some ground lost when the debtor's allowance for tax purposes was changed to affect only cases where suspensive sales contracts exceeded one year.

He explains: "Take a clothes store that treats six months as cash. At the company's year end, it used to pay tax on the full amount that was due in six months' time. In terms of this latest decision, the company will pay tax on the present value of the future instalments."

In other words, companies can now apply a discount rate to the amounts receivable in some months' time, instead of paying tax on the full amount as if they had already received it.

"This means the tax bill is effectively reduced for the current year," Mazansky said. He added a discount could be applied only in cases where the amounts were payable after the company's year-end and it could not be applied to overdue amounts.

Cape Times 7/3/90 320

Individuals provide R2bn more in taxes

Own Correspondent

JOHANNESBURG. — Individual tax payers provided government with almost R2bn more in income tax than was expected in the 1989/90 Budget as inflation pushed people into higher tax categories.

The unexpected surge in personal taxes comes as a result of a 20% average increase in salaries on which taxes are paid.

This was far in excess of the inflation rate of about 15% and was not foreseen by finance officials drawing up the Budget at a time when the economy was poised to enter a downswing.

Government is set to end the current fiscal year with revenue from personal income taxes 35% higher than in 1988/89 — compared with a budgeted increase of 22,5% to R17,1bn.

Analysts said the "fiscal drag factor" was now a high 80% — for every 10% increase in the personal income tax base, government's revenue from this source rose by 18%, eating into individuals' disposable incomes.

Fiscal drag adds to the tax burden on individuals when a salary increase is accompanied by a rise in the tax paid as a percentage of total income.

In next week's Budget, government is expected to give relief for fiscal drag — economists expect the R2bn extra this year will be given back to individual taxpayers.

Nedcor's Edward Osborn said: "Government can clearly afford reduce fiscal drag."

Such a move would probably be accompanied by another call for wage restraint in the private sector.

Apart from moves to alleviate fiscal drag, individuals will also be affected by an exemption, or reduction, of tax on interest earned on savings.

But George Huysamer economist Louis Geldenhuys said: "The Budget will suit the markets better than the individual.

The markets will applaud government's moves to control spending and keep its borrowing requirement small."

Geldenhuys expects a modest increase in spending of 10% (to R71,9bn) with a shift in focus towards social spending — he believes increases of 25% in the education Budget and similar increases for health and housing are possible.

Police could also see a huge increase of over 20%.

A reduction of about 20% in Defence spending, and slow growth in the interest bill, could help finance these large increases.

Finance Minister Barend du Plessis has also indicated substantial savings will be made on the Public Works Budget — this could be as high as R1bn.

Other economists are less optimistic that the rise in spending will be kept that low. Rand Merchant Bank's Rudolf Gouws and Frankel Kruger's Mike Brown believe 11%-12% more likely.

The range of forecasts varies between 10% and 13%.

The belief is that government will keep the increase below the expected inflation rate for the fiscal year of about 13,5%.

On the revenue side, it seems an increase in line with the inflation rate is expected.

Brown sees a 13,3% rise in revenue to R68bn, as does Sanlam's Johan Louw with Geldenhuys closer to the 14% level.

The consensus on the deficit is about R7bn — below the 3% of GDP figure used as an international guideline. Brown, however, is more bullish on the deficit and believes it could be below R6bn.

The UBS's Hans Falkena called for a deficit of below 2,5% of GDP.

"A deficit that exceeds the potential long-run growth rate of the economy is too high," he said, adding that government would be hard pressed to produce a deficit of that order.

This current fiscal year saw a deficit of about 2,7% of GDP — mainly due to a tax windfall.

The aim to keep the deficit down will reduce government's room for maneouvre on the tax side — no major tax reform is expected.

Apart from fiscal drag, some action is expected to reduce import surcharges and mining taxes, while clarification on capital gains tax is expected.

Setback for Ciskei economy

Cape Times 7/3/90

320

Financial Editor

CAPE TOWN businesses which moved to the Ciskei — or set up subsidiary operations there — are now facing the probable loss of the tax concessions which attracted them to the homeland, a city accountant pointed out yesterday.

Godfrey Shev, tax partner at Kessel Feinstein, said a number of local businessess were established there. He believed those in Bisho had escaped damage or looting and were in any case insured against riot.

Most had moved for the generous tax holidays that could be arranged, and not to take advantage of cheap labour.

But there was talk now of the Ciskei returning to SA.

"It costs a lot of money to locate or relocate in a place like that. Some of the firms which went were given tax concessions for seven years or more.

"Who is going to guarantee that situation now, if our countries come together again? Someone will have to address it."

Wesgro director David Bridgman spent five years as director of planning and head of the development initiative in the Ciskei, before coming to Cape Town. Asked to comment yesterday he said: "I am concerned because I understand that the underlying cause of the violence and looting was not so much political as despair because of widespread unemployment and hardship."

He did not believe SA had the structures to deal with this if the Ciskei were re-incorporated in SA.

The violence had made matters worse, not only because it had "set the Ciskei economy back 30 years" but because it might discourage investment in Southern Africa as a whole.

"It could be seen as a demonstration of instability in the region, and that could frighten off foreign investors."

320(3)

Some scope seen for tax cuts

Star 7/3/90

320

By Michael Chester

The SA Chamber of Business (SACB) forecasts that while the 1990 Budget may be relatively strict, there should still be scope for cuts in personal and company tax rates.

SACB economist Keith Lockwood, in a review of business confidence levels, concedes that it would be unrealistic to expect much in the way of sweeping tax reform when the Budget is delivered on March 14.

Holding down the pay increases of public servants to 10 percent, along with various recent statements by cabinet ministers, were clear pointers to a relatively strict budget stance.

"Nevertheless," he adds, "there should be scope for a reduction in tax rates — both corporate and individual — because of the underlying resilience of the South African economy.

"Lower tax rates should also assist to encourage further business activity, thereby resulting in an increase in tax revenue."

But caution has been signalled by the SACB that South Africa must expect the brakes to stay on new big inflows of investment cash from overseas until the political and economic outlook come into sharper focus.

The damper to over-optimism comes with confirmation that the overall level of business confidence in February stayed intact.

With the initial burst of enthusiasm about the release of Mandela counter-balanced by shock waves of talk about ANC nationalisation plans, the chamber's confidence index remained unchanged for the third month in a row.

Mr Lockwood says the JSE saw the start of a recovery from the sharp falls it suffered amid controversy about nationalisation when it became evident that the ANC's economic policy appeared to be flexible and negotiable.

"In many ways," he says, "it is fortuitous that the debate over the future economic system has already got under way and is gaining such prominence.

"The skittish reaction of overseas investors to the various political pronouncementshave served to stress the underlying instability of world financial markets.

"Although the gold price and financial rand tend to insulate South Africa to some extent from developments on other bourses, the JSE remains sensitive to such developments," he says.

● Individual income taxes could bring in over R19 billion in revenue in the 1989/90 fiscal year — R2 billion more than budgeted, it was reported today.

The Finance Ministry had budgeted for a 22,5 percent increase in revenue from personal income tax to R17,1 billion, but as a result of the 20 percent increase in salaries over the period could now receive about R19,1 billion.

When drawing up the Budget last year policy makers had expected salaries and wages to rise in line with the forecast inflation rate of about 15 percent.

The additional inflow is likely to be given back to individual taxpayers to provide relief for fiscal drag, although Finance Minister Barend du Plessis will once again stress the importance of limiting wage increases this year.

R2bn personal tax bonanza for govt

ß/004 7/3/90 (320)

GRETA STEYN

INDIVIDUAL tax payers provided government with almost R2bn more in income tax than expected in the 1989/90 Budget as inflation pushed people into higher tax categories.

The unexpected surge in personal taxes comes as a result of a 20% average increase in salaries on which taxes are paid. This was far in excess of the inflation rate of about 15% and was not foreseen by officials drawing up the Budget when the economy was poised to enter a downswing.

Government is set to end the current fiscal year with revenue from personal income taxes 35% higher than in 1988/89 — compared with a budgeted increase of 22,5% to R17,1bn.

Analysts said the "fiscal drag factor" was 80% — for every 10% increase in the personal income tax base, government's revenue from this source rose by 18%, eating into disposable incomes.

Fiscal drag adds to the tax burden on individuals when a salary increase is accompanied by a rise in the tax paid as a percentage of total income.

In next week's Budget, government is expected to give relief for fiscal drag — economists expect the R2bn extra this year will be given back to individual taxpayers.

Nedcor's Edward Osborn said: "Government can clearly afford to reduce fiscal drag."

Such a move would probably be accompanied by another call for wage restraint by the private sector.

Apart from moves to alleviate fiscal drag, individuals will also be effected by an exemption, or reduction, of tax on interest earned on savings.

But George Huysamer economist Louis Geldenhuys said: "The Budget will suit the markets better than the individual. The markets will applaud government's moves to control spending and keep its borrowing requirement small."

Geldenhuys expects a modest increase in spending of 10% (to R71,9bn) with a shift in focus towards social responsibility — he believes increases of 25% in the education budget and similar increases for health and housing are possible.

Police may see an increase of more than 20%. A reduction of about 20% in defence spending and slow growth in the interest bill might help finance these large increases.

Finance Minister Barend du Plessis has also indicated substantial savings will be made on the Public Works budget — this could be as high as R1bn.

Other economists are less optimistic that the rise in spending will be kept that low. Rand Merchant Bank's Rudolf Gouws and Frankel Kruger's Mike Brown believe 11%-12% more likely.

The range of forecasts varies between 10% and 13%. The belief is that govern-

☐ To Page 2

R2bn tax

(320)

☐ From Page 1

ment will keep the increase below the expected inflation rate for the fiscal year of about 13,5%.

On the revenue side, it seems an increase in line with the inflation rate is expected. Brown sees a 13,3% rise in revenue to R68bn, as does Sanlam's Johan Louw with Geldenhuys closer to the 14% level.

The consensus on the deficit is about R7bn — below the 3% of GDP figure used as an international guideline. Brown, however, is more bullish on the deficit and believes it could be below R6bn.

The UBS's Hans Falkena called for a deficit of below 2,5% of GDP.

"A deficit that exceeds the potential long-run growth rate of the economy is too high," he said.

This current fiscal year saw a deficit of about 2,7% of GDP — mainly due to a tax windfall.

Apart from fiscal drag, some action is expected to reduce import surcharges and mining taxes, while clarification on capital gains tax is expected.

Taxman is big loser in De Beers reshuffle

BARRY SERGEANT

THE SA Exchequer stands to lose hundreds of millions of rands as a result of De Beers' proposed listing of its offshore interests in Europe.

320

A senior mining tax consultant said last night De Beers' dividend — R1,1bn in financial 1989 — will be treated differently for tax purposes after its announcement of itent to hive off 80% of its earnings base to Switzerland and Luxembourg.

De Beers has received a ruling from SA tax authorities and is busy clarifying certain tax issues in Switzerland.

However, SA personal shareholders in the new De Beers may pay more tax than before, the tax consultant said. Corporate holders of shares are not, however, taxed on dividends. BDay 8/3/90

The tax consultant said: "The effect of the offshore move on the 15% SA dividend witholding tax on foreigners could affect the SA fiscus to the tune of R100m or more." He explained that this figure excluded possible reduction of the tax De Beers itself paid — R807m in 1989.

"It is impossible to calculate a figure, given the level of De Beers disclosure, and its extremely complicated nature."

Meanwhile De Beers has confirmed that SA Inland Revenue has issued it a ruling that SA recipients of Centenary depositary receipts (CDRs) will not be taxed as if the receipt were a dividend for tax purposes, as would normally be the case. The CDRs would represent existing De Beers shareholders interests in the offshore interest, and would be "stapled" to normal De Beers shares, and could only be traded as a unit.

Moreover, De Beers has instituted what amounts to a class action in Switzerland to refund to SA De Beers unitholders the 35% Switzerland dividend witholding tax. De Beers said no material changes in the overall taxation of the group — R807m in 1989 — "were expected to arise as a consequence of the rearrangement".

The tax consultant said that De Beers shareholders will have to consider their positions individually. "Taxation of dividends depends on level of income, source of income and residence.

"However, although SA residents are only taxed on income sourced in SA, dividends, regardless of source, are deemed to

☐ To Page 2

Taxman

BDay 8/3/90

have been derived from SA."

He said that the tax route adopted by De Beers was modelled on numerous previous cases of SA companies establishing offshore. In case of De Beers, 1989 pro forma accounts — as if the new structure had been in place — showed that 80% of earnings would have been derived from Europe, the rest from De Beers SA.

Of these foreign earnings, says De Beers, 80% will be paid by Luxembourg subsidiary Centenary Holdings, and the balance by De Beers Centenary AG in Switzerland.

(320)

☐ From Page 1

Switzerland imposes a 35% withholding tax on dividends before double tax treaty relief, which includes SA as a signatory.

Luxembourg imposes no withholding tax on dividends. De Beers says that on the 1989 pro forma figures, SA unitholders would be subject to witholding tax amounting to a net 1,2% of their overall dividends. Dividends paid by De Beers SA to foreign unitholders would continue to be subject to 15% — the actual rate having been 13,05% and 13,50% in the past two years.

● See Page 8

A practical solution

FM 9/3/90 (320)

Willem Cronje is a tax partner at Deloitte Haskins & Sells. He was an adviser to the Margo Commission on Tax Reform and believes it's time to reconsider treatment of dividend income

With various major recommendations of the Margo Commission slowly taking form, including separate tax for husband and wife and a VAT system, attention is turning to another fundamental recommendation: that dividends be exempted from tax.

Government appears favourably disposed to this. But I believe it would be a serious error. Not only would exempting dividends tilt the balance severely in favour of the wealthy, it would be structurally unsound.

I know of no country that totally exempts dividends from tax, despite the oft-repeated argument that it constitutes double tax. Many dividends are in fact paid out of capital gains or income which has been sheltered by tax losses or in some other manner. It is, therefore, not correct to say taxation of dividends necessarily constitutes double tax.

Some major countries treat dividends more severely than SA. In the US, dividends are taxable in full in the hands of individual shareholders, without the one-third relief offered here. And companies (except in groups as defined) have to pay tax on 15% of gross dividends received. In other words, there is an 85% exemption in respect of dividends received by unrelated companies, as opposed to our 100% exemption (disregarding undistributed profits tax).

While the double taxation argument may be true where the identity of the shareholder is close to that of the company, for example in small companies, this is not the case in large listed companies.

Such an investor won't be dissuaded from investing in shares by concepts of double taxation.

However, the present system of taxing dividends is not satisfactory. In the first place, there are compliance problems, as there is no withholding tax for dividends paid within SA. Secondly, undistributed profits tax creates complications in excess of any usefulness it may still have.

I would, therefore, propose the present systems of dividend and undistributed profits tax be abolished and, in their place, a final withholding tax on dividend income equal to, say, 15% of the gross amount be substituted.

This system is used in Zimbabwe, where there is a final withholding tax on dividends, at the point where a company pays dividends to an individual, trust or nominee.

Thirdly, to recognise there is indeed some force in the double tax argument, structure the tax rates so that the rate attaching to companies is five percentage points lower than the top marginal rate for individuals. This will result in a rough balance if one recognises that, on average, 50% of profits are distributed as dividends.

For example, assume a company has pretax profits of R100. With a 40% company tax rate, R30 (50% of after-tax profit) would be paid as a dividend. At a 15% withholding tax, the tax on the dividend would be R4,50. Tax on the company and the dividend would therefore total R44,50.

An individual who receives a profit of R100 in his own hands would pay, according to the proposed structure, total tax of R45. So there would be general equivalence in the treatment of companies and individuals.

It is of course correct to argue that there should be parity of tax rates between companies and individuals. Otherwise, business merely flows into the vehicle with the lowest tax rate and not necessarily the appropriate vehicle for a particular activity. There is a countervailing argument that companies should pay a somewhat lower rate of tax in view of the taxation of dividends. I do not believe a discrepancy of five percentage points will create any substantial distortion.

A top individual rate of 45%, a company rate of 40% and a final withholding tax of 15% on dividends would, therefore, be a practical solution to the dividend dilemma.

INCOME TAX

Valuing book debt

A judgment of the Appellate Division (AD) on February 22 on the inclusion of book debt in gross income and its valuation for tax purposes, could have important repercussions. For 60 years, tax law on this subject has been based on Lategan vs CIR, a Cape Provincial Division judgment. This made it a precedent binding only so long as it was not superseded by a superior court decision.

Now Lategan has been upheld by the AD, in the case CIR vs People's Stores.

Lategan had two legs. The first, that book debt fell within gross income as defined in Section 1 of the Income Tax Act; the second, in not very clear terms, that the value of book debt at financial year-end and not its face value comprised gross income. On this point, some experts argued book debt should be valued at the date it arose rather than financial year-end.

In practice, the commissioner was happy to accept the first leg but not the second. Taxpayers were reluctant to challenge him in court. As a result, they have been taxed on face value of book debt to this day.

This has been resolved by the AD, which, in clear terms, upheld the principle that book debt arising in, and unpaid at, the end of the year of assessment be included at present worth of future instalments, not face value.

The decision raises at least two issues: firstly, whether Revenue will leave the law as it now stands or propose legislative amendments; secondly, the basis for valuing debt so long as the law remains as it is. Deloitte tax manager Stefan van As says there are many technical aspects in determining value of book debt, such as bad and doubtful debt, settlement discounts and credit notes, not to mention the interest rate at which it should be discounted.

Indeed, it's not clear whether it is the value to the taxpayer which is to be ascertained or the value of the debt on open market — what factoring houses or financial institutions would pay for it.

Greatly to be feared, says Van As, is the prospect of a rushed, ill-considered, ad hoc and possibly retroactive amendment to the Income Tax Act, set out in yet another press statement from the Department of Finance.

It would be preferable for the commissioner to agree to a period of deliberation during which all parties could be consulted.

One option is to provide an objective basis for valuing book debt. Another is to leave the Act as is but for the commissioner to value expenditure incurred, payable only in future, on the same principle as income. This could perpetuate uncertainty and a suitable amendment to the Act is preferable.

Van As emphasises there is no real technical difficulty in leaving the law as it is. It is well within accounting skills to value book debt taking into account all relevant factors.

This was recognised by Judge Kriegler in the People's Stores case in the Special Income Tax Court, whence it was appealed. ■

RAND'S PRICE

Mar 6 1990	R1 equals	One foreign unit equals (R)
SDR	**0,296**	**3,377**
	0,303	3,299
ECU	**0,323**	**3,100**
	0,356	2,816
UK £	**0,236**	**4,244**
	0,229	4,360
US $	**0,388**	**2,578**
	0,395	2,529
Canada $	**0,460**	**2,174**
	0,471	2,123
Switzerland Fr	**0,579**	**1,727**
	0,625	1,600
France Fr	**2,220**	**0,450**
	2,488	0,402
Germany DM	**0,656**	**1,524**
	0,732	1,366
Japan Yen	**57,890**	**0,017**
	50,910	0,020
Italy Lira	**484,395**	**0,002**
	537,180	0,002
Zimbabwe $	**0,905**	**1,105**
	0,788	1,269
Austria Schil	**4,625**	**0,216**
	5,140	0,195
Holland Guilder	**0,740**	**1,351**
	0,826	1,211
US $ value of SDR	1,315	**1,312**
US $ value of ECU	1,126	**1,202**
Financial Rand		
Cost per US $	4,020	**3,815**
Discount (%)	36,962	**32,474**

Year ago figures in light print.
Average of the Telegraphic Transfer buying and selling rates used by the banking sector for the day, for amounts up to R20 000 depending on foreign currency involved.
The above rates are for guidance purposes only.

...IAL FUTURES

Closing prices March 5 1990 Bid	Offer	Mark to market	Open interest at close contracts 23/2	2/3	Week's volume at close contracts 23/2	2/3

SECURITISATION FM 9/3/90

Taxman will not lose — De Beers

320

Business Day Reporter

DE BEERS yesterday denied a report in Business Day headlined "Taxman is big loser in De Beers reshuffle".

De Beers spokesman Neville Huxham said that in fact the fiscus in SA would be in a neutral situation after the change.

Business Day's report, which was based on interviews with tax experts outside De Beers, said the SA Exchequer would lose hundreds of millions of rands as a result of De Beers' proposed setting up of its offshore interests in Europe.

Huxham said De Beers had cleared its scheme of rearrangement with the appropriate authorities, who are satisfied that their situation will be unaffected. He pointed out that while 80% pro forma of De Beers/De Beers Centenary's dividends would be paid out of Switzerland/Luxembourg in future, this did not represent a loss to non-resident's shareholders tax (NRST) in SA. B/Day 13/9/90

Said Huxham: "The position is regularised by Section 46 of the Income Tax Act, which effectively means that the proportion of a company's income from a foreign source when distributed does not render a foreign shareholder liable for NRST.

"In future, the portion of dividends paid out of Switzerland and Luxembourg will attract a net witholding tax, which we have calculated to be 1,2% of the total. In future foreign dividends paid out of De Beers Kimberley will continue to attract up to 15% NRST, as in the past."

Personal tax cut is expected next week

Star 9/3/90

320

By Peter Fabricius,
Political Correspondent

CAPE TOWN — Finance Minister Mr Barend du Plessis is expected to cut personal income tax and Government spending when he presents the Budget to Parliament on Wednesday.

Great interest will focus on the first Budget under President de Klerk with expectations that for the first time in many years a South African government will actually fulfil some of its economic promises.

An additional budget last month which exceeded estimates by only R164 million or 0,3 percent — and showed zero growth in defence for instance — suggested that the Government is earnest about financial discipline.

However, neither the tax cuts nor the cuts in Government spending are likely to be dramatic. Mr du Plessis has made it clear that the Budget should be seen as a step on the road towards the Governmemt's five-year plan. One reason why overall cuts will not be great is that the Government is committed to greater welfare spending — in such areas as education, pensions and housing.

Will it be the "Budget for negotia tions" which Democratic Party finance spokesman Mr Harry Schwarz wants — a budget which shows the Government's good faith by really starting to shift money into black hands?

Certainly, it seems social spending will absorb much of the unexpectedly large increases in tax revenue over the last year, recently calculated by Reserve Bank Governor Dr Chris Stals at about R3 billion above estimates.

Continued payment of SA's huge foreign debt will drain another few billion from the national coffers although much of the R3 billion raised by the flotation of Iscor will go to offset this.

Among the tax goals set out in the five-year planm is a committment to cut personal income tax by reducing marginal rates from the present maximum of 45 percent at the income level of R80 000 to 40 percent at R100 000.

Mr Harry Schwarz expects that Mr du Plessis will merely reduce "fiscal drag", the process by which taxpayers are pushed into higher tax brackets because of inflation.

One of the costs to the man in the street of lower taxes will be increases in user charges for services.

Tax on "luxury" goods such as cigarettes and liquor will probably show the usual annual rise as these are a "soft touch".

A final and complete separation of husbands' and wives' taxation could also on the way.

The R9 billion defence budget will almost certainly be cut now that the Namibian war is over.

What has Barend in store this year?

10/3/90 (320)

Against the background of a slowing economy, unrest which may discourage foreign investment, and the need to make a free market system attractive to blacks, AUDREY D'ANGELO asked economists and businessmen what they expect from this week's Budget.

Hopes for large cuts in taxes

EVERYONE hopes, every year, for concessions in the Budget that will make them better off. Finance Minister Barend du Plessis has recently conceded that the SA taxpayer is too heavily burdened. And in view of the fact that taxes brought in higher revenues than expected this year, prospects seem good for some lightening of the tax burden.

But the threat of nationalisation has put the minister under pressure to speed up the redistribution of wealth and make a free market economy more attractive to blacks.

It is also imperative for housing, education and health services for blacks to be improved.

Are these facts mutually contradictory? Or can we expect a Budget of startling originality to meet the needs of a changing SA?

Economists normally offer differing opinions. But most seem confident that there will be cuts in direct taxation, with a move towards indirect taxation.

They differ, however, in how generous the cuts in direct taxation may be. Attie de Vries of the Stellenbosch University Graduate School of Business, says he does not expect them to be spectacular.

"I think there will be adjustments to fiscal drag as well as, possibly, an increase in the tax free portion of investment income.

"I think the minister can afford to give away a maximum of R2bn, or perhaps R2,5bn, and that will be that."

Brian Kantor, head of the School of Economics at the University of Cape Town, is far more encouraging. He believes that government expenditure can be restricted to R72bn — a rise of R12bn.

Meaningful cuts

"They should not try to balance the Budget. And if the borrowing requirement is limited to R9bn it will give him lots of room to make meaningful tax cuts," he says cheerfully.

"I think he will cut direct taxation in a meaningful way, so that people will notice the difference.

"He will cut out bracket creep, which erodes pay rises, and I think he will reduce tax rates by about 5%. The top rate will come down from 45% to 40% and so on down the line."

Pointing out that part of government strategy is to restrict across the board pay rises for public servants to 10%, Kantor says tax rates will have to be reduced to compensate for this.

"And I think they will raise police salaries, to make it an attractive career and to keep them loyal."

Kantor expects corporate tax rates to come down by at least 2,5%. "If individual rates of tax come down but not corporate rates, people will start dis-incorporating themselves."

And he expects value added tax (VAT) to be introduced in the middle of the year.

BAREND DU PLESSIS

Tax free savings

"It may be described as 'a white man's budget' if direct taxes are cut. But everyone in the formal sector pays tax. And population numbers mean there are more black people than whites in the formal sector."

Glenn Moore of Personal Trust suggests that the Budget should be an unashamedly capitalist one and that there should be no tax on any form of savings, including shares in companies.

"Any money put away instead of being spent should be free of tax. That includes the buying of shares, which is a form of savings. Shares are just one more effective hedge against inflation and should be totally tax free in the hands of savers.

"I think this is the single most important step that could possibly be taken in the Budget.

"It would encourage investment and savings, to provide capital for growth, and would end the need for high interest rates to discourage consumer spending resulting in high imports.

"It would transform life for retired people. Elderly people who have saved all their lives would no longer have to worry about having their savings eroded by a combination of inflation and tax. Younger people would realise it was worth while to build up capital rather than buying consumer goods.

"It would help to get the economy going again, encouraging everyone, black and white to build up their own capital base.

"We believe in capitalism and we should nail our colours to the mast and come out with a capitalist Budget.

"It has been one of the sins of this economy that, to avoid high taxation, salary packages have been structured with perks instead of money. People have been forced to spend in this way to keep their tax bill down."

Mike Daly of Southern Life believes there is a danger that the minister might be tempted to reduce government expenditure too much. "I don't think he should get the deficit before borrowing down too much just because it looks good.

"They should not cut expenditure in real terms. They should spend money

☐To page 21

Don't bank on any big tax cuts

Star 10/3/90 320

SVEN LUNSCHE

DON'T expect a huge reduction in your tax payments when the Budget is presented to Parliament on Wednesday.

More so than ever this year the fiscal policies spelt out by Finance Minister Barend du Plessis will be subject strictly to the overriding economic concerns.

To use Mr du Plessis's own words: "We have to restore the credibility of the Budget as a tool of economic measurement."

The high inflation rate has been declared public enemy Number one and strict spending cuts are on the cards to complement the Reserve Bank's tight monetary policy.

While the emphasis will be on strict expenditure controls — which reduce demand and thus price increases — a huge amount of money will still be required to finance social projects in education, health and housing.

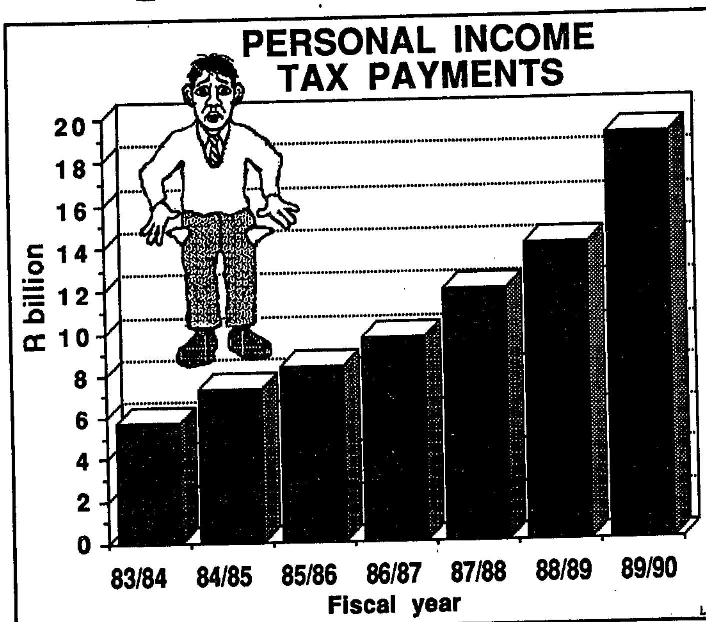
There is hence little scope for alleviating the high tax burden of individuals or companies, although some minor adjustments to make up for the effects of fiscal drag could be announced.

The government has already sent out signals that its departments will not get away with spending policies which over the past few years were allowed to override the fundamental needs of the economy.

It is encouraging that public servants willget only a 10 percent increase this year — although the effective rise will be closer to 15 percent given notch increases and tax benefits.

Even more important is the fact that the huge defence budget will be slashed by about R2 billion next year — money that will certainly be dedicated to more growth orientated departments.

Frankel Kruger Vinderine economist Mike Brown believes state spending for the current fiscal year will come out close to the budgeted target of R65 billion or a 15 percent increase.



Furthermore, the deficit before borrowing, which is the most important indicator of financial discipline, as it highlights the difference between what is spent and what is received by the state, will be confined to around R5,5 billion, compared with a target of R9,9 billion.

Expressed as a percentage of the country's wealth (gross domestic product) this deficit is likely to fall below the three percent level in line with international standards set by the IMF.

And in the new era of fiscal stringency this trend is set to continue in the 1990-91 fiscal year. Mr Brown predicts a budgeted expenditure increase of only 12 percent and deficit before borrowing of R5,4 billion or 2,6 percent of GDP.

What then is in it for the taxpayer.?

Not much. In the prevailing climate of restraint, the Minister has little room for manoeuvre, particularly since revenue income is expected to rise by only 13 percent next year, given the expected slowdown in the economy.

Proposals which have been bandied about and which could moderately alleviate the high burden of taxation by encouraging savings include:

- A higher ceiling at which the top marginal rate is levied.
- An increased level at which retirement annuities are exempt from tax.
- The tax-free threshold for interest income could be raised.

Proposals to reduce taxation directly could be limited to some marginal changes in the tax schedules for married women.

Some R2 billion could also be allocated to alleviate fiscal drag, which occurs when a salary increase are accompanied by higher tax rates as a percentage of total income.

However, this R2 billion comes from the taxpayers' own pockets — it comprises the additional funds raised last year through income tax collections above the budgeted figure of R17,1 billion.

Income tax revenue is by for the biggest contributor to state coffers, having risen from only R5,7 billion in the 1983-4 fiscal year to this year's level of over R19 billion (see graph).

On the basis that individuals account for about 50 percent of all GST payments their total tax payments in the 1990-91 fiscal year could soar above R36 billion.

Compare this with payments of about R6 billion seven years ago and the picture is one of total gloom.

Don't expect it to brighten considerably on Wednesday.

Chance to get your own back

This is your chance to get back at the Minister of Finance. The Department of Finance has invited people or institutions to submit representations on the Budget as soon as possible after March 14.

In a statement issued in Cape Town yesterday, the chairman of the Joint Committee on Finance, Dr FP Jacobsz, said the committee would be be meeting from March 15 to 23, to discuss the Budget and consider written representations.

"If any person or institution wishes to give oral evidence on the Budget, he should indicate so in his memorandum," Dr Jacobsz said.

All correspondence should be faxed to (021) 461-5372 or adressed to: The Secretary of Parliament, PO Box 15, Cape Town 8000.

If you have any serious recommendations, give it a go!

Tax, fines to combat drug, liquor abuse

Star 10/3/90 (320)

FUNDS raised by taxation of liqour and tobacco sales and fines meted out to individuals contravening the drug laws could be used for a national action plan to combat and prevent both alcohol and drug abuse.

This is one of the recommendations that will be made to the Minister of National Health and Population Development, Dr Rina Venter, by a working conference aimed at the implementation of a national strategy to combat alcohol and drug abuse.

Conference delegates said substantial funding was required to facilitate effective research on a national basis into prevention and treatment programmes and that this money could be raised by the taxation of liquor and tabacco sales.

More than 150 participants attended the conference. — Sapa.

Receiver hit by staff crisis

320

S/Times 11/3/90

By Dirk Tiemann

THE Receiver of Revenue is desperately short of skilled staff ahead of the expected introduction of VAT next year.

National servicemen drafted into the Receiver's office on four-year contracts are expecting cuts in their committments because of the reduction of national service from two years to one.

Permanent staff members are being lost to the private sector because of poor pay, perks and prospects.

Sources say VAT will be unmanageable unless Revenue is bolstered by staff with CA and BComm degrees.

Commissioner for Inland Revenue Hannes Hattingh says his 250 CA and 200 BComm servicemen garnered R260-million of tax that would have been avoided last year.

Many heads of divisions are national servicemen and most are expected to leave. One GST inspectorate division has lost 75% of its staff.

Auditors estimate the number of assessors in Johannesburg at 100, of whom 93 are army personnel.

Chief director, operations, Schalk Albertyn believes his department has had enough time to prepare for VAT and has recruited staff.

Chief director, Trevor Van Heerden confirms VAT will increase administrative work.

Mr Albertyn disputes allegations that permanent staff members were lost because national servicemen with university degrees earned more and took senior positions.

He says the department is better prepared to implement VAT than it was when GST was introduced.

Call to cut tax burden on gold mines

CAPE TIMES 12/3/90

320

Own Correspondent

JOHANNESBURG. — The government could secure 120 000 new jobs in the gold mining industry affecting up to 750 000 dependants during the next decade if bold tax reform is announced in Wednesday's Budget.

Tom Dale, head of research at stockbrokers Ed Hern, Rudolph, Inc, argues that "immediate abolition of lease and tax surcharge liabilities for gold mines and a new deal on ring fencing would improve the return on several gold mining projects to above the hurdle rate which investors require for the high risks of deep level mining".

He says that as a result, JCI's South Deep, Anglovaal's Sun project, Vaal Reefs' Moab shaft and Freegolds' Du Preez Leger Jonkers Rust would all probably get an immediate go-ahead from the mining houses. "These projects could produce more than 8-million tons of gold-bearing ore a year by the turn of the century, increasing to about 15-million tons a year during the following decade."

The four potential mines are being held up by tax obstacles, as the mining houses involved have consistently stressed. Major arguments are that deep level hard-rock mining is high risk; the gold price is set in international markets; SA costs are rising faster than competitors' and the only real variable in the equation is the tax system.

Dale says that from operating gold mines' figures, it can be assumed that a 180 000 tons per month (tpm) deep-level mine would employ about 12 000. "The resultant direct employment opportunity could be 46 000 by the year 2 000, possibly rising to 82 000 men by the year 2 010.

"If we accept an employment multiplier of 1,5 for the hard-rock mining industry, total employment stimulated by these mines (including secondary industry) could grow from 69 000 to 123 000 over a 20-year period. Using a dependency ratio of 6:1, almost 750 000 individuals could be affected by hopeful bold mining tax reform in the forthcoming Budget."

Dale says a mining rate of 15-million tons a year would cost some R2bn a year in real terms in wages, consumables and power. He argues that this expenditure would provide enormous stimulus to secondary industry.

"Moreover, the total capital cost of establishing 15-million tons a year output is probably around R15bn in current terms. This additional expenditure of about R750m a year in real terms over 20 years would provide further stimulus to secondary industries."

Dale argues that further down the line, tax neutrality for gold mines could well lead to development of the virgin "Potch Gap" gold fields, and large areas of the OFS which are unattractive to investors in the current tax enviroment.

"I believe there is real potential for the government to address the burning issue of job creation during the next 20 years in the 1990 Budget," he said.

Bold tax relief in Budget is key

Mines could offer '120 000 more jobs'

B/Day 12/3/90

320

BARRY SERGEANT

GOVERNMENT could secure, during the next decade, 120 000 new jobs in the gold mining industry, affecting up to 750 000 dependants, if bold tax reform is announced in Wednesday's Budget.

Tom Dale, head of research at stockbrokers Ed Hern, Rudolph, Inc, argues that "immediate abolition of lease and tax surcharge liabilities for gold mines, and a new deal on ring fencing, would improve return on several gold mining projects to above the rate which investors require for the high risks of deep level mining".

Gold mines paid an overall average tax rate for the December 1989 quarter of 52% on taxable profits of R674m.

"This disguises the fact that some mines are currently paying combined lease and tax rates of up to 65%," said Dale.

In their annual reviews recently, Peter Gush and Lionel Hewitt, chairmen of Anglo American's operating mines, said: "There is no doubt that the current system of ring fencing is the single biggest factor inhibiting the development of gold mines."

Ring fencing prohibits the absorption of a developing mine's tax losses by a sister mine with taxable profits.

Dale said that bold tax reform could mean that JCI's South Deep, Anglovaal's Sun project, Vaal Reefs' Moab shaft and Freegolds' Du Preez Leger Jonkers Rust would each, probably, get an immediate go-ahead from the mining houses.

"These projects could produce more than 8-million tons of gold-bearing ore a year by the turn of the century, increasing to about 15-million tons a year during the following decade."

The four potential mines are being held up by tax obstacles, the mining houses involved have consistently stressed. Gush and Hewitt, too, have argued that "further bold reforms were required for the mining tax system."

Finance Minister Barend du Plessis has hinted that ring fencing may be addressed. This was acknowledged by Gush and Hewitt.

Dale welcomed the report from the Tax Advisory Committee on the definition of capital gain versus revenue, which was handed recently to Du Plessis. "This issue has constantly constituted further uncertainty in a business environment already fraught with risk."

Dale calculated that of the R32bn worth of gold mining investments held by the six major mining houses, about R14bn at Friday's closing share prices could be classified as "mature".

He explained that if a clear definition of capital gains was made, some of these mature investments could be realised and the proceeds used to finance new mining ventures.

Major arguments for bold mining tax reform are that deep level, hard rock mining is high risk; the gold price is set in international markets; SA costs are rising faster than competitors'; and the only real variable in the equation is the tax system applicable.

Dale says that from operating gold mines' figures, it can be assumed that a

☐ To Page 2

Tax reform

B/Day 12/3/90 320

☐ From Page 1

180 000 tons per month (tpm) deep level mine would employ about 12 000. "The resultant direct employment opportunity could be 46 000 by the year 2000, possibly rising to 82 000 men by the year 2010.

"If we accept an employment multiplier of 1,5 for the hard rock mining industry, total employment stimulated by these mines (including secondary industry) could grow from 69 000 to 123 000 over a 20-year period. Using a dependency ratio of 6:1, almost 750 000 individuals could be affected by bold mining tax reform in the forthcoming Budget."

Dale says a mining rate of 15-million tons a year would cost about R2bn a year in real terms in wages, consumables and power. He argues that this expenditure would provide enormous stimulus to secondary industry.

"Moreover, the total capital cost of establishing 15-million tons a year output is probably around R15bn in current terms. This additional expenditure of about R750m a year in real terms over 20 years would provide further stimulus to secondary industries."

Dale argues that further down the line, tax neutrality for gold mines could well lead to development of the virgin "Potch Gap" goldfields, and large areas of the Free State which are unattractive to investors in the current tax enviroment.

Dale says the additional projects — an estimated seven deep-level mines — have the potential to employ more than double the 123 000 men that would be employed by the four projects that are being held up by tax obstacles.

Some tips for govt on tax

OD 13/3/90

(320)

OD 13/2/90

BARRY SERGEANT

WITH the great changes sweeping the political landscape, at least a few surprises can be expected in tomorrow's Budget. However, perhaps the best pointer is a recently released paper by the Tax Advisory Committee (TAC).

Entitled Future Development of the Tax Structure in the RSA, this is the first paper released by the TAC, which was appointed in 1988 in the wake of the Margo Commission.

The TAC, chaired by attorney Michael Katz, says one of its significant objectives is to facilitate the tax reform process initiated by Margo. Margo, recognising that tax is a dynamic process, recommended the appointment of a tax advisory committee.

Said Margo: "The ideal, both for direct and indirect imposts, is a broad-based, widely distributed, low-rate, high-yield tax. . . ."

The more specific objectives of Margo were: "Neutrality, simplicity, equity, certainty, administrative efficiency, cost-effectiveness, flexibility, stability, distributional effectiveness and a fair balance from the viewpoint of taxpayers between the respective burdens of direct and indirect tax. . . ."

So far, the TAC has completed an inquiry into the capital versus income dilemma and handed it to Finance Minister Barend du Plessis.

The issue, notes the TAC, "is contentious . . . and the cause of the majority of income tax cases. Certainty in regard to this distinction can have vast benefits for the economy."

Secondly, the TAC is working on an analysis of SA's tax dispensation for pension funds and other retirement funds as well as related issues.

"Naturally," says the TAC, "it is not intended to disturb vested interests."

Thirdly, the TAC has completed an inquiry into the taxation of dividends "both as to business form and as to debt and equity finance," and handed it to Du Plessis.

Fourthly, the TAC has worked on the vexed question of fiscal decentralisation.

"Some of the aspects requiring attention under this very topical subject are the possible forms of fiscal relations between governments and levels of government in a multilateral government system, and the effect of a greater or lesser degree of devolution of power of tax administration and financial accountability."

Next, the TAC has released a list of projects "to be initiated", which may be interpreted as meaning that nothing specific should be expected in these areas tomorrow:

- Taxation and inflation ("international experience has proven that this is an area for ongoing research . . . a researcher has been appointed to start work at the end of March");
- Taxation and savings (this relationship is seen as "vital");
- Group taxation (international trends recognise a group as a single entity for tax purposes, but this was rejected by Margo);
- Privatisation (the existing system is seen as inadequate in some ways, for example, on depreciation rules);
- Employee share incentive schemes ("although it has a relevance to the privatisation programme, its importance transcends that particular context"); and
- Tax potential of the informal sector ("Complicated administrative requirements have made it arduous for the informal sector to comply").

A decision has been taken at the TAC to increase public awareness of the direction of SA's tax reform. It says: "Once there is a general awareness of the issues which are engaging the attention of the TAC there can be greater public participation in the tax reform process."

In particular, the TAC wants more input from the private sector for its in-depth research.

Apart from current work, it has also identified areas for future research, including taxation and economic policy; tax revenue forecasting; administrative issues (for example, avoidance and evasion); tax incentives; tax expenditures (allowances); equity and efficiency; tax reform constraints, and taxation of married people.

REVIEWS

March 13 1990

ℳon 13/3/90 (320)

Economist urges set of new deals

Tackle tax reform, Du Plessis is told

By Michael Chester

The SA Chamber of Business (Sacob) has urged Finance Minister Mr Barend du Plessis to launch the first salvo in tax reform in the Budget — with the initial aim of curbing the personal tax load.

Economic consultant Mr Roelof Botha yesterday said the Minister had scope to tackle at least a degree of tax reform.

And Sacob director-general Mr Raymond Parsons urged the Minister to reassure taxpayers of permanent longer-term relief by spelling out a timetable of phases towards an ultimate full package of new tax deals over the next two or three years.

Mr Parsons said the Government needed to make the Budget a milestone in economic reform — on a par with the February 2 pledges by President de Klerk on political reform.

"The emphasis must no longer be on a 12-month snapshot of the economy, but a full chart of the strategies planned to carry South Africa into the future.

"We need to see what broad economic policies are intended to accompany new developments on the political front."

Mr Botha said first measures in tax reform should aim at curbing fiscal drag, which forced taxpayers higher and higher up the marginal tax ladder as salaries and wages strove to keep abreast of inflation.

Sacob suggested that, as a start, the ceiling of all personal income tax brackets should be lifted by 15 to 20 percent to delay pressures into higher and higher marginal tax rates.

That would mean that taxpayers would not reach the top of the marginal tax rate ladder until their annual salaries reached R100 000, rather than R80 000 as now. Taxpayers on smaller incomes would also benefit as all the rungs in the tax ladder were lowered.

Moves to curb personal income tax should go hand-in-hand with, among others:

- A reduction in the corporate income tax rate to bring it into line with the maximum individual rate.
- Abolition of the import surcharge, particularly on capital and intermediate goods.
- Removal of double taxation on dividend payments.
- Consideration of a significant increase in the amount of interest income allowed tax exemption, with an eye on more personal savings needed as a driving factor in shaping fiscal policy.
- Complete separate taxation for married couples, aimed at broadening the tax base and an encouragement to more highly qualified married women to rejoin the skilled-labour force.

● See Page 15.

More tax relief for car allowances

Star 14/3/90

320

By Sven Lünsche

Higher tax deductions for car allowances have been introduced by the Ministry of Finance.

A new table published in Friday's Government Gazette has deductions eight to 18 percent higher than in the previous table gazetted in 1986.

The deductions have been made retroactive to March 1 1989, the start of the 1989/90 tax year, but do not apply to company cars.

In terms of the new scale, the fixed cost of the car, the fuel costs per kilometre and the maintenance costs per kilometre have been adjusted for the calculations of the car allowance deductions.

If your car is valued between R24 000 and R26 000 the fixed cost is now R8 877, the maintenance costs 5,8c a kilometre and fuel costs 11,7c a kilometre. For a car valued between R45 000 and R50 000 the respective figures are R16 119, 6,4c/km and 12,9c/km and for a car of between R70 000 and R80 000 in value the costs are R24 245, 6,9c/km, 14,1c/km.

If a car allowance has not been received for the full tax year, the deductions can be averaged out, although the Government Gazette says this will be replaced in the 1990/91 tax year by a scheme where such amounts can be prorated.

Also in the current tax year a new formula will be used to claim for car allowances if the distance travelled for business does not exceed 6 000 km.

Barend hints at tax cuts

Star 14/3/90

320

By Peter Fabricius, Political Correspondent

CAPE TOWN — Minister of Finance Mr Barend du Plessis has hinted that the Budget today will contain tax cuts — especially for married women — saving incentives, and big increases in education and social spending.

He did so during question time in Parliament yesterday when he set out the steps the Goverment was taking to combat inflation.

He was replying to questions from Democratic Party finance spokesman Mr Harry Schwarz.

Mr du Plessis also announced a new action plan for combating inflation, based on fiscal and monetary discipline.

The Star will carry detailed coverage of the Budget tomorrow, including the text of the speech which Finance Minister Mr Barend du Plessis will deliver to Parliament this afternoon.

He said Government spending was under control, and the overrun on the 1989/90 Budget was an estimated 0,3 percent.

Fiscal discipline would be maintained in the coming year. Promotion of saving had to be part of a counter-inflationary strategy.

The Reserve Bank's tight monetary policy had caused a decline in money supply.

Positive real interest rates and disciplined public spending had contributed to curtailing gross domestic spending, he said.

The slight increase in the rand had also helped to lower inflationary expectations.

The Government also sought to strengthen the supply side of the economy — not least by tax reform, which would reduce disincentives to labour and production. Tax on women was an example.

The substantial budget allocations for education, and providing physical and social infrastructure, would also help.

Inflation could not be combated successfully unless structural adjustments were made to improve the economic growth potential.

Car allowance table pleases

BIDay 14/3/90 (320)

BARRY SERGEANT

TAXPAYERS with car allowances have been given a pre-Budget gift backdated to March 1 1989.

Ahead of today's Budget, government has gazetted a new car allowances table with deductions 8%-18% higher than before. The new table, appearing in Gazette 12320, is retroactive to March 1 1989, the start of the 1989-1990 tax year.

A tax consultant said this was a big benefit for taxpayers. "But if we had known earlier of the intention to make the change, tax planning would have been even more beneficial for taxpayers in the 1989-1990 tax year." Price Waterhouse's Peter Botha said the pre-Budget announcement again placed perks tax under the spotlight.

Said Botha: "The so-called 'free residential accommodation' formula for perks tax has, like the car allowances table, not been updated since 1986. This is a matter which deserves attention in today's Budget."

An Inland Revenue (IR) spokesman said the car allowances table had previously been updated on April 18 1986. The new tables, he emphasised, did not affect company cars, where values had most recently been updated on June 1 1989.

Tax consultants said that the car allowances change was overdue, as costs had risen at least in line with inflation, and static values for four years had led to an "unfair situation". IR, which normally accompanies tax changes with a Press release, could not explain why the change had been silently gazetted.

The IR spokesman said the gazetting had been planned "for some time". Tax consultants, who said that changes for car allowances and company cars were normally given advance notice, said the new

☐ To Page 2

Car allowances

BIDay 14/3/90 (320)

☐ From Page 1

change contained another new law.

Where a car allowance is not used for a full year, the fixed cost of taxable values would have to be pro rated accordingly. Tax consultants said this was detrimental to the previous situation, where such a situation would be "averaged" over the year, reducing the overall tax payable.

Moreover, Page 8 of IR's brochure (which has been sent to taxpayers with travel allowances) says that such amounts could be pro rated. Asked to comment, the IR spokesman said "the brochure is patently incorrect on this point".

Moreover, a new regulation provides that where taxpayers receive reimbursement below the allowed 6 000 business kilometres a year car allowance, the taxpayer will not have the option of calculating taxable values on a different basis provided.

However, the two new changes, according to the gazette, will apply only to the tax year starting March 1 1990. Tax consultants said this gave adequate scope for efficient tax planning in the year ahead.

● See Page 4

Certain shares profits exempted from tax

320

Sowetan 15/3/90

PROFITS realised from shares listed on the Johannesburg Stock Exchange that have been kept for more than 10 years would be exempted from income tax under certain conditions, the Minister of Finanace, Mr Barend du Plessis, said yesterday.

Uncertainties about the distinction between capital and income were an important reason for the low turnover on the JSE and the phenomenon that large financial investments were not released for application in other fields of investment.

The Tax Advisory Committee had consequently recommended the introduction of a so-called "safe haven" for shares listed on the JSE for more than 10 years. Profits from the realisation of such shares would be exempted from income tax.

These recommendations were acceptable to the Government under certain conditions and the adjustments would apply as from today.

The conditions were that profits and losses made on the realisation of shares listed on the JSE would be deemed to be of a capital nature if it took place 10 years after the date of acquisition of the shares.

Listed shares that have been acquired by exchange and were subject to Section 24A of the Income Tax Act would not qualify for this concession. The onus would be on the taxpayer to prove he had held the shares for the required period.

The results would be monitored to detemine whether a more refined and efficient system for these and other assets could be developed.

The higher turnover of shares should lead to an increased revenue of about R15 million from the marketable securities tax. It had also been decided in principle to phase out the present 1,5 percent tax on marketable securities over a period of three years. For revenue reasons this phasing out would commence only in the 1991/92 financial year.

Tax clampdown on taxi industry

320 Sowetan 15/3/90

The Receiver of Revenue is clamping down on the taxi industry - thousands of letters have been sent out to taxi owners throughout the country asking them to furnish details of their operations for tax purposes.

The letters were sent out on February 16.

More than 100 000 throughout the country will be affected, most members of the of the South African Black Taxi Association (Sabta) and the newly-formed National African Federation of Taxi Organisations (Nafto).

For most taxi owners the letters informing that they are eligible to tax came as a shock, taxi associations said yesterday.

Taxi-owner Mr Sam Rachilo says he was surprised after he received a letter from the Receiver.

Mr PETER RABALI Our members are not knowledgeable on tax matters.

He has not paid income tax for his taxi business because his monthly income a month is low and does not expect to pay income tax.

Rachilo said as blacks were not represented in the country's political structures taxing them was unfair.

"The tax blacks pay is used to defend the country's borders. Blacks are expected to pay for the protection of a white minority."

Unfair

Soweto tax consultant, Mr Matsheru Matsheru, was critical of the move and said it was unfair of the Receiver to require such comprehensive information from taxi owners within 14 days.

He says that a lot of information regarding the income of taxi operators will still have to be researched before submitting the forms.

The Receiver of Revenue in Johannesburg, Mr P Jacobs, confirmed that letters had been sent to operators who had not been paying tax.

He said it was the duty of his office to see that people paid their tax.

He says it is difficult to estimate how many operators are not paying tax.

The letters have been posted to the people on available information and more are likely to be sent out.

He says the matter was treated confidentially and he declined to comment further on the implications of the new move.

Sabta's deputy managing director, Mr Jabu Mabuza, said after being informed about this development they had made certain proposals to the Receiver of Revenue.

Mabuza says as many taxi owners did not have formal education on taxation they had first to be proficient on the keeping of records and good management practices.

"Sabta wants to be given time to consider the implications of the new development and advise its members accordingly," he said.

Nafto's president Mr Peter Rabali said the Receiver of Revenue should deal with taxi associations instead of individual members.

"Our members are now knowledgeable on tax issues and as prosecutions could follow it was important that association, who had the trust of their member, be consulted," he said.

He blames the Receiver for not informing the taxi owners about tax properly and demand that a meeting be held between associations and the Department of Finance officials immediately to resolve this problem.

Motor industry's 'concern' at rise in fringe-benefit tax

ARGUS 15/3/90 (320)

Sapa reports from Johannesburg

THE budget proposals are consistent with the key requirements that the South African economy should continue to be managed carefully, states Mr Spencer Sterling, president of the National Automobile Manufacturers Association of SA (Naamsa).

He said the mix of monetary and fiscal policy measures should continue to be directed at ensuring that business activity levels were sustained at a positive, albeit modest growth rate.

Naamsa also welcomed the planned reduction, in real terms, in government expenditure as well as the strong emphasis on economic restructuring, private initiative and private sector-led growth, job creation and the raising of savings to promote capital formation.

The organisation said overall, the budgetary measures were consistent with the attainment of a growth rate, in real terms, of between 1 percent and 1,5 percent during 1990.

The combined effect of the various personal income tax and other concessions granted would combine to compensate taxpayers for fiscal drag and were expected to provide a welcome boost to personal disposable incomes generally.

On fringe benefit taxation of company owned cars, Mr Sterling said the proposed increases of the magnitude envisaged were viewed with utmost concern by the motor industry.

The stated intention to increase the monthly deemed values by approximately 50 percent were considered unjustifiably high particularly since higher tax liability had already been built into the existing valuation format to take account of the escalation in prices at the time of vehicle replacement.

While Naamsa supported the principle of taxing fringe benefits, the authorities had appeared to overlook that the taxation of company owned motor cars was designed to value and tax only the private usage of a company car.

Taxpayers to benefit with concessions

Sowetan 15/3/90

(320)

TAX concessions to individuals totalling R4,530 billion were announced by the Minister of Finance, Mr Barend du Plessis, yesterday.

In his 1990/91 Budget, rebates affecting interest on building society investments, undistributed profits, married women and the aged as well as adjusted tax rates for lower and middle income groups alone would cost the Exchequer an estimated R3,122 billion.

"The rates of tax proposed represent only the first phase of the considerable adjustments that are planned," he said.

The expected total tax revenue for the new financial year would rise by an estimated 5,8 per cent over last year to total R64,938 billion.

Revenue statistics he tabled showed the nett increase in tax on individuals was expected to rise by 4,3 per cent over 1989/90's R19 558 540 to R20 402 000.

The budget also contained proposals for increasing the taxable benefit of company cars from 50 to 75 percent, to increase the taxable interest rates on low or interest-free loans from 16 to 19 percent and to introduce further anti-avoidance measures.

Dealing with the personal tax rate Mr Du Plessis used the example of a two-child married couple with taxable incomes of R30 000 and R20 000 respectively.

In the current tax year they would pay an effective 17,9 percent in tax. Had they received a 12 percent salary increase on March 1 this year, their tax at the present rates would have increased to an effective 19,5 percent.

Under the proposed tax rates their combined effective rate now dropped to 16,7 percent.

"It means that their direct tax burden will decline in real terms,+ the Minister said.

In turning to the subject of individual income tax he said it was of the utmost importance for the promotion of economic growth that discretionary personal savings be encouraged where possible.

For this purpose he recommended that the present exemption to individual taxpayers of the first R1 000 of interest and building society dividends be doubled to R2 000 and that other dividend income be fully exempted from normal tax in the hands of individuals and close corporations, thereby eliminating the present double taxation of such dividends.

"The latter exemption means that undistributed profit tax no longer has any justification," the Minister said.

The Exchequer expected to loose R650 million on these concessions in 1990/91.

The Margo Commission's recommendation that maried women women be taxed separately was an accepted goal of the government.

While married women on the SITE system were taxed separately on all their nett remuneration, investment income and certain trading income of women not subject to SITE was still taxed in her husband's hands.

Married

To take separate taxation a step further, it was proposed that all trading income of a married woman, including her salary and income from a business or profession, be taxed separately.

It was further proposed that the present rates of tax for married women be adjusted to gradually align them with that of an unmarried person.

The Minister also announced that the R120 additional rebate for the aged between 60 asnd 64 years was to be phased out until only the R1 450 rebate applying to the aged over 65 years was effective.

The threshold for the first rebate would be lifted by one year annually to ensure that those currently entitled to the rebate retained it.

In addition it was proposed that the over-65 rebate be increased from R1 450 to R2 100.

Govt in line with Margo

Cape Times 15/3/90 (320)

By ARI JACOBSON

MARGO COMMISSION suggestions for rejuvenating the SA tax structure are starting to seep into the budgetry process, says Graham Cochrane head of the tax division of accounting firm Price Waterhouse.

Although the major thrust of these recommendations was ignored — the implementation of VAT — important proposals have been welcomed.

"In line with Margo's intentions another step was taken towards the emancipation of the working married women, who should be recognised by law as a separate individual."

The negative aspect says Cochrane is the additional administration as the amount of taxpayers soar.

Calls by the commission to tax work in progress (WIP) has been heeded to ensure in Margo's words "all taxpayers are treated equally".

"From an economic perspective the cost impact on the construction industry, a primary labour employer, could lead to a decline in housing and ensuing employment."

Cochrane says the specific nature of the industry, which has a slow turnover and long leads and lags, was ignored.

The filtering of tax allowances into subsidy allocations, which was pre-empted by the commission, manifested itself in the re-routing of training incentives in this direction.

Cochrane was not satisfied with the definition of capital and tax attempted in the budget.

"It is restrictive in its application to shares and limited in the pragmatics of the demarcation period."

Further, he said Margo's prodding had helped to alleviate the double tax on dividends.

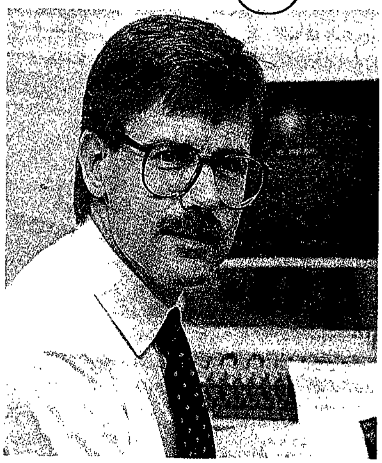
"Unfortunately, the non-residents tax on dividends, which remains and was supported by the commission, will discourage foreign investment."

Moving away from the Margo Commission's influence, Cochrane says the tax tables have gone a long way to removing the ills of fiscal drag on the man in the street.

"For example a 15% rise in a salary to R50 000 will leave an individual's after tax returns barely effected at 14%."

The governments commitment to elevating the plight of the lower rungs of society saw a 31% increase in the level at which individual tax is payable.

"In layman's terms at a salary of R13 000 — originally R9 000 — taxes are now forthcoming."



Graham Cochrane head of the tax division of accounting firm Price Waterhouse.

Shifting the incidence of tax from the individual to the company was re-empahised, he says, with the government's aim of reducing the top rate of tax from 45% to 40% over the next five years.

The removal of the ad valorem tax will provide the necessary boost for the manufacturers of jewellery, says Cochrane.

"Its alarming to contemplate that European countries are the processors of jewellery products, the resources of which are in SA's possession."

He feels the increase in fringe benefits tax on company cars and loans is focusing on stopping tax-avoiding schemes.

However the taxing of the LIFO reserve on tradable stock will lead to a higher effective tax payment for companies over the next five years. The amount of R50m estimated by the minister as payable this year is "grossly" understated, says Cochrane.

Builders may pay more tax

CPT Times 15/3/90

320

Staff Reporter

CONSTRUCTION companies may have to pay a lot more tax in future, starting from the forthcoming year, according to tax expert Graham Cochrane of Price Waterhouse.

Up to now these companies had been in an unusual tax position because much of the development they undertook was not on their own land, he said.

Companies in general were taxed on stock held at the end of the year. However, if that stock was comprised of "work in progress" on someone else's land, the construction company was not taxed on it, he said.

In boom times, many of the companies did not pay tax at all as they had a negative cash flow while their investment in stock was increasing.

During downturns, however, they would often have to pay tax.

The Margo Report had recommended that there should be no tax distinction between the construction industry and other businesses, despite the unusual business cycle of this particular industry.

Finance Minister Barend du Plessis has now decided to phase in the Margo Commission recommendations on the construction industry over the next five years.

Cochrane said that this change would restrict the growth of companies providing housing, "and yet housing is a priority".

The building industry is also a very substantial employer. Cochrane said there seemed to be a conflict between what Du Plessis said in his budget preamble about the need to provide housing, and this particular tax provision.

Business Report

Mixed reaction to mining taxes

Cape Times 15/3/90 320

Own Correspondent

JOHANNESBURG. — The Anglo American Corporation yesterday said it was "most disappointed" that the relaxation of ring fencing in the Budget was not more substantial.

"It is unlikely that this measure will provide a significant impetus to the development of large new gold mines although it may assist some smaller projects," it said in a statement.

Chamber of Mines vice-president Clive Knobbs also said although the industry was encouraged by the partial lifting of ring fencing, it was felt greater concessions were required to create real stimulation for the development of new mining ventures.

Knobbs and Anglo said the 10-year "safe-haven" rule on investment disposals was a positive move as it would encourage the realisation of mature, passive investments and re-investment into active projects.

An Anglovaal spokesman said the rule was "certainly a very good move to encourage the development of new mines".

Knobbs and Anglo both welcomed the confirmation of the second phase of the reduction of mining tax rates, which had the ultimate objective of equating these rates with ordinary company tax rates.

Anglo said it welcomed the increase of the gold mine capital allowance from 10% to 12% as this allowance partially compensated for increased interest rates and costs of capital.

Goldfields of SA executive director Bernard van Rooyen said the three measures announced by Du Plessis would encourage investment in the mining sector.

Goldfields had projects that would benefit from the measures over the next three to five years.

It would be difficult to identify immediately the number of these projects because further technical analysis was needed, he said.

INCOME	NO CHILDERN			1 CHILD			2 CHILDREN			3 CHILDREN		
	1990	1991	REDUCTION	1990	1991	REDUCTION	1990	1991	REDUCTION	1990	1991	REDUCTION
R	R	R	R	R	R	R	R	R	R	R	R	R
8 000	-	-	-	-	-	-	-	-	-	-	-	-
9 000	10	-	10	-	-	-	-	-	-	-	-	-
10 000	150	-	150	50	-	50	-	-	-	-	-	-
11 000	290	-	290	190	-	190	90	-	90	-	-	-
12 000	430	-	430	330	-	330	230	-	230	130	-	130
13 000	580	200	380	480	100	380	380	-	380	280	-	280
14 000	750	400	350	650	300	350	550	200	350	450	100	350
15 000	940	600	340	840	500	340	740	400	340	640	300	340
16 000	1 150	820	330	1 050	720	330	950	620	330	850	520	330
17 000	1 380	1 040	340	1 280	940	340	1 180	840	340	1 080	740	340
18 000	1 610	1 260	350	1 510	1 160	350	1 410	1 060	350	1 310	960	350
19 000	1 860	1 480	380	1 760	1 380	380	1 660	1 280	380	1 560	1 180	380
20 000	2 110	1 700	410	2 010	1 600	410	1 910	1 500	410	1 810	1 400	410
25 000	3 540	2 900	640	3 440	2 800	640	3 340	2 700	640	3 240	2 600	640
30 000	5 210	4 250	960	5 110	4 150	960	5 010	4 050	960	4 910	3 950	960
35 000	7 060	5 750	1 310	6 960	5 650	1 310	6 860	5 550	1 310	6 760	5 450	1 310
40 000	9 010	7 400	1 610	8 910	7 300	1 610	8 810	7 200	1 610	8 710	7 100	1 610
45 000	11 060	9 200	1 860	10 960	9 100	1 860	10 860	9 000	1 860	10 760	8 900	1 860
50 000	13 110	11 150	1 960	13 010	11 050	1 960	12 910	10 950	1 960	12 810	10 850	1 960
55 000	15 210	13 150	2 060	15 110	13 050	2 060	15 010	12 950	2 060	14 910	12 850	2 060
60 000	17 310	15 200	2 110	17 210	15 100	2 110	17 110	15 000	2 110	17 010	14 900	2 110
65 000	19 460	17 300	2 160	19 360	17 200	2 160	19 260	17 100	2 160	19 160	17 000	2 160
70 000	21 610	19 400	2 210	21 510	19 300	2 210	21 410	19 200	2 210	21 310	19 100	2 210
80 000	26 010	23 700	2 310	25 910	23 600	2 310	25 810	23 500	2 310	25 710	23 400	2 310
100 000	35 010	32 500	2 510	34 910	32 400	2 510	34 810	32 300	2 510	34 710	32 200	2 510
150 000	57 510	54 500	3 010	57 410	54 400	3 010	57 310	54 300	3 010	57 210	54 200	3 010

NB: The above amounts have been calculated on the basis that the taxpayer's wife has no income.

INCOME TAX PAYALBE : 1990 AND 1991

MARRIED

INCOME	OVER 61 BUT UNDER 65			OVER 65		
	1990	1991	REDUCTION	1990	1991	REDUCTION
R	R	R	R	R	R	R
9 000	-	-	-	-	-	-
10 000	30	-	30	-	-	-
11 000	170	-	170	-	-	-
12 000	310	-	310	-	-	-
13 000	460	80	380	-	-	-
14 000	630	280	350	-	-	-
15 000	820	480	340	-	-	-
16 000	1 030	700	330	-	-	-
17 000	1 260	920	340	-	-	-
18 000	1 490	1 140	350	160	-	160
19 000	1 740	1 360	380	410	-	410
20 000	1 990	1 580	410	660	-	660
25 000	3 420	2 780	640	2 090	800	1 290
30 000	5 090	4 130	960	3 760	2 150	1 610
35 000	6 940	5 630	1 310	5 610	3 650	1 960
40 000	8 890	7 280	1 610	7 560	5 300	2 260
45 000	10 940	9 080	1 860	9 610	7 100	2 510
50 000	12 990	11 030	1 960	11 660	9 050	2 610
55 000	15 090	13 030	2 060	13 760	11 050	2 710
60 000	17 190	15 080	2 110	15 860	13 100	2 760
65 000	19 340	17 180	2 160	18 010	15 200	2 810
70 000	21 490	19 280	2 210	20 160	17 300	2 860
80 000	25 890	23 580	2 310	24 560	21 600	2 960
100 000	34 890	32 380	2 510	33 560	30 400	3 160
150 000	57 390	54 380	3 010	56 060	52 400	3 660

NB. The above amounts have been calculated on the basis that the taxpayer's wife has no income.

INCOME TAX PAYABLE : 1990 AND 1991

UNMARRIED

INCOME	UNDER 61			OVER 61 BUT UNDER 65			OVER 65		
	1990	1991	REDUCTION	1990	1991	REDUCTION	1990	1991	REDUCTION
R	R	R	R	R	R	R	R	R	R
6 000	-	-	-	-	-	-	-	-	-
7 000	130	-	130	10	-	10	-	-	-
8 000	270	-	270	150	-	150	-	-	-
9 000	410	-	410	290	-	290	-	-	-
10 000	550	-	550	430	-	430	-	-	-
11 000	700	150	550	580	30	550	-	-	-
12 000	870	360	510	750	240	510	-	-	-
13 000	1 060	600	460	940	480	460	-	-	-
14 000	1 270	840	430	1 150	720	430	-	-	-
15 000	1 500	1 080	420	1 380	960	420	50	-	50
16 000	1 750	1 320	430	1 630	1 200	430	300	-	300
17 000	2 020	1 590	430	1 900	1 470	430	570	-	570
18 000	2 290	1 860	430	2 170	1 740	430	840	-	840
19 000	2 580	2 130	450	2 460	2 010	450	1 130	30	1 100
20 000	2 870	2 400	470	2 750	2 280	470	1 420	300	1 120
25 000	4 500	3 930	570	4 380	3 810	570	3 050	1 830	1 220
30 000	6 370	5 640	730	6 250	5 520	730	4 920	3 540	1 380
35 000	8 420	7 530	890	8 300	7 410	890	6 970	5 430	1 540
40 000	10 510	9 520	990	10 390	9 400	990	9 060	7 420	1 640
45 000	12 640	11 580	1 060	12 520	11 460	1 060	11 190	9 480	1 710
50 000	14 810	13 700	1 110	14 690	13 580	1 110	13 360	11 600	1 760
55 000	17 020	15 850	1 170	16 900	15 730	1 170	15 570	13 750	1 820
60 000	19 270	18 040	1 230	19 150	17 920	1 230	17 820	15 940	1 880
65 000	21 520	20 240	1 280	21 400	20 120	1 280	20 070	18 140	1 930
70 000	23 770	22 440	1 330	23 650	22 320	1 330	22 320	20 340	1 980
80 000	28 270	26 840	1 430	28 150	26 720	1 430	26 820	24 740	2 080
100 000	37 270	35 640	1 630	37 150	35 520	1 630	35 820	33 540	2 280
150 000	59 770	57 640	2 130	59 650	57 520	2 130	58 320	55 540	2 780

These tables show how much less tax the individual will pay as a result of increases in primar... and raising the thresholds at which liability for income tax starts.

BUDGET

it affects you

The Minister of Finance, Mr Barend du Plessis

Tax reform programme welcomed

Sapa reports from Johannesburg

THE South African Chamber of Business has welcomed the proposed ecomic restructuring and tax reform programme announced by Finance Minister Barend du Plessis in his budget speech.

The Chamber said it would have preferred a shorter time scale than the five year programme announced but hopes he will be effectivly able to complete it.

The Chamber said: "It is evident that the minister is focussing on the medium and long term as distinct from the short term."

which would bring favourable relief to the man in the street as well as directly to the business sector.

"Issues which are to be welcomed are the reduction in the import surcharge, the concessions to the mining industry, the removal of double taxation on dividends and further alleviation of the tax burden on married women and individuals through some attention to the problem of fiscal drag."

The Chamber also said there was bound to be an adverse impact on business as a

Good — and disappointing — Fedhasa

The Argus Correspondent in Durban

THE Federated Hotel, Liquor and Catering Association's reaction to the budget was mixed — enthusiasm over reductions in personal tax, but disappointment over liquor and cigarette price increases.

Mr Fred Therman, executive director of Fedhasa said: "Overall it seems to me the government has employed a more professional attitude in producing this year's budget.

"The overall reduction in personal income tax is welcome. It may provide a little more disposable income for prospective tourists.

"Perhaps a family who would have taken only a four-day holiday, for instance,

'Cash flow problems for construction industry'

Sapa reports from Johannesburg

THE Institute of Chartered Accountants generally welcomed budget proposals but highlighted two unfavourable aspects of the tax proposals.

ICA executive director Ken Mockler said the inclusion of consumable stores and work in progress into the proposals would result in particularly the construction industry experiencing cash flow problems.

He added that the unilateral phasing out of the LIFO (Last In First Out) reserve, contrary to the agreement previously reached with the Revenue authorities, was also unfavourable.

He said that companies carrying credit reserves were now going to have to pay tax on those reserves.

The ICA, however, welcomed several aspects of the proposals which include the safe haven concept for securities listed on the JSE.

This would further encourage longer term investment and provide certainty regarding taxable proceeds of investments realised.

The exemption applying to dividents derived by individuals and Close Corporations would encourage investment and was a major development in simplifying the system.

The organisation said there were aspects of the budget result of the withdrawal of the Lifo concessions.

A watershed, says Volkskas

Sapa reports from Johannesburg

VOLKSKAS has described the budget speech as a watershed.

"It ushers in a period of renewed determination to decrease systematically yet deliberately the government's share in the economy, which has climbed from approximately 22 percent to approximately 28 percent of the GNP during the past decade.

"This is the greatest challenge in the managment of government finances and one which is obviously being taken up in earnest."

"The continual sharp rise in current expenditure during the past decade has caused taxation to reach unacceptable levels and the curbing of government expenditure is an absolute condition for lower taxation," Volkskas says..

It says the concessions made to individfuals represent a real lowering in taxation and are welcomed.

might be able to stretch it to five or six days."

He said the price increases on liquor and cigarettes were definitely disappointing to the hotel industry.

"We have just had increases in these commodities from the producers' side. Now we have increases in excise duties.

"It seems to be a favourite of all governments to increase the price of these commodities to balance the budget. If this is necessary, then we expect at the same time that some of the extra revenue will be made available to social responsibility programmes to combat alcoholism and other related problems."

.. How

'It's no wonder Barend acted on bracket-creep'

Argus 15/3/90 320

From MICHAEL CHESTER in Johannesburg

ECONOMISTS consider it no wonder that the Minister of Finance fastened so much focus on taxation — and tried to find a new treatment to curb the frustration of taxpayers that was building towards a tax revolt.

Alarm over trends was understandable as the general public learned the meaning of two new phrases in economic mumbo-jumbo — fiscal drag and/or bracket creep.

They are simply alternative pieces of jargon used to describe how the government has used inflation to boost its tax collections — leaving it to inflation to force wage-earners to demand higher pay packets in a hopeless race with consumer prices, and then herd everyone into higher tax brackets.

At first, taxpayers could only scratch their heads in confusion as they saw how income tax seemed to grab bigger and bigger slices of their annual pay increases.

Confusion turned to violent temper when they saw that in fact the government was prodding actual tax collections even faster than the remorseless climb in the consumer price index.

Even the Department of Finance, which sooner or later must release statistics on government revenue, has had to concede that it is the individual taxpayer who has had to carry a bigger and bigger proportion of the tax load.

Its own official figures show that private taxpayers shouldered no more than 15,6 percent of the total tax burden of R13,3billion recorded in 1980/81 with income tax.

Extra, of course, was general sales tax, but that then accounted for only 12,4 percent of the overall tax load.

By the 1988/89 tax year — the latest confirmed batch of statistics ahead of the budget — individual income tax was forced to carry as much as 29,4 percent of a total revenue now swollen to over R48billion.

In short, individual income-tax bills had soared from R2 076million to a stunning R13 960million.

And that was aside from an increase in the harvest of the GST crop from R1 650million to R12 900 million.

The alert to a possible tax revolt must have been sounded to the minister when the Department of Finance compiled estimates of what was going to happen without intervention in the budget with a new tax formula.

Sales tax

Individual income tax bills were set to streak from under R14billion only two years ago to a phenomenal R23,5billion in the 1990/91 assault on personal income.

And that was not counting a leap in sales tax revenue from its R1 650million level of 1980/81 to a new jackpot of R18 500 million, even allowing for a cooling down in inflation and a slowdown in consumer spending.

That seemed about the last straw as the Department of Finance calculated that last year alone the income tax collected from individuals looked likely to emerge no less than 36,6 percent higher than in the previous 12 months.

What increased the wrath of personal income tax payers was comparison with what big business was chipping into the kitty.

While their own share of the tax burden had almost doubled between 1980/81 and 1988/89, the contribution of companies — all of them aside from the gold mines — had actually slipped from 18,1 percent to 17,1 percent.

Still more perplexing were analyses by the Econometrix research unit showing that the proportion paid by the gold mines had shrunk from 27,2 percent to only 4,7 percent.

"Fiscal drag," bemoaned Econometrix director Dr Azar Jammine ahead of the budget speech, "has brought the whole taxation system to breaking point.

"'And the government can no longer escape by blaming all of it on inflation.

"Last year, when the consumer price index rose about 15 percent, personal income tax jumped by around 22,5 percent.

"The newest projections show government expectations that inflation may well cool down to nearer 13 percent over the next 12 months — yet personal taxation was heading for another record with a 24,3 percent surge.

"That was the dilemma facing Mr Du Plessis when he tackled the 1990 budget."

balance and was neutral enough not to depress the revenue.

This year's budget

think the budget will have on the economy?

Mr DAVID MOHR...'Budget maintained correct balance and was neutral...'

Equal and fair treatment for all taxpayers

Sowetan 15/3/90

320

by LIZETTE LABUSCHAGNE, Old Mutual legal and tax expert

THE Minister of Finance delivered his budget speech and made some dramatic tax announcements.

He recognised that important changes have taken place in South Africa since the government published its white paper on the Margo Report and that government takes due notice of the changes in the ongoing reform of the tax system, which is an important element in the economic structuring programme. Special attention will be given to:

* the necessity of broadening the existing tax base by eliminating tax concessions and rebates;
* the promotion of equal and fair treatment of all taxpayers and groups of taxpayers; and
* the desirability of placing more emphasis on indirect taxes and less direct taxes, having regard to the special socio-economic circumstances in South Africa.

Lizette Labuschagne

At first sight the tax proposals announced by the Minister are cause for great rejoicing among the ranks of the heavily overtaxed individual taxpayers.

The lowering of individual tax scales and the raising of rebates have positive results in especially the middle income-groups.

The increase in the taxable value of the company cars and the raising of the official interest rate will mean that the higher income groups in particular will benefit very little from the small decrease in the top marginal rate of 45 percent to 44 percent.

A person who falls in the higher income group and receives a housing bond and company car as fringe benefits from his employer will not really be in the better tax position.

The announcement concerning the separate taxation of the married woman's income from trade is also a further significant step toward complete separate taxation.

Minimum tax: Mention was made of the possibility of a minimum tax on both companies and individuals. The possibility of this tax on individual comes as a surprise and has not been mentioned before.

Tax proposals for the 1990/1991 tax year: It should be borne in mind that these announcements are still merely proposals and not yet law. It only becomes law in July when the legislation is passed in Parliament.

Income tax: Companies and individuals tax treatment of capital versus income-the distinction between capital and income is basic to our tax system. Neither of these concepts have been defined satisfactorily.

The uncertainties in this connection is responsible for the low turnover on the Johannesburg Stock Exchange. Large financial investments are also not released for direct application in other fields of investment.

This is so because of the threat of taxation in the event of inland revenue assessing the selling of the share or investment as revenue and not capital.

A "safe haven" for shares listed on the JSE that have been kept for more than 10 years have been proposed. Profits from the realisation of such shares will be exempted from income tax, after certain condition have been met.

Phasing out of tax expenditure: Certain tax expenditures are to be phased out. This will have the consequential effect of broadening the tax base.

The employee training allowance will be withdrawn and replaced with a direct subsidy by the Department of Manpower to stimulate certain types of training. This should mean that training is encouraged in more efficient manner.

Tax rates: The Minister proposed that maximum marginal tax rates for a married and unmarried person has been reduced from 45 percent to 44 percent although the income levels remain unchanged.

The rates have also been so structured that together with the increase in the primary rebate married and unmarried persons the fiscal drag which could have occured in the 1990\91 financial has been practically been eliminated.

This is in line with the Government's intention to reduce the maximum rate gradually over a period of five years to 40 percent and at the same time to increase the income level at which this rate is reached to R100 000 for a married person and 80 000 for an unmarried person (as far as possible in the money values of 1989).

The restructuring of the tax tables has helped to eliminate the so-called "taxation through inflation" and in most instances taxpayers receiving, for example, a 12 percent increase in salary this tax year, will be better off in real terms than the previous tax year.

This saving will obviously be welcomed by all taxpayers who have been increasingly hard-pressed in recent years.

Tax rebates: In order to protect taxpayers to an extent from the effects of fiscal drag, the Minister proposed the changes to the rebates:

Married persons - R1 250 (present), R2 100(new); Unmarried persons - R850 (present) 1 800 (new); Married woman - R1 0759 (present) 700 (new)

The fact that a married woman's primary rebate has been decreased does not result in a deterioration of her tax position. The revised tax rates applicable to married women compensate therefore, and the lowering of the rebate must be seen in the light thereof.

Interest and dividends: The Minister proposed that the present exemption to individual to taxpayers of the first R1 000 of interest and building society dividend be doubled to R2000.

Other dividend income is to be fully exempted from normal tax in the hands of individuals and close corporations thereby eliminating double taxation of dividends.

This is an attempt by the Government to encourage further discretionary personal savings which because of high personal taxes and inflation are at an all-time low and thereby promote economic growth.

Investors in unit trusts will now also benefit in the the form of tax free dividend income and will only pay tax on the interest distribution from such funds.

This will also help those investors who wish to maximise capital growth by reinvesting their dividend income to purchase more units as they will not have to pay tax on the dividend income which could previously have created a cash flow problem as a result on the tax on money not physically received.

Company, personal tax reforms studied

320

SOWETAN Building the Nation

OLD MUTUAL

BUDGET '90

The new S.A

THE possibility of introducing a minimum tax on both companies and individuals was already being considered by the Tax Advisory Committee (TAC) and this investigation would continue during the year, the Minister of Finance, Mr Barend du Plessis, said yesterday.

He said the introduction of such a tax would be aimed at limiting the practice of existing tax concesssions, introduced for economic purposes and which could be phased out over a period of time, being abused for tax purposes.

Du Plessis also said the Commissioner for Inland Revenue had launched an investigation into the introduction of system of self-assessment for income tax.

As a first step, companies had been identified for this purpose.

Inland Revenue officials recently undertook in-depth research overseas in this regard, and acquired valuable information.

Talks

"The indications are that such a system could be successfully implemented in South Africa - and Inland Revenue's proposals will shortly be discussed with interested parties."

The 1990 income tax return for companies had been adapted to provide information necessary for a conversion to a self-assessment tax system.

On Value Added Tax, the Government wished to reiterate its undertaking that enough time would be allowed for general comment and consultation with representative bodies.

The tax would not be implemented within six months after final Parliamentary approval of the legislation.

This meant that VAT would in all probability not be implemented before October 1 1991.

The TAC's task was to proceed with the reform process initiated by the Margo Commission.

The TAC had to timeously identify bottlenecks and needs in the tax structure to achieve the broad economic goals of South Africa.

The following research projects had been initiated during the past year:

* the taxation of pension, provident, retirement annuity and benefit funds;
* the taxation of dividends; and
* the distinction between capital and revenue for tax purposes and the desirability of a capital gains tax in South Africa.

Reports on the last two issues had been finalised and proposals submitted to him.

Researchers had also recently been appointed to investigate: company group taxation; the identification of income and expenditure for tax purposes; and the link between inflation and taxation.

Preliminary investigations had been made in the following problem areas and detailed research should follow shortly:

* the tax potential of the informal sector; the tax implications of privatisation; and the treatment of employee share option schemes for tax purposes.

As all citizens were affected by taxes, the TAC placed a high premium on the active participation of all in the process of tax reform.

Man in street paid more last year

Sowetan 15/3/90.

320

THE man in the street paid 36,6 per cent, or R2,190b, more in income tax in the past year than was budgeted for, Mr Barend du Plessis, said yesterday.

He said that income tax on individuals formed an estimated 31 percent of total tax revenue for 1989/90, while tax on companies was as low as 21,8 percent of the total.

He also said the revised estimate of expenditure for the year was R65,181b, an increase of 1,8 percent over the estimate of R64,017b.

If the contingency reserve was added, as provided for in the main Budget, the increase was only 0,3 percent.

The revised estimate represented an increase of 16,5 percent over spending for the previous year, which was significantly lower than the growth of 17,9 percent in both the preceding two years

Du Plessis said total tax revenue for 1989/90 was estimated at R61,385 b - R6,317b more than the R55,068b originally budgeted for and an increase of 27,7 percent over the collections for 1988/89.

It was important to emphasise, however, that the exceptionally high additional revenue, which was of a non-recurrent nature, had not been spent, and had therefore not meant a relaxation of discipline over expenditure.

Important

The most important factors contributing to under-estimation of individual income tax were that salary adjustments in the private sector were higher than expected, and that the degree of fiscal drag on present tax brackets was underestimated.

Another was that tax collections were more effective as a result of the introduction of SITE.

Still another reason was that the bulk of tax assessments dating from before 1988/89 were disposed of in 1989/90.

Since these arrear assessments related to periods before SITE was in operation, large sums were involved.

Du Plessis said companies' good profit performance meant an increase in estimated revenue from non-mining companies of R1,500b over the budgeted amount.

Because of higher production costs and a decline in the grade of ore milled, tax on gold mines would be R204m less than budgeted.

But because of a revival in platinum, copper and coal markets, tax on other mines, including diamond mines, was estimated to exceed the budgeted sum by R452m.

Budget 1990

Personal Tax
How you'll be

estimate of R64,017b.

If the contingency reserve was added, as provided for in the main Budget, the increase was

crease of 27,7 percent over the collections for 1988/89.

It was important to emphasise, however, that

Downturn in economy expected

Sowetan 15/3/90

320

IF South Africans were taxed at the same rate as in 1989/90 the Government would collect R69,468b, or 13,2 percent more than the revised estimates for the current financial year, the Minister of Finance, Mr Barend du Plessis, said yesterday.

He said tax collections by Inland Revenue were expected to rise by 15,4 percent to R60,870 billion. Customs and Excise was likely to contribute R8,598b to state revenue, which was somewhat less than in 1989/90.

Downturn

Tax payments by individuals were estimated at R23,500b - an increase of 24,3 percent on the revised estimates for 1989/90.

A slower increase in company taxes was foreseen due to the expected downturn in the economy in the coming year.

This would, however, be partly offset by the fact that third company tax payments for the 1989/90 financial year would be forthcoming during 1990/91.

An expected 17,7 per cent increase in income tax on non-gold mining companies was based on these factors.

A 1,5 percent reduction in tax received from gold mines was expected, despite an expected higher gold price in 1990/91. Continued high production costs were the main contributor to this trend.

Revenue growth rates of GST, compared with the past two years, seemed unlikely.

An increase of 12,5 percent in GST was provided for.

An expected growth of only six per cent in revenue from excise duties was expected.

Although the value of imports would probably increase in 1990/91, a reduction in volume was expected.

Revenue from the consolidated fuel levy was estimated at R4,200 billion - a rise of 6,6 percent.

New deal reached on Sats finance

Sowetan 15/3/90

Budg

What's in

Cape Times 15/3/90

GST exemption on food 'has helped'

320

Staff Reporter

THE assumption by Mr Barend du Plessis that exemption of GST on some food items had meant only a small benefit to the poor was incorrect, the Housewives League said.

"If tax was paid on all foods, the average increase per houshold, on exempted items, would be 22,38%," said vice-president Ms Sheila Baillie.

"Since it is a known fact that people with low incomes spend a greater proportion of their money on food, this percentage will make a substantial difference to the poorer section of the population.

The Consumer Council welcomed the budget, saying consumers had good reason to feel satisfied and relieved.

The council, however, appealed to the commercial trade to pass on the advantages brought on by the reduction in surcharges.

The Consumer Council welcomed the possibility of lower inflation and encouragement towards saving.

"You want some more. You've got some more."

Budget heralds key tax reforms

P.T.O

By MICHAEL STEIN
Co-editor of Income Tax Reporter

THE 1990 budget is a remarkable one that will be remembered in time to come for heralding some dramatic reforms to the income tax system, while at the same time presaging tax relief to a wide variety of beneficiaries: In particular, individuals generally, who will pay lower rates of income tax, married women, investors, the aged who pay tax and the mines. It may also mark the death knell of the ill-fated close corporation.

While individuals will benefit frm lower rates of tax, some of them will pay additional tax on certain fringe benefits, that is, company cars and soft loans, where adjustments are to be made to allow for the increased value of these benefits.

Most welcome is the minister's announcement that married women will pay tax separately in their own right on income from a trade that they carry on, as well as on income that they earn in association with their husbands. This income was previously not subject to the standard income tax on employees (SITE). One of the consequences of this change, presumably, will be the elimination of the complicated wife's earnings allowances. But it is still anomolous and a disincentive to investment that a wife's investment income will still be taxed with her husband's income, since this income is very often taxed at the husband's highest marginal rate of 45%.

But the minister did announce sweeping reforms in the taxation of investment income generally. The exemption for interest income and certain building society investments is to be doubled from R1 000 to R2 000. But the minister has already announced that the tax exemptions for certain government and building society investments are to be phased out, so that the present relief may to some extent in due course be offset by the additional tax on these investments. But the R2 000 exemption is still to be preferred to exemption of individual investments, which is discriminatory and may distort an investor's choice of interest-bearing investments.

Also of benefit to investors is the proposed phasing out of marketable securities tax, and the exemption from tax of profits made on shares held for 10 years, which is apparently aimed to benefit mainly the mining industry, which is "locked into" certain shares out of the fear of taxation. But the length of the holding period, 10 years, is hardly likely to cause a dramatic increase in investment on the stock market. Nor is it entirely equitable that this exemption should favour only share investors and not investors in other assets, such as fixed property.

People aged over 65, irrespective of their earnings or means, will benefit from a handsomely increased rebate — up from R1 450 to R2 100 — but those over 60 but not over 65 will see their special rebates phased out over the next five years.

Share investors will welcome the exemption from income tax of dividends derived by individuals and close corporations and the exemption from the undistributed profits tax (UPT) of the dividends derived by companies. (The minister did not say whether the non-resident's tax on dividends (NRST) will also be withdrawn, but this is unlikely.) But members of private companies that have been converted to close corporations whose corporations paid a conversion tax of 10% of their reserves for the privilege of converting will be kicking themselves now that dividends have in any event been exempted from tax. The one tax advantage of a close corporation — as opposed to a company — has also been stripped away, namely, that its dividend distributions are tax-free. Now that all dividends are to be tax free, the other non-tax disadvantages of close corporations, such as the onerous membership restrictions, will be even more of a disincentive to their formation.

The direct tax impact on business will be limited. Company tax rates are to remain unchanged, the training allowance is to be replaced by a subsidy, the LIFO basis of valuation of trading stock is to be finally phased out over 10 years and certain consummable stores and spares are to be regarded as stock. At the same time the building industry will be required to account for its work-in-progress as trading stock, which will have adverse cash-flow implications for builders.

Finally, the mining industry is to benefit in two ways: First, the gold mines will enjoy a reduction in their formula taxes. And, secondly, the "ringfencing" provisions that restrict a mine from writing off its capital expenditure on new mines from its income from old mines will be partly relaxed and the allowance on certain capital expenditure increased from 10% to 12%, both of which will encourage the expansion of mining.

R230m extra from concession cuts

Sowetan 15/3/90 (320)

THE elimination of three tax concessions, as recommended by the Margo Commission, would result in an estimated additional revenue of R230 million and would contribute to an increase in the effective company tax rate, the Minister of Finance, Mr Barend du Plessis, said yesterday.

He said the tax expenditures still remaining in the system should be phased out to broaden the tax base. To do this three tax concessions had been eliminated.

Results

The tax allowance for employees training, which currently results in a loss of revenue of at least R110 million per annum, would be withdrawn and replaced with a direct subsidy by the Department of Manpower to stimulate certain types of training.

Because the withdrawal would only become effective once the necessary legislation had been passed, the revenue increase for 1990/91 was estimated at R80 million.

The second withdrawal of concession was in the valuation of trading stock.

The value of consumable stores and spares as well as work in progress, in the case of construction companies, was not considered to be trading stock for tax purposes at present.

From now on, however, they would be included in taxable income and the new measures would be phased in over five years.

The third concession to be withdrawn was the ''Last-in-first-out'' (LIFO) reserve which had existed since the withdrawal of the LIFO method of stock valuation in April 1984.

The reserve would be phased out completely at a rate of 10 per cent per year over the next 10 years.

Reuters CAPE TIMES 15/3/90 (320)

'Nothing to please workers'

JOHANNESBURG. — There was little to please mineworkers and workers in general in the budget, NUM economist Martin Nicol said yesterday.

Nicol said the tax concessions made to the mining industry — such as the phasing-in of a lower tax formula on gold mines and a relaxation of ring-fencing — may help the industry. But the NUM would not give its support to tax changes so long as benefits were not used to pay decent wages.

Also, while these concessions may increase employment opportunities, the Marais Commission recommendations which make marginal mines less profitable would have the opposite effect, he added.

On the budget as a whole, Nicol said it appeared the economy was being restructured to provide increased profits while workers' would face state and employer opposition to efforts to win a decent wage. It seemed the government expected the workers alone to make all the sacrifices.

Mining will get tax concessions

Sowetan 15/3/90

320

TAX concessions for the mining industry were announced in the Budget by the Minister of Finance, Mr Barend du Plessis, yesterday.

The Government had accepted various recommendations of the technical committee on mining taxation (the Marais committee) and steps were being taken to implement the first phase.

The mining industry played an important role as earner of foreign exchange and a creator of jobs. It was therefore essential to encourage the industry by gradually lowering the maximum marginal tax rate which could presently be as much as 68,7 per cent.

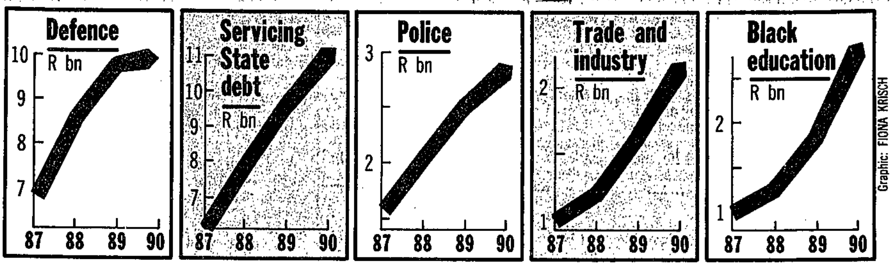
The following concessions would be made:

* the second step in the phasing-in of a lower tax formula for gold mines and in the phasing out of the surcharge on other mines;

* a partial lifting of the so-called "ring-fencing", which means that 25 per cent of the tax base of an existing mine could be used to write off a new mine's development costs in cases where both mines were the property of the same taxpayer; and

* the increase of the existing capital allowance for new gold mines from 10 to 12 per cent.

These concesssions would result in a total estimated revenue loss of R68 million in 1990/91.

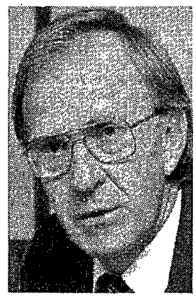


Twin spurs of tax cuts and savings

B|Day 15|3|90

Barend's goal is SA growth

320



● DU PLESSIS

MIKE ROBERTSON

CAPE TOWN — In his R72,9bn Budget yesterday Finance Minister Barend du Plessis committed government to going for growth through tax cuts and encouraging savings.

He also took a step towards long-term economic restructuring by increasing spending on social services.

Du Plessis said revenue for the year was expected to total R64,938bn, leaving a defecit before borrowing of R7,994bn (2,8% of GDP), and predicted a 1% growth rate.

The Finance Minister unveiled a R4,5bn package of tax cuts, with more than R3,3bn in personal tax cuts — largely directed at eliminating fiscal drag at the bottom end of the tax scale.

The tax changes included:

□ Decreasing the maximum marginal tax rate from 45% to 44% and restructuring lower rates;

□ Increasing primary rebates for married and unmarried people from R1 250 and R850 to R2 100 and R1 800 respectively;

□ Raising the threshold at which people start paying tax to R12 000 and R10 286 respectively for married and unmarried people with no children; and

□ Increasing the rebate for people over 65 from R 1450 to R2 100.

● See Pages 6, 7, 8 & 9
● See also Special Supplement
● Comment: Page 8

To encourage savings, Du Plessis doubled tax exemptions on interest and building society dividends received by individual taxpayers to R2 000. He also gave away an estimated R408m by exempting all dividend income of individuals from taxation.

In a move that is expected to inject a considerable degree of liquidity into the JSE, Du Plessis announced the introduction of a "safe haven" for shares held for more than 10 years. Any profits gained on realisation of these shares would not be subject to taxation. Also, he said marketable securities tax would be phased out over three years from next year.

He introduced an across-the-board reduction in import surcharges at a cost of R835m and abolished the ad valorem duty on pearls and diamonds.

He announced a number of changes in the taxation of mines, including making 25% of existing mines' tax bases available for writing off the development costs of a new mine as long as the new mine remained the property of the same taxpayer.

Increases introduced included: a 1c a "can" hike in the price of beer; a 78c increase in duty on spirits; and a 4c increase in the price of a packet of 20 cigarettes.

Du Plessis abolished tax concessions on employee training allowances (a saving of

□ To Page 2

Barend's goal

320

□ From Page 1

R80m is expected to accrue to the state); reduced by 10% the value of LIFO reserves to which taxpayers are entitled (R50m); and introduced a new construction industry tax on work in progress (R50m).

Increases in fringe benefit taxation included a 50% hike in the taxable value of company cars to 75% and the upping of the official interest rate to 19% (16%).

On the spending side, the Finance Minister said that almost 40% of total expenditure was devoted to social spending — up from 38% of the total Budget last year but with a tight rein on actual increases in department expenditure.

The total allocation to education amounted R13,3bn, a 9,8% increase on last yeat's revised estimates. Spending on education was 18,7% of the total Budget.

Although in the Budget estimates spending on black education is up by 26,1%, this is to a large extent because pensions are now being paid out of this vote. The increase in teachers' salaries is not included in the black education vote, nor is the R150m allocated to eliminate black schools' backlog.

Du Plessis announced a R50m one-off grant to universities and technikons.

Spending on health was up to R7bn, an increase of 8% or 9,8% of the total Budget, while housing expenditure was up by 15,8% to R1,5bn. A sum of R2,2bn covered the recent salary hikes for public servants.

Defence expenditure was up by 1,3% to R10,071bn, reflecting a substantial cut.

The servicing of public debt was expected to cost R11,3bn (a 15,3% increase).

Social pensions went up by R25 a month and civil and military pensions by 10%.

Du Plessis announced that R2bn of last year's R6,97bn Budget surplus would be put into a special fund to remove backlogs resulting from apartheid legislation.

Sweeping tax changes mean more work for companies

B/Day 15/3/90 (320)

BARRY SERGEANT

SWEEPING changes for company tax which may take weeks to evaluate for individual companies have been announced in the Budget.

Arthur Andersen's Des Seaton said that except for the abolition of Undistributed Profits Tax (UPT), the changes were contrary to companies' interests.

The Budget hit training allowances, stock valuation, and LIFO ("Last-in-first-out") reserves.

Seaton said the abolition of UPT and tax on dividends in the hands of individuals effectively meant that for tax purposes, conversion to a close corporation was now unattractive.

Finance Minister Barend du Plessis said there was the possibililty of the implementation of a self-assessment system for companies. Arthur Andersen's Pierre du Toit said: "Major administrative changes are necessary before such a system can be implemented.

"First, all Inland Revenue discretions would have to be removed. Second, a substantially codified system would need to be implemented. Such a system may well benefit taxpayers in that discretions are removed, enabling taxpayers to plan more effectively. On the other hand, increased tax certainty generally requires more complicated and detailed rules to deal effectively with all situations which may arise.

"The move to a self-assessment system will continue the trend of shifting administrative burdens on companies, as evidenced in the areas of GST, RSC levies and SITE."

Du Plessis said the Commissioner for Inland Revenue had launched an investigation into the introduction of an income tax self-assessment system.

As a first step, companies had been identified for this purpose, and this sphere of investigation had already reached an advanced stage.

"The indications are that such a system could be successfully implemented

in SA. Inland Revenue's proposals will shortly be discussed with interested parties," he said.

The 1990 income tax return for companies had been adapted to provide information necessary for a conversion to a self-assessment tax system.

Du Plessis also announced the elimination of three tax concessions, as recommended by Margo. The training allowance in terms of the Income Tax Act would be abolished and replaced by a selective subsidy designed to stimulate certain types of training.

Said Trevor McGlashan of Deloitte, Haskins & Sells: "A specific payment instead of the tax concessions is in line with Margo and is generally good policy. However, care should be taken to reduce opportunities for corruption."

The second concession lost was valuation of trading stock. Du Plessis said the value of consumable stores and spares and work in progress (for construction companies) was not currently considered to be trading stock for tax purposes. "From now on, however, these three items, where relevant, would be included in the value of closing stock." However, the new measures would be phased in over five years.

Third was the LIFO reserve which had existed since the withdrawal of the LIFO method of stock valuation in April 1984. However, the reserve would be phased out at a rate of 10% a year over the next 10 years.

Comments Seaton: "The change in the valuation of closing stock and in LIFO reserves will have an effect on those companies which have adopted the partial deferred method of accounting for deferred tax, and which regard these differences as being of a permanent nature.

"In these circumstances, the impact will not only be on cash flow but also on company results."

Du Plessis said the introduction of a minimum tax on both companies and individuals was already being considered by the Tax Advisory Committee (TAC) and this investigation would continue during the year.

Package to boost new mines

LESLEY LAMBERT

CAPE TOWN — A mining tax package aimed largely at stimulating the development of new gold mines was announced by Finance Minister Barend du Plessis yesterday.

Provision was made for implementation of the second step in the phasing in of a lower formula for gold mines and the phasing out of the surcharge for other mines. BDay 15/3/90

Du Plessis said it was essential for the industry to be encouraged by the gradual reduction of the maximum marginal tax rate which was theoretically a maximum of 68,7%.

Last year's concessions had brought some tax relief but had not been sufficient to encourage development of new mines. This was addressed by an increase in the existing capital allowance for new mines from 10% to 12%.

In addition, the "ring fencing" applied to the capital expenditure of mines was partially relaxed. This would have the effect of making 25% of an existing mine's tax base available for the writing off of the development cost of a new mine as long as the new mine remained the property of the same taxpayer.

To unlock capital for the creation of new mines, Du Plessis said it was possible that the Commissioner for Inland Revenue would agree to the application of section 24A of the Income Tax Act in an exchange of shares where use was made of a host company and the sole purpose of the exchange was to finance a new mine. (320)

He said "new mines" referred to mines which had opened after March 14 1990.

The cost to the Exchequer of these adjustments would be R36m for gold mines and R32m for other mines in the 1990/91 financial year.

B/Day 15/3/90.

Naamsa upset about tax on company cars

CHARLOTTE MATHEWS 320

THE National Association of Automobile Manufacturers of SA (Naamsa) viewed with the utmost concern the size of the proposed increases in fringe benefit taxation on company-owned motor cars.

Naamsa president Spencer Sterling said in a statement yesterday that while the Budget would have a mildly stimulatory impact on the economy, "the impending increase in the monthly deemed values applicable to the private use of company-owned motor cars will prove detrimental to the SA car manufacturing industry."

The scale of taxable values applicable to a company car will be increased by 50% from May 1 to about 75% of the full value of the car.

An investigation would be held in consultation with the motor industry to determine what the "full value" was, according to the Budget Review.

Overlooked

Sterling said the 50% increase in monthly deemed values was unjustifiably high, particularly since higher tax liability had already been built into the existing valuation format to take account of the escalation in prices at the time of vehicle replacement.

Naamsa said authorities had overlooked the fact that the taxation of company-owned cars was designed to value and tax only the private usage.

Director Nico Vermeulen said last night this would probably lead to a move to car allowance schemes.

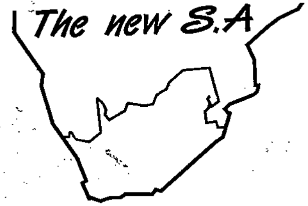
This would be negative for the Receiver of Revenue because tax revenue would then be received on an annual rather than a monthly basis and individuals in the scheme would pay less tax.

Vermeulen said the import surcharge reduction would have little effect on the manufacturing industry because most of the CKD (completely knock-down) material was exempt from surcharges.

However, it would have potential benefits for parts and accessories imports and the import of tooling and capital equipment for the industry.

BUDGET '90

The new S.A



Budget aims to encourage saving

Sowetan 15/3/90

320

VARIOUS measures in the Budget should contribute to more saving and investment by the private sector and also promote the upgrading and better utilisation of South Africa's manpower, the Minister of Finance, Mr Barend du Plessis, said yesterday.

He said as the economic restructuring process got off the ground, the improvement made by the Budget in the balance between the income tax contribution by companies and individuals, could be taken further as part of the on-going programme of tax reform.

Measures which should contribute to more saving and investment by the private sector included:

* greater certainty on the taxation of dealings in listed securities.
* the exemption of dividends from taxation.
* the doubling of the exemption on interest earnings.
* the "very substantial" relief of almost R4 billion in income tax on individuals.
* the generally more favourable climate and institutional framework for personal saving and risk investment.

Du Plessis said the systematic reduction of the surcharge on imports would also be viewed positively and could serve as an important element in tempering cost increases.

Appreciating that tighter fiscal and monetary discipline had brought hardship, the Government had also instituted a number of special assistance schemes, such as the mortgage interest relief scheme concluded with building societies; the comprehensive job creation programmes and assistance measures for the agricultural sector.

Pillars

The Budget promoted the upgrading and better utilisation of manpower resources by way of the following:

* a more targeted scheme for assistance to manpower training.
* a large social investment in education by way of special contributions for training facilities.
* improved conditions of service in the teaching profession.

Mr du Plessis said the tax concessions which improved the position of working women, in particular, should also stimulate the supply of skilled labour.

"These tax concessions also pave the way to a better balance in the field of taxation."

Personal tax burden is reduced for most

BARRY SERGEANT (320)

THE top marginal personal tax rate has been reduced to 44% from 45% while primary rebates for married people have increased from R1 250 to R2 100. B\Day 15\3\90

"Overall, the effect for individuals is to reduce the tax burden," said Des Seaton of Arthur Andersen last night. But an analysis by Ernst & Young showed highly-paid individuals would pay much more perks tax than last year. In one example, taxable income increased 49%.

Seaton cautioned that Finance Minister Barend du Plessis had referred to an intention to "introduce further anti-avoidance measures" regarding perks tax. Seaton said this "introduced uncertainty" for individuals' remuneration planning, and could lead to increased liabilities on assessment where PAYE was deducted in accordance with tax principles currently in force.

An analysis by Deloitte Haskins & Sells showed that in certain cases income tax payable would decline.

Seaton said the highlights of individual tax changes were the exemption of dividends from tax in the hands of individuals and general tax reduction.

In his speech, Du Plessis said the possibility of introducing a minimum tax on both companies and individuals was being considered by the Tax Advisory Committee.

It was also announced in the Budget that the amount in interest and building society dividends exempt from tax would be doubled to R2 000.

LIFO clawback biggest shock

B/Day 15/3/90

320

ZILLA EFRAT

THE "clawback" of the LIFO (last in first out) reserve into taxable income over a 10-year period is the biggest shock in Finance Minister Barend du Plessis's budget speech, says KPMG Aiken & Peat's Ed Hoffman.

When the LIFO system of valuing stock was phased out in April 1984, users of the system were allowed to maintain the LIFO reserve on their balance sheets providing the level of their trading stock did not fall below 1984 levels.

The LIFO reserve was the difference between the value of opening stock on the LIFO basis and the cost basis at the beginning of the first year of assessment after June 1984. Companies could reduce closing stock valued on a cost basis for any tax year thereafter by the LIFO reserve.

"It is going to increase the effective tax rate of most businesses which adopted the LIFO valuation basis," he says. It could result in a massive cash flow drain for some businesses.

Reaction by consumer bodies mixed

Star 15/3/90 (320)

By Marguerite Moody

Consumer bodies have offered mixed reactions to this year's Budget, with the Consumer Foundation saying it was "fair and welcome" and the Consumer Council saying it would not benefit all consumers.

The director of the Consumer Foundation, Mr Johan Verheem, said the Budget was "reasonable", and he welcomed the improvement in pensions.

Mr Jan Cronje, the director of the Consumer Council, said these improvements would not contribute sufficiently to helping those consumers with a fixed income who were currently struggling.

"However, consumers who are benefitting from the new Budget have good reason to feel satisfied and relieved.

"The newly announced measures to relieve tax pressure on consumers is welcomed, and it is very encouraging that overtaxation of individuals was addressed," Mr Cronje said.

He saw the smaller loan account prior to taxation as "a very good sign which would hopefully result in the inflation rate decreasing and therefore lighten the burden on the consumer".

POOR

Mr Cronje warned that consumers' reliefs did not imply that spending could now be indiscriminate.

Womens' League vice-president Mrs Hope Hughes said the emphasis on indirect taxation was "a bit worrying" and would hit the poor the hardest.

"People living on the breadline may find it difficult to cope."

She said the announcement that the VAT system of taxation would not be implemented within six months after being approved by Parliament was "very welcome", as it would give consumer bodies time to pass comment.

"We have indicated that we want all prescribed medicines and basic foodstuffs exempted from this form of taxation."

She welcomed the increase in rebates for senior citizens.

Big welcome for tax cu

Star 15/3/90 (320)

Staff Reporters

Minister of Finance Barend du Plessis's R72,9 billion Budget has been generally welcomed as a long-awaited start to relieving the tax burden on individuals and cutting Government expenditure.

The Budget also marked a move away from increasing defence expenditure.

The armed services have been restricted to a 1,3 percent increase — accounting for 13,9 percent of the Budget — while social services now take up 40 percent, with an extra R2 billion fund which will be launched to try to overcome the backlog in black socio-economic services.

Total Government expenditure in the Budget announced yesterday was up 11 percent

Mr du Plessis announced tax cuts for the individual, married women, savers and the elderly.

Not as welcome, but expected, were increases in the price of alcohol and cigarettes.

Beer is up 1c a "pint" (375 ml), spirits up 1c a tot, cigarettes up 2c for 10, cigarette tobacco up 2c for 50 g, pipe tobacco and cigars up 20c a kilogram and fortified wines and sparkling wines up 1,8c a bottle.

For the individual taxpayers — whose burden was nearing crippling proportions -- Mr du Plessis announced that R4,53 billion had been allocated as relief.

Tax brackets have been changed to lower the tax rate, rebates have been increased and tax thresholds have been raised so that more people will not pay any tax. Married women will be taxed separately, which will reduce their tax.

Mr du Plessis said the aim was to restore the balance in favour of the individual whose burden had increased substantially in relation to that of companies.

Mr du Plessis announced that:

- The primary rebate for married persons goes up from R1 250 to R2 100; and for an unmarried person from R850 to R1 800.
- The rebate for married women is decreased from R1 075 to R700. But they will not pay more tax as their basic tax rates will decrease.

The thresholds for unmarried persons over the age of 65 will rise from R14 782 to R18 889, for those between 61 and 64 they will rise from R6 928 to R10 858 and for those under 61 from R6 071 to R10 286.

For married persons over 65 the tax threshold rises from R17 304 to R21 667, for those between 61 and 64 it rises from R9 785 to R12 601 and for those under 61 from R8 928 to R12 001. For married women it rises from R4 300 to R4 556.

Savings encouraged

Saving is to be encouraged by increasing the tax-free portion of interest income and building society dividends from R1 000 to R2 000.

The rebate for those over 65 will be increased from R1 450 to R2 100. However, the additional rebate for those between 60 and 64 is to be phased out by raising the qualifying age by one year every year.

The new tax rates mean that a married person with two children earning R50 000 taxable income will now pay R10 950, a saving of R1 960.

Some perks taxes will rise. On company cars the value for tax purposes rises from 50 to 75 percent. The taxable portion of low interest or interest-free loans from employers rises from 16 to 19 percent.

Mr du Plessis also announced:

- The introduction of a "safe haven" of shares listed on the JSE for more than 10 years. Profits from the sale of these are to be exempt from income tax.
- The phasing out of the 1,5 percent tax on marketable securities over three years, starting in the next financial year (1992/3).
- The phasing out of tax expenditure. The tax allowance for employee training is to be withdrawn and replaced with a direct subsidy by the Government.

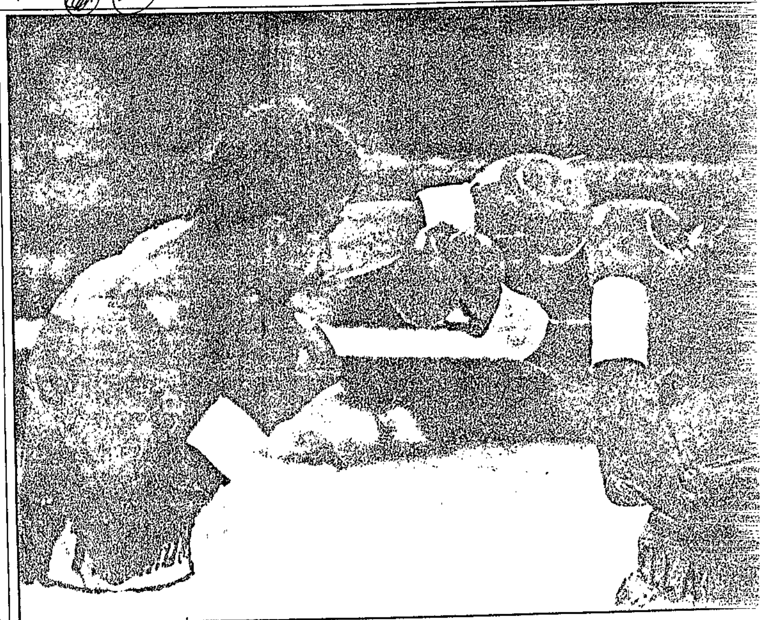
Mr du Plessis said all social pensioners would get an increase of R25 a month; civil pensioners an adjustment of 10 percent; and military pensioners 10 percent. Pensions for industrial illnesses would rise by 10 percent.

The Budget represented a disappointment for public servants hoping for a further pay rise. Salary adjustments for nurses, police and other law-enforcement personnel were promised, but they were not told by how much, or when, their salaries would rise.

Although 40 percent of the Budget was taken up on "social upliftment", extra-parliamentary organisations said more funds should have been made available.

United Democratic Front publicity secretary Mr Patrick "Terror" Lekota said the emphasis on social spending reflected the changing political objectives in society. However, social spending was still "far too little to address the need of disadvantaged communities".

Mr Clive Knobbs, vice-president of the Chamber of Mines, said: "There has been an encouraging reshuffling of priorities with emphasis being placed on the upliftment of the less privileged members of our society."



The champion triumphs ... Brian Mitchell slugs it out with challenger Jackie Beard during last night's WBA junior-lightweight fight. ● Picture by Associated Press.

Concern over drive to cut car fringe benefits

Star 15/3/90.

320

By Joe Openshaw

The proposed cuts in fringe benefit taxation on company-owned cars was viewed with utmost concern by the motor industry, National Association of Automobile Manufacturers of SA (Naamsa) president Mr Spencer Sterling said yesterday.

Other executives in the motor industry said hints of considerable cuts on company car perks announced by Mr du Plessis would accelerate the swing in South Africa from luxury cars to smaller and lighter models.

Toyota Marketing managing director Mr Brand Pretorius said cuts in perks on company cars would have a significant effect on the motor industry and encourage people to go down-market when buying or replacing company cars.

"It will also discourage people from replacing company cars," Mr Pretorius said.

Mr du Plessis stated in the Budget that cuts on tax rebates and perks on company cars were being considered in order to broaden the tax base.

About 70 percent of passenger cars passed into the corporate market, Mr Pretorius said.

"The current swing towards the smaller cars will be accelerated by the cuts.

"The manufacturers of luxury cars will obviously be affected.

"Also, the motor industry, as a whole, plan their stock in advance and a swing to smaller cars will obviously upset the balance," he said.

Mr Sterling said the intention to increase the monthly deemed values by approximately 50 percent were considered unjustifiably high, particularly since higher tax liability had already been built into the existing valuation format to take account of the escalation in prices at the time of vehicle replacement.

He said that while Naamsa supported the principle of taxing fringe benefits, the authorities had appeared to overlook the fact that the taxation of company-owned motor cars had been designed to value and tax only the private usage of a company car.

Rise in detentions could indicate tensions in Govt

Star 15/3/90 (329)

KAIZER NYATSUMBA reflects on growing concern in the Detainees' Support Committee over the sudden increase in the number of people detained under the emergency regulations.

The increasing number of detainees in the country at a time when reform and negotiations are the buzz words could be indicative of unresolved tension between politicians and the securocrats in the Government, according to Detainees' Support Committee (DSC) founder, Dr Max Coleman.

Dr Coleman told a National Detainees' Day prayer meeting in Johannesburg this week that as long as the Government detained people without trial, anti-apartheid activists would have to campaign much more vigorously against repressive and racist legislation.

Expanding on the problem subsequently, Dr Coleman said the number of detainees held in South Africa and the homelands in terms of the state of emergency and the Internal Security Act had increased from about 50 in the past few weeks to between 200 and 300 this week.

Towards the end of last year there were about 500 people in detention, but the number decreased considerably early this year and was now increasing again.

Police reactions to protest marches, particularly in the Free State where many marches had been held over "bread and butter issues", accounted for the increase in the number of detainees.

"It is beginning to look like a return to the days of 1984 when there was sharp resistance to apartheid and massive protests over bread and butter issues such as high rents and inferior education. These issues never went away," he said.

"The Goverment's reaction to the protests is different, however. They are more restrained because of the strategy of the Government of the day, but within the security forces it would seem there is not the restraint and discipline the politicians in Government would like to see.

"This suggests there is unresolved tension between the politicians and the securocrats."

The DSC, he said, would continue to provide support for detainees and their families, and to expose detentions whenever and wherever they occurred.

Married women welcome separate taxation

15/3/90 (320)

By Marguerite Moody and Julienne du Toit

Yesterday's Budget announcement on separate taxation for business and professional married women has been roundly welcomed by lobbying groups, athough reservations were expressed about continued unequal taxation.

"Separate taxation for women is a rationalisation that is long overdue," Black Sash Transvaal chairman Mrs Judith Hawarden told The Star.

"There is absolutely no reason why married women should be taxed jointly with their husbands, or that women who are the sole breadwinners have been 'deemed to be married men'. This is an insult to women."

She said separate taxation would be "beneficial to the economy as a whole", as it would encourage more women to run their own businesses and to "put their considerable talents into the development of the economy".

Ms Lizette Labuschagne, chairman of the working group of Women and Tax of the Women's Bureau said the bureau "took delight in the further significant step towards the separate taxation of husband and wife".

She expressed concern, however, that a married woman with the same income as her husband would still be worse off than her husband.

"The present rates of tax for married women are to be adjusted so as to gradually align them with those of an unmarried person. The tax table applicable to the husband is a married person's table, which is far more lenient than the unmarried person's tax table.

Ms Labuschagne said the bureau regretted that a system of completely separate taxation had not been introduced, but hoped that this would be addressed in the next tax year.

She said there were some issues still in need of clarification, such as whether the married woman would be entitled to her own retirement annuity fund deduction, the lump sum exemption and the R30 000 tax-free retirement gratuity exemption.

Additional concessions for married women

(320)

Political Staff

CAPE TOWN — Married women are to get further tax concessions, which, it is estimated, will cost the taxman about R206m.

But there could still be bad new ahead. B Day 15/3/90

Finance Minister Barend du Plessis said government had accepted separate taxation for married women as a goal and it was proposed that all trading income from a business or profession be taxed separately.

"Income she derives from employment or a trade connected with her husband's trade is included on condition that her earnings are commensurate with her services," he said.

"Her investment income will, however, still be taxable in her husband's hands."

Du Plessis said it was further proposed that the present tax rates for married women be adjusted so as "gradually to align them with those of an unmarried person."

Some observers suggested yesterday this could push married women's tax up in future but this would be offset by a reduction in the husband's tax.

In terms of the SITE system, married women were taxed separately on all their "net remuneration" as defined for that system. Investment income and certain trading income derived by a married woman who was not subject to SITE was still taxed in her husband's hands.

A memorandum said ~~while~~ separate taxation had been accepted as a long-term goal, the loss of revenue was not immediately affordable.

In terms of the Site system as implemented in 1988, married women enjoyed the benefit of a separate (although not equal) tax on income up to R20 000. The limit had been lifted last year so married women were now taxed separately on all their net remuneration.

A Finance department spokesman later cleared up speculation that married women would pay more tax if they were to be taxed as a "single" person. He said they would actually pay less than at present.

Dragnet goes out for tax dodgers

320

Sowetan Correspondent

TAX evaders beware ... Inland Revenue inspectors are getting ready to pay out more this year in rewards to informers. Sowetan 16/3/90

Funds for Inland Revenue this year are going up from R203,3-million to R233,3-million.

In an explanatory memorandum, officials say that in addition to the cost of bringing in VAT, of appointing more staff and improving salaries, a portion of the R29-million increase will go towards the "large increase in reports on tax evasion, which will result in more rewards being paid out to informers".

BUDGET

ARGUS 16/3/90 320

Tax move threatens life offices

Business Staff

THE Budget decision to abolish tax on dividends is one that threatens the life assurance industry by reducing the investment attraction of many life insurance policies.

The Life Officers' Association (LOA) has expressed alarm that assurers would continue to be taxed on two-thirds of dividend income, an apparent departure from the trustee principle of life assurance taxation

It said that acceptance of this important principle could have placed South Africa in the forefront of finding a fair and scientific tax formula for life assurance.

According to the association, the Minister explained a year ago that he could not allow life assurers to deduct more than 55 percent of their expenses in determining taxation income. This was acceptable to the industry as an interim measure.

"It is a major disappointment that in this year's Budget, not only was the expenses percentage not adjusted to make it more equitable and fair in comparison with other savings avenues, but people who use life assurance products to save towards retirement or to ensure the financial safety of their dependants, have to pay an unfair dividends tax," said the LOA.

"The imbalance in the tax treatment of life assurance and other forms of saving has been enlarged by this Budget. Life assurers carry a much heavier tax burden than other savings."

While welcoming steps taken to encourage discretionary savings the LOA said that since long-term, contractual savings really formed the financing source for capital formation, an appeal would be made to government not to neglect this form of saving.

The "tax haven" for listed investments after 10 years was welcomed and the LOA would encourage government to consider shortening the waiting period and/or introducing a scale whereby the taxable portion of a capital gain on investments was reduced over a given period of time.

Investment advisers say the abolition of the tax has greatly reduced the investment attraction of many insurance policies.

Before the Budget the only way an investor could accummulate a capital sum without paying tax was to invest his money in a 10-year endowment policy.

But with dividends no longer taxable, the need to invest in an endowment policy to accummulate a tax-free capital sum falls away.

Mr Bob Tucker, head of the Perm, said the abolition of the tax would have a major impact on the flow of savings. He expected them to move away from life offices to banks and building societies.

Mr Mike Hyslop of the Board of Executors said the ruling meant investors who wanted long-term capital appreciation and did not want life cover were likely to chose some other route than buying an insurance policy.

Decision on ring-fencing is not clear

320 BARRY SERGEANT

FINANCE Minister Barend du Plessis's announcement about a partial lifting of ring-fencing for mines has raised two burning issues, according to investment experts.

Du Plessis said ring-fencing would be partially lifted to the extent that 25% of the "tax base" of an existing mine could be used to write off a new mine's development costs in cases where both mines were the property of the same taxpayer.

Ring-fencing, which allows a profitable mine to absorb the working costs of a developing mine, reduces the overall tax paid by the owner of the two. Yesterday Tax Advisory Committee (TAC) chairman Prof Michael Katz said the lifting had been only partial to protect the tax base.

The investment community, however, is waiting for an exact definition of "tax base", a "new" mine, and whether or not such a mine had to be contiguous to the existing mine.

The Department of Finance and Inland Revenue said yesterday the matter was a proposal announced in the Budget and that draft law had not yet been finalised. S/Day 16/3/90

The term "tax base", according to Anglo American's tax division, was the same as "taxable income". The interpretation could be significant, as in the December quarter gold mines produced taxable income of almost R700m. Crudely annualised, and assuming that all mines had taxable income that could be used by a developing mine, the 25%-rule announced in the Budget could be worth R700m to the mining houses.

On the question of "new", Aiken & Peat partner Alister McKenzie said "it should be noted that a new mine... is one where mining commenced after March 14 1990."

B/Day 16/3/90 (320)

NEWS FOCUS

TAC chief says haven for shares an SA tax milestone

BARRY SERGEANT

MICHAEL Katz, chairman of the Tax Advisory Committee (TAC) describes the "safe haven" for sale of shares older than 10 years on the JSE as "one of the most significant milestones in SA tax history".

The rule is simple: subject to minor technicalities, any JSE-share that has been held for more than 10 years can be sold free of tax on any profits realised. This is not an introduction of a definition of capital gains — like "income", capital gains is not defined in the Income Tax Act — but it provides certainty, in the sense that any qualifying share can be categorically sold without attracting any tax.

Katz describes the proposal, which became effective yesterday, as an "experiment" that may lead to the rule being extended to other assets, such as immovable property.

Integration

Reviewing the Budget, Katz said: "One very important aspect is that it constitutes an assault on non-cash remuneration. Essentially in the interests of equity, perks tax is being tightened to make all forms of non-cash remuneration unattractive."

He said the elimination of tax on dividends in the hands of personal shareholders constitutes a complete "integration" and thus the elimination of economic double taxation.

Katz says the new rule should also assist in achieving neutrality of business form and neutrality between debt and equity financing. The neutrality of business form, he adds, "will also be enhanced by Finance Minister Barend du Plessis's announcement that a move towards equating the rate between corporate tax and the maximum marginal rate of individual tax is planned".

Says Katz: "The abolition of tax on dividends will have the further advantage that it will simplify the system completely since UPT (undistributed profits tax) will be abolished and all provisions relating to anti-avoidance in respect of dividend stripping will fall away."

Moreover, Katz argues that the announced three-year phasing out of MST (marketable securities tax) should also facilitate the financial markets in SA. He said the Budget's failure to address the issue of MST on derivatives (futures and options) amounts to a waiver.

On the question of mining tax, Katz says the objective was to eliminate the so-called "ring-fence" which, he concedes, is undesirable in economic terms, "but which is necessary to protect the tax base. Thus, to reconcile the objective of eliminating the undesirable economic concept with the objective of protecting the tax base, the solution chosen was to drop the ring fence to the extent of 25% of an existing mine's tax base".

However at this stage, the meaning to be given to "tax base" is not clear. Yesterday Commissioner for Inland Revenue Hannes Hattingh said he was consulting his legal draughtsmen on the interpretation of the words, and also on the crucial question of "contiguity" in the context of ring-fencing.

But it is in the capital versus revenue area that Katz applauds the Budget proposals. "The distinction between capital and revenue is the very essence of the entire system of SA income tax, yet the Income Tax Act contains no comprehensive definition of these two concepts."

Over the years a considerable body of jurisprudence has been built up as a result of the many occasions when the courts have been required to interpret the concepts. This body of precedent, with all the literature compiled by experts, "has served to reduce the uncertainty which would otherwise have existed as a result of the omission from the Act of any comprehensive definitions of capital and income.

Solutions

"Despite this body of jurisprudence, uncertainty continues to exist which in certain areas is unacceptable and is proving to be an impediment to the free flow of capital in the economy".

The TAC investigated the appropriate solutions, resorting to comparative approaches in many other jurisdictions. Katz says particular attention was paid to the UK and Canadian systems, where the concepts of gains made in the course of business or in carrying on a trade are used instead of the reference to the distinction between capital and revenue.

However, these concepts do not exclude subjective elements. The TAC believed "the marginal advantage of adopting an approach similar to the UK or Canada would be outweighed by the disadvantage of throwing overboard the considerable body of jurisprudence which has been developed as an interpretative aid in respect of the existing distinction between capital and revenue".

But, argues Katz, the degree of uncertainty in certain specific categories of assets is "unacceptable". It may be said, his argument continues, that transactions in shares are being impeded to an extent that could be immobilising large capital resources.

The essence of a solution recommended by the TAC, which also fits in the existing structure, is the introduction of a so-called "safe haven," with 10 years as the selected period.

The reason for the selection of listed shares is to reduce the possibility of "manipulations" designed to fall within the same haven; such as property being transferred into a company to get the benefit of safe haven treatment.

As announced by Du Plessis, there will be provisions — necessary for the proper implementation of the safe haven concept — including:

☐ A share which has been categorised as trading stock by virtue of an exercise of a discretion in terms of S 24A will not get the benefit;

☐ The onus will be on the taxpayer to prove that he has held the shares for the required period;

☐ Where a taxpayer has acquired shares in the course of a trade and has been allowed a deduction of interest and expenditure for the carrying costs of such shares, he will be liable for a clawback of interest and expenditure (other than share losses) previously deducted in respect of the shares so realised; and

☐ Taxpayers may elect whether they wish to fall within the new proposals or to continue with the existing system. Those who realise listed shares and elect to adopt the new proposals must thereafter apply the same principles to all transactions in listed shares which have been held for more than 10 years. Losses will not be tax deductible.

The safe haven treatment has been grafted on the existing structure.

It makes no difference to the application of the safe haven principles to a particular asset as to when that asset was acquired. The TAC saw this as an "experiment" which could be extended in time to other categories of assets.

● KATZ ... non-cash benefits attacked

...threatens Gorbachev's reforms (179)

Govt plans VAT publicity drive

MIKE ROBERTSON

CAPE TOWN — The Finance Department is planning a multimillion rand campaign to advertise the new VAT system to be introduced after October next year.

It is also embarking on a recruitment drive to expand its personnel to enable ~~it to~~ implement the VAT system. (320)

The department also plans to increase payments to informers who provide reports on tax evasion. B/Day 16/3/90

In the explanatory memorandum on its budget vote, the Finance Department said the main reason for the R16,9m increase in its administration vote was the planned VAT publicity campaign.

It added that a R29,7m increase in the inland revenue vote could be mainly ascribed to VAT personnel recruitment.

Other reasons for this increase were the carry through effect of occupational specific salary increases, the filling of vacancies and a large increase in reports on tax evasion.

'Magic' deficit conjures room for tax concession

WMail 16/3 - 22/3/90

320

THE tax concessions in this week's budget serve to give back to taxpayers the huge amount of additional income they brought the government last year.

Total revenue for 1989/90 was R6-billion higher than the original R55-billion anticipated in last year's budget. This exceeded most economists' estimates of an approximately R3-billion overrun on revenue. The R2,6-billion the government earned from import surcharges and the increase in tax money because of fiscal drag earned the government more than anyone (including the government) expected.

Meanwhile, government spending last year was just slightly above budget at R71,5-billion — an increase of around 15 percent over the previous year, no real increase taking inflation into account.

The result was the deficit before borrowing (the excess of spending over revenue) was only R3,8-billion (instead of almost R10-billion), representing only 1,5 percent of gross domestic product. In effect, the government was saving the country's money, because its capital (investment) spending amounted to 2,2 percent of GDP.

It is only considered "dissaving" if it uses loans to finance current expenditure, for example on salaries and administration.

The "magic figure" for the deficit is three percent of GDP — the government had been trying vainly for several years to get the figure down to that level.

Du Plessis described this week's budget as "continuation of fiscal discipline, but making room for tax reform".

The way he made room for tax reform was simple — he allowed the deficit before borrowing for 1990/91 to rise from last year's very low level to 2,8 percent of GDP, well within the "magic" three percent limit. Rather than raising some taxes to compensate fully for losses on others, he merely used the space he had on the deficit to allow a net revenue loss from the tax concessions of R4,5-billion. The concessions mean total tax revenue will represent 23 percent of GDP, down from 24,9 percent last year.

Government revenue this year will total R64,9-billion — up only 5,8 percent on that collected last year, although up more than 18 percent on last year's budget figure. Spending will be R72,9-billion, up 11,9 percent on the amount actually spent last year. The deficit before borrowing will therefore be just under R8-billion.

Fiscal relief for personal burden

WMail 16/3 - 22/3/90

(320)

THE almost R4-billion in personal income tax concessions announced this week reversed a trend over the last decade in which individuals accounted for an increasing share of the government's total revenue, with the proportion from companies steadily declining.

Income tax paid by companies increases by almost 20 percent this year while that paid by individuals goes up by only 4,3 percent. Individuals will contribute 57 percent of the government's R35,8-billion revenue from income tax this year, where last year they accounted for almost 60 percent. Companies make up 37 percent of the total, compared with 33 percent last year.

However, individuals are still shouldering roughly the same proportion of total government revenue as last year. The proportion of revenue from personal income tax is roughly the same this year as last at 31 percent. Sales tax makes up 55 percent of the total and Treasury officials estimate at least half of GST is paid by individuals. So individuals will still contribute almost 60 percent of all revenue.

But Finance Minister Barend du Plessis did make real concessions to individuals in the budget — without them, individual income tax would have risen by 24 percent instead of under five percent.

And the concessions benefit rich and poor.

Du Plessis told journalists he had made "massive cuts, thinly spread" so that the budget would not overstimulate the economy by putting too much extra money in people's pockets. And he stressed that the changes would have most benefit for those in the R18 000 to R40 000 a year pay range, who make up the bulk of income tax payers.

It is these individuals who are reckoned to be suffering most from the effects of "fiscal drag" — where salary increases put people into higher tax brackets so that they must pay a greater proportion of their income to the Receiver of Revenue.

To avoid this trap, Du Plessis raised primary rebate levels and shifted tax brackets upwards.

Low paid workers also benefit from the higher tax threshhold — the minimum level at which people now become taxpayers has been raised to R12 001 from R8 928 a year, for married persons under the age of 61. Most black workers earn less than R1 000 a month and will thus avoid income tax.

At the other end of the scale, only 4 000 to 5 000 South Africans are estimated to earn R150 000 a year or more. The budget also benefits the rich by abolishing tax on dividends and cutting the maximum marginal tax rate from 45 percent to 44 percent, although this still takes effect at R80 000 for married persons. The government's aim, to be achieved over five years, is a 40 percent maximum marginal tax rate at R100 000 in 1989 money — so in five years' time this level could be R150 000 or more.

Previously individuals (though not companies) had to pay tax on two-thirds of their dividend income. The abolition of this tax will cost the government R408-million this year. Individuals also had to pay tax on any interest income over R1 000 a year — this has now been raised to R2 000. Both measures are attempts by the government to encourage investment and saving in the economy.

The government also moved to near-complete separate taxation for married women, a move which will cost it R206-million this year. Salaried married women have been paying Standard Income Tax on Employees, which is a form of separate taxation, but this did not apply to women earning income from their own or their husbands' businesses. This has now been changed, so that all trading income of a married woman is to be taxed separately in her hands.

The government is recouping only some of the R4-billion it has forfeited in tax concessions with tax increases elsewhere.

It will raise R50-million extra by increasing fringe benefits tax, particularly on car allowances and subsidised loans. It has also raised excise taxes on alcohol and cigarettes to gain R145-million more in revenue.

It will also raise an extra R15-million on marketable securities tax. This is from the R1-billion more in profits from share trading on the Johannesburg Stock Exchange expected to result from the "safe haven" the government has created for shares held for 10 years or more.

Du Plessis, however, plans to squeeze more from companies, with a series of measures which will bring in at least R230-million. Companies will no longer be able to reduce their taxable income by claiming certain expenses such as training allowances. But companies — and individuals — gain by cuts in the import surcharges imposed since August 1988.

Star March 17, 1990

Star 17/3/90 (320)

Katlehong taxi men hope for war's end

JOVIAL RANTAO

THE Southern African Black Taxi Association (Sabta) has instituted a one-man commission of inquiry to probe into the violence in Katlehong.

They hope to find ways to prevent similar incidents occurring in other townships.

More than 30 people were killed, scores injured, when what started as a taxi war, ended as a civil war.

Mr Jabu Mabuza, communications manager at Sabta, also announced that both the Katlehong Taxi Organisation (Kato) and the Germiston and District Taxi Association (GDTA) have been dissolved and will be replaced by a single body.

"We have, in conjuction with the local civic association and the United Democratic Front (UDF), decided to dissolve the warring factions and replace them with a working committee of 13," Mr Mabuza said.

He said the committee would comprise four members each from Kato and the GDTA, four from the Katlehong Civic Association and one representative from Sabta.

Mass funeral

"The committee will be functional until a unitary body is formed. It is our wish, and that of the Katlehong community to see one united taxi organisation in the township," Mr Mabuza said, acknowledging the help Sabta had received from local UDF affiliates.

Recommendation from the commission, headed by a retired judge whom Mr Mabuza could not at present name, would be considered during the formation of a new taxi association in Katlehong.

He said taxis in the township would start running normally sometime after the today's mass funeral of the victims of the violence.

Officials of the UDF believed the dispute among taximen had been caused by the poverty in which they lived.

"The present economy has failed, it has only given birth squatter camps, inferior education and the hostels system," said Mr Moss Mayekiso, secretary-general of the National Union of Metalworkers.

Toll roads 'saving tax payer money'

Star 4/3/90 320

SOUTH African taxpayers are paying less for their roads as privatised toll roads take over the country's arterial routes, says chief executive of Tolcon, Mr Ron McLennan.

Tolcon, the toll road company, now manages 450 km of roads. It has a capital commitment of in excess of R1,5 billion. By the time the Keeversfontein/Warden section is completed, Tolcon will have spent more than R900 million of its R1,5-billion budget.

This month, Parliament was told that Tolcon's income from tolls amounted to only R28 million.

The use of private money to fund South Africa's roads has enabled the Government to cut in half the amount of taxpayers' money given to the National Transport Commission.

Roads built earlier

The department of Transport's annual financial report tabled in Parliament last week said that privatisation was helping to provide essential road sections earlier than expected.

The Department of Transport as a whole spent about R2 billion on national and provincial roads during 1988/1989, but the toll road companies had spent about R400 million and are expected to spend another R500 million this year.

"Quite simply, we are building roads the country could otherwise not afford," says Mr McLennan. "We are saving the public money." — Sapa.

A new deal for savers on the way

STAR 17/3/90

(320)

MINISTER of Finance Barend du Plessis disclosed in his Budget — not before time — that a new deal for savers was on the way.

He said he was abolishing the tax on dividends, increasing the tax exemption on interest income from R1 000 to R2 000 and, most important of all, he virtually promised to introduce next year a low-rate withholding tax on interest payments.

These measures, together with the development recently of "real" interest rates and the move to curb inflation, should transform the savings situation.

Saving has been going out of fashion for many years, even by those with the money to do so. Since the 1970s SA's saving rate has been awful. But it was worse last year when, overall, South Africans did not save a penny.

Reserve Bank figures show that in the first three quarters of last year there was a net dis-saving of R700 million.

The main reasons are:

- Persistent high inflation, which has reduced the ability to save and has made holding assets more profitable than holding cash.
- High tax rates, which limit the amount available for saving and limit the returns on saving.
- The failure of the Government to take any remedial action and, in some areas, to aggravate the situation.

DEREK TOMMEY

These developments resulted in the flow of savings to building societies — the most important savings medium for South Africans since the turn of the century — virtually collapsing.

Negative rates

Government policy forced them to pay almost negative rates of interest. At the same time the saver was heavily taxed on his interest income. Savers became poorer instead of richer and moved their money elsewhere.

This has had a serious affect on house-buyers. The building societies had to get more funds from the money market and mortgage rates started moving in unison with money market rates.

Innocent house-buyers found themselves paying the same penal rates as banks.

One result was that the little money savers had began to flow to insurance companies. The latter could invest their money in the share market and in property and so offer the saver protection against inflation.

But savers had to leave their investments with the insurance companies for 10 years to get a tax-free return.

This locked up a large portion of savings for an extremely long time.

Moreover, as insurance companies regarded these savings as trust funds, which could not be invested in speculative ventures, many new enterprises were starved of capital.

The situation will now change dramatically. The abolition of the tax on dividends means savers need no longer lock their money into insurance companies for 10 years to get a tax-free return.

The can get the same benefit by investing savings in shares or unit trusts for just as long as they like.

The lifting of the tax should result in more attention being paid to dividends declared by listed companies. Until now investors have tended to seek capital gains as these do not normally bear tax.

Higher dividends

But with the lifting of the tax barrier, investors are likely to start demanding higher dividends.

This should make the share market, especially the mutual fund movement, much more attractive.

It should also lead to more money becoming available for investment in growing companies.

The second concession to savers — doubling of the amount of interest income exempt from tax from R1 000 to R2 000 — though welcome, is far from generous. It represents an investment of just over R10 000 at current interest rates.

A much higher rate of saving than this is needed before SA is able to finance its capital needs.

More encouraging is Mr du Plessis's statement that a low-rate withholding tax on interest payments by banks and building societies could be introduced next March.

Provided interest rates then are still above the inflation rate, and the withholding tax rate is in the region of, say, 10 percent, one can visualise a flood of money going to the banks and building societies.

Attracting this money would be the best return investors have had for decades. This reverse flow to banks and building societies would enable them to lend more money at lower interest rates than they do now.

So great would be the advantages that one wonders why the Government is waiting a year to do so.

Take a chance, Mr du Plessis, and introduce this concession straight away.

Appliances to drop in price after tax cuts

Cape Times 17/3/90

320

THE retail price on electrical appliances is expected to "decrease slightly" within the next three months, as a result of the 20% drop in the 60% import tax on electrical components.

Dion marketing manager Mr Howard Davidson said it was impossible to work on percentage figures because every product would have different duty costs and product cost structures.

"This would only apply to imported products. For instance, the televisons we purchase are manufactured locally, so I do not foresee a change in those prices.

"Within two to three months we may see a slight price reduction on video cassette recorders and hi-fi's. But we have to take the inflation rate into account. We are not sure what the rand will be worth in two or three months," said Mr Davidson.

Retailers predict that the decrease in prices could range from 8% to 10% within the next two or three months.

Mr Raymond Murray, local director for Pick 'n Pay, said the original 20% decrease would be diminished by "one-third of the particular tax" because it was a pre-import duty and tax cost percentage.

"The decrease is positive and naturally if we do benefit from some of the lowered taxes or rebates, we will pass it on to the consumer," said Mr Murray.

Ms Anthea Laughlin, a manager at the National Panasonic industrial division, said they were not affected by the import surcharge reduction because all components they used were made locally.

Barend is skating on thin ice in reducing personal tax burden

(320)

St Times 18/3/90

By Ian Smith

FINANCE Minister Barend du Plessis has stepped on thin ice in his Budget moves to cut personal tax and reduce import surcharges.

The handouts have been welcomed — but danger lurks that they might re-stimulate the economy just when the full benefits of last year's dampeners are beginning to be felt.

The economy is in a resilient mood. Last year it cooled a lot slower than expected on the back of higher confidence levels throughout commerce and industry.

Since then the improved foreign perceptions of South Africa after the Government got into its stride on the new reform programme have also heightened the expectations of businessmen.

A big surge in demand for imported goods could jeopardise the Government's balance of payments surplus target, which is vital to ensure comfortable foreign debt redemption.

At home, a rush by individuals to spend expected savings on tax deductions would negate the effort to encourage savings.

Many economists believe that Mr Du Plessis has taken a calculated risk — but that the odds are on his side.

The maintenance of high interest rates will encourage individuals to reduce personal debt levels.

"Even with the selective easing of hire purchase terms, current interest rates should still curb the demand for further consumer credit," says one economist.

At the same time, business has been conditioned to the probability of a year of reduced demand and a rush to increase imports is unlikely.

JCI economist Ronnie Bethlehem says: "The question of too much or too little is critical to this Budget.

"Too tight constraints which would lead to a much more rapid cooling would result in higher unemployment and an undesirable effect on the situation in the townships."

He says the Government must believe that the relief measures will not stimulate the economy to the extent that a revival in activity would jeopardise balance of payments targets.

The best hope must be that any savings in tax payments will be used by individuals to reduce their debt. "Personal debt is already far too high," says Economix director Dr Azar Jammine.

Consumer demand, he says, should continue to be held in check by the high interest rates, which are unlikely to be reduced soon.

"If the man-in-the-street uses his savings to liquidate his debts this will be deflationary and keep money supply in check. This would be the best road to recovery."

C/Press 18/3/90

(320)

Relief for the ordinary taxpayer

PERSONAL tax was reduced in this week's Budget. Here are a few examples of how taxpayers are affected.

Married Women:
Last year a married woman who earned R16 000 a year paid R2 925 in tax. Under the new tax rates, for the same salary scale it will be reduced to R2 420, a saving of R505.

Married, under 60 (irrespective of sex):
A person who earned an annual salary of R25 000 with two children last year paid R3 340 in taxes. Under the new tax rates it will be reduced to R2 700, a saving of R640. This amount has been calculated on the basis that the taxpayer's wife has no income.

Married person over 61 but under 65:
On an annual income of R20 000, workers in this category last year paid R1 990 in taxes. Under the new rates it will be reduced to R1 580, a saving of R410. This is calculated on the basis that the taxpayer's wife has no income.

Married person over 65:
On an annual salary of R20 000, these people last year paid R660. Under the new tax rates they pay nothing. This will help black pensioners under the government pension scheme.

Big wheels squeal over car perks tax

S/Times 18/3/90

320

THREE major motor industry organisations are to protest against the Budget's huge hike in perks tax on company cars.

The new tax structure means businessmen with company cars will pay 50% more tax on their cars.

And Finance Minister Barend du Plessis intends to tax 100% of the deemed benefit of a company car from next year, suggesting that the tax will again rise by a similar amount.

Business Times Reporters

Motor industries spokesmen say 75% of new car sales are to companies and the tax proposals will be devastating.

The three major industry bodies, the National Association of Automobile Manufacturers of SA (Naamsa), the Motor Industries Federation (MIF) and the National Automobile Dealers Association (Nada) will "pursue the matter further with the authorities".

Theo Shapiro of the accounting firm Ernst & Young, says a company limousine worth R120 000 will cost a taxpayer, on a marginal rate of 44%, an extra R172 a month.

Bracket

The new tax table will increase the taxable income of the user of a R120 000 car by R391 a month. The car will be deemed to be worth R1 172 a month, not just R781.

A semi-luxury car costing R80 000 will add R285 to the user's taxable income, being valued at R854 per month instead of R569. If he is in the top tax bracket, he will pay an additional R125 a month.

The new formula means a R40 000 car will add R159 to taxable income, while a bottom-of-the-range R20 000 car will be deemed to be worth R260 a month, not just R173.

Peter Cleary, director of marketing at Mercedes-Benz, said motor manufacturers had been assured that they would be consulted on changes to perks tax — but had been completely ignored.

He says that in terms of an "agreement in principle" the perks tax was to be revised annually to reflect inflation, "but if they increase perks tax beyond those levels there will be a reassessment on behalf of the customers".

He sees a switch to travel allowances and "with that as a safety valve, we do not expect any effect on the sale of our vehicles".

Reality

Francois Loubser, director of marketing, planning and communications at Toyota, is concerned at the sharp rise in the level of tax.

This is confirmed by Marinus Daling, managing director of Sankorp, who was appointed chairman of Automakers, holding company of Nissan, last week. Mr Daling replaces Peter Whitfield, who has retired.

"The number of luxury cars on the road is out of proportion to the wealth in SA. The perks tax must, therefore, be in line with reality for the ultimate benefit of the industry."

In May, Nissan will launch the new Fiat Uno, which will be the cheapest car on the market.

Manufacturers of smaller cars are not that concerned about the new tax structure as they believe it will increase the momentum to buy down.

"The Budget makes travel allowances relatively more attractive but they will not be the better choice in all cases," says Mr Shapiro. "Company cars still have their place, but a careful financial analysis should be made."

At a Budget discussion at Nissan's marketing headquarters in Sandton on Friday, the Deputy Minister of Finance, Org Marais, hinted that the Government would not appreciate a major switch to car allowances "as many unhealthy schemes can be built around this system".

"Stay away from allowances and make it a level playing field," he said. His department is, however, prepared to discuss the matter with the relevant bodies.

"We do not want to kill the motor industry ... the industry will find it difficult in the next 12 months, but we must look to the future and help create a more prosperous industry."

Wealth creation mixed with wealth distribution

BI Day 19/3/90 (320) 10

CHARLOTTE MATHEWS

SA CANNOT embark on a one-man, one-vote system as long as there are big differences in per capita income, Deputy Finance Minister Org Marais told the Nissan economic forum in Johannesburg on Friday.

The government had, therefore, attempted to combine the principles of wealth distribution with wealth creation in the Budget last week.

Marais also mentioned the possibility of introducing a minimum tax in the next budget and a withholding tax on interest.

A withholding tax is one imposed at the origin of income. If, for example, an investor is due R2 000 a year interest on investments, taxable at 10%, his bank will deduct this and he will receive R1 800.

Marais analysed the budget from the principles of equity and equalisation, neutrality and efficiency and cost simplicity and visibility.

He said wealth distribution, which was the position articulated by Walter Sisulu in an article in Business Day on Friday, was the policy of spending money according to the needs of the people.

"But you also have the other side, which is the approach from the supply-side economists or public-choice theorists, where Reagan and Thatcher built their thinking.

"They believe you should only pay tax according to the benefit you get out of it and protect private ownership.

"Although the two approaches are to some extent conflicting, this Budget, we believe, integrates them."

Marais said this policy had been followed in the allocation of R2bn to a fund to uplift the Third World sector of the economy and in the changes made to personal income tax, where 800 000 taxpayers had been removed from the tax system and the hump in the marginal tax rate had been smoothed out.

Government was trying to make people with equal income pay the same tax.

"But if a man has a company car, a company flat, subsidised interest rates, he is not paying the same.

"We have the objective of bringing down personal income tax and we are also investigating the possibility of a minimum tax — we hope to have a report on minimum tax in the next Budget."

Marais said the Budget was intended to be neutral and efficient. The tax system had to be cut down so that rates were neutral in economic decision-making. The government did not want to encourage investment in low profit activities.

Simplicity

By putting more money in people's pockets the government would motivate greater productivity.

"There is sometimes a conflict between equity and simplicity in the tax system," Marais said. "You have to adjust the tax system with the poor and the aged in mind and it makes the structure extremely difficult to manage.

He said one must accept a tax system which was not always fair but was simple and easy to manage. A withholding tax might erase the provisional tax system for individual income-tax payers.

Marais said government was moving towards a self-assessment scheme, a way to simplify and cut costs and make the system invisible to some extent.

Star 19/3/90 320

Change in tax expected to worsen building downturn

By Jabulani Sikhakhane

Prospects for the building and construction industry look unexciting this year and most companies are forecasting lower earnings for the current financial year.

The change in the tax structure for the industry announced in the Budget by Minister of Finance Barend du Plessis is expected to make things worse.

Mr du Plessis said work in progress, which at present was not considered to be trading stock for tax purposes, would be included in taxable income and these measures would be phased in over a five-year period.

Industry analysts say this will increase the tax rate of building and construction companies, offsetting any profits to be made from increased spending on social services.

Pierre Greyvenstein, analyst at Davis Borkum Hare, says the effects of the new tax structure will also depend on the level of work in progress, which could be high in a booming economy.

He adds that while increased spending on social services is positive for the industry, it depends on where the money will be spend.

A large part of the investment in social services is expected to be in the low-cost area, where profit margins are small.

Mr Greyvenstein notes that since housing does not use that much cement, cement companies will benefit more if there are huge investments in infrastructural development.

However, he expects the two major projects currently on the go — the Lesotho Highlands Water Scheme and independent toll road projects — to compensate for lower cement volumes.

Extra burden

Mike Haworth, industry analyst at Frankel, Kruger, Vinderine, says civil engineering companies will be worse-off.

They will be hard hit by government's cut-back on spending on infrastrucutural development, while the new tax structure will add an extra burden.

But the effects on building companies would be somewhat neutral as they will benefit from increased spending on housing and education.

Neil Fraser, executive director of the Building Industries Federation of SA, says the new tax structure could have detrimental effects.

Meanwhile, Mr Haworth expects a negative volume growth of around three to five percent in certain areas, particularly construction.

Cement volumes should decline by about five percent, he says.

But Anglo-Alpha managing director Johan Pretorius is optimistic, forecasting a decline of only three percent in cement volumes.

Pretoria Portland Cement financial director Chris Wrogemann says the industry is still looking at a flat growth rate. "Hopefully there would be an increase, but nothing spectacular."

He pins his hopes on the low cost and economic housing market and sustained growth of the informal sector.

Continued activity in these areas could help alleviate the effects of the economic downturn, he says. He also notes that demand in the first three months of financial 1990 has been slightly better than expected.

Mr Wrogemann adds, however, that the replacement of the 50-30-20 percent tax allowance on manufacturing plant and equipment with a 20 percent a year straight line allowance effectively means an increase in the tax rate.

Anglo-Alpha chairman Peter Byland expects an increase in earnings of about one percent for financial 1990. He forecasts gross domestic fixed investment for buildings, which is a key indicator of the group's core business, will decline five percent.

This compares with a growth of 4,8 percent in real terms last year and 8,5 percent in 1988.

Analysts say Anglo-Alpha is much more vulnerable to a sharp decline in cement sales, while PPC may be less affected because it is more dependent on lime stones for the mining industry.

Mr Haworth thinks building material suppliers are likely to fare better, while construction companies are more likely to feel the pinch of the downturn.

Not as intense

Competition in the building materials area is not as intense as in construction and suppliers are also likely to set their price increases to off-set low volume increases.

Trade union activity, although low in the buiding and construction industry, is going to be another factor, with expectations of an increase this year.

For instance the Everite Group reported lower earnings for the six months to December and the volume of sales fell 17 percent. Directors attributed this to the lower level of economic activity and adverse effects of the protracted strike.

Economists fear tax cut may be over-stimulant

By Michael Chester

Star 19/3/90 (320)

Concern has been voiced by the SA Chamber of Business that the 1990 Budget may prove an over-stimulant if too much of the R4,5 billion round of income-tax cuts is channeled into consumer spending rather than into savings or cutting down their debt burdens.

Ronnie Bethlehem, chairman of the Economic Affairs Committee, told a Sacob budget seminar that a R6 billion deficit could backlash on the current account of the balance of payments unless well handled.

Much depended now on government reliance on monetary and fiscal policies to hold restraints on consumer expenditure while the economy was slowed down and it tackled new socio-political objectives.

But the increase in the deficit to a level equal to 2,8 percent of gross domestic product raised questions about the determination of policies of economic constraints.

He personally would have preferred to see the level at 2,3 or 2,4 percent of GDP.

"The Budget may have taken a few chances with the current account if it acts as a stimulant at the moment," he said.

Rudi Gouws, group economist of Rand Merchant Bank, was also fretful about the risk of over-stimulation at a time when South Africa's terms of trade were facing problems as a result of lower world prices on its commodity exports.

Also to be assessed was the impact on the balance of payments if lower prices were also accompanied by lower volumes as industrial production showed signs of a slowdown in several key overseas markets.

Improvements with current account surpluses could also be affected by a stronger rand exchange rate and the lowering of import surcharges.

Much hinged on the handling of the R2 billion set aside by the government to plough into programmes of socio-economic improvements aimed at trying to remedy the past injustices of apartheid policies.

There was still hope, however, that taxpayers would use a good proportion of their income-tax savings on clearing the burden of debts they had accumulated in a decade of fiscal drag and higher tax bills eating into disposable income.

And economists had been highly encouraged about the longer term outlook as the government spelled out promises that the 1990 Budget was the first phase in a five-year programme of tax reform.

For the moment, Finance Minister Barend du Plessis, was trying a balancing act. "All now depends on whether he has got the mix right."

Dr Estiaan Calitz, Deputy Director-General of the Department of Finance, was convinced the Budget had found the correct formula.

He saw few dangers of over-stimulation since R4 billion of the 1989-90 budget year was already accounted for — steered into the stabilisation account, meeting losses on exchange rate forward cover, or held by the Reserve Bank on behalf of state pension funds.

He was satisfied that many taxpayers would make full use of new tax benefits to reduce their debt obligations and savings rather than on indiscriminate consumer spending.

Business Report

Govt aims to uplift Third World sector

Cape Times 19/3/90 320

Own Correspondent

JOHANNESBURG. — SA cannot embark on a one-man, one-vote system as long as there are big differences in per capita income, Deputy Minister of Finance Org Marais told businessmen at the Nissan economic forum in Johannesburg on Friday.

The government had therefore attempted to combine the principles of wealth distribution with wealth creation in the Budget announced last week.

Marais also mentioned the possibility of introducing a minimum tax in the next Budget and a withholding tax on interest.

A withholding tax is one which is imposed at the origin of income. If for example an investor is due R2 000 per annum interest on investments, taxable at 10%, his bank will deduct this and he will receive R1 800.

Marais analysed the Budget from the principles of equity and equalisation, neutrality and efficiency and cost simplicity and visibility.

He said wealth distribution, which was the position articulated by Walter Sisulu in an article in Business Day on Friday, was the policy of spending money according to the needs of the people.

"But you also have the other side, which is the approach from the supply side economists or public choice theorists, where Reagan and Thatcher built their thinking.

"They believe you should only pay tax according to the benefit you get out of it and protect private ownership.

"Although the two approaches are to some extent conflicting, this Budget, we believe, integrates them."

Marais said this policy had been followed in the allocation of R2bn into a fund to uplift the Third World sector of the economy and in the changes made to personal income tax, where 800 000 taxpayers had been removed from the tax system and the hump in the marginal tax rate had been smoothed out.

The government was trying to make people with the same income pay the same tax.

"But if a man has a company car, a company flat, subsidised interest rates, he is not paying the same.

"We have the objective of bringing down personal income tax and we are also investigating the possibility of a minimum tax — we hope to have a report on minimum tax in the next Budget."

Marais said the Budget was intended to be neutral and efficient.

The tax system had to be cut down so that rates were neutral in economic decision making. The government did not want to encourage investment in low profit activities.

By putting more money in people's pockets the government would motivate greater productivity.

"There is sometimes a conflict between equity and simplicity in the tax system," Marais said.

"You have to adjust the tax system with the poor and the aged in mind and it makes the structure extremely difficult to manage.

"We must therefore accept a tax system not always fair but simple and easy to manage. If we introduce a withholding tax, the provisional tax system may disappear in the case of the individual taxpayer."

Marais said the government was moving towards a self assessment scheme, a way to simplify and cut costs and make the system invisible to some extent.

320

Women's tax burden eased

Matsheru Matsheru, a tax consultant, gives an analysis of the changes in tax laws, especially affecting women, after last week's budget speech by Finance Minister Barend du Plessis.

ALL business and professional income earned by a married woman will be taxed separately from her husband.

This is effective from March 1 1990.

This tax change will give married women a tax status and will stimulate the supply of skilled married women towards the employment market.

Married women will now enjoy the independence and confidence in their business and professional dealings as far as tax is concerned.

This change will encourage women to start businesses and become professional people.

The result of this would be an introduction of much-needed skills in the market, economic growth for the country and the generation of employment.

The Government's realisation that women can play an important role in the economy will remove the psychological oppression which has discouraged them from participating in economic activities.

Married women were also given a bonus in the amendment of a tax law that will adjust the present rates of their tax to align with those of unmarried women.

The bad news in the tax changes is that income earned from interest by a married woman will still be taxed with the income of her husband.

The danger here is that if the wife fails to disclose to her husband information about interests she made from investments, the husband would be held liable.

The law does not protect the husband as he is bound by the tax return form that he is obliged to fill in truthfully.

The taxing of interest via the husband might not please the wife either as she would not have confidentiality in her investments.

Both parties will hence still be dissatisfied either way.

Joint taxation, it seems, will be phased out in stages rather than be wiped out completely.

Now that married women's income from trade and profession will be taxed separately from their husbands, their perception towards tax will also have to change.

They have now a new responsibility.

They will no longer have to depend on their men to handle their tax affairs for them.

The changes will make marriage attractive.

ANALYSIS OF THE NUMBER OF TAXPAYERS AND TAX ASSESSED — TAX YEAR 1988

INCOME GROUP R	TOTAL			
	NUMBER	TOTAL %	TAX R'000	TOTAL %
LOSS	16 289	0,74	0	0,00
0 - 5 000	220 839	10,04	1 938	0,02
5 000 - 10 000	372 638	16,95	84 012	0,94
10 000 - 15 000	406 496	18,49	331 369	3,70
15 000 - 20 000	268 155	12,20	502 653	5,61
20 000 - 25 000	215 254	9,79	697 548	7,79
25 000 - 30 000	177 534	8,07	853 869	9,54
30 000 - 35 000	144 573	6,58	953 006	10,64
35 000 - 40 000	111 486	5,07	946 344	10,57
40 000 - 45 000	80 660	3,67	845 968	9,45
45 000 - 50 000	55 085	2,51	691 673	7,73
50 000 - 60 000	61 395	2,79	952 793	10,64
60 000 - 70 000	28 136	1,28	556 968	6,22
70 000 - 80 000	13 909	0,63	335 749	3,75
80 000 - 90 000	7 689	0,35	217 738	2,43
90 000 - 100 000	4 851	0,22	158 080	1,77
100 000 - 150 000	9 194	0,42	393 800	4,40
150 000 - 200 000	2 441	0,11	157 588	1,76
200 000 - 250 000	944	0,04	80 559	0,90
OVER - 250 000	1 183	0,05	191 181	2,14
TOTALS	2 198 751	100,00	8 952 836	100,00

Select few rake in R250 000-plus

B/Day 20/3/90 ACHMED KARIEM (320)

STATISTICS released yesterday by the Inland Revenue Department showed there were 1 183 South Africans who earned more than R250 000 during the 1988 tax year.

The figures were based on 91,1% of registered taxpayers.

People in the bracket above R250 000 paid an average tax of R161 606 a person. In this group, 0,05% of taxpayers, there were 1 107 married and 76 single people.

There were 12 579 people who earned more than R100 000 a year, 603 of whom were single and 11 976 married.

The majority of taxpayers — 406 496 — were in the R10 000 to R15 000 bracket. The highest figure, R953m, was contributed by those in the R30 000-R35 000 group.

Most single people (160 696) were in the R5 000 to R10 000 bracket, and most married people (265 021) in the R10 000 to R15 000 group.

The fewest number of taxpayers (944) were in the R200 000 to R250 000 group, of whom 62 were single and 882 married.

On average, each taxpayer contributed about R4 071 tax a year.

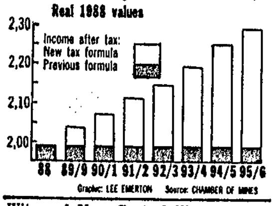
The figures showed there were 602 139 single and 1,6-million married taxpayers.

Married people contributed 85,9% and single people 14% of total tax collected.

Budget moves set to trigger mine projects

BDay 20/3/90

320



LIZ ROUSE

THE 25% drop in the ring fence, together with the scrapping of capital gains tax on investments older than 10 years, will trigger the development of a number of mining projects this year.

Max Pollak & Freemantle's Gerhard Potgieter predicts development will start at South Deep, Sun, Doornrivier, east of Doornrivier, north of Joel, Vermeulenskraal-Noord, Jonkersrust-Du Preezleger and south of Harmony. Other sites are could join the list soon.

Potgieter lists the benefits of Budget proposals for mining companies: the introduction of Phase 2 of the Marais Committee proposals (which he predicts will be improved upon by the authorities); the increase of capital allowances from 10% to 15%; the use of 25% of a mine's taxable income to develop new projects and; the reduction in the surcharge on imported mining equipment from 15% to 10%.

The graph shows the full effect of the new SA mining tax formula on taxed profits of mining companies, which will rise from under R2bn to R2,3bn in the 1995/1996 tax year.

In fact, says Potgieter, the mines can expect even greater tax benefits in future as policy tends towards a reduction in mining tax to below 60%.

Potgieter predicts ring fencing will eventually be scrapped entirely, simply because the contribution from the indirect tax of mining supply companies, employees and general businesses when a new mine is established will far outweigh the loss in direct tax.

He says the raising of capital allowances is an unexpected windfall for mines, and will no doubt encourage capital spending.

Shares that will benefit most from the gold projects are the exploration sector: Randex, East Dagga, Lydex, Barnex and South Wits; the mining holding companies: Genbel, Amgold, New Wits and New Central Wits and; the mining houses: Genmin, Anglos, JCI, Anglovaal and Rand Mines.

As far as the gold share market in general is concerned, the Phase 2 introduction of the mine tax formula is already discounted in share prices.

Potgieter scotches the fear that share prices will come under pressure because of large-scale selling. He says the scrapping of the capital gains tax on shares held longer than 10 years should lead to a controlled sell-off of a number of mature investments held in mining house, mining holding and large insurance company portfolios.

A mining house's mission is to develop new mines and derive income from these mines, rather than be holding companies of gold shares.

The scrapping of dividend tax is also expected to favour dividend-stripping of high yielding shares.

Lastly, the scrapping of MST over the next four years will free up the JSE by reducing the financial penalties on the trading of shares.

Taxman agrees mines get break

BDay 20/3/90 (320)

BARRY SERGEANT

IN A MAJOR breakthrough for the mining industry, Inland Revenue has confirmed the tax shield of one type of mining operation can be used for another.

The only limitation is that taxable income and capital expenditure will have to be directly mining-related.

In practice this could mean, for example, that Rustenberg Platinum's substantial tax shield could be used to develop the South Deep gold mine.

It also means diamond giant De Beers's tax shield could be used to develop a mooted seven new gold mines in the "Potch Gap", the world's last large untapped goldfield.

Mining industry sources said last night legislative clarification on "ring-fencing" relief announced in last Wednesday's Budget was awaited with keenness. Confirmation from Inland Revenue that the legislation, which would be tabled later in the year in the Income Tax Amendment Act, would contain "cross-sector" allowances would be met with unqualified acclaim, the sources said.

Analysts said that four projects at the post-feasibility stage may receive the go-ahead. These included JCI's South Deep, Anglovaal's Sun Project, Vaal Reefs' Moab shaft, and Freegold's Du Preez Leger Jonkers Rust.

In broad terms, each project was a deep-level mine that would cost about R2,5bn in mid-1990 money, according to analysts reports. However, the green light would depend on long-term gold price forecasts, working cost escalations and world production levels.

In an interview, Inland Revenue told Business Day that the reference in the Budget to "tax base" was synonymous with "taxable income after capital expenditure".

The ring-fence, as announced in the Budget, would be uplifted to the extent of 25% of the taxable income of a mining company. Ring-fencing limits the capital expenditure of a new mine a *mining company* may offset against the taxable income of another older profitable operating group mine.

Inland Revenue said this meant, for example, that if a mining company spent (say) R1bn capex on the development of a new gold mine, in the year of commissioning ("when the first gold is poured"), the mining company could bring the R1bn into its accounts for tax purposes.

If the mining company had another mine with taxable income of say R4bn, 25% of this or R1bn, would not be taxed. Tax on only R3bn would be paid. Inland Revenue said the delay in allowing the capex to be written off against the mining company's taxable income was "because it was deemed expedient that gold should first be produced".

However, Inland Revenue and mining analysts agreed that it was highly unlikely

☐ To Page 2

Tax break

BDay 20/3/90 (320)

☐ From Page 1

that any mine would receive a full 100% "bullet" payment in its year of commissioning, due to the limitations on available tax bases at the time, and the 25% rule.

Moreover, analysts said it would be impossible to predict today prevailing revenues and costs in about six years time when new deep-level mines, started today, could be expected to pour their first gold. Accountants and consultants Price Waterhouse said the partial lifting of the ring-fencing relating to individual mines is to be welcomed.

"It is a realistic compromise between the impediment to the development of new mines represented by the inability to offset the related capital expenditure against income from existing mines, and the threat to the government's tax base represented by an unfettered right to defer tax indefinitely by way of a continuing capital expenditure programme."

Star 22/3/90 (320)

The reluctant taxpayers face squeeze

By Marguerite Moody

Nearly 10 months after the deadline, 8 percent of tax return forms issued to salaried workers for the 1988/1989 year are still outstanding, says Mr Chris Dempers, chief director of operational control in the Department of Finance.

Of 1,64 million forms sent out, about 130 000 are still outstanding.

"It must be remembered, though, that not all of these taxpayers are defaulters.

"Some have left the country, some have died, and some have been imprisoned, and we have not yet been informed. Some may also be under extension."

He said 3 500 summonses a week were being issued in the 32 Receiver of Revenue districts.

Offenders face penalties for late returns.

For first offenders the penalty is usually 5 percent of assessed tax, to a maximum R100.

For second offenders, it could be doubled.

Mr Dempers said new income tax forms were being sent out and should reach salaried taxpayers before the end of March. The returns are due by June 4.

Star 23/3/90 (320)

Briefing

Time to turn tables on women's taxing situation

MARGUERITE MOODY looks at the tax position of South African women in the wake of the 1990 Budget announcements.

Although married women have generally benefited from tax reform affecting them in the past three Budgets, the concessions are only a "small step in the right direction", according to a lobbying group.

"While the steps taken towards the separate taxation of husband and wife are welcomed and should under no circumstances be minimised, women still have a long way to go before they are recognised as tax individuals in their own right," Ms Lizette Labuschagne, chairman of the women and tax working group of the Women's Bureau, told The Star.

The first steps towards separate taxation were taken in 1988 when the Government, following recommendations by the Margo Commission, introduced a final-deduction system, SITE, for married women earning less than R20 000 a year.

This limit was lifted last year, and married women are at present taxed separately on all their net remuneration as defined for purposes of the SITE system.

Worse off

However, investment income and trade income derived by a married woman which was not subject to SITE was still taxed with her husband's income.

Last Wednesday, Finance Minister Mr Barend du Plessis announced in his Budget speech that all trade income of a married woman, including her salary income from property rental and income from a business or profession, was to be taxed separately.

Income derived from employment or a trade connected with her husband's trade was included in the deal, on condition the wife's earnings were commensurate with the services she rendered, according to the Minister.

"Although this separate taxation is a great improvement, it is still not equal taxation. A married woman earning exactly the same income as her husband will still be worse off than her husband, although she will be better off than she was before," Ms Labuschagne said.

"The Minister also announced that the present rates of tax for married women are to be adjusted so as to gradually align them with those of an unmarried person, but the tax table applicable to the husband is a married person's table — which is far more lenient than the unmarried person's tax table.

"If the married woman's tax table is adjusted to bring it into alignment with the unmarried person's table, it would also mean an effective increase of her top marginal rate, from 38 percent on amounts in excess of R40 000 to 44 percent on amounts in excess of R56 000.

"A married woman who earns R60 000, for instance, will be worse off under the unmarried person's table than under the married woman's table."

Ms Labuschagne said another shortcoming in the Budget was that a married woman's investment income would still be taxed with her husband's.

"This is presumably because of the threat of income-splitting.

"However, the Matrimonial Property Act, which now automatically vests donated property in the donee spouse, makes this a lesser threat than it is made out to be. This will prevent spouses from transferring too many income-earning assets to each other in view of the possibility of divorce."

Another "gross discrepancy" was that liability for tax started at a much lower income tax threshold for married women than for married men.

"The threshold for married men under the age of 61 is R6 071, which will be increased to R10 286 in 1991, whereas the threshold for married women, regardless of their age, is R4 300. This will be increased to R4 556 next year. This difference is obviously grossly unfair."

Three other issues in need of clarification were: whether a married woman was entitled to her own retirement annuity fund reduction; the lump-sum exemption of R120 000 or greater depending on the length of service; and the R30 000 exempt amount paid on retirement as a bonus, whether funded by deferred compensation schemes or otherwise.

Separate identity

"If the separation of income and tax of husband and wife is taken to its logical consequence, there is no reason why the wife, who is now a separate taxpayer in terms of the latest proposals, should not be entitled to exactly the same tax-free limits and exemptions as her husband."

Ms Labuschagne said that though it was clear the Government had made a "serious attempt to ease married women's tax burden", she hoped for a move towards completely separate and equal taxation in next year's Budget.

"The recognition that a married woman has her own tax identity, and is not merely an appendage of her husband, is long overdue. Although the Government has pointed out that the loss of revenue resulting from separate taxation would not be immediately affordable, ultimately everyone should be taxed the same," she said.

Value Added Tax and how it will affect you

Sowetan 23/3/90

Small businessmen are likely to benefit

320

FOCUS

ONE of the issues to emerge at last Wednesday's Budget speech by Mr Barend du Plessis, was when Value Added Tax would be introduced. In this article Anthony Chait, tax partner, Fisher Hoffman Stride, looks at the tax implications of the Budget.

IN his Budget speech last Wednesday, the Minister of Finance announced that the draft legislation for the new Value Added Tax (VAT) will be published shortly. This ends speculation that VAT will not be introduced in South Africa.

The Minister announced that following the publication of the draft Bill, in due course, sufficient time will be allowed for general comment and consultation with representative bodies and the tax will not be implemented within a period of six months after final Parliamentary approval of the legislation.

It follows that VAT will in all probability be implemented before October 1 1991.

Supply

VAT is a tax upon the value added by a business and is imposed upon each supply of goods or services. It is levied on the supply of raw materials in the production process and on each stage thereafter, until the product or service is made available to the consumer.

This is in sharp contrast to sales tax, which is only levied at the point where the supply is made to the end user.

When a business is supplied with goods or services by another business, that will be levied by the supplier of those goods or services. The VAT upon those goods or services received, is the input tax of the business who receives those goods or services.

Difference

When the business in turn supplies goods or services to other persons or businesses, that must be included in the price charged for those goods or services. This constitutes the output tax of the business.

The difference between the amounts of output tax and input tax is the VAT that will become payable to the Receiver of Revenue.

Where input tax exceeds output tax, a refund will be made.

It is anticipated that taxable supplies for VAT purposes will be all those that are subject to sales tax at present with no exemptions, for example foodstuff, other than possibly certain financial services, rental of residential accommodation, and medical services.

Purchases

In addition, certain other transactions are likely to attract VAT. These include transport services and all professional services.

The black businessman is likely to benefit by the introduction of VAT. Under the present system of sales tax (GST) a small business whose annual turnover is less than R50 000 per annum, does not qualify to register for sales tax purposes.

This means that such a businessman pays 13 percent on all his purchases of, say, goods for resale. The problem which arises at present relates to the fact that the small businessman invariably adds his mark-up to cost plus sales tax (113 percent) instead of to the pure cost (100 percent).

This places him at a disadvantage for the following reasons. His competitors which comprise the larger business are registered for sales tax purposes and accordingly buy their goods free of sales tax.

Registered

They base their mark-up on the cost of 100 percent. In applying the same mark-up percentage as their competitors, their suggested retail selling price is higher than that of their competitors. This gives the market the impression that the small businessman is more expensive.

Under VAT all businesses, whether large or small, and whether registered for VAT or not will be liable for the input tax. The only difference is that a small business who does satisfy the turnover criterion will not be required to collect the output tax from his customer.

Accounting

All businessmen should give some thought as to how VAT is likely to affect their business.

Particularly, the accounting system currently in operation should be reviewed to ensure that it can accommodate VAT insofar as the recording of all input tax paid on supplies is concerned.

In our view, the turnover limit which will determine whether a business will be liable to register for VAT should be sufficiently high, say R200 000 a year, in order not to impose unnecessary administrative requirements for the fast developing black business community.

Value Added Tax is likely to be implemented before October this year.

Dividends deduction blow

LINDA ENSOR

INDICATIONS from Inland Revenue suggest dividends will not be taken into account in calculating the 15% deduction for retirement annuities now that they are exempt from tax.

Old Mutual legal analyst Lizette Labuschagne said this would mean an effective reduction in the tax-deductible amount of RA contributions. Liberty Life assistant GM: legal and technical marketing Gavin Came said the step would result in a contracting of the retirement annuity market.

Sage Life marketing director Bruce Ilsey said those investors who had used dividend income for their RA contributions would have to reconsider their position if the Income Tax Act were amended on this basis.

Southern Life deputy GM: legal and tax division Tony Davey said the effect would be to discourage personal savings and individual responsibility for retirement and he urged that the Act be amended in a way that allowed dividends to be included.

Life assurers were uncertain about whether dividend income would be included because of the ambiguous wording of this section of the Act, but Ian Meiklejohn, director of legal drafting in the Commissioner's office, said he thought the amended Act would exclude dividends as only taxable income qualified for the 15% deduction.

The uncertainty arose because dividends currently form part of gross income but the whole dividend is not taxable because of an allowable deduction in terms of Section 19 (3) of the Income Tax Act. Some analysts believed dividend income would be included as in the past all dividend income was included, even though one-third was tax exempt.

Deduction

They argued that it made no difference if three-thirds were now tax exempt as this section regarded all dividend income as taxable income.

But Meiklejohn said a deduction was not the same as an exemption and so dividends were removed from the calculation before Section 19 (3) was brought into operation.

Ilsey felt the real impact would not be major as he did not believe RAs were sold solely because of the allowable tax deductions.

BD 23/3/90

320

PUBLIC FINANCE (320) FM 23/3/90

Barend's hidden bonanza

Finance Minister Barend du Plessis appears to have kept several aces up his sleeve in estimating 1990-1991 revenue. Tax on non-mining companies and revenue from GST in particular seem to be underestimated.

In his speech, he did not mention the important change to depreciation for plant and machinery, as from December 15. The previous concession, which allowed expenditure to be written off on a 50:30:20 basis, has been replaced by a straight-line 20% provision.

The latest Reserve Bank *Quarterly Bulletin* reports gross domestic fixed investment on machinery and other equipment of R18,8bn (annualised) for the third quarter of 1989. Assume only one-third of this was spent by non-mining companies in the private sector and that this was previously all eligible for a 50% write-off in the first year.

The additional (annualised) income that quarter — through a reduction to a 20% write-off in the first year of purchase — would have been 30% of R6bn, which is R1,8bn. The additional tax would be half of this, or R900m. This is obviously not a precise calculation, but a back-of-the-envelope figure intended to show the possible degree of underestimation.

Then take the Budget's major changes to the company tax structure — affecting Lifo reserves, consumable stores and spares and work in progress for construction companies (each budgeted to yield a modest additional R50m in 1990-1991).

Pim Goldby partner Peter Backwell knows of a number of companies, each with Lifo reserves around R100m. Another source confirms that Lifo reserves are extremely large and — certainly under the partial method of dealing with deferred tax — don't even appear on the balance sheet.

Backwell also draws attention to a Revenue practice note, in May 1987, that consumable stores and maintenance spares would be phased *out* of trading stock valuations, retroactively, over a three-year period starting in September 1985. This has now been reversed by the Budget, which records value of consumable stores and maintenance spares will be phased *in*, as an addition to stock values over five years.

Backwell says that, in most cases, excluding consumables and spares resulted in a timing difference that rolled over from year to year, usually increasing in magnitude. This timing difference would effectively have been permanent so long as stock levels were maintained. He believes the Budget substantially underestimates the increase in revenue from this change.

As for work in progress by construction companies, the most recent published accounts of six listed construction companies alone reflect work in progress of R912m. These concerns will pay an additional R91m tax per year for the next five years — provided they don't run tax losses. Backwell says the construction industry is looking for more, not less, activity.

Collections from these three changes could be three times the budgeted R150m. Combined, budgeted tax amendments plus December's depreciation change could plausibly bring in R1,5bn more than projected.

Another approach is as follows: the first print estimate of company tax for 1990-1991 is R12,95bn. The second print estimate (which takes account of budgeted amendments to the tax system) is R13,18bn. The revised estimate for 1989-1990 is R11bn.

This implies company tax (presumably allowing something for the change in depreciation) was expected to grow by R2bn (17,7%) before the Budget changes. This is only some 4% above possible 14% inflation this year, without allowing anything for the cut in depreciation allowance. Any substantial allowance for the depreciation change would make these figures look even more conservative.

Next consider GST, for which an increase of 12,5% is projected, over the revised estimate of R16,5bn for 1989-1990. If inflation averages 14% this presupposes a 1,5% decline in real expenditure on goods subject to GST, which seems remarkably pessimistic. If GST increases not by 12,5% but by 15,0%, it would bring in an extra R400m or so.

So we are looking at a prospective extra R2bn revenue in company tax and GST alone, or around half the money given away in concessions in other areas.

If these speculative figures turn out too low, the supposed net sacrifice of R4bn revenue could be only R1bn, perhaps even nothing at all.

There is always, of course, a tendency to underestimate revenue. This is easily demonstrated by Budget figures for 1989-1990, which were 11,5% under actual collections.

The Budget estimates revenue for 1990-1991 at just short of R65bn. Just 10% underbudget would bring in an extra R6,5bn, which makes the illustrative figures for companies and GST at least plausible.

All in all, the Budget could be far more deflationary than Du Plessis said it was.

Robin Friedland

NEWS

Star 24/3/90

320

TPA's debt mountain

Taxpayers to foot unpaid Bara bill of R4,4-m

SUE OLSWANG

TRANSVAAL taxpayers will have to fork out about R4,4 million to offset unpaid medical expenses at Baragwanath Hospital and Soweto health clinics.

The province's taxpayers also stand to pay for further undisclosed amounts owed at other provincial hospitals and health care centres.

Mr Mike Ellis, the Democratic Party's parliamentary spokesman on health, yesterday said provincial taxpayers would almost certainly have to foot the massive "unpaid" bill as tax is the only source of income for the Transvaal Provincial Administration (TPA).

It was this week revealed that the TPA had written off R4,4 million worth of monies owed to Baragwanath Hospital and its sister health care centres in Soweto.

The Sowetan newspaper revealed that Baragwanath Hospital and Soweto's health care services incurred debts amounting to more than R5,1 million in unpaid medical fees last year.

Written off

Of this, R4,4 million has been written off as bad debts while the balance, about R635 000, will be recovered from patients. The TPA has made no comment about its reasons for not attempting to collect the full R5,1 million.

A Johannesburg debt collection agency has been employed by the TPA to hound about 120 000 people — some of whom owe less than R10 — for the collection of the R635 000.

The agency, identified by the Sowetan as Executive Credit Control, apparently charges up to R70 for "tracing and collecting" costs, even when only R8 is

ment."

But, very little was revealed in an official statement from the TPA.

The TPA's statement said private debt collecting agencies have been appointed by the Government Tender Board to enable the TPA to recover monies owed by patients at "all" provincial hospitals in the Transvaal.

"Three reminders are issued to patients before their cases are handed over to a debt collecting agency," the statement said.

"If a patient pays his/her medical fees in time, it will not be necessary for the TPA to hand their cases over to a private debt collecting agency."

The TPA also said "this precaution applies to all provincial hospitals throughout the Transvaal".

Specific questions put to the TPA by the Saturday Star were not answered.

No other way

This included a request for clarification on whether Transvaal taxpayers' money was in

are paying for the outstanding amount because there is no other way the TPA receives funds."

Mr Ellis said the DP must express its concern about the TPA allowing such a huge sum to be outstanding and "it seems very wrong that they have taken so long to act".

Mr Ellis said he couldn't help wondering what the full outstanding figure stands at.

"The R5,1 million represents unpaid bills at Baragwanath and Soweto health centres, but what about other provincial hospitals and health care centres?

"It is also important to point out that debts incurred through the provision of health services can't have happened for the first time now, and one wonders how the State went about this in the past.

"This is very probably a longstanding problem and the TPA should have found a solution many years ago."

Mr Ellis said it was important for the TPA to answer questions put forward to them.

Appalling

Mr Ellis conceded, however, that there was possibly no other way for the TPA to recover monies owed except with the help of a debt collection agency.

"But, the point that must be stressed is that it is appalling for the TPA to allow debts to develop to this extent," he said.

"It is clear the TPA needs to address this issue as a matter of extreme urgency. It also needs to urgently look at alternative methods of paying for health services. This doesn't mean we are calling for indigent people not to pay for medical services, but the TPA certainly needs a better method of determining who is indigent and

to foot unpaid Bara bill of R4,4-m

SUE OLSWANG

paid medical expenses at Baragwanath Hospital and Soweto health clinics.

The province's taxpayers also stand to pay for further undisclosed amounts owed at other provincial hospitals and health care centres.

Mr Mike Ellis, the Democratic Party's parliamentary spokesman on health, yesterday said provincial taxpayers would almost certainly have to foot the massive "unpaid" bill as tax is the only source of income for the Transvaal Provincial Administration (TPA).

It was this week revealed that the TPA had written off R4,4 million worth of monies owed to Baragwanath Hospital and its sister health care centres in Soweto.

The Sowetan newspaper revealed that Baragwanath Hospital and Soweto's health care services incurred debts amounting to more than R5,1 million in unpaid medical fees last year.

Written off

Of this, R4,4 million has been written off as bad debts while the balance, about R635 000, will be recovered from patients. The TPA has made no comment about its reasons for not attempting to collect the full R5,1 million.

A Johannesburg debt collection agency has been employed by the TPA to hound about 120 000 people — some of whom owe less than R10 — for the collection of the R635 000.

The agency, identified by the Sowetan as Executive Credit Control, apparently charges up to R70 for "tracing and collecting" costs, even when only R8 is owed to the TPA.

Dr George Louw, chief superintendent of Soweto health care services, would not elaborate on the matter when contacted by the Saturday Star earlier this week.

"The only facts I can confirm are the amounts written off and the amounts owing," he said.

"The debt collection agency has already been employed by the TPA and you will have to approach them for further comment."

But, very little was revealed in an official statement from the TPA.

The TPA's statement said private debt collecting agencies have been appointed by the Government Tender Board to enable the TPA to recover monies owed by patients at "all" provincial hospitals in the Transvaal.

"Three reminders are issued to patients before their cases are handed over to a debt collecting agency," the statement said.

"If a patient pays his/her medical fees in time, it will not be necessary for the TPA to hand their cases over to a private debt collecting agency."

The TPA also said "this precaution applies to all provincial hospitals throughout the Transvaal".

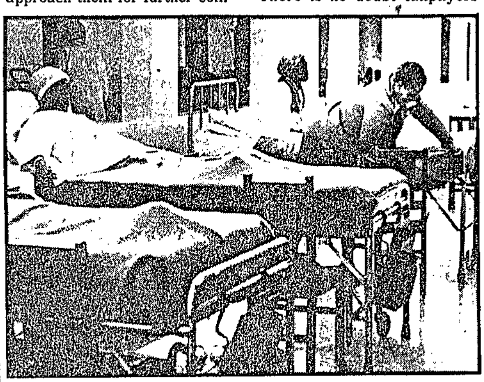
Specific questions put to the TPA by the Saturday Star were not answered.

No other way

This included a request for clarification on whether Transvaal taxpayers' money was in fact being paid to the debt collection agency for its services, and whether the R4,4 million "written off" was also taxpayers' money.

The newspaper also asked why some amounts were written off while others were pursued, and we asked the TPA whether this was the first time it had enlisted the services of debt collection agencies.

The DP's Mr Mike Ellis said: "There is no doubt taxpayers



CRIPPLING BURDEN: Taxpayers stand to pay millions to offset debts incurred at Baragwanath Hospital and clinics.

Mr Ellis said the DP must express its concern about the TPA allowing such a huge sum to be outstanding and "it seems very wrong that they have taken so long to act".

Mr Ellis said he couldn't help wondering what the full outstanding figure stands at.

"The R5,1 million represents unpaid bills at Baragwanath and Soweto health centres, but what about other provincial hospitals and health care centres?

"It is also important to point out that debts incurred through the provision of health services can't have happened for the first time now, and one wonders how the State went about this in the past.

"This is very probably a longstanding problem and the TPA should have found a solution many years ago."

Mr Ellis said it was important for the TPA to answer questions put forward to them.

Appalling

Mr Ellis conceded, however, that there was possibly no other way for the TPA to recover monies owed except with the help of a debt collection agency.

"But, the point that must be stressed is that it is appalling for the TPA to allow debts to develop to this extent," he said.

"It is clear the TPA needs to address this issue as a matter of extreme urgency. It also needs to urgently look at alternative methods of paying for health services. This doesn't mean we are calling for indigent people not to pay for medical services, but the TPA certainly needs a better method of determining who is indigent and who isn't."

● A Soweto man yesterday disputed claims that three reminders are sent to debtors before their accounts are handed over to debt collection agencies employed by the TPA.

In an interview with the Sowetan Mr Frank Nhlabani, of Pimville, said he received a letter from Executive Credit Control warning him to pay about R13,50 owed to the Pimville Clinic for treatment administered to his son about six months ago. He was also warned to pay a R70 "tracing and collection" fee or face the risk of being taken to court.

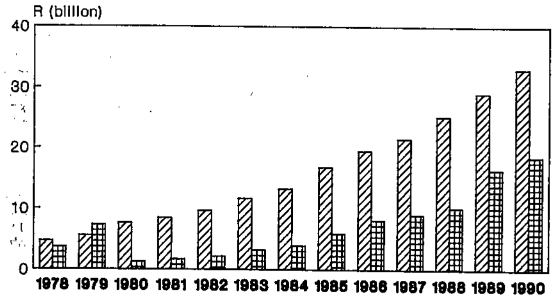
Mr Nhlabani claimed he had never received a single reminder for the account and he challenged the hospital to produce proof to that effect. He also claimed he was sent "threatening" letters even though his medical aid society had already settled the bill.

Mrs Maria Motha, a domestic worker from Naledi, also said there had been no correspondence between herself and provincial health authorities.

She said she first heard of her debt when given a final notice to settle her debt of R8 plus R70 for "tracing and collection". Mrs Motha was warned to pay the R78 within five days.

320

Personal taxes
(current prices)



TAX IMPACT: The graph shows the enormous impact of personal and the indirect GST tax on ordinary taxpayers.

To VAT or not to VAT

By TREVOR WALKER
Business Staff

To VAT or not to VAT has become more of a conundrum than a question for the monetary authorities.

General Sales Tax now raises more tax than the total personal tax paid to the Receiver when this new tax was introduced in 1978. As far as the authorities are concerned, it has been a very successful source of additional revenue over and above what they had already imposted on the ordinary wage earner.

In the 1980s the government raised personal tax on a scale unprecedented in the Western world (60 percent of total receipts). And now to increase the slice paid by those that manage to escape GST we have the prospect of VAT.

VAT will require more civil servants and much more labour intensive expertise at company level, but the attraction for the authorities is that the net should be spread wider.

Finance Minister Mr Barend du Plessis has said that the the exchequer cannot afford to lose money brought in by GST when VAT is introduced and at the very least VAT must return similar amounts of money which the government has accustomed itself to. Wide ranging food exemptions are allowed under GST, but under VAT this, in theory, would not be tolerated.

VAT is a common form of tax in Europe and it averages around 12 to 16 percent. Canada is to introduce such a tax at eight percent soon and in New Zeeland it has been introduced at a level below GST in this country.

Neither of these country's has a Third World component so that comparison of the impact of such a tax on the buying public is not possible with South Africa.

VAT in South Africa is being designed, as GST was, to bring into the Receiver of Revenue's net as many people as possible who escape PAYE.

It has been estimated that under VAT on the capital expenditure side the exchequer stands to lose up to 25 percent of the tax gatherings from GST. The tax paid by companies on expenditure on new plant and machinery will be much lower under VAT and to make up for this shortfall the exchequer will perforce need to look to include food in his tax net.

This of course is where the politicians become involved. Cheaper capital for plant as compared with more expensive food from the more ordinary variety of plant is the stuff that is chaff for the politicians.

A spokesman for the Treasury said the draft bill concerning the introduction of a VAT system will be presented to Parliament within two months and that the authorities were still set on its introduction next October as specified by the Minister in his Budget speech.

A senior Treasury source in Cape Town said that the whole question of VAT had not yet been resolved and it was not necessarily a foregone conclusion that such a tax would be introduced.

He said the minister had declared that this was the intention, but it did not necessarily follow that after consulation with business that it would be implemented.

320

Know-how about tax can save you money

By Des Kruger
A consultant at Deloitte Haskins & Sells

TAXPAYERS will be filling in their tax returns soon. If they go about it the right way, they can save money.

This article, based on Pay Less Tax, a booklet published jointly by Business Times and Deloitte Haskins & Sells, is intended to highlight some opportunities, using the basic structure of the annual IT12 return.

Part 2.1 of the IT12 return deals with remuneration and pension. It should be noted that included in this amount would be all remuneration received from an employer, including fringe benefits (except certain lump sum payments).

All net remuneration earned by a married woman should not be included here as it will be subject only to SITE.

With regard to taxable fringe benefits, remember:

- A travel allowance is more flexible than the use of a company-owned vehicle.
- The gazetted rates for cars provide for a fixed cost deduction based on the original cost of the vehicle, including sales tax but excluding interest and finance charge.

The deduction will continue after the car is fully written off. If a car is going to be used for business for more than five years, a travel allowance may provide benefits.

- Always keep detailed records.
- Where a married woman receives net remuneration subject to SITE and is paid a travelling allowance, the full allowance amount must be included in her husband's income but only the taxable portion of it will be taxed.
- PAYE need not be withheld for genuine business travel allowances, which allows a cash flow timing advantage.
- Where the car is not used for the full year, then the 10 000km deemed private travelling will be apportioned according to the period used.

Under the section on subsistence allowance (part 5.2), an employee can be paid such an allowance when travelling on business without tax being payable. He or she must be away for at least one night. The allowance is limited to R130 a day if it covers accommodation, meals and other costs and R65 per day in other cases.

Unless the subsistence allowance exceeds these limits, the amount need not be shown on the IRP5 and no PAYE need be deducted.

The whole of any entertainment allowance (part 5.3) is taxable unless it's a reimbursement of specific entertainment expenditure, for which there must be proof. Any business entertainment expenses can be deducted from a taxable allowance, with certain limitations and requirements (part 3.8):

- The deduction may not exceed the lower of R2 500 or R300 plus 5% of taxable income (before this deduction).
- The deduction may not exceed the amount of any allowance given by an employer for entertaining. Representatives who work on commission will be able to deduct all entertainment expenditure.

FOCUS ON YOUR TAX FORM

- Employees receiving an allowance should have letters of appointment indicating that their duties require them to entertain.
- Married women receiving an entertainment allowance and receiving net remuneration subject to SITE may not be able to claim a deduction as they won't be rendering a return.
- Home entertainment is also included in this category.
- If employees can prove to the Receiver that they will not be taxable on any portion of the entertainment allowance received, the Receiver will issue a directive that no PAYE need be deducted from such allowance.

When using a company car (part 5.4): If employees keep accurate records of the distances travelled for private purposes and this amounts to less than 10 000km a year, Inland Revenue may accept a lower value than that determined in the table.

If a job requires employees to use a car for a specific purpose (e.g. maintenance) and requires them to work outside normal working hours, they will not be taxed for travelling to and from home.

Employees given the use of a car 12 months or more after it was first acquired, the determined value on which the tax payable is calculated is reduced by 15% a year on a reducing balance basis for each completed year of use before they were given use of the vehicle.

The taxable benefit of a company car can be reduced by assuming responsibility for the cost of fuel used for private use of the car or the full cost of maintaining the car.

Travelling salesmen who have minimal private use may be able to get a ruling from the Receiver that PAYE may be based on a reduced amount.

Part 5.5 deals with subsidies — housing and others. Although the full amount of any housing subsidy received by employees will be subject to taxation, the following points should be remembered:

- A total of 30% of any such subsidy paid in terms of an approved home ownership or housing scheme is exempt in respect of the 1989/90 tax year.
- Where employees are allowed to make additional repayments and will receive a subsidy in respect of such repayments, it may be of benefit to do so even if they are taxable on the subsidy paid to them.

On the subject of low or interest-free loans, both casual loans, not exceeding R3 000 in aggregate, and study loans will not be taxed.

Accommodation is dealt with in part 5.7, whereby employees using company holiday accommodation will be taxed on the rental and other factors borne by their employer, but temporary accommodation will not be taxed.

Where employees intend to buy a property and require maximum finance (usually an 80% bond), the costs of owning the property will probably exceed 15% of last year's remuneration. It should be considered whether it is better for the employee or employer to own the accommodation.

Employers cannot simply pay an employee's rental, but must own or lease the accommodation for the above rules to apply.

Some services may be tax free if they are provided at work for the benefit of employees and if they are casual services and their cost does not exceed R500 in any year of assessment;

One such example is a travel service to or from home provided to all employees.

The payment of a telephone account used for business purposes is not taxable, neither is payment for any subscriptions to a professional body, membership of which is a condition of appointment.

Generally, most bursaries and scholarships will be exempt from tax. Amounts paid in terms of an approved bursary scheme are not subject to the deduction of PAYE and should not be included in the employee's IRP5.

Star 27/3/90 (320)

Tax eats teachers' pay rise

By Shehnaaz Bulbulia

Angry teachers, dissatisfied with the way in which their 12 percent pay increases are being decimated by taxes and subsidy deductions, have threatened to take up the matter with their unions.

They maintain that after tax deductions they were worse off than before the salary increases effective from March 1.

A teacher from Lenasia, who did not want to be named, told The Star he was appalled at the neglible amount he received.

About R200 of the R300 he was expecting was deducted in tax, a housing subsidy and pension, leaving him with only a R100 increase. "It's just not fair," he said.

The teacher said he would take up the matter with his union.

Another teacher said she was better off with her February salary.

"The deductions are ridiculous. The more I earn the less I will receive in real terms. I'm going to take the matter up with my union."

AGGRAVATE

The chairman of the Progressive Teachers' League (PTL), Mr Billy Morgan, said they had received complaints from teachers about the negligible amounts received.

The PTL was concerned that the salary grievances (after the 12 percent increase) would aggravate an already mounting crisis in black education.

Most of the increases appear to have been absorbed by taxes, housing subsidies and pension.

"Poor salaries have led to large numbers of teachers dropping out of the education field with many joining commerce," he said.

A spokesman for the Department of National Education in Pretoria said: "It's not really a matter that concerns the education department. This matter should be taken up with the Receiver of Revenue."

Married women among 650 000 to benefit

No forms for taxpayers earning below R40 000

Star 28/3/90 (320)

By Peter Fabricius, Political Correspondent, and Sapa

CAPE TOWN — Taxpayers earning less than R40 000 a year will not have to submit tax forms from the new financial year.

Deputy Finance Minister Dr Org Marais announced yesterday that the decision would mean that some 650 000 taxpayers would not have to submit returns.

He said the present limit for submitting returns was being raised from R20 000 to R40 000 from March 1 this year.

Dr Marais stressed that the new limit would apply to married women as well.

He said that married women carrying on a business as well as those whose net remuneration exceeded R40 000 a year would have to submit annual income tax returns from now on.

About 22 500 married women would have to be registered for income tax purposes — representing 4 percent of all taxpaying married women.

Dr Marais also announced that proportional reduction of SITE in the case of bonuses was being scrapped.

Annual bonus

He said under the present system when an employee received an annual bonus and his period of service was less than one full year, Site calculated on the bonus would be proportionately reduced. This had resulted in certain employees enjoying an advantage and it had been been abused.

Speaking during the first-reading debate on the Budget in Parliament yesterday, Dr Marais said the new tax structure represented the start of a five-year plan.

About 800 000 of the more than 4 million taxpayers would no longer have to pay taxes because of the higher tax thresholds.

There would also be 200 000 fewer provisional taxpayers.

Tax paid by senior citizens would now remain more relative to their income — inflation taken into account.

The drop in personal tax as a percentage of total income tax from 39,9 percent to 36,1 could also be seen as representing an increase in progressiveness in the structure.

'Almost to death'

Dr Marais said it was estimated that savings as a percentage of available personal income would increase from a low of about 1,5 percent in 1989 to 2,9 percent in 1990.

The Government had, in the past, taxed the gold mines "almost to death", but had adjusted the maximum marginal rate, at a cost of R68 million to the Treasury.

Mining industry growth was needed as mines made a tremendously important contribution to employment.

The Government would also investigate the possibility of a minimum tax on companies.

Through structural adjustment and the cancelling of disturbances in the tax system, it would be possible to bring nominal company tax down to 40 percent over the next five years.

Widened SITE net simplifies taxes

320

B/Day 28/3/90

BARRY SERGEANT

GOVERNMENT has taken a major step in simplifying the tax system by releasing an estimated 650 000 taxpayers from the obligation of submitting tax returns.

Tax experts said last night that employers would face an increased administrative burden, while a proposal to tax bonuses in full, and not pro rata according to months worked, was controversial.

In a statement yesterday, Deputy Finance Minister Org Marais said anyone — regardless of sex or marital status — earning R40 000 or less a year "net remuneration" as defined in the Income Tax Act would only pay SITE, deducted by employers. This is a full and final tax, and income tax returns need not be submitted. The new system was retroactive to March 1 1990.

Previously people earning R20 000 or less were subject to SITE only.

Last night tax experts said the method used — doubling the SITE threshold to R40 000 net remuneration a year — meant the tax system was "being simplified on the back of an imperfect tax".

Arthur Andersen's Kevin Wiles commented: "This is a welcome simplification of the tax system but from the viewpoint of employers there will be a significant increase in the administration burden, particularly as they require many personal details from employees if they are to withhold anything less than the maximum applicable rate.

"For employers, there is the added strain of entering into disputes with their workers. If the employer gets the calculation wrong, employees have no redress regarding over-deductions other than through their employers.

"The additional group of employees covered by the new SITE net will include many who receive perks, which will significantly increase the employer's obligation to get the perks tax deductions correct every month without being able to rely on refunds after returns have been submitted."

Ernst & Young's Roger Bramwell said: "Most of the anomalies surrounding SITE have now been resolved, and should have the effect of freeing manpower at Inland Revenue, for example, to prepare for the implementation of Value Added Tax."

Marais said in terms of present legislation, taxpayers other than married women, whose net income did not exceed R20 000, were subject to SITE only.

Increasing this to R40 000 and releasing

☐ To Page 2

SITE

B/Day 28/3/90

320

☐ From Page 1

about 650 000 taxpayers from having to submit income tax returns "entailed considerable benefits for both Inland Revenue and taxpayers", Marais said. For married women, the SITE system originally applied to them if their net remuneration did not exceed R20 000.

Last year this limit was abolished, the result being all married women receiving net remuneration were not required to add such income to that of their husbands', as the SITE represented their tax liability.

The system of separate taxation had been taken a step further this year and all income (excluding investment income) of a married woman would in future be taxed in her hands only.

It therefore followed that the R40 000 limit envisaged for other taxpayers also had to apply to married women whose net remuneration did not exceed that amount.

Marais said married women in their own businesses, as well as those whose net remuneration exceeded R40 000 a year, had to submit annual income tax returns.

About 22 500 married women would have to be registered for income tax purposes. Marais said when an employee received an annual bonus and other perks, and the period of service was less than a full year, the SITE calculated on the bonus was proportionately reduced. This arrangement resulted in "certain employees enjoying an advantage and could be misused", and the proposed amendment to end this would come into operation with effect from March 1 1990.

New deal on tax returns

CAPE TIMES 28/3/90

320

Own Correspondent

JOHANNESBURG. — The government has taken a big step in simplifying the tax system by freeing about 650 000 taxpayers from having to submit tax returns.

But tax experts said last night that employers would face an increased administration burden. They said a proposal to tax bonuses in full, and not pro rata according to months worked, was highly controversial.

In a statement yesterday, the Deputy Finance Minister, Dr Org Marais, said anyone — regardless of sex or marital status — earning R40 000 or less a year "net remuneration" as defined in the Income Tax Act would pay only SITE, which is deducted by employers. This is a full and final tax, and income tax returns need not be submitted. The new system was retroactive to March 1, 1990.

Last night tax experts said the method used — doubling the SITE threshold to R40 000 net remuneration a year — meant the tax system was "being simplified on the back of an imperfect tax".

Dr Marais said that in terms of present legislation, taxpayers other than married women whose net income did not exceed R20 000 were subject to SITE only.

It had been decided to increase this limit to R40 000, which would mean that about 650 000 taxpayers would be released from having to submit income tax returns in future.

"This entailed considerable benefits for both Inland Revenue and taxpayers."

(320) B/Day 29/3/90

SITE taxpayers warned to submit IRP2 forms

BARRY SERGEANT

A TOP tax expert has warned that unless the 650 000 employees earning under R40 000 a year have filed up-to-date IRP2 forms, they stand to overpay tax.

Arthur Andersen's Kevin Wiles says that in terms of the new SITE dispensation, unless mitigating factors were supplied, employers were obliged to exact the maximum applicable tax rate. These mitigating factors would only be noted in the IRP2.

Other tax experts agreed, although one said: "The IRP2 can only really be understood by graduates. Moreover, it often forces disclosure of highly personal information, for example, a person planning to get divorced but not wanting anyone to know. Women have to know about their husband's income, and this is often not forthcoming."

The tax experts were reacting to Tuesday's announcement that all employees earning less than R40 000 "net remuneration" a year would pay SITE and not have to submit tax returns. Deputy Finance Minister Org Marais said the change would relieve an estimated 650 000 taxpayers of the need to file income tax returns. The change is retroactive to March 1 1990.

However, a spokesman for a large organisation said that he had been approached by "numerous" employees in the past few days. They had been on the SITE system for the 1989-1990 tax year, but had been sent tax returns. The spokesman had approached his local Receiver's office who confirmed that the SITE taxpayers had to complete tax returns. "This," said the organisation spokesman, "contradicts what has been announced in the past few days, and the information contained in page 14 of the handbook sent to taxpayers."

Wiles said: "Those employees who have not filed up-to-date IRP2 forms already stand to lose money. If information is handed in long after a change in circumstances that affects SITE, that will also lose the employee money. If no information is supplied, the employer is obliged to apply the maximum applicable rate."

Wiles said that the new SITE dispensation would mean an added burden for employers. "It would be in the employer's own best interests to encourage employees to fill in the form, and, if necessary, vet and review the information."

□ GERALD REILLY reports from Pretoria that according to Inland Revenue chief director Schalk Albertyn, the raising of the SITE tax threshold will do away with a mountain of unproductive paperwork.

About a third of the time normally spent on sending buff forms to about 650 000 taxpayers would be spent more usefully.

Also eliminated, Albertyn said, would be the preparation and dispatch of thousand of summonses to late payers who fell under the R40 000 ceiling.

But, he emphasised, the new system would not mean staff redundancies.

Inland Revenue was still short of about 800 workers and recruiting was going on intensively.

"The emphasis will shift in the system from deskbound paper-shuffling to outside inspections."

He said the new system would place a heavy burden on the department to ensure employers were making accurate deductions from staff earnings.

This would entail discussions with employers and book scrutinisation to a far greater extent than before.

"It's more of a shift in the nature of the work than a lightening of the workload," Albertyn said.

Tax experts warn on tax overpayments

Cape Times 29/3/90

Own Correspondent

JOHANNESBURG. — A top tax expert has warned that unless 650 000 employees have filed up-to-date IRP 2 forms, they stand to overpay tax.

Arthur Andersen's Kevin Wiles says that in terms of the new SITE dispensation, employers were obliged to exact the maximum applicable tax rate where mitigating factors were not supplied, and these would only be in the IRP 2.

Other tax experts agreed, one saying: "The IRP 2 can only really be understood by graduates. Moreover, it often forces disclosure of highly personal information, for example, a person planning to get divorced but not wanting anyone to know. For women, they have to know about their husband's income, and this is often not forthcoming."

The tax experts were reacting to Tuesday's announcement that all employees earning less than R40 000 a year "net remuneration" a year would pay SITE and not have to submit tax returns. Deputy Finance Minister Org Marais said the change would relieve an estimated 650 000 taxpayers of the need to file income tax returns. The change is retroactive to March 1 1990.

Wiles explained: "Those employees who have not filed up-to-date IRP 2 forms already stand to lose money. If information is handed in long after a change in circumstances, that affects SITE, that will also lose the employee money.

"If no information is supplied, the employer is obliged to apply the maximum applicable rate in each particular case."

Meanwhile, a spokesman for a large organisation said that he had been approached by "numerous" employees in the past few days. They had been on the SITE system for the 1989-1990 tax year, but had been sent tax returns. The spokesman had approached his local receiver's office who confirmed that the SITE taxpayers had to complete tax returns.

"This," said the organisation spokesman, "contradicts what has been announced in the past few days, and the information contained in page 14 of the handbook sent to taxpayers."

Wiles said that the new SITE dispensation would mean an added burden for employers.

"It would be in the employer's own best interests to encourage employees to fill in the form, and, if necessary, vet and review the information. In the first place, it may indeed be necessary to help employees fill in the forms."

Taxing expenditure, not income, is the key to redistribution

B/Day 29/3/90

320

MERTON DAGUT

FOR SA in the 1990s there are two related issues. Firstly the economy has been growing too slowly (in relation to the rate at which the population is increasing) to create enough additional employment or income to stamp out poverty. Secondly the employment and income which has been produced has been skewly distributed.

We have sufficient reason to think it probable that, in time, the present mix of economic policies, including importantly the striving for a negotiated new constitution for a democratic SA, would restore the economy to a satisfactory growth path (i.e. one which halted the increase in unemployment).

The remedy for the growth malaise, therefore, seems to be an adjustment, not a restructure. But growth alone is most unlikely to produce the desired income distribution.

To achieve this I would restructure two elements of the economy — its taxation system and its production and ownership relations.

The very act of taxation affects the distribution of real income. Fiscal policy, taxation specifically, is the appropriate tool to influence the distribution of income.

spending power which — whether derived from current income, ownership of capital assets or capital profits, or access to credit — differentiates the effective demand of the wealthy from the poor. Spending power is the key to economic improvement.

type is too complicated for a developing economy: the answer is that, like present income tax arrangements, it would apply only to those in the "first world" developed enclave of SA. The proposal is to replace our graduated income tax, not our transactions based taxes, with the expen-

pete against each other (and against enterprises owned only by capitalists and full worker co-operatives) in a "partnership economy".

We are not talking here about giving or selling present JSE-listed shares to workers either directly, or to their pension funds, or via forms

uted to all employees pro rata to their individual earnings of the remaining 80% percent of revenue.

Everyone would receive an unchanged income, but would now have a share in the future success or failure of the enterprise.

Capital share certificates would correspond to a company's existing ordinary shares, freely traded and tranferable from one owner to the other. Labour share certificates would be tied to the individual and surrendered when he or she retired or voluntarily left the business.

Nobody is forced into a partnership enterprise. Many workers will choose not to enter discriminating partnership for doing so exposes a portion of their income to risk. Members of partnerships, furthermore must abandon strict adherence to the principles of wider worker solidarity and, in particular, the value "equal pay for equal work", for in competitive markets this could inhibit the creation of additional employment.

But many capitalists and workers are likely to form partnerships at enterprise level for this could encourage co-operative action between labour and capital in running a competitive concern in the most efficient and productive manner, and therefore larger earnings.

An idea with huge implications and which would bring about many of the benefits being sought, has been proposed by respectable economists for some 325 years, by Hobbes, by John Stuart Mill, and by Marshall, and yet resolutely rejected by politicians and their advisers. The reason, I suspect, is that it would achieve what it sets out to do, i.e. to redistribute spending, and therefore production, towards goods and services demanded by the majority and not the minority in any society.

It is a deeply socialist idea and is, very simply, "that the taxation of individuals should be based on their expenditure and not on their income". This was said by Nicholas Kaldor, who argued vigorously for an expenditure tax in Britain during the 1950s.

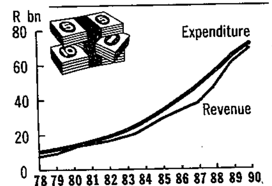
The proposed tax is levied on the base spending, not on the base income, but remains a personal direct tax. Personal savings are exempt from tax and thus encouraged. Personal spending for current consumption is taxed on a progressive scale and so extravagant consumption is discouraged.

The system has many advantages over an income tax. It hones in on ...penditure ... singularly appropriate base for a graduated personal tax. As well as favouring saving, it encourages risk-bearing and wealth-generation, i.e. it encourages many of the outcomes, while providing the resources which are required for the uprooting of poverty.

The tax initially could have a fairly high threshold, individuals below which could pay a simplified income tax. There should be self-assessment for all tax payers and severe penalties to discourage cheating. As several American mobsters learned when they were sentenced for tax evasion, few behaviours are more readibly observable than consumption.

To the objection that a tax of this

The state revenue account



Graphic: FIONA KRISCH Source. NEDCOR

James Meade, one of Kaldor's colleagues at Cambridge, published last year "a tract ... addressed to all capitalists and socialists who seek to make the best of both worlds". It contains the solution to the problem of how best to balance the wishes and desires of working people and owners of capital, effectively and fairly in our imperfect world.

Government- or state-owned organisations, particularly in a monopoly position, are not characterised by effective management. Thus many have thought that instead of collective or state ownership on a macro level, individual enterprises should be put into the ownership and management of the people employed in them and that these enterprises should compete with each other.

Unfortunately in cases in which the workforce is growing, this is likely to result in increasing unemployment. Worker co-operatives do not necessarily have an incentive to expand output and so employment.

Meade shows the way to resolve the conundrum by the invention of individual business enterprises he calls "discriminating labour-capital partnerships" which he sets to com... ...sation to the state. A pure Meade "labour-capital partnership" is quite different in concept.

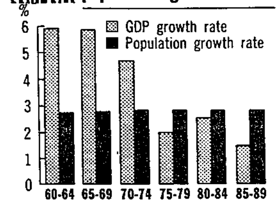
Meade asks us to imagine such a partnership between labour and capital applied to an existing firm. Suppose that of its revenue, 80% is paid to the employees and the remaining 20% accrues to the capitalists.

Conversion into a pure labour-capital partnership would entail the issue of two kinds of share certificates with the same rate of dividend:

☐ Capital share certificates distributed pro rata to all receiving directly or indirectly the capitalists' 20% share of the firm's revenue; and

☐ Labour share certificates distrib-

Average GDP and population growth rates



Graphic FIONA KRISCH Source: NEDCOR

A more equal distribution of the ownership of property could be created via workers acquiring capital share certificates in enterprises. This, in turn, will bring about improvement in the distribution of income between individuals.

Over time — using in part the buoyant receipts from the expenditure tax as the economy prospers — the state could repay the national debt and build up a national asset held, in the main, in shares in well-managed discriminating labour capital partnerships.

A source of contradiction is removed from the system by a far reaching yet incremental restructure of production decision-making.

I am not suggesting that we, now take one mighty leap to the economy appropriate to the new SA. I may though, have allowed a glimpse which will enliven a very important debate.

☐ **Prof Dagut, former Nedbank GM is head of of the economics department at Wits. This is an excerpt from his address to the SA Institute of Race Relations this week.**

LETTERS

320

Discussions on assurers' tax position continue

LINDA ENSOR

DISCUSSIONS between the Department of Finance and the Life Offices' Association (LOA) on the tax position of assurers would be continued, Deputy Finance Minister Org Marais said yesterday.

He said no final decision had been taken on whether to appoint a one-man commission of inquiry into contentious aspects of the taxation of life companies.

A reliable source said yesterday that such a committee was on the cards and would investigate three aspects.

Namely, the fact that life companies, as trustees, have to pay tax on dividends whereas individuals are exempt from such tax.

Secondly, the fact that the rate of tax applied to life companies has remained at 45% while the top rate of marginal tax which applied before the Budget has been lowered to 42%.

And lastly, the fact that only 55% of life companies' expenses are tax deductable.

A delegation from the LOA met Marais on March 20 in order to establish whether the trustee principle had been abandoned. Meetings were also held with Finance Minister Barend Du Plessis and the Parliamentary Standing Committee on Finance.

LOA executive director Dick Geary-Cooke said yesterday it was encouraging that the authorities had taken note of the industry's complaints.

"The appointment of people to look into our unhappiness would be a welcome reaction by the authorities," Geary-Cooke said.

He said discussions with the Registrar of Financial Institutions would also be held on the different methods of funding provident funds and how they fit into existing regulations.

"There appears to be a case for allowing membership of provident funds by way of individual policies," he said.

Also to be discussed were the commissions to be charged for the different types of funding, as existing structures favour individual policies which pay salesman over a shorter period of time than group policies.

☐ While no announcement on a replacement for outgoing registrar of financial institutions Theo van Wyk has been announced, it was considered likely by many in the industry that his deputy, Piet Badenhorst, would be appointed in his place.

current time as being suitable for buying durable goods.

...oration in business conditions over the next three months, as do dealers in the new and used vehicle markets.

8/Day 30/3/90

Determined value	Value of private use			
	Engine capacity			
	0-1600cc	1601-2000cc	2001-3000cc	Over 3000cc
	R	R	R	R
0-R 20 000	260	318	378	437
R 20 001-R 25 000	299	357	417	476
R 25 001-R 30 000	338	397	457	516
R 30 001-R 35 000	378	437	497	555
R 35 001-R 40 000	417	476	537	595
R 40 001-R 45 000	457	516	576	635
R 45 001-R 50 000	497	555	616	675
R 50 001-R 60 000	576	635	695	755
R 60 001-R 70 000	656	714	774	834
R 70 001-R 80 000	735	794	854	912
R 80 001-R 90 000	815	873	933	992
R 90 001-R100 000	894	953	1 013	1 071
R100 001-R110 000	974	1 034	1 092	1 151
R110 001-R120 000	1 053	1 110	1 171	1 230
R120 001-R130 000	1 131	1 190	1 251	1 310
R130 001-R140 000	1 211	1 269	1 331	1 389
R140 001-R150 000	1 290	1 349	1 410	1 469

The official table of new monthly values to be placed for income tax purposes on the private use of company cars was published in a government notice yesterday, following the Budget announcement. The values, 50% higher than before, are effective from May 1. Where the determined value of a vehicle exceeds R150 000 and, for example, it has a 3 000cc engine capacity, R1 469 a month must be added to the taxpayer's taxable income; for each full R10 000 more than R150 000, a further R80 must be added. If an employee bears the cost of all fuel used privately — including travelling between home and work — the monthly values will be reduced by R100 a month, and by a further R62 a month if the employee bears the full cost of maintaining the vehicle.

(320)

FM 30/3/90

ing Namibia) in January was:
- ☐ M1A 11,9% to R23,9bn;
- ☐ M1 26,6% to R49,6bn; and
- ☐ M2 28,4% to R119,8bn.

M1A, coins and notes in circulation and cheque and transmission deposits, is more directly related to income and expenditure, so its comparatively low growth indicates the economy is slowing.

January credit extension, the counterpart of money supply, fell R200m to R143,9bn. This reflects a R2,7bn increase in private-sector lending and redemption of nearly R3bn government debt. ■

TAX FM 30/3/90 (320)

SITE changes

Deputy Minister of Finance, Org Marais, has announced several important changes to the SITE system. Now:

☐ Taxpayers, other than married women, have been subject to SITE only if their net remuneration does not exceed R20 000. This limit has been increased to R40 000. Revenue estimates around 650 000 taxpayers will be released, by this increase, from the obligation to submit income tax returns;

☐ The SITE system applies to remuneration payable to married women without any ceiling on the amount. In the light of the other changes to the system of taxing income of married women announced in the Budget, this arrangement has become anomalous. To bring the position of married women into line with that of other taxpayers subject to SITE, the limit of R40 000 for SITE liability applicable to other classes of taxpayer will now apply to married women too. Married women carrying on a business, as well as those whose net remuneration exceeds R40 000 annually, must now submit returns.

About 22 500 married women, or around 4% of all taxpaying married women, will now have to submit returns; and

☐ When an employee receives an annual bonus or similar payment, his period of service may have been less than a full year. In

FM 30/3/90 (320)

this case, the SITE payment on the bonus has been proportionately reduced. Marais says this arrangement can be misused. The proportional reduction of SITE in these cases is, therefore, being discontinued.

Amendments came into operation from March 1, 1990. ■

STATE PENSIONS FM 30/3/90

Payout pressure

Far from cutting the R24bn deficit in the Government Service & Associated Institutions Pension Funds, reduction of the civil service could sink the funds deeper into financial trouble — in the short term. Retrenched personnel will be eligible for pension benefits earlier than would otherwise have been the case.

One of the reasons government has allocated R1bn to the funds from the 1989-1990 R7bn Budget surplus. Finance Minister Barend du Plessis said: "It is important these funds . . . should be kept financially sound in the light of the burden arising from early termination of service and rationalisation and (in the light) of the structural changes brought about by privatisation."

Effects of this will be seen first in the Defence Force, which has started its long-term cost-cutting by retrenching staff and not replacing retiring personnel. At end-April, the first batch of 2 300 retrenched personnel are expected to claim pensions.

Payouts in the civil service depend on length of service and age of the member. People leaving voluntarily with less than 10 years' service get a lump sum. Those with over 10 years' service get a lump sum and monthly pension based on years of service. However, if a person is retrenched, as well as these payouts he gets added service — one third of pensionable service or one third of period between age at retrenchment and normal retirement age, whichever is less. Maximum is five years.

The funds' problem will be temporary. With fewer employees, future State contribu-

MINING TAX F/M 30/3/90

No bonanza (320)

Don't count on the Budget concession on mining tax (a 25% allowance on ring-fencing) to achieve a gold mining boom, warns a leading analyst. When allowance is made for all the built-in adverse factors, the financial

FINANCIAL MAIL MARCH 30 1990

F/M 30/3/90 (320) F/M 30/3/90

hurdles to be overcome in launching a new deep level mine remain formidable.

The main points to emerge from discussions with Revenue and other research are:

☐ Only "new mines" started *after* March 14 1990 will qualify for the 25% ring-fencing allowance and may be developed on the back of an existing mine's tax base. Revenue takes a restrictive view of "new". If any preliminary site work started before March 14, a mine will be disqualified;

☐ Revenue confirms the 25% may be deployed from one mining sector to another. A gold mining company could open a platinum mine and claim the deduction. But significant problems are associated with such a scheme.

For one thing, there has been a trend towards tighter focus in the operations of quoted companies. Thus, Randfontein hived off exploration activities into Barnex; and

☐ Capital expenditure for a new mine (with accumulated 12% annual allowance) can only be redeemed when production has started. (Non-contiguous mining areas have always been subject to this restriction.) It takes some eight years to bring a new deep level gold mine into production.

To make meaningful use of an accumulated loss means making heroic assumptions about which mines will still be making big profits in eight years' time. Without a much higher gold price, even some high-grade mines may then be much less profitable.

We must also take account of what that tax base, arrived at after deduction of capex and lease payments from working profits, actually comprises. At present, only a handful of mines have a significant tax base — Driefontein, Vaal Reefs, Hartes, Kloof, Western Deep and, perhaps, Freegold.

If a deep level ore body turns out smaller or of lower grade than expected, it will obviously be a worse financial proposition than expected and the amount to be recovered out of the tax base of the operating mine will be so much larger. The 25% allowance might not be enough for this (especially when the 12% a year allowance on capex is taken into consideration). Bear in mind a new deep level gold mine could cost R2bn-R4bn.

It's more reasonable to hope to develop small, shallow gold mining propositions with a lead time of three to five years. Another interesting possibility is to piggy back base metal mines (which are generally shallow) on to the tax bases of profitable gold mines.

In the last resort, only a sustained significant rise in the real rand gold price can make new gold mines attractive again. ■

JEWELLERY INDUSTRY

Budget blow

FM 30/3/90

In his Budget speech Finance Minister Barend du Plessis gladdened jewellers' hearts when he relieved them of having to charge 20% ad valorem tax on all jewellery.

He probably didn't realise, though, that he had replaced ad valorem with GST. The shift has, probably unwittingly, cut into substantial sales to foreign tourists. (320)

The way the Sales Tax Act reads, jewellers did not have to charge GST while charging ad valorem, but now have to charge the normal 13% GST on everything they sell — including jewellery to foreign tourists — as soon as they no longer charge ad valorem.

Only South Africans (and permanent residents) had to pay the local ad valorem before the Budget. Tourists paid no tax and were the saviours of the retail jewellers.

Because of the dampening effect ad valorem had on sales to South Africans and permanent residents, most jewellers homed

(320)

in on tourists who bought, among other items, half of all diamonds sold over the counter. FM 30/3/90

All tourists needed to do to avoid paying any local taxes was produce their passports and fill in some forms. Showing these and the jewellery listed on the forms at an airport when they left proved to Customs & Excise they were taking their holiday purchases out of the country.

The Diamond Supply Co's Max Barker says tourists won't now be tempted to buy while on holiday. Addition of the 13% makes SA jewellery among the most expensive — if not the most expensive — in the world.

If it's not rescinded, the change may cost dearly in foreign currency and also many jewellers their businesses. Barker is worried. He sells 90% of his diamonds to tourists.

He recently went to the Far East to check jewellery prices and believes SA's "were a shade below those in other countries but, with this 13%, we'll be nearly 13% more expensive than diamond merchants and jewellers in other countries."

He adds: "Just before the Budget I sold a parcel worth US$300 000 to an American. He paid in dollars. I wouldn't have been able to do the same deal post-Budget. If I told him I would have to add the 13% he would have told me to keep my diamonds."

Inland Revenue's Fanie van Niekerk says that while ad valorem was in place Customs & Excise was obliged to ensure that jewellery bought by tourists left the country.

He adds: "We can't allow tourists to buy jewellery for local relatives. This can happen if there's no control. The industry is being hit by the way things are now. The Act will have to be amended to enable us to institute other control measures."

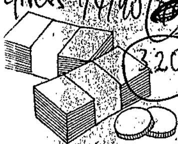
He adds: "We can, however, exempt those who buy goods here from paying GST if they can produce documents to prove that their purchases are delivered outside SA."

Barker says this won't help much.

"It has to be a really big purchase to warrant going to all the trouble of getting those documents. It involves a lot of paperwork and includes having diamonds sealed by the Diamond Board, proving they have left SA, and arranging payment through banks. It's hardly worth the effort for the less expensive stones we sell." ■

C/Press 1/4/90

320



MONEY TALK

Now is the time to start saving again

TRADITIONAL saving went out of fashion in South Africa during the 1980s because of the high rate of inflation and high taxation.

I want to draw the attention of readers to the Budget proposals discussed in Parliament this week. They contain, in effect, a new deal for savers.

The most important measure is probably the abolishing of tax on company dividends, while the tax exemption on interest from income has been increased from R1 000 to R2 000.

I believe this figure is still too low, but at least it is a beginning. At current rates of interest it means about R11 000 can be saved without having to pay tax on the interest.

If an investor has R11 000 in a savings account at (say) 18,5 percent interest, the end result would be a real return – that is 18,5 percent less the inflation rate of 15 percent – of 3,5 percent.

At least the purchasing power of your money saved will not decline as has been the case for so many years.

Lack of a real return on savings has been the major reason why the flow of savings to building societies – the most important medium for ordinary savers – has declined so dramatically.

The present monetary policy is to keep rates at a level that would ensure a real return. So make hay while the sun shines!

INTEREST REBATES TO FALL AWAY?

B/Day 2/4/90

(320)

The Budget announcement that dividends would be exempt from tax in fiscal 1991 raises the question of how interest on money borrowed to buy shares will be treated.

Accountants KPMG Aiken & Peat partner Alister MacKenzie says the normal test for deductibility of an expense is that it should be laid out for the purpose of producing income.

As dividends will no longer constitute income, any interest on a loan used to buy shares would — on the basis of the normal tests — *not* be deductible.

MacKenzie says this is not unlike the tax position of companies.

"Under the Income Tax Act, Section 10 (1) (k), dividends received by a company are tax exempt. Because the dividends do not in consequence of this constitute income, any interest or borrowings to purchase the shares is not tax deductible."

There are many share incentive schemes where executives are paying normal interest, low interest or, in some cases, no interest.

Before the Budget proposals, the actual level of the interest was measured against the "official rate" and any difference was taxed as a fringe benefit.

Any amount so taxed is deemed to be a deduction if the loan was used for qualifying purpose, he says.

On this basis, if shares were purchased on loan account any interest — actual or deemed — would be deductible up to two-thirds, since the dividends are taxable to the extent of two-thirds of the dividend.

"Under the new arrangement, because no amount is taxable, no interest — either actual or deemed — would be deductible."

Case law suggests that it could be argued that since the original purpose was to produce taxable income, this will continue to be a qualifying purpose for old loans.

Points to consider when opting for a 'tax haven'

(320) (85)

b) Day 2/4/90

SEVERAL points must be considered by individual investors and companies before taking advantage of the "tax haven" announced in the Budget on capital gains from the sale of listed shares.

Pride Consultants director Lionel Karp says Finance Minister Barend du Plessis' bold statement that JSE shares held for more than 10 years would not be subject to income tax must be looked at more deeply.

He says certain criteria must be met in order to have this "safe haven":

□ The taxpayer must decide whether he wishes to be subject to the new proposals or continue with the existing system;

□ Where shares bought in the course of trade and interest are claimed as a deduction, the taxpayer would have to recoup the interest claimed.

"There is one point, however, which has been made clear and that is where shares were bought as trading stock this could be converted to deemed capital."

Treatment

He says the next point to consider is the treatment of trading stock in a share-dealing company.

In an ordinary trading company, as opposed to a share-dealing company, should stock on hand fall below cost price because of damage, change of fashion and deterioration, the Receiver would allow a lower value to be used.

"However, in a share-dealing company the value of the shares held at year-end must be brought in at cost even if the shares had fallen below cost in the meantime."

His first example to illustrate the prejudicial nature of taxation is based on the individual:

If his sales during the year are R150 000 then add stock on hand at year-end, at market value of R50 000 (say original cost being R110 000). Total is R200 000, less purchases of R200 000 for the year, leaving profit subject to tax as nil.

The company example shows annual sales also at R150 000, plus stock on hand (valued at original cost) being R110 000, for a total R260 000. Less annual purchases of R200 000 and this leaves R60 000 profit which is subject to tax.

Karp says it can thus be seen that tax on R60 000 would have to be paid when in fact a *loss* was incurred.

B Day 2/4/90 (320)

Taking a legitimate tax saving

DIRECTORS of private companies and members of close corporations (CC) can shelter as much as 30% of their gross remuneration with life assurance products.

Ilpa fellow and Bottom Line consultants joint-MD Faizel Mahomed says an often overlooked advantage of converting a sole trader, or partnership, into a private company or CC is the opportunity it allows for legitimate tax savings.

Ideal

"An ideal tax shelter is a vehicle that allows you to save your income from tax while at the same time providing an inflation beating return.

"Several insurance-related investment products take advantage of the Income Tax Act to provide such vehicles.

"These are not loopholes but have been available for many years and form part of a retirement plan."

Mahomed says such persons can shelter 30% of gross remuneration and save an additional R3 500 annually by investing in:

- A non-contributory provident fund which shelters up to 20% of gross renumeration;
- A deferred compensation scheme which shelters a further 10%;

Privately

- A retirement annuity (RA) for the R3 500 taken out privately by the individual.

Explaining how the 30% comes about, Mahomed says up to 20% of one's salary can be paid by the company or CC into the provident fund instead of to the director or member, while another 10% goes into a deferred compensation scheme.

"These payments would be deductible by the company or CC under section 11 of the Income Tax Act, and the tax saving will be calculated at the marginal rate of the director or member (up to 44% maximum)."

FAIZEL MAHOMED

He says at retirement, the situation will be:

- The provident fund and deferred compensation plans are paid as lump sums to the director/member;
- One-third of the retirement fund will be paid as a lump sum while the balance of two-thirds must by law be invested to provide an annuity for life.

The tax-free amounts of the lump sums will be:

- R120 000 total for both provident funds and RA funds;
- R30 000 for deferred compensation schemes.

Thus the total tax-free amounts will be R150 000.

The balance of the RA funds and provident funds will be taxed at the average tax rate.

Marginal

In the case of deferred compensation schemes, up to three times the annual salary will be taxed at the average tax rate and the balance at the marginal rate.

In SA, individuals are taxed on the progressive tax tables — as your income increases over various thresholds each additional rand of income will be taxed at a higher tax rate (the marginal rate of tax).

Alternatively, the average rate of tax is the total tax paid divided by the total income.

A post-Budget example shows that if a married person's taxable income is R80 000, his marginal tax rate is 44%.

If he earns an extra R1 000 he will pay R440 tax on this.

His total tax on R80 000 income is R25 800, thus his average rate on R80 000 is 32%. On R40 000 taxable income, his marginal rate is 36% and his average rate 24%.

With careful planning, the average tax rate in the year of retirement can be reduced to, say, 14% by, firstly, retiring at the beginning of the tax year, preferably on March 1.

Arrears

Secondly, if any RAs are payable, elect to take these annually in arrears; for instance, the RA is then paid in the March of the following year.

Finally, the lump sum — in excess of the free portion — will be taxable.

However, Mahomed says 15% of these amounts can then be invested in a single premium RA.

"Such an investment will further reduce the taxable income in the year of retirement."

(320)

Share option schemes 'still deductible'

BARRY SERGEANT

EXECUTIVES with share purchase schemes should continue to claim two-thirds of the value of the deemed interest perk on their low interest loans as a deduction from taxable income, says Ernst & Young's Chris Hassall.

Hassall was commenting on the recent Budget, which Tax Advisory Committee chairman Prof Michael Katz described as "an assault on fringe benefits" or perks tax.

On the face of it, the announcement that dividends are to be tax free for individuals means that deemed interest on loans to fund share incentive schemes will not be tax deductible.

The normal rule is that for an expense to be deductible, it must be incurred in production of income. "Soft" loans used to fund share incentive schemes will now fund tax-free dividends.

BDay 7/4/90

Continue

The argument debated among tax experts has it that the deemed interest on such soft loans will thus no longer be as tax deductible.

Hassall says the Commissioner for Inland Revenue's office was unable to comment on whether it would continue to allow the two-thirds deduction.

A provision in the Income Tax Act allows deduction of interest as incurred if a taxable benefit is included in income as a result of a low interst loan. However, only two-thirds of this deemed interest may be deducted, as it is incurred against the earning of dividend income, he says.

Hassall says a principle arising out of tax case law is that once money has been borrowed for a qualifying purpose, the purpose for which it is used changes to one which does not qualify.

However, Hassall says income which was taxable is now no longer taxable. "Most important is that there is no direct connection between the original borrowing of the money and the recent amending legislation exempting dividends from tax."

Replace income tax with expenditure tax: expert

Sowetan 2/4/90

320

By JOSHUA RABOROKO

A LEADING South African economist, Professor Merton Degut, says it would be in keeping with the ethics of a developing economy, such as that in South Africa, if graduated income tax was replaced with an expenditure tax.

Addressing a briefing organised by the South African Institute of Race Relations in Johannesburg, he indicated, however, that transactions-based taxes could remain intact.

Degut, executive general manager of Nedbank and corporate strategic planner of the Nedcor group, is at present seconded to the University of the Witwatersrand where he is head of the department of economics.

In his address, he said that the present slow growth in the country, which was dictated mainly by the need to defend the balance of payments and to contain inflation, and which was transmitted by diminished business confidence, reflected the delayed adjustment which was now underway.

"We have sufficient reason to think it probable that, in time, the present mix of economic policies, including very importantly, the striving for a negotiated new constitution for a democratic South Africa, which would restore the economy to a satisfactory real growth (ie one which halted the increase in unemployment).

Adjustment

"The appropriate remedy for the growth malaise, therefore, seems to be an adjustment, not a restructure. But growth alone is most unlikely to produce the desired income distribution.

"To achieve this last I would restructure two elements of the economy - its taxation system and its production and ownership relationships".

Arguing strongly for an expenditure tax, Degut said that taxation was the appropriate tool to use as a means of influencing the distribution of income.

He explained: "An idea with huge implications and which would readily bring about many of the benefits being sought, has been proposed by respectable economists for some 325 years, by Hobbs, by John Stuart Mill and by Marshall, and yet resolutely rejected by politicians and their advisers.

"The reason, I suspect, is that it really would achieve what it sets out to do, that is, redistribute spending, and therefore production, towards goods and service demanded by the majority and not the minority in any society.

"That government or state-owned organisations, particularly if in a monopoly position, are not characterised by effective management, is disputed by very few."

"Thus many have thought that instead of collective or state ownership on a macro level, individual enterprises should be set up into ownership and management of the people employed in them and, that these labour-owned and managed enterprises should compete with each other," he said.

Unfortunately in cases in which the workforce is growing, this is very likely to result in increasing unemployment because the full worker cooperatives do not necessarily have an incentive to expand output and so employment.

Degut emphasised that he was not talking about the type of share participation schemes that have been used in the past in South Africa. His view was that a pure labour - capital partnership would consist of two kinds of share certificates.

Namibia looks at tax attractions

Star 3/4/90

WINDHOEK — Namibia's Finance Minister, Dr Otto Herrigel, says the government is working on a taxation policy to make Namibia more attractive to foreign investors.

According to a NamBC Radio News report, Dr Herrigel said the recently-announced South African budget held certain tax benefits which the Namibian government had to consider, as the country was in competition with South Africa.

On the question of importing cars directly now that most countries had lifted sanctions against Namibia, Dr Herrigel said that could only happen once specific rights for the country were negotiated with other members of the South African Customs Union.

Motor Industries Federation chairman Mr Claus Theissen said because Namibia was still a member of the union, a 120 percent import duty had to be paid on cars. — Sapa.

Wealth redistribution

Star 4/4/90

320

By Roy Cokayne

It would possibly be counter-productive if attempts to redistribute wealth in South Africa in future years included higher taxes on qualified and well-motivated people, says economic advisor to the Reserve Bank Dr Roger Gidlow.

"Such tax measures would run the grave risk of demotivating such labour and precipitating a fresh wave of emigration of skilled personnel," Dr Gidlow told a Damelin Management School graduation ceremony in Pretoria.

"The end result could then be an even greater shortage of skilled labour, reflected in further upward pressure on wages and salaries.

"At the same time the scope for economic growth would be stifled, which in turn would curtail job opportunties for other sections of the community."

Dr Gidlow said in spite of the pedestrian performance of the economy in the 1980s, the shortage of highly skilled labour remained a striking feature.

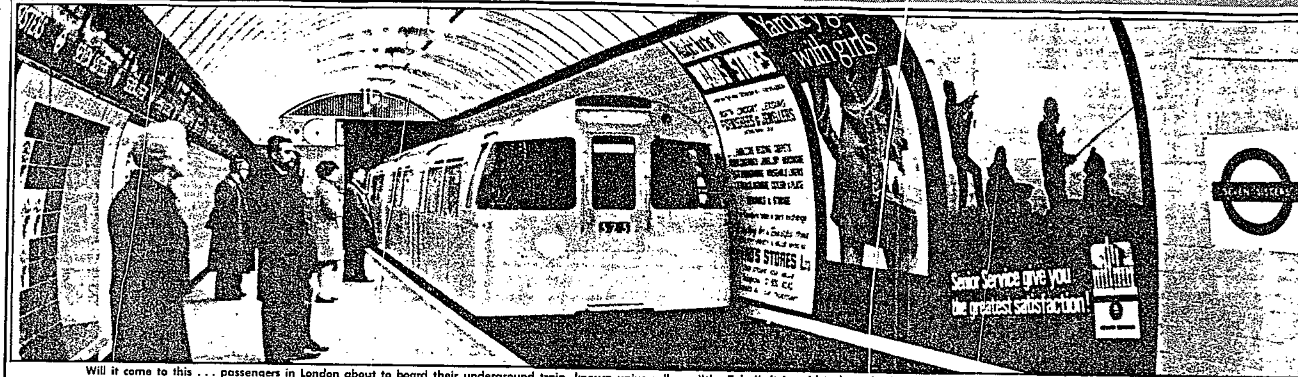
Shortages of labour were present in a surprisingly wide variety of areas and were not confined to highly skilled occupations.

The skills shortage had manifested itself in various ways apart from statistics on job vacancies.

One indication was the age of many people who were in high-level jobs in the 35 to 40 age bracket. Many senior executives in South Africa were much younger than their counterparts elsewhere in the world.

The proliferation of fringe benefits was another manifestation of the skills shortage. Such benefits were designed to retain key personnel within specific organisations.

South Africa was searching for a new political dispensation and if the country experienced a peaceful and evolutionary reform of its political institutions, with a strengthening of the free enterprise system, its economic prospects could improve markedly.



Will it come to this . . . passengers in London about to board their underground train, known universally as "the Tube". It is said to be subsidised by the taxpayer to the tune of R650 000 every day.

The fastest track to multimillion losses

Star 4/4/90 320

By James Clarke

The consortium currently studying mass-transport options for Johannesburg would do well to take note of a World Bank report which found that "metro" train systems can become massive drains of financial resources. JAMES CLARKE reports.

An underground train system for Johannesburg? Forget it.

Throughout the world these systems are proving to be not only cripplingly expensive, but they are very much hit-or-miss solutions to the problem of getting people to work.

The Star's London Bureau says even the famed and efficient London Underground is now being subsidised to the tune of R650 000 — a day.

Ramsay Milne, The Star's New York Correspondent, says New York's well-established subway is being subsidised by around R6 million a day.

But the biggest shock of all has come from a study, financed by the World Bank, that recently surveyed 21 mainly Third World cities with metro systems. The survey has particular relevance to Johannesburg.

Unchanged

All but three cities overran their budgets — some by incredible amounts. And not one carries anywhere near the number of passengers it had hoped for.

As for easing traffic congestion, only in one city — Pusan in South Korea — was any difference noticed. Bus services throughout remained more or less unchanged.

Generally all the metro systems were well run and provided good service and all greatly improved the availablity of public transport.

The greatest single benefit, according to the study, was the saving of commuting time.

But the bank noted that because metro fares are frequently higher than for the bus they are usually unaffordable to the poor.

In a report on the survey, the bank's chief of transport planning, Jeffrey Gutman says: "Providing public transport options at low fares, whether metros or buses, is not enough to lure people from their cars."

He says to reduce traffic congestion, cities will have to charge motorists for bringing their cars to town. Singapore has done this effectively and more and more cities are working towards pricing unessential cars out of the CBD.

What is the alternative? The report says in cities where no metro systems are built traffic will cease to grow when roads reach saturation point and driving becomes intolerable.

This will curb city growth. If the authorities then wish the city to grow further, a metro system may be necessary.

Most city authorities that now run metros, it transpired, were led to believe they would be financially viable, "which they certainly are not".

In Calcutta and Rio the cost overrun exceeded 500 percent. Only in Hong Kong, Singapore and Porto Alegre were the systems completed within budget.

Cost overruns are not unique to the Third World: Washington's metro was supposed to cost about R9 billion but the final cost was more than R16 billion. Operating costs were supposed to be about R145 million a year but proved to be R440 million. Atlanta, Baltimore and Miami, all with relatively new systems, recorded similar experiences.

In the 21 Third World cities there was an enormous gulf between the projected number of passengers and the actual number. Cairo expected 566 million a year but attracts only 150 million; Hong Kong came nearest: it expected 683 million and gets 553 million. Pusan expected 350 million but gets 79 million and Santiago expected 330 million but gets 139 million.

The World Bank notes that governments traditionally set low fares to attract passengers. Then, when they raise them, there are tensions and even street riots.

One of the major drawbacks of a metro is that it runs in tunnels and on tracks that must be built and maintained by the system. In the case of buses, the roads already exist and maintenance is not the responsibility of the operator.

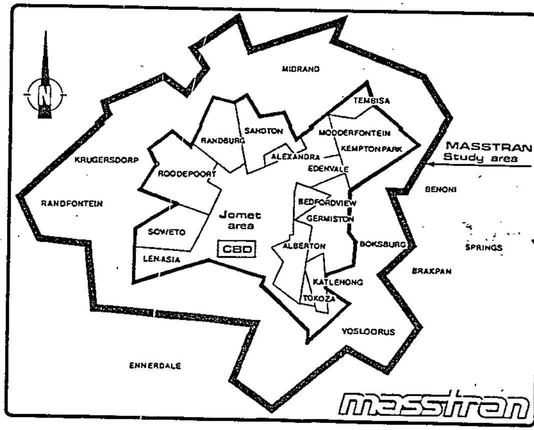
The report says only Hong Kong's system can be considered financially successful — even so, it received R2.2 billion in equity contributions from the government and free land.

Linked

Among the lessons to be learned from all this is that locating people in flats on top of the stations provides a captive market. Another tip offered by the bank is that a single fare should be charged by the city to allow a person to travel his daily route and switch from one mode of transport to another without having to dig into his pocket for more fare.

Ideally, buses and trains should be linked. Richard Scurfield, urban transport specialist with the World Bank suggests that before cities embark on metro projects they should study and price the alternatives, such as bus lanes, segregated busways, improvements in the road network, light rail systems, and extensions to suburban rail lines.

"Further," he said "because metros tend to benefit middle-income groups — since the poorest don't ride them — governments must decide if they really want to subsidise this part of the population."



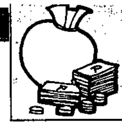
The thick line represents the outer limits of the region covered by Masstran — Masstran being a consortium of transport planners, engineers and others who are working on a mass transit system for the inner Witwatersrand.

After months of intensive homework Masstran is now forming regional public interest groups to discuss public needs and aspirations regarding commuting.

The power of the pen

FM 6/4/90

320



Pierre du Toit, a chartered accountant and advocate, is a partner at Arthur Andersen.

The Muses once said: "... but though they wrote it all by rote, they did not write it right." In agreeing rights and obligations between themselves, contracting parties often neglect to write them right. Often they do not bother to write them at all.

In our tax world not writing it can be as big a mistake as writing it wrongly.

A new reason for reducing business agreements to writing emerges when we note an increasing tendency to exclude from the ambit of new legislation, especially anti-avoidance legislation, agreements "... formally and finally signed" on by a given date.

Examples are the denial of certain allowances where the lessee is not a taxpayer (Section 12(2)(d) — Income Tax Act), lease ring-fencing provisions (Section 23A(1)(i)(b)), or the press announcement of December 15 on cutting industrial depreciation rates from 50%/30%/20% to a straight-line 20% annually. The implication in all these cases is that a taxpayer who contracted before those dates, but had not put his agreement in writing, may be hit retroactively.

There are few instances where the law prescribes an agreement must be in writing to be enforceable — examples being the sale of land, suretyships, certain credit agreements or assignment of copyrights or patents. It is surprising how many cases one still finds of material transactions not written. In intra-group transactions the tradition of oral contracting is even stronger.

There are, of course, many sound reasons why parties should record rights and obligations. The most important will always be to reduce the possibility of dispute when the honeymoon is over. Also, the discipline of the written word can highlight misunderstanding when a dispute can still be resolved without conflict.

In the tax area there has always been, however, good sense in written contracting, quite apart from the tendency of tying amendments to written agreements. In tax the onus to prove a case generally rests on the taxpayer. More taxpayers lose cases on an inability to prove facts than because of incorrect law.

A written contract, evidence of the exact rights and obligations between parties, can be decisive.

Does this include intra-group transactions? Especially so. A written contract may, in itself, indicate an arm's length orientation, while it forms a defence against Revenue cynicism about intra-group transactions with favourable tax effects for the group.

The last comments from the tax viewpoint, perhaps for another day: there is no point of written agreements if, in implementation, they are ignored; and when one does write it down, don't do it by rote but do it right.

When should share profits be shared with the tax man?

320

Cow 7/4/90

DEREK TOMMEY

SOUTH Africans are a contrary lot. While almost everyone else in the Western world sees capital gains tax as a horrible evil designed to keep them poor, here in South Africa many people are actually calling for such a tax.

It's enough, as someone once said, to make a strong man weep.

However, in spite of numerous pleas from the stock exchange and from many other interested people for such a tax, the Minister of Finance, Mr Barend du Plessis, has refused to oblige. He has gone the other way, granting the mining houses and other large financial institutions a considerable concession. They are now allowed to sell shares which they have held for more than 10 years without having to pay tax on any profits made from these transactions.

Fuller details

This ruling has been taken to mean that no taxes will be levied on the profits from share sales by any one providing the shares have been held for 10 years. But tax consultants are being guarded and hve not yet made a definite ruling on this. They are waiting for the Income Tax Bill which will contain fuller details of what the Government has in mind.

Interestingly, Mr du Plessis' concession also also served to confuse the situation. Some people, who apparently have not read their newspapers properly, believe that the profits on any shares sold within 10 years of purchase will be subject to tax.

This is definitely not true, Johannesburg tax consultant Michael Stein said. He said old rules defining what is a capital gain and therefore free from tax, and what is a trading profit still apply. The basic criterion used in this situation is for what purpose was the asset bought?

If it was acquired to make a quick killing then any profit made would be subject to tax. But if it was bought to provide, say, a growing long-term dividend income then any profits made on the sale of the asset should be regarded as capital gains and be free from tax.

All this seems fairly understandable. However, unfortunately there are grey areas.

A problem could arise, for example, when an investor buys a share as a long-term investment, and four weeks later the share price soars on a take-over bid and the investor decides to sell because he believes the share is over-priced, or will no longer give the return he expects.

Will the tax man believe him when he says he bought the share to provide him with income for his old age and that the profits made on the sale should not be subject to tax?

To clear up the uncertainties arising from a situation like this, stock brokers called for a definite ruling on what was capital gains and what was not, suggesting that in return for clarity on this matter capital gains should be subject to a small tax.

However, once you have a capital gains tax you then have another major problem especially in a country experiencing such a high rate of inflation as South Africa. This is to determine how much of the profits are the result of inflation and should not be subject to tax. This in itself could be as troublesome to the Inland Revenue as the current system is, and it is probably not surprising that it has veered away from tackling the capital gains problem.

Uncertainty

There has been support for a system which substituted an increase in the market securities tax for any taxes on share dealing profits. It was suggested that MST should be raised to 5 percent on all share transactions and the taxes on share trading should fall away. But the Government has announced that it plans to abolish MST altogether, which rules out this proposal.

Investors, therefore, still face considerable uncertainty on whether or not they will have to share the profits they make on the sale of shares with the tax man. All they can do is when they report their share purchases and sales they make it clear to the Receiver of Revenue which transactions were made for speculative purposes and which were long-term investments and hope they are believed.

Taxman opens the door on SITE refunds

(320)

BARRY SERGEANT

INLAND Revenue has given taxpayers a break by announcing it may be possible for employees to claim SITE refunds for over-deductions by employers.

In a statement yesterday, the Department of Inland Revenue said employers were required to rectify over-deductions of SITE, "but should they fail to do so for an acceptable reason, any taxpayer who does not have to submit a return may approach his Receiver of Revenue for a refund".

Tax experts said that prior to this statement, SITE had been a final tax.

Arthur Andersen's Pierre du Toit said: "I submit that this is a very good statement of goodwill from Inland Revenue."

The department's statement said: "Certain recent media reports have created the impression that once an employer has deducted SITE from an employee's net remuneration and the employee is not required to submit a tax return, any error by the employer in calculating the amount of tax can only be rectified by the employer."

Inland Revenue could now also rectify miscalculations, it said.

The department emphasised "how important it is for employees to ensure that their employers have in their possession IRP 2 forms indicating the employees' present personal circumstances, to prevent the deduction of incorrect amounts of tax from their remuneration".

Du Toit said: "But there is at least some ambiguity as to legal procedure — particularly those cases where the excess deduction results from some defect in the employee's provision of SITE information to the employer.

"In cases where the employee provides incorrect information, it appears that there is an argument that Section 102 of the

□ To Page 2

SITE refunds

BD 12/4/90 (320)

□ From Page 1

Income Tax Act, the 'refund route', may not be available. Reason is that the Fourth Schedule deems SITE computed on incorrect information to have been correctly calculated.

"With deeming it is arguable that Section 102 is not operative. Inland Revenue could resolve all the ambiguities if it looks at the relevant deeming section in the Fourth Schedule. It would be extremely useful for all taxpayers — and Inland Revenue — if an amendment was passed to cover the complete area."

□ Inland Revenue said regarding Deputy Finance Minister Org Marais' March 27 statement that many taxpayers would be relieved of having to submit tax returns under the SITE system, "attention is drawn to the fact that the proposed (SITE) amendments are applicable only to the 1991 and subsequent years of assessment.

"Tax returns for the 1990 tax year dated April 5 1990 — currently in the mail to taxpayers — must still be filled in and submitted to Receivers of Revenue on or before June 4 1990.

"No tax returns in respect of the 1990 year of assessment have been issued to married women since they are not required to furnish returns for that tax year."

FM 13/4/90 (320)

THE CCB (320)

No place to hide

The Receiver of Revenue is keeping an eye on the declared income of the so-called informers of the Civil Co-operation Bureau (CCB). According to evidence before the Harms Commission, they were paid vast amounts for their cloak and dagger operations. It is also expected that the estate of slain Swapo executive Anton Lubowski (who was a paid agent of Military Intelligence (MI) according to Defence Minister Magnus Malan), will be investigated by the Receiver.

In evidence, Judge Louis Harms heard that Cape Town businessman Edward James Gordon, alias "Peaches", who operated as an informer to CCB agent Slang van Zyl, had received almost R20 000 in cash for services rendered. Lubowski, on the other hand, received three payments from MI, totalling R100 000, which was paid into two Nedbank accounts. FM 13/4/90

In the case of Lubowski, all the MI payments — the last was made in June 1989 — were channelled through a close corporation, Global Capital Investments CC, which is registered at the Registrar of Companies in Pretoria. The close corporation used a Standard Bank account in Pretoria to make the various payments to Lubowski.

Though the chairman of the Standing Committee on Defence, Brentwood MP Boy Geldenhuys, indicated to the *FM* that slush fund payments to informers and agents may not be taxable, Finance Minister Barend du Plessis says the opposite. "In terms of the Income Tax Act, any payments for services rendered constitute gross income and are accordingly taxable."

Du Plessis' reply indicates that neither his department nor the Receiver of Revenue cleared any agents or Lubowski from paying taxes on the money received from the CCB or MI. And "the Income Tax Act provides that a penalty, commonly known as treble tax, shall be levied if a taxpayer omits from his returns any income which ought to have been included therein," warns Du Plessis.

It is still not clear where Lubowski, who lived in Windhoek, was paying taxes. But the financial statements of Global Capital Investments CC may show whether tax was deducted from payments to Lubowski.

The corporation was initially started as a registered company, Global Capital Investments (Pty) Ltd, until Pretoria attorney Ernst Penzhorn applied for the company to be converted to a close corporation in September 1985. In the same month, auditors Ernst & Whinney wrote that there was "no reason to believe that in the conduct of the abovementioned company's affairs a material irregularity has taken place as contemplated by Section 26(3) of the Public Accounting and Auditing Act of 1951."

In an interview with the *FM* last week, Penzhorn claimed that he had sold the corporation to a client (unnamed) in 1986 and that he had no knowledge of any payments to Lubowski. Penzhorn also denied any involvement with MI or that he had ever signed cheques made out to Lubowski's accounts (*Current Affairs* April 6).

Ernst & Whinney was appointed auditor in 1980, after the then auditors, N F Alberts (sr) & Co, had resigned. Last year, the company amalgamated with another auditing firm and is now registered under the name Ernst & Young.

Eddie Botha

simultane...

LIFE ASSURERS (320)

Tax favours

Are life assurers as badly treated by the taxman as they claim? Two weeks ago we argued life offices had a legitimate complaint when this year's Budget failed to extend tax concessions on dividend income to them and as Finance Minister Barend du Plessis again shelved his commitment to the trusteeship principle (*FM* March 30).

Life offices complain that competitive advantage has been tilted in favour of the banks and building societies. Building societies concede this but argue, in private, that the picture is incomplete and probably comprehensible only to a handful of actuaries or tax experts. FM 13/4/90

The Receiver of Revenue has developed special expertise in taxing mining and banking companies. Few, if any, tax officials understand the assurance business and, as a result, the Receiver is happy to adhere to well-tried, if well-worn, taxation principles.

Basically, life assurers have two types of business — taxed and untaxed. The former is linked to life and endowment policies and the latter to pensions or retirement annuities. The assurer pays tax on investment income accruing to life and endowment business but not on income accruing to pensions and RA businesses. It does not take much imagination to realise there is a considerable advantage to be gained if as much dividend income as possible can be credited to the untaxed side. (320)

Building societies argue that apportionment is done on the basis of the actuarial reserves of taxed and untaxed businesses — in other words, the present value of the eventual liability the assurer's actuaries calculate will accrue when policies, RAs or pension funds reach maturity.

Fair enough, except that taxed and untaxed actuarial reserves are calculated differently and that apportionment on the basis of actuarial liabilities does not accurately reflect the relative sizes of the two income flows.

Normally, for example, guarantees on life policies are small — the assurer promises only a small percentage growth even though he might have achieved a considerably better performance by the time a policy matures. Terminal bonuses, paid at the assurer's discretion, make up the difference between actual and guaranteed performance.

In contrast, pension business normally carries guarantees linked to the worker's final salary — and that implies a more generous performance guarantee than given on life business. The effect of this, so the argument goes, is that the actuarial valuation of pension business is based on higher reserve requirements than life business and that, in turn, means the apportionment of investment income for tax purposes is skewed towards the untaxed business sectors.

This is perfectly legitimate — it is permitted by the Income Tax Act of 1962 — but building societies believe the apportionment provides a hidden competitive advantage to assurance companies. They argue that assurers' management information systems are sufficiently sophisticated to allow investment income to be apportioned precisely between taxed and untaxed business, and need not be

FM 13/4/90 (320)

apportioned by means of the simple formula devised when computers with enormous number crunching power were not available.

Precise apportionment, says a Liberty Life actuary, is what happens. Particularly since the development of unit-linked policies whose guarantees are based on the performance of an underlying managed investment fund. Income from the managed fund is thus allocated directly to different types of policies — taxed or untaxed — and there is little scope for bias in the calculation of tax liability. These days, less than 20% of the current policies issued by a life office such as Liberty are not unit-linked, so there is little bias because of the older ways of calculating tax.

Building societies' next concern is the trusteeship principle — life offices argue that, because they effectively act as a trustee for their policyholders, they should be taxed on the same basis as those policyholders. The assurers would like to be taxed at the average rate applicable to policyholders, not at 45% — a whole percentage point above private individuals' top marginal tax rate.

The argument is reasonable as far as it goes, but tax is levied on income less 55% of expenses. And the building societies point out that private individuals who manage their own portfolios cannot offset any implied management fees against income for tax purposes. Nor can they offset their policy marketing costs and commissions.

So assurers get tax relief which is not available to policyholders and, under those circumstances, the life offices' competitors claim, they should not be allowed to claim some tax-deductible expenses, if the trusteeship principle is to be strictly interpreted for assurers.

Jim Jones

(320)

When opportunity knocks . . .

FM 13/4/90

Ian MacKenzie is a partner at Ernst & Young.

A keystone of our tax system is the accrual basis of determining taxable income. This means that, to constitute income, an amount does not have to be received by the taxpayer; it merely has to accrue to him.

There is no definition in the Income Tax Act of *accrue* but, in practice, the principles laid down in the well-known Lategan case are generally applied, to treat as accrued any amount to which the taxpayer has become unconditionally entitled, even if actual receipt is deferred until later.

In simple terms, if a trader delivers goods to a customer but agrees the price will be payable only in a year's time, the full consideration accrues to him on delivery. He will, therefore, have to include in taxable income the value of the outstanding debt.

The only statutory relief against possibly having to pay tax before the price is received is the so-called suspensive sale debtors' allowance, in Section 24.

This eliminates from taxable income any profits included in debtors, thereby returning the trader to an effective cash basis of taxation. It applies, however, only to sale agreements under which at least 25% of the total selling price becomes due and payable after not less than 12 months and transfer of ownership is suspended until a specified portion of the price has been paid. The 25%/12-month limitation was introduced in the 1987 tax year to overcome legitimate tax planning which was perceived by Revenue as an abuse of the allowance.

The commissioner also has discretion over whether the allowance should be granted in a particular case. It is, therefore, of benefit only to a few taxpayers.

But a recent Appellate Division decision, which confirmed the judgment in an earlier Special Court case, has opened up an opportunity (possibly short-lived) for any trader who grants credit to customers to reduce legitimately taxable income by taking into account that his accrued income will be received in cash only in the future.

The principle upheld in the judgment is in effect the second leg of the Lategan principle, which has been ignored by Revenue and taxpayers since 1926, but has now been successfully claimed by a taxpayer.

In Lategan, Watermeyer J confirmed the debts in question had to be regarded as accrued income but noted that "... something had to be deducted from face value to allow for the fact that they were not payable at the close of the year of assessment. Assuming that the right to receive instalments had not been converted into money, by sale or otherwise during the year of assessment, the value to be fixed (apart from any question whether the debt was good or bad) would be the present worth of the instalments at the end of the year of assessment.

To ascertain the present worth of debts not yet due and payable at the year-end, a trader could undertake a simple net present value calculation or obtain valuation from banks and factoring houses. In either case he should ensure that his basis of valuation is commercially defensible.

He must also apply this valuation only to debts which are not due and payable at year-end. If the term granted a customer is, say, 90 days and it expires before year-end, but the debtor has not paid by then, the face value of the debt cannot be reduced.

To take advantage of this principle the taxpayer will have to spend some time analysing debts and valuing those due only after year-end. The benefits of the reduced tax liability will make this worthwhile, particularly if the outstanding credit period is long.

A further implication is that, having included valued debt in income in year one, the trader will not have to again include the amount actually received in year two. The reduction in value of debts in year one will, therefore, become a permanent difference.

I strongly recommend that any taxpayer in a position to qualify for this reduction in taxable income should undertake the exercise and claim the benefits in the next return submitted. Anyone who does not do this now may well lose because it is not impossible that Revenue will amend the Act to prevent future application of the decision.

320

Deductions that help to ease the pain

By Des Kruger, a consultant with Deloitte Haskins & Sells

MOST taxpayers are concerned with two important aspects of their tax return — deductions and rebates. This article deals with deductions which appear in Part 3 of the return and rebates in Part 7.

Medical expenses (Part 3.1) and expenses relating to a physical disability may be deducted only in so far as they exceed R1 000 or 5% of taxable income, whichever is the greater. Claimants should remember:

☐ All medical expenses are deductible for persons over 65; and,

☐ Because medical expenses incurred by employees will probably not exceed these limits if they are under 65 — except in certain exceptional circumstances — it would be far more advantageous if their employer bears all medical aid contributions. Such amounts will be deductible in the employer's hands.

This arrangement can provide large benefits when compared with the more usual arrangement of splitting such costs between employer and employee.

Under the section on donations (Part 3.3), a deduction is allowed for donations to any university or college or approved educational fund up to the greater of R500 or 2% of the taxpayer's taxable income.

Pension fund contributions (Part 3.4) may be deducted up to a maximum per person of the greater of R1 750 or 7,5% of remuneration from retirement funding employment.

Scope may exist for increasing contributions (and therefore also benefits), with the consent of the employer, where they are based on a lower percentage than 7,5% or on the basis of a percentage of only part of remuneration earned (some funds exclude fringe benefits or bonuses from pensionable remuneration).

Arrear pension fund contributions (Part 3.5) are deductible up to R1 800 a year. Anything over the limit may be carried forward to the next year of assessment.

Pension benefits can be improved by making contributions in respect of past service if your pension fund rules provide for this. Arrear contributions can be particularly beneficial to older employees.

As with pension fund contributions, current retirement annuity fund contributions (Part 3.6) are deductible per taxpayer up to a maximum of the greater of

(a) R1 750; or

(b) R3 500 minus any deduction claimed in respect of pension fund contributions; or

(c) 15% of taxable income excluding any taxable income from employment which is taken into account in determining the pension fund contributions.

A further deduction has been granted to working married women who are subject to Site only. In this case a spouse will be entitled to a maximum deduction of the greater of (c) or half of (a) or (b).

That is, both spouses will be entitled to a deduction for contributions to a retirement annuity fund, but subject to different limitations.

In terms of a concession granted by Inland Revenue, a working married woman's contributions may be claimed by her husband, but in this case her husband will only be entitled to claim a total deduction of the greater of (a), (b) or (c).

Full use should be made of the extension of the deduction for married women earning net remuneration subject to Site only.

Reinstatement retirement annuity fund contributions (Part 3.7) are deductible up to R1 800 a year. Married women subject to Site may claim half the amount.

Although contributions to a provident fund are not deductible, a major benefit of this type of fund over a pension one, for example, is that you obtain the whole benefit as a lump sum, albeit taxable subject to certain tax concessions.

However, if your employer is prepared to make the fund non-contributory and Inland Revenue agrees, an effective deduction can be obtained.

A deduction may be allowable for entertainment (Part 3.8) and travelling expenses (Part 3.9). These issues and planning opportunities were covered in the first article of this series.

Other allowable expenses may be claimed under Part 3.10. They include:

☐ A wear and tear on implements, utensils and articles used for trade. Examples include computer equipment (20%), textbooks (33 1/3% - straight line) and furniture and fittings (10%);

☐ Home study;

☐ Certain expenses calculated on a pro-rata basis are deductible if a taxpayer is required by his employer to work at home. Expenses that could be claimed include bond interest, electricity, servants wages etc.

The use of the home study should be incorporated in the taxpayer's employment contract because Inland Revenue may want proof that it is used to earn income. The home study must be used wholly or mainly for work. If it doubles as a TV lounge, the deduction will not be allowed;

☐ Income continuation premiums. Premiums payable on income continuation policies are tax deductible;

☐ Interest. Where you have incurred an interest expense in acquiring an investment which will give rise to income, such expenditure is deductible.

For example, if you borrowed money to acquire shares, then for the 1989-90 tax year you may claim a deduction of that portion of the interest which is linked to the percentage of the divident income that is taxable in your hands.

Because dividends are exempt with effect from the 1990-91 tax year, no deduction will be available in future.

Wife's earnings allowance (Part 3.11) and joint assessment allowance (Part 3.12) deal with deductions in respect of a wife's earnings.

A wife's earnings allowance may be claimed up to the greater of R2 250 or 22,5% of her net earnings from employment or trade exercised independently of her husband and which is not subject to Site.

A further allowance — joint assessment — may be claimed for a wife's earnings. This allowance is the lesser of R4 650 or the applicable percentage of the wife's taxable earnings (maximum 30%) reduced by 20% of the wife's taxable earnings over R16 000.

These allowances will be calculated by the Receiver. Remember that if your wife is subject to Site only but received a travel allowance, the allowance will be taxable in your hands. However, in that case you will be entitled to the wife's earnings allowance (WEA) and the joint assessment allowance (JAA).

The WEA and JAA (JAA in respect of the taxable portion of the travel allowance) will no longer be applicable from the 1990-91 tax year since a wife is to be taxed separately on all her income, except investment income and excessive income connected with her husband's trade.

Rebates (Part 7) are deductible from the tax payable by a taxpayer. These rebates may be claimed for the 1990 tax year:

☐ Primary rebates — married persons R1 250, unmarried R850; and,

☐ Secondary rebates — child R100, taxpayer 60-64 years, another R120, and taxpayer 65 years and older, another R1 330.

Married persons are:

☐ A married male person who is not living apart from his spouse but whose separation is likely to be permanent;

☐ A widower or widow; and,

☐ Any person entitled to a rebate for a child.

The last category is very important. This means that in the case of an illegitimate child both the mother and the father may be treated as married persons, even if one or other provides only partial maintenance.

If a man is married for part of a year he is taxed as a married person for the whole year.

The rebate of R100 a child is allowed for each child, including adopted children and stepchildren.

The rebate can be claimed for a child who was:

☐ Alive for any period in the tax year;

☐ Unmarried and under the age of 18 years;

☐ Wholly or partially maintained by the taxpayer, under the age of 21 and is not liable to pay normal tax;

☐ A full-time student wholly or partially maintained by the taxpayer, under the age of 26 and not liable to pay normal tax; and,

☐ Physically or mentally incapacitated, wholly or partially maintained by the taxpayer and not liable to pay normal tax.

FOCUS ON YOUR TAX FORM

THIS is the second article in a series intended to highlight some tax-planning opportunites using the basic structure of the annual IT 12 return.

The article is based on Pay Less Tax, a booklet published jointly by Business Times and Deloitte Haskins & Sells.

Copies can be obtained from Pay Less Tax, Private Bag X31, Claremont, 7735. The cost is R21 (including GST and postage).

More employers face SITE

B/Day 17/4/90

Business Day Reporter

SA's largest monthly payroll bureau, run by First National Bank (FNB), estimates that 85% of the salary payments it processes each month for nearly 1 000 companies will now fall within the new SITE limit, as announced by government recently.

It says this is a 17% increase on the number of wage-earners previously subject to SITE, before the limit for submitting returns was raised from R20 000 to R40 000 per annum.

320

"We believe these figures demonstrate the greater onus that has now been placed on employers in processing their staff's salaries," said FNB electronic banking head Ken Boyd in a statement.

"This responsibility is perhaps underrated as the legislation, although seemingly simple in theory, is very complicated in practical terms.

"A number of those newly affected are also subject to fringe benefit tax, which further complicates the issue," he said.

He felt it was crucial that all calculations were correct, which placed "a tremendous burden" on employers.

Boyd believed there were advantages to having a bureau handle a payroll system.

"A bureau has the expertise to handle specialised areas like taxation and its payroll service generally runs off a powerful and flexible software package that can easily be modified to accommodate any new statutory legislation or changes in companies' requirements.

"For instance, the bank's Interpay payroll service is customised to suit the individual needs of each customer.

"Employers can rest assured that payroll calculations are correct as they are being handled by experts.

"A bureau also offers the advantages of confidentiality and reduced stationery costs. Overall, it is more cost effective," he said.

FNB's payroll bureau processes nearly 2-million salary payments a year for a variety of companies countrywide.

(2) whether he or his Department has investigated the (a) economic and (b) juridical implications of these steps; if not, why not; if so, what are these implications, in each case? B718E

The MINISTER OF MINERAL AND ENERGY AFFAIRS AND PUBLIC ENTERPRISES:

(1) No. A final decision regarding the granting of mining rights will be taken after the completion and evaluation of the environmental impact assessment which is presently being undertaken.

(a) and (b) Fall away.

(2) Falls away.

*20. Mr R M BURROWS—Administration and Economic Co-ordination. [Question standing over.]

GST on prescribed medicines: revenue

*21. Mr M J ELLIS asked the Minister of Finance: Hansard 17/4/90

What was the total amount of revenue received by the Government from general sales tax on prescribed medicines for the 1988-89 financial year? 320 B738E

The MINISTER OF FINANCE:

Inland Revenue does not require registered vendors to furnish the particulars of sales tax collected on each type of commodity as this would place an unreasonable administrative burden on the business sector. For this reason separate statistics of collections on prescribed medicines are not available. The Pharmaceutical Society of South Africa has estimated that the sales of prescribed medicines for the 1989 calendar year amounted to R1 040 million. If one assumes that sales tax was payable on the whole of this amount the revenue collected would amount to R120 million. These figures exclude prescribed medicines supplied by medical practitioners and hospitals.

GST on prescribed medicines: abolition

*22. Mr M J ELLIS asked the Minister of Finance: Hansard 17/4/90 320

Whether consideration is being given to abolishing general sales tax on prescribed medicines; if not, why not? B739E

The MINISTER OF FINANCE: 320 Hansard 17/4/90

No. Representations have on numerous occasions been made for prescribed medicines to be exempted from general sales tax and careful consideration has been given to the matter. It is, however, essential, particularly in the case of an indirect tax such as sales tax, for the base to be as wide as possible. If an exemption was granted in respect of prescribed medicines it would not only open the door for exemptions in respect of other equally meritorious cases, but would mean that the loss of tax would have to be recovered by an increase in the rate of tax.

Colonel Bob Denard: residence permit

*23. Mr L FUCHS asked the Minister of Home Affairs: Hansard 17/4/90

(1) Whether a temporary or permanent residence permit has been issued to Colonel Bob Denard; if so, (a) for how long and (b) why;

(2) what is the total anticipated cost to the State of providing refuge to Colonel Denard;

(3) whether he will furnish details on the present whereabouts of this person; if not, why not; if so, (a) where is he residing at present and (b) at whose expense is he residing there? B740E

The MINISTER OF HOME AFFAIRS:

(1) A temporary residence permit has been issued to him. An extention will be required from 1 May 1990. Colonel Denard's residence in South Africa must be seen against the background of the turbulances which occurred in the Comores in December 1989. On occasion my colleague, the Minister of Foreign Affairs, has made public statements on the events. It boils down to the fact that both the former government of the Comores and the French Government have requested South Africa to accommodate Colonel Denard. The South African Government was initially not in favour thereof, but after repeated appeals by the two aforementioned governments, the government, for the promotion of peace and quiet in the Comores, agreed to be of assistance. In the meantime discussions

with the French Government regarding Colonel Denard's position and future are being conducted.

(2) None. Hansard 17/4/90

(3) No. He is being housed privately and it is not deemed expedient to furnish details.

Mr Lennox Sebe in SA

*24. Mr L FUCHS asked the Minister of Foreign Affairs:

(1) Whether Mr Lennox Sebe is currently residing in South Africa; if so, (a) under what conditions has he been granted permission to do so and (b) at what total anticipated cost to the State;

(2) whether he is to be granted political asylum; if not, why not; if so, for what reasons?

Hansard 17/4/90 B741E

The MINISTER OF FOREIGN AFFAIRS:

(1) Yes.

(a) Under circumstances where he left his country as Head of State and where a coup d'état was carried out in his country during his absence. He was not unwilling to return to the Ciskei. After consultation with the South African Embassy in the Ciskei and the National Council of the Ciskei, he was advised not to return to the Ciskei for the time being in the interest of the promotion of peace and quiet in the Ciskei, which is at the same time in the interest of South Africa. Further, Mr Sebe is receiving medical treatment in South Africa.

(b) He and his spouse are being accommodated in a house which was available. He pays for their upkeep himself.

(2) No request for political asylum has been received.

Retirement annuity funds: extension of retirement age

Hansard 17/4/90

*25. Mr H H SCHWARZ asked the Minister of Finance:

Whether any consideration has been given to extending the age of retirement in respect of retirement annuity funds beyond 70; if so, what conclusion has been arrived at; if not, why not? Hansard 17/4/90 B743E

The MINISTER OF FINANCE:

Yes. It was concluded that the age limit should not be extended as the purpose of allowing a deduction in respect of contributions to retirement annuity funds is to permit a person to defer tax on a portion of his income during his productive years until after his retirement. Very few people remain productive after attaining the age of 70 years, and it appears that any raising of the age limit would mainly benefit those senior citizens fortunate enough to have more than sufficient income to meet their needs, and who merely wish to further defer the payment of tax.

Durban prison at Westville: emergency detainees

*26. Mr R M BURROWS asked the Minister of Law and Order:

(1) Whether any persons are being detained in terms of the state of emergency at the Durban Prison in Westville; if so, how many; Hansard 17/4/90

(2) whether he will make a statement on the matter? B744E

The MINISTER OF LAW AND ORDER:

(1) Yes, 18 persons on 17 April 1990.

(2) The detention of these persons is as a result of the conflict situation in Natal and is in the interests of the maintenance of law and order, the public safety and the termination of the statement of emergency.

Minister/Mandela: meetings outside prison

*27. Adv S C JACOBS asked the Minister of Justice:† Hansard 17/4/90

(1) (a) On how many occasions did he meet Mr Nelson Mandela outside prison premises and (b) (i) where and (ii) when did each such meeting take place;

(2) whether he was accompanied by any other Cabinet Ministers at these meetings; if so, by what Ministers;

(3) whether the constitutional future of South Africa was under discussion at any of these meetings; if so, at which meetings? B752E

REPUBLIEK VAN SUID-AFRIKA

REPUBLIC OF SOUTH AFRICA

Staatskoerant
Government Gazette

Verkoopprys • Selling price
(AVB uitgesluit/GST excluded)
Plaaslik 60c Local
Buitelands 85c Other countries
Posvry • Post free

As 'n Nuusblad by die Poskantoor Geregistreer

Registered at the post office as a Newspaper

Vol. 298 PRETORIA, 20 APRIL 1990 No. 12433

PERSVERKLARING

deur die

Kommissaris van Binnelandse Inkomste

OOR STANDAARD INKOMSTEBELASTING OP WERKNEMERS (SIBW) EN VERWANTE AANGELEENTHEDE

Ter aanvulling van die Adjunk-minister van Finansies se persverklaring op 27 Maart 1990 word daarop gewys dat die voorgestelde wysigings slegs ten opsigte van die 1991 en daaropvolgende jare van aanslag van toepassing is. Die belastingopgawes vir die 1990 jaar van aanslag, met die uitreikingsdatum **5 April 1990,** wat tans aan belastingpligtiges gepos word, moet dus steeds deur hulle ingevul en voor of op 4 Junie 1990 by die verskillende kantore van Ontvangers van Inkomste ingedien word.

Daar is nie belastingopgawes vir die 1990 jaar van aanslag aan getroude vrouens uitgereik nie aangesien dit nie vir hulle nodig is om sodanige opgawes vir daardie jaar van aanslag te verstrek nie.

Vir die 1991 jaar van aanslag (1 Maart 1990 tot 28 Februarie 1991) is alle belastingpligtiges, met inbegrip van getroude vrouens, wie se enigste inkomste netto besoldiging is wat nie die perk van R40 000 per jaar oorskry nie, slegs aan SIBW onderhewig. Die SIBW wat daarvan afgetrek word, verteenwoordig hul finale aanspreeklikheid vir belasting en gevolglik hoef hulle nie 'n belastingopgawe vir die 1991 jaar van aanslag te verstrek nie.

Enige belastingpligtige, dit wil sê ook 'n getroude vrou, wie se netto besoldiging nie R40 000 per jaar oorskry nie maar wat ook belasbare inkomste uit ander bronne ontvang, soos byvoorbeeld 'n besigheid of boerdery, sal egter 'n belastingopgawe vir die 1991 jaar van aanslag moet verstrek.

'n Getroude vrou se beleggingsinkomste—dit wil sê, rente word vir die 1991 jaar van aanslag steeds in haar man se hande belas soos wat tans die geval is. Waar haar netto besoldiging nie R40 000 per jaar oorskry nie en sy ook beleggingsinkomste het, sal sy nie 'n opgawe vir die 1991 belastingjaar hoef te verstrek nie aangesien haar beleggingsinkomste in haar man se hande belas sal word.

PRESS RELEASE

320

by the

Commissioner for Inland Revenue

CONCERNING STANDARD INCOME TAX ON EMPLOYEES (SITE) AND MATTERS RELATED THERETO

Further to the Deputy Minister's press statement of 27 March 1990 attention is drawn to the fact that the proposed amendments are applicable only to the 1991 and subsequent years of assessment. The tax returns for the 1990 tax year bearing the date of issue **5 April 1990,** which are currently being mailed to taxpayers, must still be filled in and submitted by them to the offices of the Receivers of Revenue concerned on or before 4 June 1990.

No tax returns in respect of the 1990 year of assessment have been issued to married women since they are not required to furnish returns for that tax year.

For the 1991 year of assessment (1 March 1990 to 28 February 1991) all taxpayers, including married women, whose only taxable income consists of net remuneration which does not exceed the limit of R40 000 per annum, will be subject to SITE only. The SITE deducted from such remuneration will represent their final liability for tax and they will consequently not be required to submit tax returns for the 1991 year of assessment.

Any taxpayer, including a married woman, whose net remuneration does not exceed R40 000 per annum but who also receives taxable income from other sources, such as a business or farming, will, however, be required to furnish a tax return for the 1991 tax year.

A married woman's investment income, i.e. interest, will still be taxed in her husband's hands as is the case at present. Where her net remuneration does not exceed R40 000 per annum and she also receives investment income she will not be required to furnish a return for the 1991 tax year since her investment income will be taxed in her husband's hands.

320

Investments that escape Receiver's net

(320) S Times 22/4/90

By Des Kruger, a consultant with Deloitte Haskins & Sells

TAX planning opportunities in investments, using the basic structure of parts 8, 10.1 and 15 of the annual IT 12 return, are examined this week.

Income from investments can be split into two basic categories:
- ☐ Profit/loss on disposal of investment (for example, shares, fixed property) and,
- ☐ Income derived from investments, including interest, dividends and rent.

The purchase, sale and redemption of certain investments are covered by part 10.1 and part 10 (Schedule A). Capital profits on disposal of investments are not taxable, whereas revenue profits are taxable.

The most important criterion for determining the nature of the profit is your intention in acquiring the investment. If you bought the investment to retain it as a source of income from rent, dividends and interest or for domestic use (as a residence) and not merely to resell it at a profit, the profit on sale will most likely be treated as capital.

It follows that if you had a speculative intention in acquiring the asset, the proceeds on sale would be of a revenue nature, and would therefore be taxable.

Some guidelines adopted by the courts in determining the intention are:
- ☐ The nature of the business/occupation of the taxpayer;
- ☐ The frequency of his/her past involvement in similar transactions;
- ☐ The length of time held;
- ☐ The nature of the asset; and,
- ☐ Dealings with proceeds on sale.

It is therefore important to choose your wording carefully when completing Schedule A, parts A (ii) and B (ii), which seek the purpose for which the investment was acquired, and Schedule A, Part B (vii), which determines the reason why it was sold.

Part 2.4.2 deals with annuities, excluding retirement annuities, bought from an insurer for a lump sum.

An amount representing the capital element will not be taxed if the annuity is bought and paid for by a natural person.

[illegible]

The method of calculating the capital element can have favourable tax consequences since it spreads the capital element over the probable duration of the annuity.

Interest and dividends received from investments are to be disclosed in part 15. The exemptions for the 1989-90 tax year are:
- ☐ A maximum of R1 000 of interest plus dividends on certain building society shares, which are not otherwise exempt, is free of tax.
- ☐ A certain percentage of dividends, varying from 100% to a third, is exempt from tax. The minimum exemption of a third applies where income exceeds R4 600. The investor in unit trusts must be aware of the fact that from a tax point of view dividends received from a property trust are not treated as dividends but as rental income. Therefore, the dividend exemption will not apply.
- ☐ Expenditure incurred in relation to earning dividend income — for example, commission paid, interest paid, banker's fees etc. — may be deducted from dividend income. The dividend exemption will, however, apply to net dividend income.
- ☐ With effect from March 1, 1990 (the 1990-91 tax year) the interest exemption has been increased from R1 000 to R2 000, and all dividends received will be tax free. The taxpayer should thus plan his investments in such a manner that he will maximise his/her "after-tax" income.

> **FOCUS ON YOUR TAX FORM**
>
> THIS is the third and final article of a series intended to highlight some tax-planning opportunites using the basic structure of the annual IT 12 return.
>
> The article is based on Pay Less Tax, a booklet published jointly by Business Times and Deloitte Haskins & Sells.
>
> Copies can be obtained from Pay Less Tax, Private Bag X31, Claremont, 7735.
>
> The cost is R21 (including GST and postage).

[illegible]

The largest investment many people will make in their lives is the purchase of a home. Except to the extent that you are allowed a deduction for any home office, you will not usually get any deductions for the costs of running your home.

If you are required to work at home you may, however, deduct certain expenses, such as bond interest, electricity, cleaning and servants' wages on a pro-rata basis (Part 3.10).

If you need to work from home it is a good idea to incorporate the use of a room in your house in your employment contract and to request your employer to pay you an allowance for its use because Inland Revenue may request proof that it is used to earn income.

Expenditure relating to rental income may be deducted from such income (Part 8) — for example:
- ☐ Bond interest;
- ☐ Insurance;
- ☐ Rates and taxes;
- ☐ Repairs;
- ☐ Wear and tear on furniture, carpeting etc. (if fully furnished).

The taxpayer must exercise caution when supplying purposes for acquiring property (Part 8 (a) and Part 10, Schedule A (A) (ii) so as to ensure that expenditure and net rental losses will be deductible — for example, expenditure incurred in respect of property acquired for ultimate retirement may be classified as capital expenditure, and will thus not be deductible. This would not apply had the property been acquired for earning rental income.

One short point on buying a new home: Examine what investments you have producing taxable income. It may pay you to realise these investments rather than borrow because of the tax saving. (Interest payments on your bond are normally made from "after-tax" income).

[illegible]

Unplanned decisions as regards endowment policies could result in unforeseen tax (Parts 2.2.2 and 10.2). The following could cause any gain on a policy to become taxable:
- ☐ Altering any of the terms and conditions of the policy;
- ☐ Surrendering all or part of the policy;
- ☐ Making it paid-up within the first 10 years unless the premiums do not exceed R4 000 a year;
- ☐ Accepting loans or cash bonuses in some cases.

Hansard 24/4/90

resentatives (namely that members did not perform their normal duties).

(2) Yes.

(a) Grievances in connection with alleged discrimination in respect of work; living quarters; social and outdoor activities; facilities on prison grounds as well as allegations that the existing communication channel does not function effectively and that Commanding Officers are not accessible enough to hear members' grievances.

(b) In order to put these allegations into perspective, I wish to direct the Honourable member's attention to the fact that the dealing with the complaints and grievances of personnel is a continuous process. Specific grievances have come to attention recently. Although certain grievances do have substance, there are others with little or no substance and are attributable to wrong/distorted perceptions which have already been rectified/are in the process of being rectified.

The Prisons Service is currently compiling a handling strategy which will provide Commanding Officers with guidelines to solve the grievances which have not yet been resolved, as far as possible to the satisfaction of all parties.

One of the stumbling blocks, namely the provision of medical benefits to dependents of Black members, have recently been resolved. The decision to provide this service to members was taken in April 1989, but funds only became available on 1 April 1990.

Other stumbling blocks such as the establishing of better quality housing; establishment and upgrading of sports and recreational facilities; the provision of state transport between home and place of work where no public transport is available, are given ongoing attention, but are coupled to financial realities and will not occur overnight.

Hansard 24/4/90

For purposes of complaints and grievances by members of the South African Prisons Service, a communication channel exists which provides that complaints and grievances may be forwarded to the highest level. All members are aware of this communication channel and it has always been the policy of the South African Prisons Service to deal actively with complaints and grievances brought to its attention.

Inland Revenue employees: remuneration

*7. Mr D J DALLING asked the Minister of Finance: Hansard 24/4/90

Whether any employees in the Finance Division: Inland Revenue are remunerated on a commission or revenue-collected basis; if so, what total amount was paid out on this basis in 1989; if not, (a) what is the basis of remuneration for these employees and (b) what total amount was paid out on this basis in the said year? 320 B766E

The MINISTER OF FINANCE:

No — No personnel of Inland Revenue is remunerated on a commission basis or on the basis of tax collected. It follows that no remuneration was paid on this basis during the 1989/90 or any other financial year.

(a) The basis of remuneration is according to fixed salary scales as prescribed by the Commission for Administration.

(b) The total amount paid on this basis during the 1989/90 financial year amounts to R188 099 690. In addition to this, an amount of R1 457 015 was paid during the 1989/90 financial year in terms of a production bonus system to officials in the office of the Receiver of Revenue, Johannesburg.

The reason for the introduction of a bonus system is that a serious staff shortage is continually experienced at that office and the existing staff have to work that much harder to keep the work up to date. The remuneration is paid monthly on the basis of the production of all the officials of the office for the relevant month. It is in no

320 way related to the collection efforts of individual officials. Hansard 24/4/90

Transferability of pensions

*8. Mr P J PAULUS asked the Minister of National Health and Population Development:†

Whether the transferability of pensions is being investigated at present; if not, why not; if so, when is it expected that a report on this investigation will be available? Hansard 24/4/90 B774E

The MINISTER OF NATIONAL HEALTH AND POPULATION DEVELOPMENT:

Yes, transferability of pensions already exists between State controlled pension funds mutually, as well as between such funds and certain other pension funds. Investigation into the transferability of pensions generally, forms part of the terms of reference of the Mouton Committee of Investigation into a Retirement Provision System for South Africa, appointed by the Minister of Finance.

Police investigation into death of Mr Thikitha

*9. Mr L FUCHS asked the Minister of Law and Order: Hansard 24/4/90

Whether, with reference to the reply by the Minister of Justice to Question No 20 on 20 March 1990, the Police investigation into the death of Mr Thomas Mavimbela Thikitha near Heidelberg, Transvaal, on 13 February 1990 has been completed; if not, (a) why not and (b) when is it anticipated that the investigation will be completed; if so, what were the findings? B796E

The MINISTER OF LAW AND ORDER:

Yes, however the results of the tissue tests are still being awaited before the docket can be submitted to the Attorney-General for his decision.

(a) and (b) Fall away.

International School in Bophuthatswana: money from SA government

*10. Mr M J ELLIS asked the Minister of Foreign Affairs: Hansard 24/4/90

(1) Whether he gave an undertaking that the South African Government would give a sum of money to the International School in Bophuthatswana; if so, what are the relevant details; Hansard 24/4/90

(2) whether he has made any arrangements for this sum of money to be given to the said school; if not, why not; if so, (a) what arrangements, (b)(i) what is the amount involved and (ii) why was it promised and/or given and (c) for whom does this school cater? B798E

The MINISTER OF FOREIGN AFFAIRS:

(1) Yes. South Africa will provide, in the form of a loan, 50% of the costs of the construction of the school building.

(2) Yes.

(a) In terms of a loan agreement signed on 28 November 1989, Bophuthatswana may make drawings on the loan amount.

(b) (i) R3 850 000,00.

(ii) The RSA decision to assist financially in the construction of the school was based on various considerations including a study undertaken by the Department of Education and Culture and the Cape Director of Education.

(c) There are at present 176 enrolled students, of whom 43 are citizens of Bophuthatswana and the rest are representative of 22 nationalities.

*11. Mr J VAN ECK—Law and Order. [Question standing over.]

Third party insurance: compulsory

*12. Mr M J ELLIS asked the Minister of Transport:

Whether the Government intends making the balance of third party insurance on motor vehicles compulsory; if not, why not; if so, when?

Hansard 24/4/90 B801E

The MINISTER OF TRANSPORT:

No. This matter has been considered on many occasions by among others the Grosskopf Commission (appointed in 1981) and the Ad-unconditionally; he must therefore also withdraw the word "coward".

†Mr J H VAN DER MERWE: I withdraw it, but I will get him in Kroonstad! [Interjections.]

†The CHAIRMAN OF COMMITTEES: Order! Hansard 24/4/90

†Adv S C JACOBS: Mr Chairman, on a point of order: With regard to the question of whether an hon Minister or Deputy Minister may refuse to reply to a supplementary question, I wish to refer you to the ruling of the Rules Committee that five supplementary questions are admissible. [Interjections.] I wish to submit that in this case no supplementary questions have been allowed and that the five supplementary questions may still be put.

†The CHAIRMAN OF COMMITTEES: Order! Supplementary questions have not been refused. The hon the Deputy Minister himself indicated that he would not reply to supplementary questions. [Interjections.]

Business interrupted in accordance with Rule 180C (3) of the Standing Rules of Parliament.

Certain book recommended by SADF

*3. Mr P C CRONJÉ asked the Minister of Defence: Hansard 24/4/90

(1) Whether the South African Defence Force sent out a circular in which it recommended a certain book, particulars of which have been furnished to the Defence Force for the purpose of the Minister's reply; if so, (a) under whose signature was the circular sent out, (b) to whom was it directed, (c) what are the particulars of the book in question and (d) what was the cost of sending out this circular;

(2) whether the publishing company concerned refunded the South African Defence Force for the cost of the circular; if not, why not?

B742E

The MINISTER OF DEFENCE:

(1) Yes.

(a) The previous Chief of the SA Army.

(b) Officers, warrant-officers and non-commissioned officers of the Permanent Force, the Citizen Force and the Commandos. Hansard 24/4/90

(c) The particulars are as supplied by the Honourable Member.

(d) R5 843 for envelopes.

(2) No, because the circular was sent out on the initiative of the South African Defence Force. The SA Defence Force has over a period of 23 years, gained victory after victory in the struggle against Marxist expansionism. The SA Defence Force succeeded in halting this expansionism until the philosophy and ideology behind it collapsed in Eastern Europe. The SA Defence Force achieved one of the bravest victories in modern warfare in South East Angola in 1987/88. This crowned the military successes of the previous years and opened the way for a successful negotiation process regarding Namibia. This book reflects the SA Defence Force's successes and because thousands of members of the SA Defence Force were involved in the war, it was decided to introduce the book to as many members as possible.

Johannesburg city councillor: investigation

*4. Mr P G SOAL asked the Minister of Finance:

(1) Whether officials of the Department of Inland Revenue were requested by officials of the Johannesburg City Council to investigate the tax affairs of a Johannesburg city councillor; if so, what was the response of the Department of Inland Revenue; 320

(2) whether he will furnish information on the persons involved in this matter; if not, why not; if so, what (a) are the names of the city council officials who made the request and (b) is the name of the city councillor concerned?

Hansard 24/4/90 B746E

The MINISTER OF FINANCE:

(1) The duties of the Commissioner for Inland Revenue are not limited to the collection of taxes; he must also ensure that there is compliance with the tax laws. He will accordingly take notice of information in regard to tax matters that come to his notice from any source whatsoever, and act thereon in terms of the powers granted to him by law. In the light of the secrecy provisions contained in section 4 of the Income Tax Act, details of his actions and findings may, however, not be furnished to any person other than the taxpayer or his lawful representative.

Hansard 24/4/90

(2) In view hereof no further information or comment can be furnished in reply to the Honourable Member's question.

Kaftan electrified fence: exclusion of areas

*5. Adv T LANGLEY asked the Minister of Defence:†

(1) Whether the farms (a) Greefswald, (b) Den Staat, (c) Samaria and (d) Kruitfontein are to be excluded from the Kaftan electrified fence west of Messina; if so, (i) for what reasons, (ii) at whose request and (iii) what will be the cost of such exclusion; Hansard 24/4/90

(2) whether he will make a statement on the matter?

B773E

The MINISTER OF DEFENCE:

(1) (a) to (c) Yes.

(i) Due to research with regard to the existing system as well as ecological disturbances which the fence could bring about.

(ii) The SA Defence Force.

(iii) The cost is not known as the exact location of the fence has not yet been determined.

(d) A gap has, for the time being, been left in the fence in anticipation of the outcome of the ecological investigation regarding this specific farm.

(2) No.

Prison warders dismissed/suspended

Hansard 24/4/90

*6. Mr D J DALLING asked the Minister of Justice:

(1) Whether, subsequent to his reply in the House of Representatives to Question No 1 on 27 March 1990, any prison warders have been dismissed or suspended; if so, (a) how many, (b) for what reasons and (c) at which prisons were they stationed at the time of their dismissal or suspension; Hansard 24/4/90

(2) whether these warders raised any grievances with the authorities; if so, (a) what grievances and (b) what action was or is being taken by his Department to address such grievances?

B765E

The MINISTER OF JUSTICE:

(1) Yes, only suspended.

(a) and (c)	: King William's Town Prison	: 5 Members suspended on 27 March 1990
		: 2 Members suspended on 29 March 1990
	: East London Prison	: 2 Members suspended on 27 March 1990
	: Pollsmoor Prison	: 2 Members suspended on 27 March 1990
	: Brandvlei Prison	: 1 Member suspended on 30 March 1990
	: Fort Beaufort Prison	: 1 Member suspended on 27 March 1990
		: 1 Member suspended on 21 April 1990
	: Stutterheim Prison	: 1 Member suspended on 27 March 1990
	: Port Elizabeth Prison	: 27 members suspended on 9 April 1990
		: 1 Member suspended on 10 April 1990
	: Grahamstown Prison	: 1 Member suspended on 17 April 1990

(b) For the same reasons mentioned in my reply to Question No 1 on 27 March 1990 in the House of Rep-

UBS hammers tax restraints on savings

B/Day 25/4/90

LINDA ENSOR

RAISING capital to sustain an economic growth rate necessary to create prosperity and job opportunities posed one of the single biggest problems for SA.

This was said by UBS Holdings CE Piet Badenhorst at the Strategic Management Society conference yesterday.

Such capital would have to come from personal savings, depreciation provisions, corporate savings and foreign funds, he said.

Today only about 6% of SA's available capital stock came from personal savings.

Badenhorst said the dramatic reduction in personal savings over the past 10 years was due to the excessive tax burden imposed by government which had reduced householders' capacity to save. Since 1961, personal savings had declined from 24% to 8%.

Personal income tax needed to be drastically reduced to increase household savings by 20%.

Furthermore, 47% of total capital requirements could be obtained from depreciation provisions, 22% from corporate savings and 12% from foreign sources.

Capital formation would be encouraged by the lifting of tax on dividends and the witholding tax on interest which Badenhorst said was "very much on the cards".

Government regulations, which differentiated between life offices and banks and building societies, had distorted the flow of funds into life offices, Badenhorst said.

(320)

Life offices had invested from 40-50% of their investment funds in banks and building societies and this had distorted mortgage rates, which were 1,25% higher than if the flow had not taken place.

Badenhorst estimated that the UBS had issued R1bn worth of loans to blacks to date and that the financial services industry had lent between R3bn and R5bn to blacks for housing.

Wan

(2) whether there are currently any vacancies at (a) primary and (b) high schools as a result of such resignations; if so, how many in each subject area in each case?
B674E

The MINISTER OF EDUCATION AND CULTURE:

(1) (a) (i) 461
(ii) 1 044
(b) (i) 7,72
(ii) 11,73
(c) loss of 667,
(d) acceptance of non-teaching posts
better salaries and working conditions
personal reasons
further study;

(2) (a) no,
*(b) yes,

Afrikaans First Language	2
Business Economy	1
Biology	3
Electrician	3
English First Language	3
Home Economics	1
Instrumental Music	4
Physical Education	2
Physical Science	6
Accountancy	1
Technical Drawing	5
Typing	1
Guidance	1
Mathematics	6

* in the normal course of events these posts are filled by qualified teachers who are not appropriately trained in these subjects. They are, however, assisted by means of in-service training, distance training, etc. in order to provide adequate tuition in the subject.

State Revenue account: capital expenditure on universities 320

104. Mr J H MOMBERG asked the Minister of Education and Culture:

What was the total capital expenditure from the State Revenue Account on universities under the control of his Department in the 1989-90 financial year?
Hansard 25/4/90 B678E

The MINISTER OF EDUCATION AND CULTURE:

The total capital expenditure was R12 429 901,21 consisting of an amount of R9 859 901,21 in respect of the University of Pretoria for the extensions at the Faculty of Veterinary Science and an amount of R2 580 000 in respect of the University of Cape Town for its Medical School at the Groote Schuur Hospital. These figures do not include the subsidies in respect of interest and capital redemption on State and private loans.

HOUSE OF REPRESENTATIVES

QUESTIONS

† Indicates translated version.

For oral reply: 11

General Affairs:

Eersterus: health services

*1. Mr P R E DA GAMA asked the Minister of National Health and Population Development:

(1) Whether her Department (a) renders and (b) intends to take over any health services at Eersterus; if not, why not; if so, what health services in each case;

(2) whether her Department intends to hand over any health services to the Administration: House of Representatives; if not, why not; if so, what health services;

(3) whether her Department will contribute financially to the building of a new community health centre at Eersterus; if not why not;

(4) whether she will make a statement on the matter?
C80E

†The MINISTER OF NATIONAL HEALTH AND POPULATION DEVELOPMENT:

(1) (a) No;
(b) no, the City Council of Pretoria supplies preventative health services which include child health for the age group 0–5 years, immunisation, treatment of contagious and communicable diseases, pre- and post natal services, family planning, treatment of malnutrition diseases as well as an environmental health control service. The Administration: House of Representatives is responsible for curative services and the treatment of the elderly;

(2) falls away;

(3) yes, if such a request is received from the health authority concerned;

(4) no.

MINING TAX 320

Less than it seems

The Budget's concessions on mining tax are not much incentive to start new high-cost deep level operations, claims Wits Business School MBA student John Koel in a recent thesis. FM 27/4/90

A postscript notes the concessions on ring fencing (which prevents mines' tax losses being used against capex on other projects) are disappointing in two respects.

FM 27/4/90

First, only a quarter of tax bases has been freed. Koel points out that a prospective new mine requires capex of some R250m a year during pre-production. The 25% allowance out of the annual tax base of unredeemed capital expenditure available from an existing mine to offset capex at a new mine is altogether inadequate. 320

Second, capital expenditure may be redeemed against the parent's tax base only when a new mine starts production. For the potential mines Koel studied, limited initial production is forecast to start only about six years after the first capex.

While the increase to a 12% interest rate on the capital allowance (from 10%) compensates for this delay to some extent, uncertainty about the extent of the tax base six years on from the time of planning "frustrates accurate capital budgeting."

The most important remaining concession (phasing in a lower tax formula, as proposed by the Marais Committee) was anticipated by Koel's main study, so its realisation in the Budget does not affect his conclusions. The hike of the 10% a year allowance on unredeemed capex to 12% gives only a marginal average improvement (0,4%) in the real rate of return on prospective projects, not nearly enough to achieve viability.

Koel's study focuses on 11 gold mining prospects, none of which was viable before the Budget, on the assumption of a probable gold price of R1 100/oz in real 1990 money terms (equivalent to some US$413/oz at the current exchange rate).

He considers these two limitations "strongly suggest" that 25% lifting of the ring fence will not make any of them profitable, though further research is necessary. On the other hand, complete removal of ring fencing would make eight viable.

These eight mines could mill some 20 Mt ore a year by the turn of the century and produce an estimated annual additional 145 t gold. Capex on them would probably exceed R2bn a year in real terms during the second half of this decade.

In the main thesis, written before the Budget, Koel observed that with no change in ring fencing real gold mining capex would probably fall to less than half current levels by the turn of the century. ■

TAX CONCESSIONS 320

Short on clarity

There is confusion over the implications of some changes outlined in Barend du Plessis' Budget speech. The scrapping of tax on dividend income for close corporations and individuals raised issues which, until clarified, have stalled a number of company restructurings and takeovers.

The basic problem, which has implications for a number of sections of the Income Tax Act, is whether there will be a blanket exemption or whether the Margo Commission recommendation that a distinction be made between dividends paid from "old" and "new" profits will be applied. This could make a company paying dividends from profits earned before a certain cut-off date liable for a special tax (10% was recommended) similar to a CC conversion tax.

In both cases the recipients would pay no tax. FM 27/4/90

It is not known whether the Commissioner for Inland Revenue, in drafting final legislation, intends to provide for this special tax. If he does, it will prejudice shareholders of companies which converted to CCs in previous years to achieve a substantial tax saving — at the cost of the conversion tax — and will now find themselves subject to a further tax.

This raises the future of Section 8B of the Income Tax Act, whereby shareholders of private companies to whom any amount is paid or an asset distributed as an advance or loan, at a time when the company could have paid a dividend out of profits or reserves, are deemed to receive a dividend. Will this section be removed in the light of the proposed exemption from dividend tax?

And will Sections 8C and 8D, applying to the sale of company shares to another company and to persons holding shares in a private company as trading stock, be scrapped? Pim Goldby, in a newsletter on the Budget, presumes Section 8B will be abolished but says it is unclear whether 8C and 8D will remain in force.

Also affected by uncertainty are consultants in company restructuring, who can't advise clients on the best route to follow until more information is available. ■

Securities 'haven' could expand

B/Day 27/4/90 (320)

LINDA ENSOR

CREATING a safe haven for securities by abolishing Marketable Securities Tax (MST) was an experiment which, if it worked, could be extended to other assets such as immoveable property to create pockets of certainty in the tax system.

Michael Katz, a member of the Tax Advisory Committee, said in a speech at an Ilpa seminar yesterday that it had been decided initially to confine the safe haven concept to listed securities during the experimental stage to prevent manipulation by means of the securitisation of assets.

Katz also said that instead of overthrowing the entire capital/revenue dichotomy at the heart of SA's tax system which had given rise to a considerable body of case law to clear up uncertainties, it had been decided to superimpose pockets of safe havens onto the existing system to create areas of certainty where uncertainty was thought to be highly undesirable.

Although the safe haven concept had been confined to the capital/revenue dichotomy and to MST, it was a valuable method which could be extended throughout the tax system.

Katz said the tax on dividends had created a tremendous bias in the tax system towards funding by debt rather than through equities. The exemption of this tax, announced in this year's Budget, would encourage equity financing and result in the tax neutrality of these two types of funding.

It would also result in the neutrality of business forms as previously there were advantages and disadvantages from an income tax point of view to structuring one's business in certain ways, for example, company, partner, etc.

Katz said one solution to the problem of maldistribution of wealth was an efficient tax system coupled with an expenditure programme.

In this year's Budget, government had provided an efficient tax system for the First World sector of the economy and also provided on the expenditure side for the social needs of the Third World sector.

Lower tax rates across a broad base, with no special exemptions, would create an efficient system generating higher yields to the fiscus and providing government with the funds for expenditure on housing, health, education and welfare.

TAX LAW

FM 27/4/90 (320)

Principle before expediency

■ But retroactive legislation gets the priorities the wrong way round

Retroactively outlawing tax shelters is like changing the speed limit while a motorist is driving. It is bad in principle, a dangerous precedent, highly controversial and something that government will eventually regret. It has been universally condemned without qualification by lawyers and tax experts — except for one adviser who recommended it to Finance Minister Barend du Plessis.

We know why it was done: to boost tax revenues being eroded by tax avoidance schemes that grew out of inadequate tax law, reluctance by government to implement serious reform of an Act that contains too many special concessions created by government itself and a general tendency to overtax.

Now we know who was behind it. The *FM* learns that advice to this general effect was given by Herc Hefer, a member of the Tax Advisory Committee, former senior partner in accountant Aiken & Peat, chairman of UBS Holdings and holder of many other directorates — who should know better.

Hefer acknowledges that he, in his personal capacity, is the "private-sector tax expert" Du Plessis claimed on a post-Budget TV programme to have sought advice from. In defence, Hefer claims he only went so far as to advocate the issuing of "a generic warning to taxpayers in certain circumstances."

That is to say, it is reasonable to warn that significant amendments to the Income Tax Act are contemplated to counter schemes based on particular provisions of the Act and that anyone who commits himself to such a scheme after the warning does so at his peril. Hefer says he would never dream of urging a general right of retroactive tax amendment. But even if the period is limited, the principle

FM 27/4/90 (320)

Barend du Plessis ... playing into socialist hands

and practice remain abhorrent.

Hefer claims he's motivated by strong feelings against accountants, lawyers and other advisers who develop tax avoidance schemes to circumvent the spirit of tax legislation (this despite his own background as former senior partner in an accounting firm). He says he argues on boards such as UBS against taking advantage of technical possibilities to save tax where a scheme is clearly against the spirit of legislation.

Lost his cool

Clearly, in frustration he lost his cool. We must not lose sight of the vital principle through engaging in a squabble over who gave particular advice to whom. Suffice it to say that Du Plessis and all upon whom he depended in expressing this particular view ought to have known a lot better.

Law and practice in all significant free enterprise countries recognises that retroactivity is a thoroughly bad basis for tax legislation. It detracts from business confidence, enhances arbitrary power in government's hands and even edges towards the dangerous territory of delegitimising the profit motive. In so doing, Du Plessis is playing into the hands of those who favour dubious socialist practice and undermining government's efforts to enhance free enterprise.

It is a well-entrenched principle that a taxpayer, individual or corporate, is not obliged to arrange his affairs so as to pay more tax than he must by law.

There is no principle of equity in tax and liability to pay can only be played out as a sort of ongoing chess game between taxpayers and Revenue.

Herc Hefer ... only advocated a generic warning

If a taxpayer can rearrange his affairs and pay less tax, he is free to. The necessary procedures and documentation have acquired the derogatory label of a "scheme".

On the other hand, Revenue has many

(320) FM 27/4/90 (320)

weapons to counter taxpayers' manoeuvring to take advantage of the legal structure of the Act at any given time. If Revenue assesses a particular amount, the onus is on the taxpayer to prove that it should not be liable to tax. There are also the dragnet provisions of section 103 of the Act, which — to simplify somewhat — hit at "abnormal" transactions whose only motive is to avoid tax.

Not only that, the Act grants the commissioner innumerable discretions which gravely encroach on the principle of certainty and award too much administrative power to officialdom. And — in the last resort — Revenue can ask government to amend the Act non-retroactively to close a loophole. (It is true, of course, that evasion, which is a form of fraud, is reprehensible and carries severe penalties.)

Invariably, the clever brains of the tax advisory industry will discover loopholes which will not be closed for the period it takes to amend the Act non-retroactively. But this, and the revenue lost thereby, is the price paid in a free enterprise economy for the sake of certainty. A crude analogy would be the principle in criminal law that guilt must be proved beyond reasonable doubt, as it is better to let some guilty men go free than to condemn one innocent man.

There have been many recent examples where the bulk of taxpayers in a particular industry played the game cautiously, not testing the legal limits, but one or two mavericks provoked government into wide-ranging and on occasion retroactive legislative responses. But however great the provocation, it is the extreme cases which test adherence to principle, not marginal instances.

Another point that badly needs to be made is that government itself has made it far easier to devise tax avoidance schemes. The Act is riddled with special concessions to placate powerful lobbies. The best armour against strenuous efforts at avoidance is a consistent legislative framework, imposing taxes at moderate rates on the broadest possible base without special concessions.

The public can also be pardoned for suspecting that government minimises its ability to hire tax brains equal to those in the private sector by shackling Revenue's salary structure to general public service levels. There must be simple ways to pay highly qualified tax accountants and lawyers in government service better, to avoid bungled draftsmanship and enable the commissioner's office to anticipate avoidance manoeuvres.

SA cannot afford to indulge ministerial spleen at the cost of sound policy-making on such important issues. Principle must always take precedence over clever tax manoeuvring, as the harm that can be done far outweighs any possible gain in revenues.

It must be doubted that Du Plessis has the right tax advisers. By taking Hefer's advice, in part or whole, he damaged his credibility and created a bad precedent. Whether Du Plessis' other advisers feel they bear any responsibility through association for retroactivity, we leave to their consciences.

Govt urged to minimise 'informal' tax evasion

B/Day 27/4/90

320

GERALD REILLY

PRETORIA — Tax evasion in the country's underground economy had become a major problem, DP finance spokesman Harry Schwarz said yesterday.

He was commenting on record unpaid tax recoveries by the Commissioner of Inland Revenue's auditing and inspectorate staff last year amounting to a huge R1,203bn.

This was more than R320m greater than the 1988 figure — an increase of more than 40%.

Schwarz said the figures indicated the vast but unknown pool of unpaid taxes and the tremendous dividends accruing from employing a well-paid and qualified inspectorate.

He stressed the underground economy would continue to grow in step with the dynamic development of the informal sector.

The tax payments problem in this area, therrefore, was unlikely to diminish.

He added that after the end of the year, with the halving of the national service period to one year, Inland Revenue would not have the same pool of young national service CA's to call on to reinforce its inspectorate and audit staff.

Per-capita tax recoveries would then likely decline unless the department attracted CA's with acceptable salaries.

It had been clearly demonstrated that every inspector employed recovered many times his salary in unpaid taxation.

The Inland Revenue spokesman said of the R1,203bn recovered, R297m was unpaid GST, R785m unpaid income tax, and R122m discovered by special investigations.

Currently, he said, inland revenue employed 980 officials in control functions, more than 500 of them inspectors.

The inspector staff had been and would continue to be increased this year.

Last year more than 180 000 summonses were served on individual taxpayers for failing to submit returns and on employers who failed to submit PAYE payments and returns on behalf of workers.

On the informal sector the spokesman said there were still problems, especially with the spaza shops in the townships.

However, a formula based on the estimated net income of one taxi had been devised and a number of trial assessments had been issued.

A booklet was also being issued through the Small Business Development Corporation to spaza shop operators urging them to register.

Registering was one problem, the spokesman said, and collections was another. They were still being worked on, he added.

B Day (320)
27/4/90

Tax report: the correct source

AN editing error in a report yesterday headlined, "Employers get extension for tax form preparation", resulted in statements made by Accsys MD Dick Bradley being attributed to the Receiver of Revenue's legal drafting office director, Ian Meiklejohn. Business Day regrets the mistake, and apologises for it.

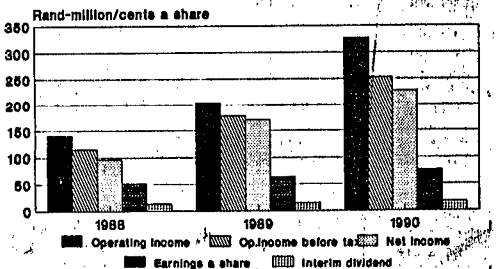
While there were no factual errors in the report, Meiklejohn emphasises there are a large number of people wanting the tax year-end to change but "because of constraints, such as the number of companies which have February year-ends, there are many practical problems to consider in this debate".

320

Nedcor trebles its bad debt provisions

Star 27/4/90 (320)

By Derek Tommey



Nedcor, aided by the Perm which is its building society associate, put up a strong performance in the six months ended March.

Operating earnings soared 60 percent to R326,1 million from R204,1 million a year ago, and were more than double the R140,6 million in the same period of 1988.

But little of this excellent increase in earnings will be coming the way of its shareholders for a while.

In anticipation of tough times ahead the bank has adopted a strong defensive position. It has squirreled away tens of millions of rands, some of which in more prosperous times might have been paid out in dividends.

The result is that the interim dividend has been raised by only 2c (the same increase as a year ago) to 17c a share.

One way in which the bank is moving to protect itself has been to almost treble the provision for bad and doubtful debts from R25,3 million to R73,4 million.

Chief executive, Mr Chris Liebenberg says that the bank's bad debt experience is better than expected. But with the economy moving downwards he believed it prudent to increase both general and specific provisions.

Nedcor's shareholders can only hope that the bank's bad debt experience does not match up to its expectations so that no further bad debt provisions will be needed in the next six months.

The large bad debt provision cut the operating income before tax to R253,3 million which, however, was still a healthy 41,6 percent higher than the R178,8 million of a year ago.

Although the tax payment more than trebled, rising from R7,8 million to R26,1 million, it is still on the low side. Therefore, to ensure that higher and more normal tax payments in the years ahead do not result in disappointing profits, Nedcor has increased its tax reserve by R86,0 million, which is some 65 percent more than the R52,1 million transferred to the reserve last year.

This put Nedcor on a notional effective tax rate of 44,2 percent compared with last year's rate of 33,5 percent.

The result of all this is that the bank finished up with attributable income of R141,2 million, which was 18,8 percent more than the year ago figure of R118,9 million — thus justifying the limited increase in the interim dividend.

However, the huge transfers to reserves does mean that Nedcor has sufficient capital to meet the new minimum capital requirements being considered by the authorities, says the chairman, Dr John Maree.

It has also increased Nedcor's liquidity to 17 percent of total assets, including repurchase agreements (repos).

Mr Liebenberg added that the Reserve Bank's new provision for repos would not add to the bank's costs.

Dr Maree said the operating companies were confident that they would maintain profit growth in the next six months. But the extent of the improvement would be dictatated, to a large extent, by the present steps being taken by the authorities, by interest rate margins and by bad debts.

All the operating companies with the exception of UAL increased their profit contributions. UAL Merchant Bank's contribution dropped from R13,2 million to R11,5 million, owing to a counter party failure on a forward transaction.

But for that loss UAL would have reported a taxed profit of R20 million, said Dr Maree.

Taxpayer the Father Xmas for officials

320

Business Times Reporter

TAXPAYERS are shelling out tens of millions of rands to fund a car scheme for senior public servants.

Jack Booyens, of the Medical University of SA near Pretoria, claims hundreds of public servants qualify for what they call "the Father Christmas scheme".

The scheme applies to public servants with the rank of director or higher. SA Defence Force and police officers with the rank of brigadier or higher also qualify.

Gravy

Cabinet ministers, all members of Parliament and homeland governments, certain university professors and senior people in semi-State enterprises, such as Sats, SAA and the control boards, are also believed to be on the gravy train.

Professor Booyens says that when a top public servant qualifies for a new car he receives a zero-interest loan from the State. The car, which can cost up to R200 000 in the case of a director-general, is registered in the official's name.

He then works off the loan by being paid the AA-calculated amount for use of the car in the course of his work. Compensation includes the cost of depreciation and can runs as high as R9 a kilometre.

Professor Booyens says most loans are liquidated in four years, after which the car belongs to the public servant. The only tax payable is on compensation for use of the car.

Professor Booyens says: "I know one chap who sold a Mercedes-Benz which cost R57 000 for R100 000. He put the money in his pocket tax free and was given another loan for a new Mercedes."

S Times 29/4/90

Confidential

The Commission for Administration tells Business Times that remuneration of officials and therefore their car schemes is confidential.

If Professor Booyens' description of the public-service car scheme is right, it is a good deal more generous than that for Anglo American directors.

An Anglo spokesman says: "The corporation buys directors cars. They use them for a given period while the corporation maintains them. They pay tax on the deemed benefit, as laid down by the fiscus.

"At the end of the period, the car belongs to the corporation, which sells it. The director does not end up owning the car."

PE Corporate Services remuneration services manager Naomi Brehm says most private-sector schemes follow either the company car or the travel allowance route.

Flexible

Miss Brehm says that in the first instance, the organisation gives the employee a car for business and he or she will pay tax at the rate laid down by the Minister of Finance for private use of the vehicle.

The company retains ownership of the car.

Miss Brehm says the travel allowance option is more flexible. The employee buys the car either through a hire-purchase or leasing agreement, or by taking out a loan.

"The organisation will give the employee a travel allowance which should cover repayment and any running costs. The employee will pay tax on the car for the kilometres driven privately.

"According to this scheme, the employee will own the car as it is registered in his or her name from the start."

Pay rises stashed away to beat tax

320

S/Times 29/4/90

NEARLY every investment house in SA boasts about its ability to do better with your money than the harm done by inflation.

The saver's two worst enemies are inflation and tax. So if inflation can be whipped, are there any good ways of minimising the effects of punitive tax rates?

Deferred compensation is one route by which your employer can save you money and keep you happily employed.

Loaded

It is exactly what its name suggests. When a pay rise is granted, you might not specifically want more cash every month.

By the time the taxman has had his slice and your pension fund contribution has risen according to a percentage of your gross salary, you probably feel that it was hardly worth getting the increase.

Company pension funds are often loaded against you in the first place.

Even if you work for your company for 25 years you are unlikely to receive more than 2% times 25, or 50%, of your final salary. Sometimes it is not even a fraction of your last month's salary — it could be averaged over your last three years' income.

Whatever the rules, hard and diligent service is not compensated for in any corporate or State pension fund.

The salary that is deferred — not paid straight away — is invested by your employer in an endowment policy. No tax is paid on the premium, which helps to build a cash lump sum on retirement.

Not only do you benefit from paying lower tax, but endowments have proved to be inflation beaters.

The tax benefits extend to when you retire. Currently R30 000 of the lump sum on maturity of the endowment is tax free — over and above any other tax-free lump sums, such as pension, provident or retirement annuity.

The surplus — subject to a ceiling of your total last three years' salary — is taxed at the average, not marginal rate.

The surplus does not have to be shown over one year for tax purposes, it can be spread over three equal instalments in consecutive years.

Cover

The deferred compensation must not be more than 10% of an employee's total remuneration package. Schemes such as the Old Mutual's allow contributions to be increased at up to 15% a year, and incorporate low-cost life cover.

The deferred compensation benefit may be taken at any time within five years of normal retirement age, but the lump-sum tax relief applies only where men have reached 55 and women 50.

The policy can also go with you if you leave. The company can cede it to you, although tax is payable and the amount is based on the Receiver's valuation of the policy.

The benefits can never be claimed by your creditors.

Drawbacks for those who rely only on RAs

320

S|Times 29|4|90

By RAY ESKINAZI, a partner at Ernst & Young

LIFE-assurance agents and brokers extol the merits of a retirement annuity (RA) with renewed vigour every February.

Tax deductability of premium contributions, security of capital, provision of a guaranteed income, protection against insolvency, and more recently, the abolition of prescribed investments, are claimed to be the advantages of investing in RAs.

It is true that the Receiver of Revenue affords relief — subject to certain maximum limits — for contributions to an RA. The tax deduction has been made more attractive, although on a selective basis, by the introduction of Standard income tax on employees (Site).

[redacted]

A married woman, subject to Site, is now entitled to a half of the limits (R1 750 and R3 500 for employees who are members of pension of provident funds) for current retirement annuity contributions. Her husband is still entitled to a deduction of the full amounts stated above.

This concession is, however, selective in its generosity because it applies only to a married woman subject to Site. When an RA matures the member may commute only up to a third of the retirement capital for a cash lump sum.

A maximum of the greater of R120 000 for an amount calculated by multiplying R4 500 by the number of years the taxpayer was a member of the longest-running pension, provident or retirement annuity fund is free of tax, but this ceiling is cumulative of all lump sums derived from the member's pension, provident and retirement annuity funds. Any amount over the tax-free limit is taxable at the member's average rate of tax for the year of retirement.

The remaining two-thirds of the retirement capital must be used to buy a fixed annuity, taxable annually at the member's marginal rate of tax.

By comparison, on retirement from a provident fund, a member is entitled to the entire capital as a lump sum and any part, in excess of the tax-free limits above, is taxable at the member's average, not marginal, rate.

An individual can, therefore, plan his post-retirement financial position in the light of the investment opportunities available to him at the time. He will also not be subject to the eroding effects of inflation which will take its toll on a fixed annuity.

It should be borne in mind that, in terms of Revenue practice, an employer is entitled to contribute, and claim as a deduction, to approved pension and provident funds up to 20% of an employee's remuneration, effectively resulting in a pre-tax investment for the employee.

In addition, provident funds, like retirement annuity funds, in general, do not have to comply with any prescribed investment requirements. The income tax payable on the investment income of all provident funds was abolished recently.

[redacted]

The advantages of a regular contribution to unit trusts, as an alternative, or as a supplement to an RA, should not be overlooked. Although there is no tax relief for contributions to these funds the entire capital is available to the retiree.

Two-thirds of the capital available in an RA is converted on retirement into a fully taxable annuity.

The capital appreciation is, at present, under normal circumstances, entirely tax free in the hands of both the unit trust and the investor. In addition, unit trusts are easily liquidated and may be used as collateral security.

The fact that the benefit payable under an RA may not be withdrawn until the member attains the age of 55 (unless on earlier disability) and, in the event of insolvency, may not be attached or appropriated by creditors of the insolvent estate, has the consequent disadvantage that the member's capital is locked in for a considerable time.

[redacted]

He or she may not surrender, assign or cede an RA outright or as security for a loan during the subsistence of the policy, thereby reducing financial flexibility.

Although an RA has distinct advantages for a self-employed individual, a prospective emigrant, a member withdrawing from a pension or provident fund and a retiree receiving taxable lump sums from a pension, provident, retirement annuity fund or in terms of a deferred compensation arrangement, the income-tax and other advantages of RAs should not be overemphasised.

They should be viewed for what they really are — an ingredient of a complete retirement recipe.

Powertech tops R1-bn turnover

Star 30/4/90

320

Powertech, the power electrical subsidiary of the Altron group, experienced a turnover in excess of R1 billion for the financial year ended February 28 this year, the company said in its final results released at the weekend.

The company's attributable earnings rose 30 percent to R37,1 million translated at 27,8 cents a share. A dividend of 8,4 cents has been declared.

Tax charges increased from 31,5 percent to 38,3 percent resulting in an after tax income of R62,6 million compared with R42 million the previous year.

Powertech's executive chairman, Mr Peter Watt said he attributed the company's performance to "sound management, healthy order books, tight cost controls and effective cash management". — Sapa.

~~[illegible]~~ - 1989

~~[illegible]~~ TAXATION

APRIL — JULY

Assurers panic over new tax trick with old policies

Star 1/4/89

(320)

A NEW tax trick with old policies has sent life assurers into something of a panic. This follows investigations by the Inland Revenue and warnings by Finance Minister Barend du Plessis.

But this time round, life companies don't appear to be the culprits skirting the tax laws.

According to the latest issue of *Insurance Times* the scheme involves pre-1972 pure endowment (PE) policies, selected because of their flexibility and the fact that they can be ceded and premiums increased. Also they do not automatically terminate when the policyholder dies.

FINANCE STAFF

The trick is to find owners of pre-1972 PEs and make them an offer they can't refuse.

The cessionary, having actively hunted around for a pre-1972 scheme, say, with premiums of R10 a month, takes the policy over — paying a "purchase price" to the current owner or beneficiary.

In one case a policy was taken over and its premiums increased to R1 million a month.

In effect, the cessionary has "purchased" a product that is no longer legally available. He can then continue holding the policy as a bearer instrument until such time as he wishes to cash it in. Proceeds are totally tax-free at maturity.

Another attraction of such PEs is the absence of life cover.

Over the years Government policymakers have applied severe restrictions on PEs, mainly because they did not carry life cover since this was seen by some as defeating the prime objective of a life assurer.

The most recent restriction to PEs was made in 1985 in Finance Minister Barend du Plessis' so-called "after-dinner speech". This, given on a Friday evening, was retroactive (the worst form of law) and made without discussion with the life offices.

Today PEs contain a relatively high proportion of life cover. The cost in such products, of course, reduces the overall returns. Modern schemes also terminate either on maturity or when the policyhoder dies.

But this latest scheme skirts all that.

Life assurers, sensitive about their tax position and worried about further fiscal impositions, are naturally concerned and keen to divert responsibility.

A spokesman for the Life Offices' Association (LOA) says that it first became aware of the scheme early in 1988. In February that year the LOA sent a "confidential" circular to members asking them for written assurance that they would abstain from participation in such schemes.

This assurance, says the OA, was forthcoming from each member. It did not want the notice to become public at the time because it feared a backlash from reaction to what may have been perceived as a "scam".

But a year later the scheme is alive and well — with the LOA denying knowledge of the fact.

One complicating factor is that assurers are not necessarily party to schemes involving these pre-1972 life products.

Many life products are used as integral parts of many schemes, for example as security for bonds and loans raised. So it is quite possible that none of the life offices are party to any of the pre-1972 schemes. It is also possible that they are unaware of such schemes, other than noticing a substantial increase in premiums.

This leads to the other complicating factor, the creation and execution of pre-1972 schemes by brokers acting — officially — but independently of the life offices.

What is known is that some very large financial institutions have pumped some big money into the pre-1972 schemes. At least one of them has been recently questioned by Inland Revenue's investigative team.

● Due to lack of space Money Matters will appear tomorrow.

Assurers panic over new tax trick with old policies

STAR 1/4/89 (320)

FINANCE STAFF

A NEW tax trick with old policies has sent life assurers into something of a panic. This follows investigations by the Inland Revenue and warnings by Finance Minister Barend du Plessis.

But this time round, life companies don't appear to be the culprits skirting the tax laws.

According to the latest issue of *Insurance Times* the scheme involves pre-1972 pure endowment (PE) policies, selected because of their flexibility and the fact that they can be ceded and premiums increased. Also they do not automatically terminate when the policyholder dies.

The trick is to find owners of pre-1972 PEs and make them an offer they can't refuse.

The cessionary, having actively hunted around for a pre-1972 scheme, say, with premiums of R10 a month, takes the policy over — paying a "purchase price" to the current owner or beneficiary.

In one case a policy was taken over and its premiums increased to R1 million a month.

In effect, the cessionary has "purchased" a product that is no longer legally available. He can then continue holding the policy as a bearer instrument until such time as he wishes to cash it in. Proceeds are totally tax-free at maturity.

Another attraction of such PEs is the absence of life cover.

Over the years Government policymakers have applied severe restrictions on PEs, mainly because they did not carry life cover since this was seen by some as defeating the prime objective of a life assurer.

The most recent restriction to PEs was made in 1985 in Finance Minister Barend du Plessis' so-called "after-dinner speech". This, given on a Friday evening, was retroactive (the worst form of law) and made without discussion with the life offices.

Today PEs contain a relatively high proportion of life cover. The cost in such products, of course, reduces the overall returns. Modern schemes also terminate either on maturity or when the policyhoder dies.

But this latest scheme skirts all that.

Life assurers, sensitive about their tax position and worried about further fiscal impositions, are naturally concerned and keen to divert responsibility.

A spokesman for the Life Offices' Association (LOA) says that it first became aware of the scheme early in 1988. In February that year the LOA sent a "confidential" circular to members asking them for written assurance that they would abstain from participation in such schemes.

This assurance, says the OA, was forthcoming from each member. It did not want the notice to become public at the time because it feared a backlash from reaction to what may have been perceived as a "scam".

But a year later the scheme is alive and well — with the LOA denying knowledge of the fact.

One complicating factor is that assurers are not necessarily party to schemes involving these pre-1972 life products.

Many life products are used as integral parts of many schemes, for example as security for bonds and loans raised. So it is quite possible that none of the life offices are party to any of the pre-1972 schemes. It is also possible that they are unaware of such schemes, other than noticing a substantial increase in premiums.

This leads to the other complicating factor, the creation and execution of pre-1972 schemes by brokers acting — officially — but independently of the life offices.

What is known is that some very large financial institutions have pumped some big money into the pre-1972 schemes. At least one of them has been recently questioned by Inland Revenue's investigative team.

● Due to lack of space Money Matters will appear tomorrow.

Tax-free incentives for exports

BIDay 4/4/87

320

HELOISE HENNING

EXPORT incentives in the form of six-monthly, tax-free, cash payments to reward high local content manufactured goods will come into effect on April 1 next year, Economic Affairs and Technology Minister Danie Steyn announced yesterday.

The scheme will replace the current tax rebates for exports. Payments will be based on a formula calculated on the volume of exports, their local content and the exchange and inflation rate fluctuations.

Gold and diamond exports and those of precious metals, petroleum products, second-hand products and re-exports are excluded from the scheme. Manufactured goods with a local content of less than 35% will not qualify.

Steyn announced this general scheme for exporters not linked to the sector-specific structural adjustments otherwise known as the "sunrise industries".

Items with at least 75% local content

● To Page 2

Incentives for local content exports

BIDay 4/4/87

320

● From Page 1

will be the top category. On a sliding scale, the scheme provides lesser assistance to three other categories — material intensive products, beneficiated primary goods and primary products.

This scheme replaces the current tax rebated marketing allowance schemes (A and B). Manufacturers will be rewarded for efforts to use local material through cash boosts twice a year.

The current D export assistance, a rebate received by tax-paying exporting companies, will be phased out from April 1 1990, possibly over 12 months.

But the C export incentive, a cash grant currently paid to companies in a tax loss situation, will be maintained.

Safto CE Wim Holtes welcomed the move but warned that the savings made on export incentives of low-value exports could erode the country's foreign earnings.

Federated Chamber of Industries executive director Ron Haywood also welcomed the scheme.

Self-employed wives under new tax spotlight

BDay 5/4/87 KAY TURVEY (320)

SELF-EMPLOYED married women, not included in benefits handed to salaried working wives in the Budget, could find their tax positions worsening.

Tax relief through a joint assessment allowance is under review.

Inland Revenue legal draughtsman Ian Meiklejohn says no decision has yet been made on whether to repeal this allowance.

He adds that withdrawing it now would be harsh on non-salaried working women.

The position of women running their own businesses, estate agents earning commission or partners deriving fees, has come under the spotlight since the Budget extended standard income tax on employees (SITE) to cover all salaried married women.

The extension to those earning more than the previous R20 000 limit means salaried women will no longer have to submit a tax return. Income, other than from rentals or dividends, will no longer be taxed with those of their husbands.

Maximum

The move is seen as a major step towards eliminating the marriage penalty, but falls short because self-employed wives are not eligible for concessions.

The joint assessment allowance was granted to working women when SITE was introduced last year. It grants an allowance on a wife's taxable earnings of up to a maximum R4 650. This reduces as a her annual earnings rise above R16 000.

Deloitte partner Anne Pappenheim says interest in SITE for tax planning was now greater with the extension beyond the R20 000 limit.

The proposed provisions in several respects bring about a devolution of authority, with protection against arbitrary exercise of power. The Administrators, for instance, will themselves determine the dates of commencement of the repeal of laws mentioned in Schedule 6 of the Bill.

The provisions of the Bill are intended materially to further the objectives of official economic policy.

(7 April 1989)

NOTICE 229 OF 1989

SALE OF GOODS.—CUSTOMS AND EXCISE, DURBAN

It is hereby notified for general information that a public sale of unentered, abandoned and forfeited goods will be held at the State warehouse, New Pier, Durban at 09h00 on 20 April 1989. Lists of goods to be sold will be supplied on application to the Controller of Customs and Excise, Private Bag X54305, Durban, 4000.

(7 April 1989)

NOTICE 230 OF 1989

320

INCOME TAX, 1989

NOTICE TO FURNISH RETURNS FOR THE 1989 YEAR OF ASSESSMENT

Notice is hereby given that, subject to what is said in paragraph 1 below, the following persons who are liable to normal (income) tax, whether personally or in any representative capacity, under the provisions of the Income Tax Act, 1962, are required to furnish returns for the assessment of the tax:

(a) Every person (not being a married person or a company) under the age of 60 years, or the representative of such person, who derived a gross income in respect of the 1989 year of assessment in excess of R5 200.

(b) Every person (not being a married person or a company) over the age of 60 years (but not over the age of 65 years), or the representative of such person, who derived a gross income in respect of the 1989 year of assessment in excess of R6 000.

(c) Every person (not being a married person or a company) over the age of 65 years, or the representative of such person, who derived a gross income in respect of the 1989 year of assessment in excess of R8 700.

(d) Every married person under the age of 60 years, or the representative of such person, who derived a gross income in respect of the 1989 year of assessment in excess of R7 700.

(e) Every married person over the age of 60 years (but not over the age of 65 years), or the representative of such person, who derived a gross income in respect of the 1989 year of assessment in excess of R8 500.

(f) Every married person over the age of 65 years, or the representative of such person, who derived a gross income in respect of the 1989 year of assessment in excess of R11 200.

Die voorgestelde bepalings bring in verskillende opsigte 'n afwenteling van gesag mee, met beskerming teen arbitrêre magsuitoefening. Die Administrateurs sal, byvoorbeeld, self die datums van inwerkingtreding van die herroeping van wette vermeld in Bylae 6 by die Wetsontwerp bepaal.

Die bepalings van die Wetsontwerp beoog om die doelwitte van die amptelike ekonomiese beleid wesenlik te bevorder.

(7 April 1989)

KENNISGEWING 229 VAN 1989

VEILING VAN GOEDERE.—DOEANE EN AKSYNS, DURBAN

Hierby word vir algemene inligting bekendgemaak dat 'n openbare veiling van ongeklaarde, onopgeëiste en verbeurdverklaarde goedere om 09h00 op 20 April 1989 by die Staatspakhuis, Nuwe Pier, Durban gehou sal word. Opgawes van die goedere wat verkoop sal word kan op aanvraag by die Kontroleur van Doeane en Aksyns, Privaatsak X54305, Durban, 4000 verkry word.

(7 April 1989)

KENNISGEWING 230 VAN 1989

INKOMSTEBELASTING, 1989

KENNISGEWING OM OPGAWES VIR DIE 1989-JAAR VAN AANSLAG TE VERSTREK

Hiermee word bekend gemaak dat, onderhewig aan wat in paragraaf 1 hieronder gesê word, die volgende persone wat vir normale (inkomste-) belasting aanspreeklik is, hetsy persoonlik of in 'n verteenwoordigende hoedanigheid, ingevolge die bepalings van die Inkomstebelastingwet, 1962, belastingopgawes moet verstrek:

(a) Elke persoon (behalwe 'n getroude persoon of 'n maatskappy) onder die ouderdom van 60 jaar, of die verteenwoordiger van so 'n persoon, wie se bruto inkomste vir die 1989-jaar van aanslag meer as R5 200 was.

(b) Elke persoon (behalwe 'n getroude persoon of 'n maatskappy) bo die ouderdom van 60 jaar (maar nie bo die ouderdom van 65 jaar nie), of die verteenwoordiger van so 'n persoon, wie se bruto inkomste vir die 1989-jaar van aanslag meer as R6 000 was.

(c) Elke persoon (behalwe 'n getroude persoon of 'n maatskappy) bo die ouderdom van 65 jaar, of die verteenwoordiger van so 'n persoon, wie se bruto inkomste vir die 1989-jaar van aanslag meer as R8 700 was.

(d) Elke getroude persoon onder die ouderdom van 60 jaar, of die verteenwoordiger van so 'n persoon, wie se bruto inkomste vir die 1989-jaar van aanslag meer as R7 700 was.

(e) Elke getroude persoon bo die ouderdom van 60 jaar (maar nie bo die ouderdom van 65 jaar nie), of die verteenwoordiger van so 'n persoon, wie se bruto inkomste vir die 1989-jaar van aanslag meer as R8 500 was.

(f) Elke getroude persoon bo die ouderdom van 65 jaar, of die verteenwoordiger van so 'n persoon, wie se bruto inkomste vir die 1989-jaar van aanslag meer as R11 200 was.

New tax deal for women is better for everyone

320

Star 8/4/89

Money Matters

Magnus Heystek

THE BUDGET has come under fire from many quarters and in some cases this criticism is quite justified.

But perhaps the most positive aspect in this year's Budget is the announcement regarding the separate taxation of married people, with some exceptions when the wife works for her husband or where she earns her money by means of commission.

The move is bound to have a positive effect.

According to figures provided by Senbank the joint taxation of married couples has cost the country dearly in terms of lost man(!)power. In 1985 there were 660 288 matriculated women in the RSA, of whom approximately 49 percent were not economically active. While taxation cannot be entirely be blamed for this situation, it certainly played and important part in the decision of these women not to enter the employment market.

Graduates

More alarming, however, is that of 95 473 graduate women in 1985 some 35 percent were not economically active and, off course, not paying any tax or contributing to the country's wealth.

This figure includes 1 584 women with masters degrees or doctorates.

Leaving aside the number of highly qualified women who prefer not to work for personal reasons, such as pregnancy or motherhood, it does still represent a large proportion of highly qualified people who don't utilise their skills and knowledge. Once again, the tax system and the high level of personal taxation have to take most of the blame.

This situation is no doubt costing the Government and the country, and ultimately the tax-payer, a lot of money in wasted skills.

During the current fiscal year alone an amount of R1,7 billion has been budgeted for tertiary education.

The concession will have a dramatic impact on the disposable income of women who earn between R30 000 and R90 000 a year. A womam who was earning R40 000 in the 1986 tax year could only keep 51,5 percent of her gross remuneration; the equivalent figure now rises to 74,2 percent. Her annual contribution to the family's personal disposable income is now R9 080 more a year.

The direct result of more participants in the labour market is that the disposable incomes of such households are increased with a consequent increase in the demand for goods and services.

Households would have to incur certain costs to enable former housewives to enter the job market. Provision will have to be made for the care of the children, transport to and from work and time-saving household devices such as microwaves and dishwashers.

Provided these costs do not exceed the increased income, women will be motivated to find employment.

As a whole the decision by the Government to separately tax people is a move in the right direction.

Now moves must be made to reduce the enormous tax burden individuals are carrying.

RSCs collect R387,4-million

U/E ARCs 84/88 320

Business Staff

THE 16 Regional Services Councils collected R387,4-million, 75 percent of which came from levies, during the year ended June 1988.

Juta's says in a report on RSC's that of every rand collected 22c was spent on employees, 13c went on general expenditure, 6c was spent on interest, 7c was spent on grants to households, 4c on health services and 48c was retained as a surplus.

Juta's says it is to be hoped that the 22c in each rand that was spent on employees comes under the heading of "start up costs" because it is totally unacceptable that a body should spend one rand in every five simply on the process of collecting money.

They would be far better to raise the money needed through borrowing.

Having paid R1 to get 48c in the bank, the levypayer could well ask why the RSC's could not wait until they had something to spend the money on before they began collecting it?

Changes on the way for Revenue's procedures?

B/Day 10/4/89

MANDY JEAN WOODS

A REPORT recommending changes in the administrative procedures of the Receiver of Revenue was handed to Finance Department director-general Chris Stals on Friday.

Stals said yesterday the report would be discussed with Finance Minister Barend du Plessis this week. Du Plessis was also expected to discuss the report in Parliament on Wednesday.

The report stems from an investigation initiated last December after the Harms Commission heard evidence by Pretoria Receiver of Revenue Dries Viljoen of irregularities in the way Albert Vermaas's tax problems were handled by the Pretoria Receiver's inspectorate division.

Convened

320

Among the irregular procedures exposed by the commission was that Vermaas's tax file lay in the inspectorate divison for three years without anything being done about it; and that at least one of Vermaas's assessed tax returns was changed from an assessed net loss to a taxable income of more than R10m.

The commission's report on Vermaas — released on Friday — recommended a departmental inquiry be convened to investigate the handling of Vermaas's tax returns.

Mr Justice Harms said it was disturbing to note that Vermaas was not handled as a regular taxpayer.

"It will be a sad day if the general impression is that rich or prominent people receive preferential treatment from the Receiver or that the photographs of important people on an office wall present a policy against action."

Inland Revenue commissioner Clive Kingon said no effort had been made to inform the commission about the fuller details of Vermaas's tax returns or that an internal investigation began shortly after Viljoen gave evidence to the commission.

Asked why this had not been done, Kingon said: "You are asking me questions which I think should be left alone."

320

Govt revenue up 28,4% on '88

GERALD REILLY

PRETORIA — Government revenue in the first 11 months of the 1988/89 financial year, to end February, increased by 28,4% to R44,02bn, compared with revenue results in the April-February period the year before, Central Statistical Services (CSS) figures have shown.

The CSS said provision had been made in last year's Budget for an increase of 13,8%.

Collections in the 11 months amounted to 99,8% of the budgeted amount for the whole of the financial year. In the corresponding 11 months a year ago the figure was 88,4%.

Tax collections during April-February increased by 28,6%, to R44,41bn, against a Budget expectation of a 16,7% increase. Income tax, excluding mining tax, for the 11 months was up by 25,1%, due mainly to increased company profits.

GST for April-February was 26,8% higher than for the comparable period the year before. This confirmed the relatively high consumer spending.

Gold mine tax in April-February was down by 19% to R1,69bn.

Excise duty was up by 14,6%, to R2,16bn; fuel levy by 283,7%, to R2,18bn; customs duty by 43,5%, to R2 26bn; surcharge by 149,4%, to R1,67bn; and stamp duties and fees up by 4,5%, to R417,2m.

Financing costs soar at Kohlers

STAR 11/4/84

320

Kohlers has reported an after-tax profit of R21,295 million for the six months to February 28, a 25 percent increase over the R17 million notched up during the same period last year.

After other deductions, shareholders earnings came to a total of R20,049 million (R16 million). This amounted to 136,1c a share (116,5c). A dividend of 42c (35c) has been declared.

The board says in its statement that although there was an increase in taxation of 169 percent to R18,84 million (R7 million), it was more than offset by the 71 percent increase in operating profit to R48,622 million (R28,359 million).

Group turnover was up by 26 percent to R467 million (R370,67 million).

Interest bearing debt jumped by 36 percent to R100,6 million (R68 million).

The directors said: "The higher debt levels and interest rates resulted in a 97 percent rise in financing costs. However, both the financing costs cover (5,7) and the debt ratio (53,9) remain within the group's targeted limits".

The group states the economic conditions later this year will be less favourable and that increased tax will test profitability, but it still expects to increase profits during the second half.— Sapa.

Deficit before borrowing alarming — Volkskas

B/Day 11/4/89 320

IT WAS alarming that in spite of the vast increases in tax receipts, the deficit before borrowing remained large and relatively large amounts of loan funds were being used to help finance current expenditure, Volkskas said in its latest Economic Spotlight.

It said although the Minister of Finance had generally made a concerted effort to deal with government finance in the best interests of the economy, there were a number of points which were still a matter of concern.

It was important the expenditure figure should more or less correspond with the budgeted figure. Exceeding this by even a small amount could have a stimulatory effect on demand, instead of a moderately dampening effect.

Volkskas said it was also concerned that tax revenues were still increasing sharply, thus undermining the growth potential of the economy in various ways.

Also of concern was the interest burden on public debt which was rising fast. In the 1988/89 financial year, public debt costs rose by 26,6%, and this year provision had been made for another rise of 23,8%. — Sapa.

Too many SA students, says head of Unisa

320

B/Day 11/4/89

GERALD REILLY

PRETORIA — SA had hopelessly too many students compared with the number of taxpayers, Unisa principal Cas Van Vuuren said at a graduation ceremony here last night.

There was also a serious imbalance between student growth and economic growth. If the population, the economy and student numbers were on a base of 100 in 1965 the figures for 1985 would be 143 for the population, 195 for economic growth, and an astronomical 366 for student numbers.

"The taxpayer is already over-taxed and if no new sources of revenue can be found the goverment can simply not maintain the student subsidy," Van Vuuren said, "but unless other alternatives can be found this could lead to serious political and social unrest if the school system declared a group of students university material and the universities refused to accept them."

Efforts were made to maintain the same level of service as in the past, but he foresaw difficult times ahead.

Many had started limiting student intakes by simply drawing a horizontal line determined by school achievement and to reject those who fell below the line. Many of these landed up at Unisa. Van Vuuren said Unisa had been handling the problem in a different way.

Every student who qualified was accommodated, but students with a relatively weak school record could only register for one subject.

Business Report

Tax incentives needed to attract women's skills

By AUDREY D'ANGELO
Financial Editor

C/T 12/4/89 320

A STRONGER tax incentive is needed to attract women with badly needed skills back into the labour force, say Senbank economists Emile van Zyl and Johann du Pisanie.

Welcoming the decision to tax the salaries of married women separately from their husbands under the SITE system, regardless of the level of the salary, Van Zyl and Du Pisanie say in their Economic Review that this will encourage more women to work.

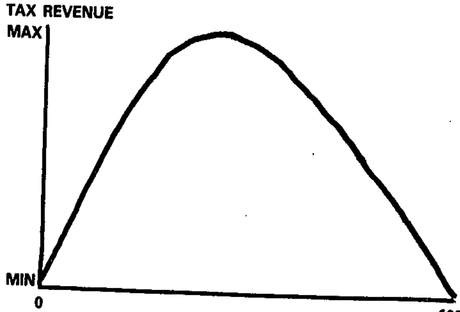
But, they continue, taking into account the extra expenses incurred by women going out to work "the benefit in absolute terms is very small".

Calling for further progress towards completely separate taxation for all married couples, they suggest it is "essential that the minister of finance should ensure that the incentives in the next phase" are sufficient to encourage "thousands of well qualified women, who would not seriously consider re-entry on the marginal benefit which has now been created, to re-enter the labour market."

Admitting that the government could suffer a temporary loss of income if separation of the tax unit were carried through all at once, they say the phasing in process should not be too slow "as it must be sufficiently inviting to tempt the woman who is not economically active to re-enter the labour market".

Van Zyl and Du Pisanie say that regarding married couples as a single tax unit has cost the country dearly because the 1985 census disclosed that 49% of matriculated women and 35% of women graduates were not economically active.

LAFFER CURVE



The Laffer Curve shows how tax revenues initially rise with a high rate of taxation, only to fall off after it reaches a level at which it is a disincentive to work. Reaching this level results in a weaker tax base and a decline in revenue.

If the government were in earnest about separate taxation "it could mean that a substantial percentage of these highly skilled women would enter the labour market which could lead to greater activity by way of the multiplier effect throughout the economy.

"Thus the resultant prosperity will not be limited to a relatively small group of households as it will indirectly have a positive effect on many others."

The re-entry of many women to the labour market would "immediately give rise to an increased demand for domestic servants, pre-school and after-school care, transport and time-saving household equipment."

Many of these women would start their own businesses, creating more jobs for others.

Arguing against the suggestion that the loss of this tax revenue would force the government to "substitute another more onerous tax", they say the Laffer Curve "indicates that if the tax rate were to rise continually revenue would initially also increase owing to the higher rate.

"But a point would be reached which would act as a disincentive to work and would consequently reduce tax receipts.

"On the other hand a reduction in the rate of taxation could give rise to greater participation in the economy."

This could lead to an increase in revenue.

REPORTS Business Day Reporter, Sapa and Reuter.

ma transfusion equipment.

Taxpayers hit by R37bn haul

BDay 12/4/89 GERALD REILLY (320)

PRETORIA — The Department of Inland Revenue's latest statistical bulletin shows that R37,686bn was collected in the 1988 financial year, and underlines the huge and growing burden being carried by taxpayers.

The cost of collecting the sum — six times more than the amount collected in 1978 — was R132,4m, mostly in salaries and allowances for a staff of 6 547. In 1978 the staff complement was 3 526.

Income tax collected from individuals in 1978 was R1,9bn. By the end of the 1988 financial year this amount had soared to R12,3bn. Direct taxation (including mining and "other") in the same period increased from R4,132bn to R21,5bn.

Finance Minister Barend du Plessis estimates that direct tax collections this year will be R24,555bn.

In 1987 (latest figures available) there were 258 554 taxpayers in the R15 000-R20 000 per annum income bracket paying 12,57% of the total collection, and 89 234 in the R35 000-R40 000 bracket paying 4,34%.

At the top of the earnings ladder were 711 with incomes between R200 000 and R250 000 paying 0,03% of the total, and 985 earning more than R250 000 paying 0,05%.

In 1987, Transvaal taxpayers totalled 1 001 648 (48,69%) with taxable incomes amounting to R21,6bn.

Sasol employees boycott buses

BDay 12/4/89. ALAN FINE

EMPLOYEES at Sasol's Secunda plant who live at Embalenhle township have begun a bus boycott following a 15,3% increase in bus tariffs from April 1.

A Chemical Workers' Industrial Union (CWIU) spokesman said yesterday the week-old action was aprotest against the increase and the manner in which it was effected.

Sasol has a contract with operator Eastern Bus Lines. The CWIU accused Sasol management of reaching a "secret" agreement with the firm, whereas it had previously invited union representations before fare increases.

The union was to meet taxi drivers to negotiate special taxi fares to the plant.

A Sasol spokesman said the union had been informed of the planned increase on February 22. Eastern had turned down a union request for a one-month delay in implementing the increase because of the January fuel price increase.

He said the union had failed since mid-March, when this decision was conveyed to it, to raise the issue again. Instead it had called for a boycott.

The two parties met yesterday for discussions.

1 001 648 (48,69%) with taxable incomes amounting to R21,6bn.

The two parties met yesterday for discussions.

Slow tax reform worries Assocom

ASSOCOM expressed concern at the slow pace of tax reform when it met for discussions with the Commissioner for Inland Revenue in Cape Town yesterday.

The delegation stressed the need to avoid the type of over-run of budgeted state expenditure that had characterised recent years.

Assocom's suggestions included:

☐ More income tax relief for individuals;

☐ Slower progression — by way of wider income brackets — to a maximum marginal tax rate below the current 45%; and

320 ZILLA EFRAT

☐ Women working in association with their husbands be given much of the tax relief accorded generally to married women. B/Day 12/4/89

Objections were lodged against proposals to impose new tax requirements with retroactive effect and to proposals involving new tax requirements in respect of widely utilised company financing through the issue of redeemable shares.

Taxpayers hit by R37bn haul

B/Dev 12/4/89 GERALD REILLY (320)

PRETORIA — The Department of Inland Revenue's latest statistical bulletin shows that R37,686bn was collected in the 1988 financial year, and underlines the huge and growing burden being carried by taxpayers.

The cost of collecting the sum — six times more than the amount collected in 1978 — was R132,4m, mostly in salaries and allowances for a staff of 6 547. In 1978 the staff complement was 3 526.

Income tax collected from individuals in 1978 was R1,9bn. By the end of the 1988 financial year this amount had soared to R12,3bn. Direct taxation (including mining and "other") in the same period increased from R4,132bn to R21,5bn.

Finance Minister Barend du Plessis estimates that direct tax collections this year will be R24,555bn.

In 1987 (latest figures available) there were 258 554 taxpayers in the R15 000-R20 000 per annum income bracket paying 12,57% of the total collection, and 89 234 in the R35 000-R40 000 bracket paying 4,34%.

At the top of the earnings ladder were 711 with incomes between R200 000 and R250 000 paying 0,03% of the total, and 985 earning more than R250 000 paying 0,05%.

In 1987, Transvaal taxpayers totalled 1 001 648 (48,69%) with taxable incomes amounting to R21,6bn.

Sasol employees boycott buses

B/Dev 12/4/89. ALAN FINE

EMPLOYEES at Sasol's Secunda plant who live at Embalenhle township have begun a bus boycott following a 15,3% increase in bus tariffs from April 1.

A Chemical Workers' Industrial Union (CWIU) spokesman said yesterday the week-old action was aprotest against the increase and the manner in which it was effected.

Sasol has a contract with operator Eastern Bus Lines. The CWIU accused Sasol management of reaching a "secret" agreement with the firm, whereas it had previously invited union representations before fare increases.

The union was to meet taxi drivers to negotiate special taxi fares to the plant.

A Sasol spokesman said the union had been informed of the planned increase on February 22. Eastern had turned down a union request for a one-month delay in implementing the increase because of the January fuel price increase.

He said the union had failed since mid-March, when this decision was conveyed to it, to raise the issue again. Instead it had called for a boycott.

The two parties met yesterday for discussions.

Written by LYNN CARLISLE

Provident fund less taxing

BDay 12/9/89 320

A PROVIDENT fund has tax advantages over other retirement funds, particularly where more senior executives are concerned, says chartered accountants Kessel Feinstein partner Ernest Mazansky.

A provident fund — which even a small company with few employees can create — is a legitimate and efficient tax savings medium which allows discretionary income to be invested on a pre-tax basis.

Despite only the employer's contribution to the fund being tax deductible, with proper planning the lack of deductibility by the employee should not present a problem, he says.

"Although with a pension fund employer and employee usually contribute, and both contributions are tax deductible, with a provident fund it's possible for an employer to make a payment, as its own contribution, equivalent both to what it would have paid to a pension fund and what the employeee would have contributed."

He says this would make the total contribution tax deductible in the employer's hands.

As far as the employee is concerned he would, for example, forgo an increase in salary or a bonus ("salary sacrifice"). Although he is not making a direct contribution into the provident fund, it is indirect in the form of forgoing a taxable salary increase on bonus.

"His contribution will effectively be tax deductible."

While in Mazansky's opinion this form of salary sacrifice is legitimate, he would not recommend an employee sacrificing a portion of his existing salary for these purposes — where the salary would drop from one month to the next — as such action may well be capable of being attacked under the general anti-avoidance rules in law.

Provided an employee's total remuneration package is reasonable with regard to the value of services rendered, he believes the Receiver would not be entitled to disallow any employer's deduction as excessive, regardless of its value (within reason) as a percentage of the total package.

"This facilitates a substantial degree of flexibility, so employees could well shelter a reasonable portion of earnings from tax should they not be required for other purposes."

Because a provident fund's net income is invested to best advantage, a main benefit is that a provident fund effectively facilitates an investment into a growth portfolio, with such investment being made out of *pre-tax income*, whereas traditionally savings or investments are made out of taxed income.

This could well suit employees who feel they do not really need an increase or bonus because of their particular financial circumstances — and a like amount could instead be contributed by the employer to the fund for their benefit.

Extra flexibility is another advantage a provident fund provides over pension — or retirement annuity (RA) — funds.

With the latter, an employee is entitled to a maximum cash payout of one-third the value of either fund, and by law must take the two-thirds balance by way of an annuity.

A provident fund's full value is available on retirement, and thus the employee has much greater flexibility in dealing with his financial affairs.

As the law stands a significant (if not the whole) provident fund lump sum received on retirement is tax-free. Any balance will be taxed at his (lower) average tax rate for the year, rather than at the marginal (higher) rate.

"With proper planning, even this average tax rate can be reduced significantly," he says.

While these rules apply equally to pension and RA funds, the benefits can be greater with provident funds in view of the absence of the one-third limitation.

A provident fund is similar in principle to a deferred compensation scheme in the sense that the employer pays out funds now as "part" of the employee's package, and gets a tax deduction, while the income only accrues to the individual at some future time.

Although an employer utilising a provident fund will obtain an immediate tax deduction, the employee will only be taxed (if at all) at some future point in time.

"This is of particular benefit in an owner-managed business where the employer and employee, though legally different parties, are economically one and the same," Mazansky adds.

Life policy plan

(320) BD 12/4/89

A DEFERRED compensation plan allows one to accumulate capital for retirement without having to pay up to 45% of any additional salary to the taxman.

Explaining how it works, AA Life deputy GM, marketing, Bruce Howard says an employer takes out a life policy on behalf of an employee and pays the premiums due under the policy in lieu of the full, or part of a, salary increase.

The maturity benefit, of which R30 000 is tax free under current legislation, may be paid to the employee within five years of his normal retirement date.

"And the employer can deduct the premium as a tax deductible business expense," says Howard.

The tax exemption is over and above any lump sums available from pension, provident and retirement annuity funds — and there are no restrictions on how the cast may be invested.

Important concessions are available for any excess over the R30 000 tax free amount, viz:

- An amount equal to the total salary earned in the three years prior to retirement qualifies for the average tax rate, with the balance taxable at the marginal rate;
- The excess over the R30 000 tax-free lump can be "spread" for income tax purposes in equal instalments over three consecutive years, starting with the tax year of payment.

Deferred compensation is flexible, offering a pension for life, a cash lump sum — or a combination of these.

In the event of resignation, the plan can be transferred to the new employer with the parties' agreement, or there can be a repayment of the total contributions made by the company under the plan or the value of the policy — whichever is the greater.

R250 000 paying 0,03% of the total, and 985 earning more than R250 000 paying 0,05%.

In 1987, Transvaal taxpayers totalled 1 001 648 (48,69%) with taxable incomes amounting to R21,6bn.

veyed to it, to raise the issue again. Instead it had called for a boycott.

The two parties met yesterday for discussions.

Slow tax reform worries Assocom

320 ZILLA EFRAT

ASSOCOM expressed concern at the slow pace of tax reform when it met for discussions with the Commissioner for Inland Revenue in Cape Town yesterday.

The delegation stressed the need to avoid the type of over-run of budgeted state expenditure that had characterised recent years.

Assocom's suggestions included:

- More income tax relief for individuals;
- Slower progression — by way of wider income brackets — to a maximum marginal tax rate below the current 45%; and
- Women working in association with their husbands be given much of the tax relief accorded generally to married women.

BDay 12/4/89

Objections were lodged against proposals to impose new tax requirements with retroactive effect and to proposals involving new tax requirements in respect of widely utilised company financing through the issue of redeemable shares.

REPUBLIC OF SOUTH AFRICA
REPUBLIEK VAN SUID-AFRIKA

Government Gazette
Staatskoerant

Regulation Gazette No. 4346 *Regulasiekoerant*

Registered at the Post Office as a Newspaper *As 'n Nuusblad by die Poskantoor Geregistreer*

Selling price • Verkoopprys
(GST excluded/AVB uitgesluit)
Local **50c** Plaaslik
Other countries **70c** Buitelands
Post free • Posvry

Vol. 286 PRETORIA, 14 APRIL 1989 No. 11837

320

GOVERNMENT NOTICE

DEPARTMENT OF FINANCE

No. R. 780 **14 April 1989**

AMENDMENT OF DEFINITION OF "PRESCRIBED RATE" IN SECTION 1 OF THE INCOME TAX ACT, 1962

By virtue of the powers vested in me by the definition of "prescribed rate" in section 1 of the Income Tax Act, 1962 (Act No. 58 of 1962), I, Barend Jacobus du Plessis, Minister of Finance, hereby amend the said definition with effect from 1 June 1989 by the substitution in paragraph (a) thereof for the expression "12 per cent" of the expression "14 per cent" and by the substitution in paragraph (b) thereof for the expression "15 per cent" of the expression "18 per cent".

B. J. DU PLESSIS,
Minister of Finance.

GOEWERMENTSKENNISGEWING

DEPARTEMENT VAN FINANSIES

No. R. 780 **14 April 1989**

WYSIGING VAN OMSKRYWING VAN "VOORGESKREWE KOERS" IN ARTIKEL 1 VAN DIE INKOMSTEBELASTINGWET, 1962

Kragtens die bevoegdheid my verleen by die omskrywing van "voorgeskrewe koers" in artikel 1 van die Inkomstebelastingwet, 1962 (Wet No. 58 van 1962), wysig ek, Barend Jacobus du Plessis, Minister van Finansies, hierby die genoemde omskrywing met ingang van 1 Junie 1989 deur in paragraaf (a) daarvan die uitdrukking "12 persent" deur die uitdrukking "14 persent" te vervang en deur in paragraaf (b) daarvan die uitdrukking "15 persent" deur die uitdrukking "18 persent" te vervang.

B. J. DU PLESSIS,
Minister van Finansies.

REPUBLIC OF SOUTH AFRICA

REPUBLIEK VAN SUID-AFRIKA

Government Gazette
Staatskoerant

Selling price • Verkoopprys
(GST excluded/AVB uitgesluit)
Local **50c** Plaaslik
Other countries **70c** Buitelands
Post free • Posvry

Registered at the post office as a Newspaper

As 'n Nuusblad by die Poskantoor Geregistreer

Vol. 286 PRETORIA, 14 APRIL 1989 No. 11831

320

PRESS STATEMENT

by the

Commissioner for Inland Revenue

REGARDING THE INCREASE IN THE "OFFICIAL RATE OF INTEREST" FOR FRINGE BENEFIT TAXATION PURPOSES

A taxable benefit accrues if a loan is granted to an employee and either no interest is payable by the employee or interest is payable by him at a rate less than the official rate of interest. The cash equivalent of the value of the taxable benefit in these circumstances is the amount the employee would have paid on the loan during the year of assessment if he had been obliged to pay interest at the official rate less the amount of interest (if any) he actually incurred during the year. At present the official rate of interest as defined in paragraph 1 of the Seventh Schedule to the Income Tax Act, 1962, is 13 per cent.

It is hereby notified for general information that in terms of a Government Notice published today, 14 April 1989, the Minister of Finance, Mr B. J. du Plessis MP, has increased the official rate of interest to 16 per cent with effect from 1 June 1989.

Issued by: The Commissioner for Inland Revenue, Cape Town

Enquiries: Mr R. P. van der Merwe
(012) 325-2500 (Extension 374)

14 April 1989.

PERSVERKLARING

deur die

Kommissaris van Binnelandse Inkomste

MET BETREKKING TOT DIE VERHOGING IN DIE "AMPTELIKE RENTEKOERS" VIR DIE DOELEINDES VAN BELASTING OP BYVOORDELE

'n Belasbare voordeel val toe indien 'n lening aan 'n werknemer toegestaan is en geen rente deur die werknemer betaalbaar is nie of rente daarop teen 'n koers laer as die amptelike rentekoers deur hom betaalbaar is. Die kontantekwivalent van die waarde van die belasbare voordeel is in hierdie omstandighede die bedrag wat die werknemer ten opsigte van die jaar van aanslag sou betaal het indien hy verplig was om rente teen die amptelike rentekoers te betaal, min die bedrag aan rente (indien enige) wat hy werklik gedurende die jaar aangegaan het. Tans is die amptelike rentekoers soos in paragraaf 1 van die Sewende Bylae by die Inkomstebelastingwet, 1962, omskryf, 13 persent.

Daar word hierby vir algemene inligting bekendgemaak dat ingevolge 'n Goewermentskennisgewing wat vandag, 14 April 1989, gepubliseer is, die Minister van Finansies, mnr. B. J. du Plessis LP, die amptelike rentekoers met ingang van 1 Junie 1989 na 16 persent verhoog het.

Uitgereik deur: Die Kommissaris van Binnelandse Inkomste, Kaapstad

Navrae: Mnr. R. P. van der Merwe
(012) 325-2500 (Uitbreiding 374)

14 April 1989.

Receiver offers help with your tax return

320

Star 14/4/89

By Helen Grange

The Receiver of Revenue in Johannesburg has announced that his staff will assist taxpayers both in completing their 1988/89 income tax returns and in ensuring that their refund cheques are not stolen in the post.

Mr J Stone, Johannesburg's Receiver, said all regional offices in the country would offer assistance in completing tax returns from Monday to Friday (public holidays excluded) between 4.15 pm and 6.15 pm from April 24 to June 6.

This service has been introduced because almost 7 percent of tax returns were incorrectly completed. During the 1987/88 year of assessment, about 173 000 taxpayers were assisted.

In Johannesburg, the service will be available at Room 101, Receiver of Revenue office, Rissik Street.

Mr Stone said that, because of the continuing problem of refund cheques being stolen and cashed, taxpayers had now been given the option of including their bank account number on tax returns so that cheques could be paid directly into their accounts.

TAX HAUL

- The Department of Inland Revenue has made a huge tax haul of R37,686 billion for the 1988 financial year, the latest statistical bulletin from the Department of Inland Revenue shows.

The growing burden on taxpayers can be illustrated by comparing this figure to the R1,9 billion collected in 1978. By the end of the 1988 financial year, this amount had soared to R12,3 billion.

Direct taxation (including mining and "other") in the same period increased from R4,132 billion to R21,5 billion.

Minister of Finance, Mr Barend Du Plessis has estimated that direct tax collections this year will be R24,555 billion.

The cost of collecting tax last year amounted to R132,4 million, mostly in salaries and allowances for a 6 547-strong staff. In 1978, the staff complement was 3 526.

Those perks will now cost more

Star 15/4/89

320

TOM HOOD

BUSINESSMEN with the company cars will have to pay more tax from June 1, as will home-owners with "soft loans".

Perks tax changes announced by the Commissioner for Inland Revenue show the tax values placed on private use will jump by anything between nine and 22 percent, depending on the value and size of the car.

The driver of a car valued at R50 000 with a capacity of more than 2 000cc — one of the most popular vehicles — will now have to pay tax on a private value of R463 a month — 22 percent more than the current rate of R380 a month.

"Most individuals pay perks tax at the maximum marginal rate so that they will have to pay between R10 and R40 more a month," says tax consultant Godfrey Shev of Kessel Fenstein.

"It looks like part of the general squeeze on individuals to raise more money."

Cars valued between R140 000 and R150 000 with a capacity over 3 000cc will have a tax value of R979, up nine percent on the current rate of R897.

A new category for vehicles over R150 000 will land the user with a tax value of R897 a month plus R53 for each R10 000 by which the value exceeds R150 000.

At the bottom end, a R25 000 car with 2 000cc capacity will have a tax value of R238 a month, up 15 percent on the present R207 a monthly.

Where the employee pays for all fuel used for private motoring, the tax value will be lowered by R67 a month.

If he also pays for all maintenance costs, the monthly value will be reduced by R41.

Home-buyers and others with subsidised loans from their employers face a steep increase from June 1 as the cash value of the taxable benefit is raised from 13 to 16 percent.

At the same time, taxpayers who owe money to the Receiver of Revenue will be charged interest of 18 percent, up three percent from the current 15.

Tax refunds, which sometimes qualify for interest, will earn 16 percent in future instead of the present 13 percent.

Close corporations have many benefits for the tax planner

320

Star 15/4/89

By IAN WILSON,
a partner of Price Waterhouse

The tax rules relating to close corporations have proved a fertile source of benefit to the imaginative tax planner.

There are two areas in which the close corporation offers valuable tax planning opportunity — in deferring the impact of undistributed profits tax and in enabling trading transactions to be so structured as to avoid the payment of any tax.

An individual investor is well advised to incorporate a close corporation in his investment strategy. The classical structure in this regard comprises a close corporation as the sole shareholder of the portfolio investment company. The advantage of this structure is that it permits the investment company to accumulate the dividends on the investments without the payment of tax.

This advantage is not otherwise found when investments are made through a company as the company is compelled to pay the dividends on to the shareholder or pay tax on undistributed profits.

However, the provision in the Income Tax Act which imposes tax on the undistributed profits of companies contains an exemption in respect of companies where the entire issued equity share has been held by a close corporation throughout the specified period.

The specified period in relation to the first year of assessment of a company commences on its incorporation and ends six months after the end of its first financial year, and in relation to the next and succeeding years commences on the day after the end of the preceeding specified period and ends six months after the end of the financial year.

Use of this structure therefore enables the dividends to be retained free of tax and permits reinvestment of the pre-tax value of the dividend.

The second benefit of using a close corporation is the facility to deal in speculative assets without incurring a liability to income tax. This benefit arises out of two provisions in the Income Tax Act.

The first is the exemption from tax of dividends paid by a close corporation to its members. The second is the general deduction formula, which allows expanditure and losses actually incurred in the year of assessment, not being of a capital nature, to be deducted from income.

A speculator can acquire assets in a close corporation, and, immediately prior to their sale revalue the assets and distribute them as a dividend to himself, free of tax. He may then sell the assets to the puchaser, and claim the loss of the assets at their market value (being the value of the dividend received) as a deduction.

Deduction

As the income and the deduction will net out, there will be no taxable income on the transaction.

Clearly, the use of this structure is more beneficial the greater the profit in the transaction. The transfer of the assets into the close corporation may involve slightly higher costs in the form of transfer duties or stamp duties than would apply in the case of an individual. On declaration of the dividend, the transfer of the assets to the member will also involve transfer duties or stamp duties.

However, if the profit on the transaction is high — as a general guideline higher than 20 percent — significant benefit may be derived by the use of close corporation, as the additional duties and costs will be lower than the income tax which would otherwise be payable on the profit on the transaction.

Year of the big squeeze

STar 15/4/89 (320)

DEREK TOMMEY

THIS IS the year of the big squeeze for middle class South Africans. The Government's refusal to adjust the income tax rates for fiscal drag together with the steep increase in mortgage repayments has drastically reduced middle class purchasing power.

With inflation running between 12 percent and 15 percent before taking the new petrol price increases into account, a rough rule of thumb suggests that the ordinary South African will need about 15 percent more spending money this year to maintain his living standards.

But calculations of the impact of the higher tax and mortgage bond rates on personal incomes indicates that a great many people will not have this extra cash.

In fact, there is evidence that after meeting their tax and mortgage payments a great many South Africans this year may have to cut their spending by possibly up to 10 percent in real terms.

For many the major deciding factor will be whether they splurged on a new house last year and took out the biggest bond they could get.

As an example of what is happening let us look at the case of a man who a year ago was earning R2 500 a month.

At that time interest rates on mortgage bonds were 13 percent and he borrowed the largest mortgage bond he was entitled to get on salary — one for R53 000 on which the monthly repayments were R621.

After paying his tax of R447 (worked out on the basic tax rates) and his mortgage payment of R621 he had R1432 left for other expenses.

Now let us look at his finances this year. He was one of the fortunate ones who received a 15 percent pay rise at Christmas so his monthly income is R2 875, or R375 more than a year ago.

However, because the tax tables were not adjusted for fiscal drag his monthly tax has risen 29,6 percent to R573 leaving him with R2302 after tax against R2053 a year ago.

Mortgage rates

But at the same time, the jump in mortgage rates from 13 percent to 18,75 percent has resulted in his monthly repayment rising 36,7 percent from R621 to R849. The upshot is that his net pay is R1453 which is only 1,5 percent more than the R1432 he had a year ago.

With food prices, insurance, transport and everything else having risen by between 10 percent and 33 percent (such as in the case of petrol) in the past 12 months, it is fairly obvious that he is not going to able to buy the same amount of goods as he was able to do a year ago.

Those people in the R40 000 a year income group last year and who got the biggest mortgage they could, will have about R1741 left to spend after tax and mortgage repayments against R1738 a year ago.

And for people in higher income groups where the marginal tax rate rises strongly, the situation gets progressively worse.

It seems that for the first time the Government is determined to curb inflation and the squeeze is an intrinsic part of its plan.

The squeeze is enabling the Minister of Finance, Mr Barend du Plessis, to sterilise some R1 billion this year. After taking the multiplier factor into account this means that total demand may be cut by anything between R3 billion and R5 billion.

This will greatly lessen inflationary pressures. Less demand will also help the balance of payments and could lead to a firmer rand and to less imported inflation. It could even result in a rise in the gold reserves and, with a little luck, to a higher gold price.

The squeeze will be hard on many people, but it should enable them to look for improved economic conditions and greater prosperity in the coming years.

Fringe benefit tax rate changes announced

MIKE ROBERTSON 320

CAPE TOWN — Several structural changes affecting official rates of interest and fringe benefit taxation were announced by Inland Revenue commissioner Clive Kingon on Friday.

Kingon said interest paid by the Receiver on provisional tax credits would be increased from 12% to 14% from June 1. The prescribed rate for interest paid by taxpayers on outstanding tax would be increased from 15% to 18% on the same day. The official rate of interest would be increased from 13% to 16%, also from June 1.

Employees who received loans at rates lower than the official rate would be deemed to have received a taxable benefit. Employees would pay tax on the amount they would have paid in interest at the official rate, less any interest that has actually been paid.

Kingon also announced changes in the value to be placed for income tax purposes on the private use of company cars.

He noted that the Margo Commission had criticised the low value placed for income tax purposes on the private use of company cars, and recommended that the valuation of such cars be adjusted annually.

to institute prosecution against the persons responsible.

VAT: information on application

*8. Mr D J N MALCOMESS asked the Minister of Finance:

(1) Whether he will furnish information on the application of the value added tax system (VAT); if not, why not; if so,

(2) whether it is his intention to exempt charitable institutions from this tax; if not, why not; if so, (a) when and (b) what criteria are to be applied in the granting of such exemption?

B620E

The DEPUTY MINISTER OF FINANCE:

(1) No. In my recent budget speech I made reference to the fact that the draft VAT Bill has already been prepared but is subject to extensive refinement. I also mentioned that a comprehensive document on VAT will shortly be submitted to Cabinet for consideration. It is for this reason that I am presently unable to furnish any further details in this regard.

(2) Falls away.

Mr D J N MALCOMESS: Mr Speaker, arising out of the hon the Deputy Minister's reply, may I ask if the hon the Minister or his department would be prepared to recommend to the Cabinet that charitable institutions be exempt from the payment of VAT, particularly in the light of the fact that donations to charity by companies are not tax-deductible whereas donations to sport are deductible at a special rate? In other words one gets the impression that rugby is more important than charity within the NP Government.

The DEPUTY MINISTER OF FINANCE: Mr Speaker, this extensive document will be published after the Cabinet decides on the main issues. We will then expect organisations like charitable institutions to submit their cases to the Government.

Children's Hospital in Durban: re-opened

*9. Mr M J ELLIS asked the Minister of National Health and Population Development:

(1) Whether there are any plans to re-open the Children's Hospital in Durban; if not, (a) why not and (b) what are the future plans for the building; if so, when is it anticipated that it will re-open;

(2) whether there are any plans to move the children's out-patients sections from its present site in the Children's Hospital building; if so, where to?

B621E

†The MINISTER OF NATIONAL HEALTH AND POPULATION DEVELOPMENT:

(1) No;

(a) — the current limited financial circumstances and the need to effect savings wherever possible mitigate against reopening the Children's Hospital,

— in the opinion of the Natal Provincial Administration the siting of both the Children's Hospital and Addington Hospital is not ideal. Recommissioning the Children's Hospital would compound this problem,

— the overall need for paediatric services is adequately catered for in the accommodation presently provided in Addington and other hospitals in the Durban functional region,

— the old Children's Hospital currently serves an important role in providing essential accommodation for certain auxillary services for Addington Hospital such as a staff crèche and stores,

(b) there are no specific plans at present;

(2) no.

Mr R M BURROWS: Mr Speaker, arising from the reply of the hon the Minister, is he aware of the fact that the old Children's Hospital building was originally erected as a specific children's hospital and is fully fitted out including the utilisation of facilities downstairs for such children's hospital? Is he aware that the children are currently on the thirteenth floor of the building and for exercise have to use the corridors of the building?

The MINISTER: Mr Speaker, I am aware of these facts. [Interjections.]

Stein Report on Children's Hospital in Durban

*10. Mr M J ELLIS asked the Minister of National Health and Population Development:

Whether the Stein Report on the Children's Hospital in Durban is available or is to be made available to (a) members of the public and (b) members of Parliament; if not, why not; if so, when?

B622E

The MINISTER OF NATIONAL HEALTH AND POPULATION DEVELOPMENT:

(a) No,

(b) no;

The Executive Council of the Natal Provincial Administration decided on 9 December 1985 that the Report should not be made public. The Executive Council was of the opinion that the Report was incomplete.

SWA: cost of withdrawal of troops

*11. Mr R A F SWART asked the Minister of Defence:

Whether the Chief of the South African Defence Force stated at a press conference in Pretoria on or about 27 January 1989 that the withdrawal of South African troops from South West Africa would cost approximately R143 million; if so, how is this amount made up?

B623E

†The DEPUTY MINISTER OF DEFENCE:

The Chief of the SA Defence Force actually said that the estimated cost will amount to RM146,4. The amount is made up as follows:

(a)	Transfer of Permanent Force members and their families	:	RM 47,9
(b)	Transport of other troops by road, rail and air	:	RM 24,1
(c)	Transport of stores by road and rail	:	RM 47,4
(d)	Withdrawal and relocation of computer and telecommunication services	:	RM 8,8
(e)	Packaging material and handling equipment	:	RM 17,0
(f)	Operating of an equipment collecting point in the RSA	:	RM 1,2
	Total		RM146,4

Monitoring of media: amount allocated

*12. Mr S S VAN DER MERWE asked the Minister of Home Affairs:

(a) What amount of the total amount allocated to his Department for the 1989-90 financial year is to be set aside for the monitoring of the media and (b) how is this amount to be made up?

B624E

The MINISTER OF HOME AFFAIRS:

The amount allocated to the Sub-program: Media Relations for the 1989/90 financial year amounts to R1 238 500 which includes an amount of R438 500 which is earmarked for liaison and information services. The objective with this program is the promotion of public relations and the application of media control in terms of the Media Emergency Regulations. A variety of functions to promote this objective is being executed in head office and in regional and district offices and the monitoring of the media *per se* forms a small part of this comprehensive task. It is further interwoven in such a way with other functions in the programs that it is not possible to vest the expenditure relating thereto in precise monetary terms.

Expropriation of land on N3: cost involved

*13. Mr R W HARDINGHAM asked the Minister of Transport Affairs:

What was the cost involved in the expropriation of land to accommodate the new section of road on the N3 national road from Frere to the Tugela Plaza?

B630E

†The MINISTER OF TRANSPORT AFFAIRS:

R684 380.

Frere/Tugela Plaza: commissioning body

14. Mr R W HARDINGHAM asked the Minister of Transport Affairs:

(1) What body commissioned the construction of the recently opened section of the N3 national road from Frere to the Tugela Plaza;

(2) (a) when was the construction of this section (i) commenced and (ii) completed and (b) (i) at what cost was it constructed

Plan to avert wild interest rate swings

(320)

B/Day 18/4/89

HAROLD FRIDJHON

WILD swings in short-term interest rates, particularly at certain month-ends, could be prevented if the Treasury were to open special accounts with private banks, SDH director Pierre Faure writes in the first quarter's issue of The Securities Markets.

At regular periods of the year, as tax payments fall due, very large sums of money flow from the private sector to government's accounts in the Reserve Bank.

Faure says this distorting influence could be avoided if the Treasury opened Tax and Loan Accounts with the major commercial banks.

Income tax and other payments could be made by debits from taxpayers' bank accounts to the credit of Treasury accounts in the commercial banks. Proceeds from the issue of government securities could also be deposited to these accounts. These transactions would have no effect on money market liquidity.

Disbursements would unlikely be made from these Treasury accounts as the Exchequer would probably withdraw fairly large amounts as and when required. Faure says these withdrawals would not necessarily affect market liquidity becauew they would usually coincide with government expenditure payments.

He claims Treasury accounts with commercial banks would not be advantageous only to the private sector, but also assist the Reserve Bank manage monetary policy. By judiciously switching funds from the private banks to the Reserve Bank, the liquidity situation could almost perfectly be balanced.

"This contrasts sharply with the present system where changes in liquidity are not known in advance, necessitating large-scale accommodation by the Reserve Bank — a situation which at times could be misinterpreted by the (private) banking system."

Faure warns that a potential problem could be choosing the banks at which Treasury accounts would be held, but he says that a set of criteria could be established.

A similar Treasury tax and loan account system operates successuly in the US. Some legislative changes would have to made to introduce the principle into SA.

Minister of Finance in row over tax probe

320

Star 20/4/89

By Peter Fabricius, Political Correspondent

A probe by the Commisioner of Inland Revenue into the tax affairs of parliamentarians has caused a huge row involving Minister of Finance Mr Barend du Plessis.

Mr du Plessis explained today why he had taken legal action to attempt to prevent publication of an article about the probe in the magazine, *Finansies en Tegniek*.

He said the action had been taken to preserve the confidentiality of private tax matters and to avoid giving warning to those being probed. He had no idea why the probe had been ordered but indicated that it might have been because the taxman had been criticised in the past for not getting on top of tax probes into the affairs of prominent people.

This appeared to be a reference to criticism of the taxman during the Harms Commision probe into the affairs of businessman Mr Albert Vermaas.

DROPPED

Though no firm details are available of the probe itself, claims have been made that it might involve recent accusations made about members of the Labour Party in the House of Representatives.

Mr Carter Ebrahim, leader of the Opposition in the House of Representatives claimed that prominent members of the LP falsely claimed tax-free parliamentary allowances for party funds.

The Commisioner of Inland Revenue, Mr Clive Kingon, said today he had "absolutely nothing to say to you".

Asked today about his involvement in the row, Mr du Plessis said: "My involvement came about subsequent to the actions of the Receiver as the result of a totally distorted article which, because of the confidentiality requirements of the tax law, could not be corrected or amended."

BDay 19/4/89 (320)

You work twice as many days for the Receiver as before

KAY TURVEY

SA TAXPAYERS are now working twice as many days to pay the taxman as they did 10 years ago.

A married man with two children and a taxable income of R60 000 works 104 days for the Receiver.

Further, assuming that half his after-tax income is spent on goods subject to GST, he would pay an additional R2 787 in indirect tax.

This means, in effect, he is toiling a total of 122 days out of each 365 days for the Receiver. This calculation excludes other taxes such as fuel levies and toll roads.

The average SA manager works more than 100 days a year just to pay direct taxes.

A married accountant with five to 10 years' experience who, a decade ago, worked 51 days to pay his income tax now has to work more than double that to pay the Receiver. He works 117 days to meet his direct tax bill.

The executive whose gross annual salary is R120 000 will be paying tax at the maximum marginal rate of 45% and will have worked 133 days to pay his tax bill of R43 810. If half his disposable income is spent on goods which carry GST, he will labour for 148 days to meet his taxes.

At this super-tax level the married man with two children will work for just under half the year to help fill revenue coffers. Add GST considerations and he will have worked for 163 days for the Receiver.

Ernst & Whinney partner Ken Walton believes it is valid to assume that half the average wage-earner's disposable income is spent on goods which bear GST.

The other half is more than likely spent on items such as rent, bond interest and hire purchase repayments.

Given these figures, Walton says it is not surprising individuals now carry the heaviest tax load and are expected to contribute 34% of total revenue in the current year.

Deloitte associate Des Kruger says individuals are becoming increasingly worse off as fiscal drag or bracket creep — a silent tax — erodes individual's nominal income.

He says that as salaries rise to keep abreast with SA's rising double-digit inflation, individuals are pushed into higher tax

● To Page 2

Taxpayers work twice as long for Receiver

● From Page 1 (320)

BDay 19/4/89

brackets, swelling revenue's coffers.

It is primarily this bracket creep which will see individuals' contribution to revenue rise by 22,5% to R17,1bn this year — with no increase in taxes.

Tax experts say the lack of relief from bracket creep is one of the biggest disappointments of the Budget.

In the UK, where the ravages of inflation are much less severe, tax brackets have a built in inflation index.

Rebates are adjusted annually there and brackets extended extensively to allow for inflation.

Taxman orders probe into MPs

Argus 20/4/87

(320)

By TOS WENTZEL
Political Correspondent

THE Commissioner of Inland Revenue has ordered an inquiry into the tax affairs of MPs because a number have allegedly not fulfilled their commitments.

Regional Inland Revenue officers will also have to give information to the commissioner on specific MPs who have shares in big companies.

The leakage of the instruction by the Commissioner of Inland Revenue, Mr Clive Kingon, to receivers of revenue around the country has sparked a major row.

The details first appeared in the magazine Finansies en Tegniek, which was threatened by court action in the form of an interdict by the Minister of Finance, Mr Barend du Plessis. This delayed publication for a week.

CRITICISED

The inquiry is understood to have been launched as a result of the taxman being criticised for not being on top of major scams such as the Vermaas affair.

And claims have been made by the Leader of the Opposition in the House of Representatives, Mr Carter Ebrahaim, that special allowances to MPs for secretarial work have been abused.

Mr Kingon said today that he had "absolutely nothing to say" about the issue.

Mr du Plessis said he did not know and was not allowed to know about the investigation because the confidentiality of the actions of the commissioner was protected by law.

"He is not supposed to and has never discussed such matters with me.

BROAD POLICY

"He is supposed to discuss only matters of broad policy with me.

"In this case I can only assume that he reacted as a result of the prominent publicity recently afforded to the tax situation of so-called prominent people."

Mr du Plessis said he believed the administration of tax should never be politicised by involving the political head of the department in anything but broad policy determination.

"I would like to see confidentiality of our tax system preserved not only in as far as it involves personal tax information but also in so far as it involves instructions from the commissioner to his receivers, because unless this confidentiality is protected all efforts to eradicate tax avoidance and even tax evasion will be thwarted."

Mr Harry Schwarz MP, Democratic Party finance spokesman, said MPs should be treated in the same way as any other taxpayer, receiving no special attention or favours.

Instead of special investigations the issue should be tackled from another side — all public representatives from MPs to Cabinet ministers should publicise all their financial interests.

Taxman orders probe into MPs

ARGUS 20/4/89 (320)

By TOS WENTZEL
Political Correspondent

THE Commissioner of Inland Revenue has ordered an inquiry into the tax affairs of MPs because a number have allegedly not fulfilled their commitments.

Regional Inland Revenue officers will also have to give information to the commissioner on specific MPs who have shares in big companies.

The leakage of the instruction by the Commissioner of Inland Revenue, Mr Clive Kingon, to receivers of revenue around the country has sparked a major row.

The details first appeared in the magazine Finansies en Tegniek, which was threatened by court action in the form of an interdict by the Minister of Finance, Mr Barend du Plessis. This delayed publication for a week.

CRITICISED

The inquiry is understood to have been launched as a result of the taxman being criticised for not being on top of major scams such as the Vermaas affair.

And claims have been made by the Leader of the Opposition in the House of Representatives, Mr Carter Ebrahaim, that special allowances to MPs for secretarial work have been abused.

Mr Kingon said today that he had "absolutely nothing to say" about the issue.

Mr du Plessis said he did not know and was not allowed to know about the investigation because the confidentiality of the actions of the commissioner was protected by law.

"He is not supposed to and has never discussed such matters with me.

BROAD POLICY

"He is supposed to discuss only matters of broad policy with me.

"In this case I can only assume that he reacted as a result of the prominent publicity recently afforded to the tax situation of so-called prominent people."

Mr du Plessis said he believed the administration of tax should never be politicised by involving the political head of the department in anything but broad policy determination.

"I would like to see confidentiality of our tax system preserved not only in as far as it involves personal tax information but also in so far as it involves instructions from the commissioner to his receivers, because unless this confidentiality is protected all efforts to eradicate tax avoidance and even tax evasion will be thwarted."

Mr Harry Schwarz MP, Democratic Party finance spokesman, said MPs should be treated in the same way as any other taxpayer, receiving no special attention or favours.

Instead of special investigations the issue should be tackled from another side — all public representatives from MPs to Cabinet ministers should publicise all their financial interests.

Wrestling with tax

MAJOR problems to be addressed by South Africans when making business and investment decisions revolve around the high inflation rate and the high level of taxation.

Mr Justice Cecil Margo's report on taxation was received with much fanfare and promises of a new dispensation for taxpayers, but TrustBank's GM of finance Denville Beaton points out that until now, government has grasped every recommendation which can increase revenues, and implemented these with gusto.

In addition, several recommendations to lower or abolish taxes have been rejected with rates being raised. These include:

- ☐ GST which was increased to 13%;
- ☐ Adjustment of methods of taxing insurance companies;
- ☐ Excise duty on liquor;
- ☐ Retention of tax on bank transactions; and
- ☐ Increases in various stamp duties.

Beaton argues that one of the requirements in an industrialist society is tax certainty. "At present, the sale of a house or a block of shares by an individual involves an element of risk in that the profit made by two individuals could be completely different, with one taxpayer having his profit treated as a capital profit and another, because of previous actions, being taxed on the proceeds.

"The recommendation of the Margo Commission that a capital gains tax be implemented with clear definitions as to when and at what rate profits would be taxed may very well increase volumes on the stock exchange.

"Surplus funds must thus be invested in assets with a built-in hedge against inflation, and at present great care must be exercised when disposing of any assets at a profit."

Beaton says the likelihood of government containing its expenditure within budget limits is remote, and double digit inflation seems to be here for some time to come.

"This means that the value of the rand will continue its downward slide, aggravating the inflation problem. Against this background, little incentive exists to save by way of bank deposits as the after tax yield is normally about half the inflation rate, and investors are seeking other investments providing access to export-oriented savings and other inflation-proof investments.

"Saving needs to be channeled into assets whose growth will equal or exceed inflation and whose proceeds, when realised, will not be taxable."

He gives some suggestions; (320)

- ☐ Krugerrands — these are completely dependent on the gold price and deliver no return other than when sold. However, certain investors who have realised their investments in Krugerrands have had the misfortune of having the profits taxed. Despite very convincing arguments in favour of the taxpayer, the objection has been disallowed;
- ☐ Property — good choice of property could provide a hedge, but after-tax income yields are often unacceptably low;
- ☐ Listed Investments — careful selection of equities could provide a hedge against inflation. Also, because the yield is in the form of a dividend, there's a lower tax rate.

B/Day 21/4/89 (320)

R8,2bn of 1987/88 income tax has been assessed

MIKE ROBERTSON

CAPE TOWN — More than R8,2bn of income tax had been assessed in respect of individuals for the 1987/88 financial year, Finance Minister Barend du Plessis said yesterday.

Du Plessis said in reply to a question from Harry Schwarz (DP Yeoville) that 73,8% of returns had been assessed.

More than R1bn of income had been assessed in respect of mining companies and R1,26bn in respect of non-mining companies. He said 32% of company returns had been assessed.

TS

(320)

TAX AND INFLATION

THE impact which inflation has on investments plays a large part in effective tax planning.

Tax savings planning in SA is not just a simple exercise of investing as much as legally possible in tax free building society and post office investments, says First Personal Asset Management (Persam) MD Ken Burgess.

"Naturally there is still a role for traditional fixed interest tax free investments. However, wise investors are still investing only enough to guarantee their minimum income requirements in such investments.

"Shrewd investors, who look at the long-term scenario, are generally far happier with a lower dividend producing investment with the potential for capital growth.

"For example, today's investors should compare the 9% tax free which they can earn in building society and post office investments, with quoted company shares. The dividend yield over the past five years has averaged at just over 4.5%, based on the Johannesburg Stock Exchange overall index," adds Burgess.

Of this dividend, one third would be tax free, and at the maximum marginal tax rate, would yield an after tax rate of just over 3%.

"To this income should be added the tax free capital gain of 20% per annum, which investors could have obtained via the overall index. These returns are naturally well in excess of those provided for by traditional fixed interest investments.

"The caveat, of course, is that if investors were to regularly sell their investments, the Commissioner for Inland Revenue could regard them as traders, and any capital gains made would be subject to tax.

"These figures include the 'crash' of October 1987, and naturally investors will be subjected to the vagaries of the stock market.

"It is therefore imperative that investors obtain asset management guidance from experts," Burgess concludes.

TAX AVOIDANCE (320) FM MC

Battle alert

21/4/89

Guerrilla sniping between members of the financial services industry has intensified ahead of a feared major offensive by Inland Revenue against a so-called "family" of property tax avoidance structures.

While tax avoidance schemes in the past hinged on savings made when returns were filed with Inland Revenue, the property structure hinges on non-disclosure.

The creators of the property structures "sold" them on the basis that they would never be unearthed by Revenue. However, last year a dissatisfied professional adviser at a main-tier firm told the *FM* that the structures had grown out of all proportion.

The complaint rested on the base that second-tier financial services enterprises were aggressively marketing the structures (earning hefty fees). This put pressure on main-tier firms, which told clients that the structures were "reprehensible."

A client would later return with, say, half a dozen opinions from different lawyers that the structures were legal. Inevitably, the structures took wing. Their emergence is

(320) FM MC 21/4/89

associated, of course, with a decline in "tax morality" to an all-time low.

After the *FM* report, Revenue started investigating annual reports for "strange" footnotes, and uncovered some of the most creative tax avoidance schemes ever. But what really distinguishes the property structures is that first, hundreds of millions of rands are involved, and second, "respectable" and large companies and financial institutions are involved.

Also, to take the benefit of non-disclosure to its logical conclusion, charities (which do not file tax returns) were signed up to the schemes, at handsome returns. Inland Revenue's investigations have created an uproar, particularly in Johannesburg, giving new meaning to "passing the buck."

Investigations of property registers reveal nothing, as the properties are held by dummy companies. Moreover, when the property changes hands at the end of the structure's term (say 10 years), shares are sold at a nominal value. While this is disclosed, the amount paid is anything but fair value.

Inland Revenue has probably identified most corporations and institutions involved.

The structures are thought by many to have been devised by an individual, reputed to be a multi-millionaire, who earned a reputation in the heady days of tax avoidance — 1982-1984 — for Sappi and Mondi-type leveraged leases, which saved hundreds of millions of rands tax. But he denies to the *FM* that he has anything to do with them.

Everyone was in on the act, including Chase Manhattan Bank and a long list of companies and institutions. Then Finance Minister Owen Horwood blew leveraged leases apart with SA's first major retroactive law, a precedent used more often by the year.

Since then, a number of second-tier tax avoidance schemes have emerged, including plantations, bloodstock and motion pictures.

The early days of motion picture financing constituted some of the purest tax-driven structures ever seen in SA. After years, the issue of legislation for the motion picture industry is still not resolved. But leading tax packagers long ago saw the death knell for pure tax-driven motion pictures, and moved into property schemes.

Documentation of such a scheme often runs to more than 5 cm thick, with up to a dozen parties. Full details of the property structures remain unknown to the *FM*. Those questioned typically say:

- ☐ All our deals have been commercially justifiable;
- ☐ We have never been party to schemes that have been purely tax-driven;
- ☐ Disclosure was done to the extent required; and
- ☐ Our structures have been developed in response to clients' needs.

When Revenue launches its offensive (again, possibly through retroactive legislation), it will no doubt be mauled for another attack on taxpayers. The point is that the structures would never have taken wing if tax rates were not so high. ■

Massive tax cuts boost Freegold

Star 21/4/89 (320)

Free State Consolidated Gold Mines (Freegold) increased gold production from 26 258kg to 26 409kg for the quarter ended March 31.

This was attributable to an increase in the average grade from 4,16 g/t to 4,20 g/t which more than offset the slight decrease in tons milled to 6,29 million tons.

Working costs rose from R647,2 million to R657,9 million and unit costs rose slightly from R102,50 to R104,53 per ton milled.

Profit before taxation declined by 2,8 percent to R219,8 million, mainly as a result of lower gold revenues which decreased from R848,1 million to R837 million.

Profit after taxation however, rose by 20,7 percent to R217,7 million (R180,4 million), reflecting a much lower provision for taxation at R2,1 million (R45,8 million).

Available profit increased by 19,9 percent to R104,7 million despite a rise in capital expenditure to R126,3 million.

At Freegold's North Region total costs rose by 1,5 percent to R321,5 million,but profits declined from R83,6 million to R50,9 million.

Total costs at Freegold's South Region increased to R336,4 million and profits rose to R128,2 million (R117,3 million).

Freegold's Metallurgical Scheme (MS) decreased its gold production to 593kg (634kg). Uranium oxide production declined by 9,2 percent to 116 020 tons. Costs rose marginally to R25,3 million (R24,9 million), but profits rose to R13,1 million. Sapa.

73,8% of individual income tax assessed

CT 21/4/89

By MIKE ROBERTSON

320

A TOTAL of more than R8,2bn of income tax had been assessed in repect of individuals for the 1987/88 financial year, Finance Minister Barend du Plessis said yesterday.

Du Plessis said in reply to a question from Harry Schwarz (DP Yeoville) that 73,8% of returns had been assesed.

More than R1bn of income had been assesed in respect of mining companies and R1,26bn in respect of non-mining companies.

He said 32% of company returns had been assesed.

● Replying to a question from Colin Eglin (DP Sea Point), he said more than R1,275bn had been invested in property in SA by means of the financial rand since September 1985.

He said R52m had been invested in agricultural property, R916m in commercial property and R306,6m in residential property.

MCGS 21/4/89

Import duty set to rip through clothing budgets

320

By HENRI du PLESSIS
Staff Reporter

HUGE increases in import duty on textiles will send the cost of clothing through the roof, according to industry sources.

The cost of imported clothing and clothing made from imported textiles is set to double and a ripple effect is certain to increase considerably the cost of clothing made from local textiles.

Yarn, combed wool, cotton and woven fabrics have also been hit by the duty increases.

It was the lower-priced clothing which was hit the hardest, however, said importer and wholesaler Mr Reuben Shuman.

"Men's and women's jerseys which are now being offered at R59,99 will cost R99 after the duties come into effect," he said.

KILOGRAM COSTS

"The previous duty on jerseys was 35 percent or R20 a kilogram less 60 percent of the overseas cost. But this has been changed to 30 percent or R71,50 a kilogram less 70 percent of the overseas cost.

"Although the flat rate was reduced and the deductable percentage of the overseas cost increased, the kilogram costs which apply to the lower-priced garments have soared."

Another example was tracksuits, which would increase from R69,99 to R149. The kilogram cost has been increased to R50 and according to Mr Shuman, tracksuits were relatively heavy garments.

Wool or fine animal-hair jackets, also heavy garments, were now stuck with a kilogram cost of R93,50.

If such a jacket cost R100 to buy overseas and had a weight of two kilograms, it would cost the importer the R100 plus R170 less the 70 percent which is R70 in this case.

(Turn to page 2, col 4)

MCGS 21/4/89

(Contd from page 1)

320

Thus the importer would pay R200 for an item which cost R100 to buy from its manufacturers.

And the lower the price of the imported jacket, the higher the duty.

If the same jacket cost only R50 to buy overseas, the same calculation would make the garment cost R50 plus R170 less the 70 percent of R50, which in this case would come to R35. The cost of the R50 jacket would then become R185.

According to Mr Shuman, the imports were not excessive or unnecessary, because the local industry could not cope with the demand.

"People will wonder who was making these high profits and will rightly complain," Mr Shuman said.

"The fault lies with the government, who are imposing astronomic duties. They are not protecting the local industry, because the local and homeland factories are in full production.

COMPLICATED ISSUE

Mr Allan Leighton, director of the Cape Town Chamber of Commerce, said his office had received reports from members about high increases in duties, especially on cheaper clothing.

"Our Foreign Trade Committee is at present investigating and this might take some time because the issue is rather complicated," he said.

"There is quite a lot of concern about this and after the investigation, we would propably have to make strong representations.

"It appears some items have been very hard hit by the increases."

An Assocom spokesman in Johannesburg said: "We cannot comment before we are absolutely sure what we are talking about, but it certainly seems the consumer will feel the increases," the spokesman said.

Star 22/4/89

No savings grace for SA economy

320

BIG SPENDERS: South Africans need to stop spending and start saving.

FINANCE STAFF

ONE of the cornerstones of the capatalist society is investment. Synonymous with investments and the creation of wealth are personal savings.

In today's economic climate and given the present tax structure, few South Africans have the disposable funds to be able to save.

Aiken & Peat partner Glynn Herbet dismissed the incentive offered in the current tax structure of tax exemption on the first R1 000 of income from investments as "laughable".

"There is a desperate need to persuade people to save. This country's propensity or ability to save is at an all-time low. People either do not have disposable income to put money into savings or, if they do have funds, there is a tendency to spend today because they know inflation will diminish the value of their money tomorrow."

Mr Herbert said it was well known that a priority of the Standing Tax Committee under the chairmanship of Director-General of Finance Dr Chris Stals is a study on the impact of tax on personal incomes and the ability of people to save.

Informal sector

It was also looking at ways of implementing a system to tax those engaged in the informal sector of the economy who currently escaped the tax net. This would help to widen the tax base.

Meanwhile, Mr Herbert said, the high level of personal taxation and indirect taxes were steadily eroding the ability of the man in the street to put any money aside on a regular basis.

"What the policymakers really should be doing is to seek more adventurous ways of creating imaginative tax breaks to encourage people to save, particularly in schemes that offer returns ahead of double-digit inflation. In Britain, for example, people are given a tax break if they invest in certain types of stocks and shares."

He said the present R1 000 "investment incentive" was obviously far too low. However, any new level had to be very carefully thought out in order to find a balance which would persuade more taxpayers to save without opening yet another tax haven.

Dealing with lump-sum tax-free incentive investments, Mr Herbert said: "Let's say a man earns R30 000 a year. His tax rate would be 27,5 percent. He probably would have very little left over after tax and living expenses to put money away. But let's assume he has a windfall inheritance of R100 000. Using straight-line calculations, it simply wouldn't pay him to put it into tax-fre savings at say a rate of 8,25 percent.

"After tax, his annual income on that investment would amount to R8 250. On the other hand, it isn't difficult to find investments offering interest on daily balance at call of 15 percent. If he invested his money that way, his after-tax return on the investment would be about R10 875. The difference speaks for itself. However, it doesn't take into account the erosion of inflation at 15 to 16 percent.

"To put that R100 000 into tax-free savings given this rate of tax is not on, Mr Herbert said.

"Conversely, a person paying the maximum tax rate of 45 percent would find a tax-free rate of 8,25 percent an attractive proposition."

Mr Herbert said that a taxpayer earning R30 000 who scrimped to save R100 a month would be hard pressed to find an investment earning more than 10 percent interest. His tax rate of 19,2 percent would leave a return of only 80,8 percent.

Annual returns

"With inflation running at 16 percent, he would be best advised to put the R100 a month into the sort of contractual savings offered by long-term insurance endowment/investment policies which currently have been able to offer annual returns exceeding the inflation rate. However this type of savings does not easily allow the withdrawal of the funds in case of need.

"The trouble is that most tax-free incentives introduced in the past have tended to favour only the rich. This is especially so when the rate of inflation is high and the lower income groups are looking for the highest return possible. The tax rate in such cases is not a factor at all.

"Retirement annuities are a case in point: they were originally introduced to encourage self-employed people to make provision for their retirement. They have since become a form of contractual saving for anyone who has disposable income and can take that route. Usually this is open only to those in the middle and upper-income groups.

"In schemes such as these, there is no tax payable and no tax deductible. The taxman no longer offers any incentive for that sort of saving by means of a rebate or abatement as he used to do."

In reality, Mr Herbert said, Mr Average Urban Taxpayer (not necessarily Mr Average White Urban Taxpayer), who was married and had two school-going children, earned R15 000 a year and he represented the largest body of tax payers.

At that salary level, it was extremely unlikely that he would have very much left over each month for savings.

After deductions allowed to married taxpayers with children and calculating a five percent contribution to a pension fund, his monthly PAYE contribution would be around R50 a month.

He might hae a bond on a house valued at 2,5 times his annual salary. Assuming there were no subidies, his repayments a 18 percent would be R675 a month. After that monthly commitment is deducted from his take home pay of R1 138, there would be no great deal left for savings — or anything else for that matter, Mr Herbert said.

"His only saving would be the very small monthly repayment on the capital sum built into his bond repayments."

The only way in which a family in that income bracket could survive — or even buy its own home at an affordable mortgage repayment rate — was for the wife to work. The new provisions of Standard Income Tax for Employees (SITE) which no longer added her income to that of her husband was a step in the right direction.

Mr Herbert said for taxpayers in the upper tax bracket the situation worsened every time they were given an increase because fiscal drag simply meant more of their income went into taxes.

"The result is the percentage of taxpayer with 'real' disposable income available for investment was only to be found in a very small cone at the top of the tax pyramid. This did not auger well for the savings ethic in this country," Mr Herbert said.

Receiver's ingenuity is taxing us all

(320) Star 24/4/89

HARRY SCHWARZ

"THIS hurts me more than you." It's a phrase most of us remember from childhood.

To hear it in paraphrased form by the Minister of Finance is somewhat unexpected.

He does not like high taxes and he believes that our taxes are high, but after all, he is the man who imposes the taxes of which he complains.

The ingenuity of the taxman is such that not only is tax at a high level, but there is a multiplicity of forms of taxation which impose an impost on almost every human activity. Fortunately there are still a few which have escaped the fiscus.

The questions, of course, are why our taxes are so high and can they be reduced.

We recently had lengthy investigations into the taxation system which culminated in the Report of the Margo Commission. Various means of taxation were considered in the report, not all the recommendations found favour with the public and certainty not all were accepted by the Government and furthermore we are still in the process of implementation of some of those which were accepted.

One of the reasons why we have high taxation is the multiplicity of forms of taxation. Every tax that is imposed needs returns, officials to examine, investigate and assess, and it needs administrative costs on the part of the taxpayers. Running a business today is a high cost operation merely to keep up with Government requirements. This despite the promises of deregulation. Simplify tax, costs will then be saved, and taxation will go down.

Another issue is the deliberate action on the part of the Government to levy large amounts by means of indirect taxation. When GST was introduced the then Finance Minister, Mr Owen Horwood, said it would be a low rate tax. It has, however, gradually turned into a high rate burdensome form of taxation raising large amounts of money from private individuals. It is incorrect to refer to the private individual's tax burden as being income tax only. It also includes such taxation as GST, sales duty, excise duty and many others.

TAX BURDEN HEAVY: Mr Harry Schwarz.

To juggle taxes is no real solution. To reduce the rate of income tax and to compensate by increasing GST is no answer. Changes in taxation can make the burden more equitable but cannot reduce the overall hardship.

High taxes are substantially due to high State expenditure. And while there are a multiplicity of Government ministries and departments doing the identical jobs and causing unnecessary costs, we must expect to pay for such institutions.

There is no point in asking for more services from Government and demanding at the same time to pay less tax. The public needs to decide what they really expect and want from Government.

Finally, in the absence of adequate economic growth the burden of taxation will fall on those who do have incomes to tax as against all of those who can and should be earning and creating wealth.

The problems of our balance of payments, the sanctions, the boycotts, the population increase, the maintenance of large security forces, the nature of our society in the process of change and under pressure — all these contribute towards higher demands of Government and so cause higher taxation.

It is obvious, therefore, that a peaceful solution to our problems will not only create stability and a feeling of security, it will also mean lower taxes.

● *The author is the Democratic Party MP for Yeoville and the party's spokesman on finance.*

Dodgers could be foiled by tax forms

CAPE TIMES 22/8/87

320

Staff Reporter

BANK and building society account numbers supplied by taxpayers on their buff forms could be used in the confiscation of assets, if they have failed to pay their tax.

This news is contained in an announcement made yesterday by the Receivers of Revenue of Cape Town and Bellville.

The announcement urged taxpayers to fill in their bank or building society numbers to enable the Department of Inland Revenue to enable the department to deposit directly any rebates.

It also said the information would not be used to confiscate the taxpayer's assets without ample warning.

The announcement said it was in the taxpayers' interest to furnish the information, as it eliminated the risk of a cheque which may be lost or stolen.

● After-hours assistance to complete returns will be available from 4.30pm to 6.30pm, Monday to Friday, in both the Cape Town and Bellville revenue offices. Telephonic inquiries will also be handled during these hours at Bellville (021) 97-4711 and Cape Town (021) 45-7160 or 45-3411.

TAX (320) FMML 28/4/89.

UK drops proposals

Effective lobbying has led the UK to abandon proposed changes of rules to residency for tax. A July 1988 Consultative Document would have had a significant impact on expatriates and non-domiciled foreigners.

Significant for SA

The changes would have been particularly significant for SA. More people move between SA and the UK than any other country in the northern hemisphere. And the most common destination of top-notch emigrating businessmen is the UK.

Norman Lamont, financial secretary to the Treasury, recently told the House of Commons: "The UK derives considerable benefit from people who come here to carry on business and other activities.

"We have no wish to see them leave. We decided that the world income approach (such as used in the US) would not provide a satisfactory basis of taxation for non-UK domiciled foreigners. Therefore, we do not intend pursuing it ..."

These comments, argues Ernst & Whinney's Ray Eskinazi, nevertheless imply future action by UK Revenue:

- Will it seek other ways of taxing people who leave the UK for short periods to establish trading losses and realise capital gains?;
- Will there be a different attack on the perceived abuse of split contracts of employment?; and
- Will UK Revenue consider simplifying and giving statutory effect to current residence rules? ■

320

Receiver to probe revenues of taxi industry

The Argus Correspondent

JOHANNESBURG. — A team of experts has been appointed by the Receiver of Revenue to investigate the black taxi industry — which is collecting cash revenues totalling about R1,8-billion or more without paying income tax.

The appointment of the team has been confirmed by the Commissioner of Inland Revenue, Mr Clive Kingon, who said his department was aware of the problem and that it was receiving immediate attention.

It is estimated that revenue totalling R500-million is lost every year as a result of non-payment of income tax by the industry.

Estimates of the taxable revenue generated by taxis is not accurately known, and the South African Black Taxi Association (Sabta), which controls 50 percent of the country's fleet, has declined to disclose statistics.

Speculation

The number of taxis affiliated to Sabta is estimated at 300 000.

The same speculative statistics also apply to the second largest black taxi association, the South African Long Distance Transport Association (Saldta).

Estimates of net revenue also vary widely. According to a transport consultant, many taxi owners were making an about R3 000 a month after expenses.

The president of Sabta, Mr James Ngoya, said his association was aware of moves by the Receiver of Revenue to tax the industry.

"Average profit"

He said Sabta was making "an average profit" because the association was not subsidised. The president said in the light of soaring prices, a new mini-bus cost about R50 000.

Mr Ngoya said it would be better if the taxi industry were subsidised.

He said if his organisation could succeed with its representation to the government for more time to study the implications of income tax, Sabta would be able to "educate" the pirate taxis which were mushrooming in certain areas. He said the government was unable to control pirate taxis.

The chairman of Saldta, Mr Peter Rabale, condemned the appointment of the investigating team.

He said his association was already being "killed by government regulations".

VAT seen adding to inflation

Star 31/5/89

320

CAPE TOWN — Consumers will pay about 50 percent more in tax if GST is replaced next year by a value added tax (VAT) based at 13 or 15 percent, says Raymond Ackerman, chairman of Pick 'n Pay.

He told the company's annual meeting in Cape Town yesterday: "I appeal to the Government not to introduce VAT at 13 or 15 percent, but to bring it down substantially because VAT will include foodstuffs."

He said Pick 'n Pay wanted to be able to lobby the Government to bring VAT down to nine or 10 percent.

"GST works out at only about 9 percent because many foods are excluded. To bring VAT on at these rates will be roughly 50 percent more.

"It would be highly inflationary and absolutely wrong," he said.

Mr Ackerman said as part of the fight against inflation, he had called for a Supermarket Institute like the Food Marketing Institute of the US to fight on four fronts:

- To lobby the Government on anything affecting the consumer.
- To fight any collusion by monopolies or cartels.
- To share knowledge with other supermarket companies of their operations to try and improve efficiency and technology.
- As a supermarket industry, to try and prevent international manufacturers from disinvesting.

Inflation was really getting serious, he said.

"If we hammer these four areas, we will play a significant role in the country.

"But as competitors we will continue fighting each other tooth and nail on prices."

This year had already shown it was tough.

"Consumers are definitely spending less and spending more selectively, he said."

"You cannot have interest rates of 20 percent and not be affected." —

Tax plan needed for South Africans abroad

320 Star 5/5/87.

By Michael Menof

The decision by Mobil to withdraw from SA because of the one-sided tax legislation imposed by the US should not be taken lightly by South Africans living abroad.

The decision to scrap the double-tax treaty between SA and the US that was agreed to way back around World War Two smacks of duplicity.

The treaty was necessary because of the different way each country taxed income. South Africa adopts the source policy.

This means if the country you live in produces the wealth, then the country is entitled to a share of that wealth in the form of tax.

The US taxes on the residence principle.

This means if you are resident in the US, then irrespective of where the income is earned in the world, that income is taxed in the US.

The problem, of course, is what happens if that income is taxed in a foreign country in the first instance. In broad outline, the double tax agreement worked as follows:

- The corporation pays tax on the income it earned in the foreign country at that country's existing company tax rate.
- Include the foreign income along with the rest of the US income and other world income and determine the total tax payable in the US.
- Allow a credit of the actual tax paid in the foreign country against the total US tax bill.

In order to spur the disinvestment programme and force US companies to leave SA, Congress decided to scrap the double-tax agreement, which means that US corporations in SA will now be paying tax twice, once in SA and again in the US because they will not receive the benefit of the tax credit.

With the SA tax rate of 50 percent and tax in the US of 35 percent, it means a US company operating in SA is left with a minimal retained profit.

Without the double-tax agreement, just how does this affect South Africans who have emigrated to the US or who may be working in the US.

The answer is that they would be required to include their world income and in effect be paying tax twice on any income they earn in SA.

This, of course, presupposes that they have done no tax planning with their income-producing South African assets.

There are ways and means of ensuring South African income is not taxed in the US, either by legally trapping it in the companies and not paying dividends or salaries or by investing in tax-free income in SA.

It is unbelievable the lengths that Congress is going to to promote unemployment in SA and how hypocritical it can be.

To put it mildly, Congress doesn't care two hoots about the blacks in SA, only about how it can use the sanctions issue to further its own political aims on Capitol Hill.

Congress is in a mess right now. It has no money to spend on new programmes, so the members are constantly looking for new issues, scapegoats and legislation to convince the taxpayer and the electorate that they are working hard and to further their political ambitions without paying a cent. What paper shufflers they are!

Another point is that if the US treats SA so badly, surely SA should retaliate by not buying US goods or any programmes associated with the US.

South Africans living abroad need to do some urgent planning now that the double-tax agreement has been scrapped and the consequences of the Mobil case are becoming apparent.

a thriving hotel, a post office and a general

ALLOWANCE CAUSES NEW TAX PROBLEMS

8/5/89 (320)

SYLVIA DU PLESSIS

INLAND Revenue should abolish the joint assessment allowance and replace it with an increased wife's earnings allowance in the wake of the new-look Site, Old Mutual Site specialist Lizette Labuschagne said yesterday.

While the extension of Site in the Budget was to be welcomed, the retention of the joint assessment allowance was an anomaly, she added.

The allowance was introduced to offer some phasing-in relief to couples to provide for a PAYE shortfall which arose when the wife's renumeration, previously falling under Site, exceeded the R20 000 cut-off and was then included with the husband's income.

"The calculation of the joint assessment allowance has caused many a headache for taxpayers as well as revenue employees. There is now no justification for the continued existence of this complicated allowance, and it should be abolished," she said.

This would be a step "in the right direction" towards simplifying individual taxation, she said.

Self-employed married women were being discriminated against. "The tax relief enjoyed by this group of married women *vis a vis* self-employed married women and married women not earning net renumeration as defined, is inequitable.

"The latter groups should have been accommodated by an increase in the wife's earnings allowance, currently still standing at the greater of R2 250 or 22,5% of the wife's net earnings."

The improved Site was "only a small step" towards full separate taxation for women — a step which would cost Inland Revenue more than R1bn.

(320)

TAX (320) FMAIL 9/5/89

Suffer, suffer more

Despite the Margo Commission, and government's general promises to cut tax rates, SA has missed the tax rate reduction bandwagon. Rates began falling internationally in 1984, and the process continues zealously.

In the past 18 months there have been further dramatic falls in tax rates. The table, which focuses on direct corporate and personal tax rates, shows that SA's nominal company tax rate of 50% and personal top marginal rate of 45% are among the highest in the world.

When the worldwide tax reform process started in 1984, very few countries mentioned had corporate tax rates below 50% and individual maximum rates below 60%.

(320)

Individual rates above 70% were common.

Says Anglo American's Marius van Blerck, editor of Juta's recently launched *Foreign Tax Review*: "Cuts in direct taxes have generally been accompanied by reduced tax allowances and increased indirect tax rates. SA has experienced the latter without the advantage of the former."

Arguments that we cannot afford to drop direct tax rates because of expenditure requirements and because our tax burden is not disproportionate ignore the extreme narrowness of the direct tax base and the resultant disincentive effect of high direct taxes. "We cannot afford not to drop direct tax rates," argues Van Blerck.

While SA's individual maximum rate of 45% is not high by world standards, the effect of fiscal drag has increased average tax rates, particularly on the middle class. A married couple earning R40 000 in 1988 would pay tax at an average rate of 24%. In 1980 the rate on equivalent real earnings would have been 12%. Very few free enterprise countries tax the middle classes as heavily as SA. ■

WORLDWIDE CUTS IN DIRECT TAX RATES

(Trends over the last 18 months)

	Corporate Tax(1)		Individual Tax(2)	
	From (%)	To (%)	From (%)	To (%)
Australia	49	39	*	*
Austria	55	30	68	50
Brazil	35	30	*	*
Finland	*	*	51	44
France	42	39(3)	*	*
Germany (West)	56	50(3)	*	*
Hong Kong	18	17	16,5	15,5(4)
Ireland	47	43	58	56
Italy	*	*	62	50
Japan	42	37,5(3)	*	*
Luxembourg	36	34	*	*
Malasia	40	35	*	*
Mexico	42	35	*	*
Netherlands	42	35	*	*
New Zealand	48	28(5)	*	*
Portugal	48,8	46,3(6)	*	*
Sweden	*	*	75	72
United Kingdom	40	35	60	40
United States	46	34	38,5	28

NOTES:
(1) Refers to the standard flat rate levied on corporate/business income.
(2) Refers to the maximum rate levied on individual income.
(3) This is the tax rate on retained earnings.
(4) Standard tax rate applied to salaries.
(5) Tax rate for resident companies.
(6) Effective combined taxes on business.

Acknowledgement: M C van Blerck

*no cut

TOO BUOYANT?

Assocom says the business mood is buoyant — maybe too buoyant for the authorities — though some areas, such as building, furniture and white goods, seem to be levelling off. It fears money supply and spending are not slowing enough, which could push policy-makers into panic measures.

"Uncertainty as to whether the economy is decelerating quickly enough to remove concern about forex reserves is having a bearish impact on money and capital markets — (and) lessening the chances of a 'soft landing' later in the year if the authorities are ultimately forced into crisis measures."

Assocom's Business Confidence Index — which tracks 16 indicators as a pointer to the business mood — rose to 96,7 in April from 95,6 in March (1983=100). It has changed little in the past several months: 94,8 (February) 96,7 (December-January), 96,6 (November) and 95,7 (October).

Pushing up the index in April were higher imports (a sign of sustained economic activity), exports, car sales, retail sales and JSE share prices, improved immigration figures and fewer insolvencies.

Pushing it down were higher inflation and interest rates, declines in the dollar gold price, the rand, manufacturing production and building plans passed.

Economists slam cool-down plans

320

BDay 8/5/89

Business Day Reporters

FINANCE Minister Barend du Plessis's package of measures to cool the economy came under fire from business people and economists at the weekend.

Economists criticised the hire purchase clamps at a time when consumer spending was already on the decline.

Standard Bank economist Nico Czypionka said he opposed "tinkering" with HP conditions to manipulate demand. The authorities should use interest rates alone to cool credit spending, he said.

The affected areas of consumer demand had already fallen off substantially. If sales in these areas were already weakening, the measures could amount to "overkill", he added.

Rand Merchant Bank economist Rudolf Gouws said it was not the government's domain to prescribe the terms of transactions to banks and their clients.

He said he opposed the measures because the economy was "cooling down anyway".

Assocom CE Raymond Parsons said the organisation regretted that a package to cool the economy had become necessary "a mere six weeks after the presentation of the national Budget". The action was disruptive of business planning and would have a negative impact on business confidence.

Tax experts also slammed the package as disruptive, saying the 10% loan levy on all companies had come as another blow to a stable tax environment.

Costa Divaris of Divaris Stein said: "The Budget is no longer the major statement on tax it is supposed to be. It has become a farce."

Price Waterhouse partner Chris Frame criticised the retroactive nature of the

● To Page 2

Economists slam cool-down measures

BDay 8/5/89

320

● From Page 1

levy, which is based on last year's tax paid.

"This is one of a series of sudden moves which are making tax planning very difficult."

Other tax experts warned companies could face cash flow problems in paying the levy, as they could not have planned for it. It was payable before July 31, and a company running on a tight cash flow might have to borrow to pay it, they said.

Retailers and car dealers criticised the HP measures as an unnecessary damper on sales, which were already slowing down.

OK MD Gordon Hood said the previous curbs had caused a 50% decline in overall sales of VCR's, a 20% drop in TV sales and the turnover of other audio equipment was reduced by 30%-40%.

Domestic Appliance Manufacturers of SA chairman Richard Ferrer said higher deposits would cause a larger decline in sales than Damsa's original forecast of a 9% drop.

Toyota SA marketing MD Brand Pretorius said the measures were not necessary as demand for new vehicles this year already showed signs of tapering off at an acceptable rate.

He said it was a slight over-reaction by government, and would undoubtebly have a negative impact on the private buyer.

320

'Up to the individual to keep his tax in check'

TAX avoidance was coming under the scrutiny of the Receiver of Revenue more and more and the incidence of retrospective legislation had increased alarmingly, Nigel Scott, senior manager legal and tax services with Southern Life, said yesterday.

He said astute taxpayers were also coming under moral pressure as the Finance Department attempted to brand them as immoral scoundrels.

Notwithstanding this pressure, he said every individual should continue to order his affairs to minimise his tax liabilities.

"The overriding objective of all long-term financial planning, investing for retirement included, is the accumulation of wealth.

"The approach adopted depends on the circumstances of each individual, but their objectives — to achieve real growth after tax — will be the same.

"This means that after-tax returns achieved on investments should, over a period of time, exceed the average rate of inflation."

Scott said pension funds and retirement annuities had traditionally formed the backbone of most South Africans' retirement savings. This was largely due to the fact that membership of pension funds was a condition of employment, and that in both cases contributions were tax-deductible.

In addition, he pointed out another attractive feature of pension and RA funds which he said was often overlooked: that the funds were tax-exempt bodies.

"This means that the gross returns achieved by the investment managers of the fund are not taxed and become the net returns.

"This accounts for rates of return in excess of 20% — which means that a member's retirement capital is compounding at a healthy rate."

Indirect taxation, in the form of prescribed assets, was still levied on pension and RA funds, he said, with funds being compelled to invest 53% of their assets in government and quasi-government stocks and cash deposits.

"The Minister of Finance has, however, announced that these requirements are to be done away with. This should provide an added boost to returns achieved by these funds."

Scott said the past few years had seen a resurgence in the popularity of the provident fund — firstly because of the development of a sophisticated system of collective bargaining, and secondly due to the rise of umbrella provident funds using individual life policies as the medium of investment.

Job mobility was a major factor affecting pension planning, Scott said.

"To compensate for lost benefits one should implement one or more of several courses of action.

"Firstly, take into account the loss of benefits when negotiating a remuneration package with a new employer. Secondly, invest the withdrawal benefit in a RA fund as the pension fund of the new employer — thereby incurring no tax liability.

"And finally, make arrear contributions to the pension fund of the new employer. These are tax deductible up to an amount of R1 800 a year, over and above current pension contributions."

He warned, however, that people should realise the traditional RA and pension fund were not sufficient retirement provision.

"One should examine the broad spectrum of investment opportunities available and select those that will provide the best return."

15% tax hike on private use of company cars

320

BDay 9/5/84

SYLVIA DU PLESSIS

INCREASED income tax values on the private use of company cars represent an average hike of 15% on existing values, auditors Arthur Young say in their latest Tax Pace.

The increases were announced last month by the Commissioner for Inland Revenue.

In addition, the tables — effective from June 1 — have been extended to vehicles with a determined value in excess of R150 000, they say.

Where the determined value of any vehicle exceeds R150 000, the value of private use for each month will equal that for a vehicle with a value of R150 000.

The value will include an amount of R53 for each completed amount of R10 000 by which such determined value exceeds R150 000, Arthur Young says.

Where the employee bears the cost of all fuel used for the purposes of the private use of the vehicle, the monthly values are reduced by R67.

While no alterations have yet been proposed regarding the expenditures deductible against travel allowances, a revision of these tables is expected shortly, Arthur Young says.

320 0109 9/5/89

Tax benefits spark profits for Jasco Electronics

TANIA LEVY

JASCO Electronics almost doubled profits in the year to February when strong organic growth was enhanced by tax allowance benefits from an export venture.

Earnings rose 70% to 9,7c (5,7c) a share, in spite of an increased number of shares in issue. A dividend of 2,9c a share has been declared.

In the year under review, Jasco continued its emphasis on import replacement of a wide range of electronic products.

The group's four subsidiaries all contributed to a 47% growth in turnover to R36,3m (R24,6m) and a 41% increase in pre-tax profits to R3,4m (R2,4m).

An export venture reduced the tax rate to 29% from 47,5% the previous year, resulting in a 91% climb in taxed profits to R2,4m (R1,3m).

Jasco has retained R1,5m to finance more growth.

Group MD Ed Emary expects Jasco to maintain the growth rate achieved in the past year.

Pasco Electronics, which contributed 29% to group pre-tax profits, grew 67% in the year under review. The fastest-growing of Jasco's subsidiaries, Pasco is expected to continue growing along with the computer industry which it supplies with specialised cables, connectors, cabinets and switches.

Emary says import replacement of electronic equipment in the motor and domestic appliance industries presents tremendous growth opportunities for Jasco's Special Cables subsidiary.

Special Cables took advantage of these opportunities by moving from Pinetown to Durban and investing heavily in R & D. The benefits of these investments will be reaped in the coming years.

Jasco International, which contributes 47% to the group's profits, continued to dominate the market supplying peripheral equipment to the two-way radio telecommunications industry. The benefits of the 1987 acquisition of Martin Smith were felt.

Emary anticipates strong growth in the group's fourth subsidiary, SA Scientific Products, which specialises in pathology instrumentation. The company has diversified into medical and industrial instrumentation and the supply of equipment for AIDS testing.

New Inland Revenue chief

B/Day 10/5/89 320

KAY TURVEY

COMMISSIONER of Inland Revenue Clive Kingon will be succeeded by chief director Hannes Hattingh when he retires on July 1.

Kingon yesterday confirmed Hattingh would take up the post he has held for the past three years.

Hattingh, a career civil servant, has been with Inland Revenue since 1951 when he joined its legal division.

In December 1985 he became Receiver of Revenue in Johannesburg — the biggest of the country's 32 offices.

He is known to have a more relaxed attitude to tax avoidance than Kingon, but is seen to act with an "iron fist in a velvet glove".

PA 89 national convention

BDay 10/7/89 (320)

Syfrets Trust director on tax havens

A TRIED and tested method of minimising tax payments is to keep one's money outside the country of one's residence, says Syfrets Trust director David Cloete.

Addressing delegates at the Ilpa conference in Cape Town yesterday, he outlined some aspects governing the selection of a suitable tax haven, and referred to a few havens favoured by local businessmen.

He defined a tax haven as a jurisdiction which a principal used in a transaction but which did not itself play an integral part in the transaction.

He cited the example of multinationals with holding companies in Luxembourg for tax benefits, while their activities were conducted elsewhere.

In the case of SA residents, he stressed that advisers could not recommend that clients hide the existence of foreign assets from the Exchange Control authorities.

A second case was that of the individual with substantial local assets who intended to emigrate. However, the incidence of such cases was slowing down.

Thirdly, he said the establishment of a tax haven would be useful for people intending to work in a high tax regime.

"Concerns requiring international expertise are often forced to strike a deal with migrant employees to pay part of their salaries into a protected fund," Cloete said, citing Mossgas as an example.

"Mossgas has had to draw heavily on foreigners to assist with one of the largest training programmes of its kind in the world.

"It is part of the package of those employees that they get protection from taxation in their home countries via tax havens. The same usually applies to expatriates working on the Middle Eastern oil fields," he added.

Cloete said local companies and individuals wishing to start a corporate venture abroad could also take advantage of tax havens, as could local companies selling their skills or patents overseas.

Taxing pension funds will be a 'disaster'

CAPE TIMES 11/5/89

320

Financial Editor

IT will be "a total and unmitigated disaster" if pension funds are taxed, the retiring president of the Institute of Life and Pension Advisers (Ilpa), Paul Clipsham, warned last night.

He said in his presidential address at the end of the three-day Ilpa conference at the Cape Sun that even the lowest rate of tax would greatly reduce retirement benefits.

It was disquieting to hear of such a move being mooted in some quarters.

"People talk of a low rate of tax having virtually no effect upon pension benefits. This is fatuous and we all know it.

"We know the effect an extra 1% yield on pension funds has. This can generate a 15% increase in the ultimate benefits paid.

"Taxation would have exactly the same effect but in reverse. It would be a major impost upon all retirement plans and should it raise its head again it is incumbent on us all to resist it with the utmost vigour."

Clipsham said there were "tremendous developments ahead" for the life insurance and pensions industry.

The Margo Commission recommendations had to be more fully implemented.

"After living with prescribed assets for many years this year's Budget came as a very refreshing and major reversal of policy.

"For years we have lived with a form of indirect taxation. The change is greatly welcomed and it may signal new dispensations in many other areas."

Clipsham said the formation and work of the Meiring Commission would possibly be a major influence on the pension movement for years ahead.

It was gratifying to see a number of Ilpa Fellows as members of the commission.

Clipsham said that one of the most disqueieting facts of the past year had been the vast amount of corruption that had surfaced in SA.

"When one looks at a decline in standards of probity in the country, the institute's standpoint on ethics is an example and something of which all of us can be exceptionally proud."

He had one regret — that Ilpa had not yet become truly multiracial. Although there were Indian and coloured Fellows there were not yet any black Fellows.

"The pensions movement is likely to be faced with industrial relations challenges. But if we could have Fellows from a culture well-placed and able to bridge the understanding gap it would help towards better and harmonious inter-community relations."

Johann Gerber

ALTHOUGH between 20 000 and 25 000 people are actively marketing insurance in SA, only a very small percentage have so far passed the stringent qualifying examinations to become Fellows of the Institute of Life and Pension Advisers (Ilpa), founded in 1981.

The new President of Ilpa, Johann Gerber, hopes their number will have grown to between 12% and 15% by the turn of the century.

The present pass rate to become a Fellow qualified to give the best possible advice on either life insurance or pensions — some are qualified in both — is only 23% of entrants.

Gerber said Ilpa would not lower the standard. It was more concerned with maintaining it than with recruiting more members.

But the figure of 23% was misleading. Some students passed the examinations in stages.

Gerber, who is an attorney, is senior manager legal services brokers at Sanlam. His involvement with Ilpa began in 1982 and he is chairman of its Examinations Council.

CAPE TIMES 11/5/89 (BA 2.29)

Hansard

The MINISTER OF EDUCATION AND DEVELOPMENT AID:

(1) Yes

(a) Intshukumo Comprehensive School
Malizo Secondary School

(b) Teachers — post level 1

(c) Temporary — (Contract period from 1 January until 31 December 1988)

(d) Miss Lorraine Shandu
Mr Camagu du Rand Mabulawa

(2) No

(a), (b) and (c) fall away

(i) The renewal of the said persons' contracts was not recommended.

(ii) The Regional Chief Director on recommendation of the respective school committees.

Natal schools disrupted due to political activities

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

(1) Whether any schools in Natal have been disrupted and/or closed as a result of political activities since the commencement of the 1989 school year; if so, (a) which schools and (b) for what period in each case;

(2) whether any such schools are still closed at present; if so, (a) which schools and (b) for how long have they remained closed;

(3) in respect of what date is this information furnished;

(4) whether he will make a statement on the matter?

B638E

The MINISTER OF EDUCATION AND DEVELOPMENT AID:

(1) Yes. Specified schools were disrupted. In some cases only at one occassion and in other cases at more than one occassion.

(a)	(b)
Trust Feed Intermediate School	11/01/89–16/01/89 (4 times)
Zephembeleni Secondary School	16/01/89–17/04/89 (7 times)
Siyahlomula Secondary School	16/01/89–14/02/89 (12 times)
Siyathuthuka Secondary School	18/01/89–03/02/89 12 times)
Eminyezaneni Secondary School	18/01/89
Buhle Buyeza Secondary School	3/02/89
Elangwane Secondary School	14/02/89
Mehlokazulu Secondary School	17/02/89–1/03/89 (5 times)
Vryheid Zulu Secondary School	13/03/89–20/03/89 (6times)

(2) (a) and (b) Fall away.

(3) 9 January 1989 to 17 April 1989.

(4) No.

Fezeka Secondary School: management bodies

312. Mr R J LORIMER asked the Minister of Education and Development Aid:

(1) Whether there (a) were any functioning management bodies at Fezeka Secondary School in 1988 and (b) are any such bodies at this school at present; if so, (i) on what dates were they elected, (ii) who presided at the election meetings, (iii) how many parents were present at each of the meetings and (iv) (aa) what was the quorum required and (bb) on what is it based;

(2) (a) what is the occupation of each of the parents currently serving on these bodies and (b) how many are employed by the State?

B655E

The MINISTER OF EDUCATION AND DEVELOPMENT AID:

(1) (a) Yes

(b) Yes.

(i) The school committee was elected on 14 August 1985 and it's term expired on 12 February 1989.

A management council was elected on 12 Feburary 1989.

(ii) Mr W Komani presided at the election of the school committee in 1985.

Mr H M Jimba presided at the election of the management council in 1989.

Hansard.

(iii) When the school committee was elected: 75 parents.

When the management council was elected: 350 parents.

(iv) (aa) The quorum required for the election of the school committee was 10% of the parents.

The quorum required for the election of the management council was 10% of the parents or 50 parents, whichever number was the lesser.

(bb) *School committee*: Regulation 25 of Government Notice No. R.828 of 30 April 1982.

Management council: Regulation 25 of Government Notice No. R.828 of 30 April 1982, as amended by Government Notice No. R.2365 of 25 November 1988.

(2) (a) Minister of Religion
Housewife
Housewife
Domestic Servant
Labourer
Labourer
Policeman
Businesswoman
Housewife.

(b) One.

320

Total taxable earnings

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

(a) What were the total taxable earnings for Whites, Coloureds, Indians and Blacks, respectively, in 1988 and (b) what was the (i) total taxable income earned by each of these race groups in that year and (ii) percentage increase or decrease for each such race group in comparison with the previous year?

B659E

The MINISTER OF FINANCE:

1988

(a) No statistics are kept in respect of total taxable earnings.

(b) (i)	Whites	35 660 051 019
	Coloureds	3 111 059 893
	Indians	1 913 608 491
	Blacks	3 518 487 576
(ii)	Whites	+10,8%
	Coloureds	+15,9%
	Indians	+10,0%
	Blacks	+18,3%

Taxpayers

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

How many taxpayers in each income category in respect of the 1987-88 tax year were (a) White, (b) Coloured, (c) Indian and (d) Black?

B660E

The MINISTER OF FINANCE:

The statistics are not complete, because ±17 per cent of individual taxpayers have not yet been assessed.

	(a)	(b)	(c)	(d)
Loss	12 372	192	240	42
0 – 5 000	125 505	32 910	13 316	33 956
5 001 – 10 000	152 221	66 096	26 689	107 162
10 001 – 15 000	196 062	61 898	34 612	98 494
15 001 – 20 000	166 755	34 014	20 161	37 531
20 001 – 25 000	159 801	19 105	12 178	16 192
25 001 – 30 000	147 376	10 048	6 905	6 367
30 001 – 35 000	126 216	5 461	4 177	2 853
35 001 – 40 000	99 731	2 946	2 401	1 356
40 001 – 45 000	72 652	1 657	1 440	670

45 001 – 50 000	49 603	965	867	349
50 001 – 60 000	55 159	799	812	340
60 001 – 70 000	24 779	252	326	127
70 001 – 80 000	12 043	70	174	40
80 001 – 90 000	6 573	36	68	16
90 001 – 100 000	4 026	26	67	6
100 001 – 150 000	7 336	36	109	9
150 001 – 200 000	1 898	5	39	2
200 001 – 250 000	702	0	11	1
250 001+	901	3	11	5
Total	1 421 711	236 519	124 603	305 518

NOTE: The above statistics do not include taxpayers under the Final Deduction System.

Contract for sale of pinewood

332. Mr C B SCHOEMAN asked the Minister of Environment Affairs:†

(1) Whether his Department has entered into a contract for the sale of pinewood for the manufacture of paper with a certain company, the name of which has been furnished to the Minister's Department for the purpose of his reply; if so, (a) on what date (i) was the contract entered into, (ii) did it come into effect and (iii) will it lapse, (b) what quantity of wood was so sold and is to be so sold in each year of the contract, (c) at what price is this wood being sold and (d) what is the name of the company concerned;

(2) whether he will make known the terms and conditions of the existing contract; if not, why not; if so, what are these terms and conditions?

B676E

The MINISTER OF ENVIRONMENT AFFAIRS:

(1) Yes.

(a) (i) Original agreement entered into the 1950, new agreements entered into in 1967 and 1975

(ii) 1 May 1950, 1 April 1967 and 1 April 1975

(iii) 31 March 2000.

(b) and (c)

See answer to paragraph (2) hereunder

(d) SAPPI Limited

(2) No. The contents of existing contracts are confidential and can only be made known if the other party agrees, and no other legal reasons exist for not making the contracts known. Terms and conditions of new agreements will be made known to interested parties.

Personal bodyguards for members of Parliament

344. Mr A GERBER asked the Minister of Law and Order:†

(1) Whether during the latest specified period of 12 months for which figures are available any members of Parliament made use of personal bodyguards provided by the South African Police; if so, what was the total cost involved;

(2) whether he will furnish the names of the members of Parliament concerned; if not, why not; if so, what are their names?

B751E

The MINISTER OF LAW AND ORDER:

(1) and (2)

In terms of a decision of the Cabinet on 25 May 1988, approval was granted for Ministers and Deputy Ministers to use members of the South African Police as drivers/bodyguards in the interest of their personal safety. However, it is not in the public interest or in the interest of the safety of Ministers and Deputy Ministers to make known information regarding this matter.

However, I am prepared to furnish this information to the honourable member on a confidential basis should he approach me for that purpose.

Petroleum products: excise duties

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

What total amount was collected in net excise duties in respect of petroleum products in the (a) 1987-88 and (b) 1988-89 financial year?

B847E

The MINISTER OF FINANCE:

(a) R443 679 026,53

(b) R479 651 651,26

Land and Agricultural Bank: housing loans

486. Mr J B DE R VAN GEND asked the Minister of Finance:

What total amount of money was on loan to employees of the Land and Agricultural Bank in the form of housing loans as at 31 December 1988?

B925E

The MINISTER OF FINANCE:

R28 146 068,21

Marais releases draft on new loan levies

BM 12/5/89 (a) . 320

DEPUTY Finance Minister Org Marais yesterday released draft legislation on the new loan levies, following widescale confusion over the new tax announced last week.

KAY TURVEY

Tax experts, although critical of the levy, have welcomed the greater clarity given to the 10% loan levy companies must now pay, based on normal tax paid in the latest year to end-July.

The legislation states:

- □ The latest assessment will be taken as the assessment issued by the commissioner and posted to the company not later than July 15 1989;
- □ Where there is a dispute over the assessment, the commissioner may direct the loan levy payable by such a company be calculated on the amount "which the commissioner deems to be normal";
- □ Companies where the winding up or liquidation has begun before the begining of July will be exempt; and
- □ Companies failing to pay the loan levy for which they are liable before July 31 will be charged interest as from August 1.

Pim Goldby partner Jonathan Lowe said that, as many assessments are appealed, leaving an avenue open for objections was a crucial step.

However, Arthur Young partner Ian Mackenzie warned of giving more discretionary powers to the commissioner, saying this could cause problems in practice.

He added the July 15 cut-off date now made the loan levy less arbitrary.

The R750m to be raised by the loan levy should be accounted for seperately to demonstrate the authorities' stance that the tax was being levied to withdraw money from circulation, Mackenzie said.

Following hard on the heels of the Minimum Tax on Companies (MTC) — applied to companies declaring dividends but not paying full tax, last year — tax experts are sceptical of the loan levy, questioning whether it is just another revenue raising exercise.

Like MTC, the loan levy is a once-off, retrospective tax and accountants are already dubbing it MTC's "little brother".

MTC, introduced for a year in the 1988 budget, was, as Finance Minister Barend du Plessis said at the time, an "income-generating cash flow measure" to tide government over its tax reform programme.

MTC was expected to raise R350m but raised a good deal more.

FMail 12/5/89.

(320)

THE ECONOMIC PACKAGE

Picking up the pieces

It's less than two months since the Budget the year's major economic statement — and government has changed the rules again. If it's not careful, the mini-boom could go bust.

Interest rates are up — Bank rate to 17%, prime to 20% — as is inevitable to control runaway money supply growth. And government has also imposed a fiscal "package" that hits companies and HP customers. Finance Minister Barend du Plessis, announcing the measures last week, said: "If every participant in the economy, from the most humble consumer to the largest businessman, would simply co-operate to cool our economy to a level that we as a country can afford, interest rates and all other important economic indicators could return to acceptable, manageable and sustainable levels."

But many economists say it's government, not the rest of us, who put the indicators in a mess in the first place.

"The damage was done last year and essentially government is trying to pick up the pieces this year," says Econometrix's Azar Jammine. "We're witnessing an all-too-familiar scenario of government having to remedy the follies of shortsighted policies. We're paying for keeping rates low and boosting money supply ahead of October's local elections. I find it very sad and extremely frustrating to witness this materialising again."

The trouble began early on — as it does in Bank-driven interest rate cycles — when, once credit demand picked up, the Bank kept rates low by firing up money supply. "The mistake made was for government to overspend in 1986-1987 in such a way as to increase liquidity, allowing interest rates to remain low and negative for an inordinately long period. It was like an elastic band, and once people began borrowing, this process gathered incredible momentum and the surge in monetary growth was the elastic band reacting in the opposite direction.

"There was a tremendous improvement in personal and corporate balance sheets. Low rates made people feel they could afford to borrow — so it went from boom to bust to boom. Now they're having to borrow to meet debt commitments from last year's borrowing." And higher taxes, through fiscal drag and higher GST, aren't helping: "By being taxed so heavily, consumers are being forced into spending borrowed money."

With price inflation rising and money supply up almost 27% in the past year, the Bank rate rise is understandable — and welcome. The alternative is to keep Bank rate down and print money to keep it there: a recipe for inflation, a collapsing rand and forex crises. Only the most misguided "consumer" spokesmen and opposition political leaders can call on government to keep rates artificially low (though they should, of course, criticise the boom-bust rates cycles government causes).

But government's other steps are open to strong criticism. They reflect persistent distaste in Pretoria for free-market forces and less government:

□ Tighter HP rules. HP restrictions are an arbitrary alternative to rates increases; indeed government says the clampdown is to curb spending on "luxury" goods, as it defines them. Rising and falling rates, set by the market, ration credit by price. HP rations credit by government fiat: if you can afford to buy a car with 10% down and 48 months' payments, tough luck. Government says you must deposit 15% and pay over no more than 42 months. It's not just arbitrary. "It makes planning in those industries extremely difficult," says Rand Merchant Bank's Rudolf Gouws. "Suddenly your plans go haywire;" and

Du Plessis

□ The 10% loan levy on companies (see "Ad hoccism rules"). Besides undermining business planning, this transfers money from businessmen — who invest in capital equipment, create productive jobs and produce goods — to government. A questionable policy at any time, it's disastrous when businesses face rising interest rates.

One economist sums up: "They know interest rates have to go up, but they want to minimise the impact in the minds of voters, so they make it sound like we're all at fault and must all pitch in to salvage the situation. 'It's not just borrowers who will get hit,' they say. 'The business sector is being asked to make a contributon, too.' And they say buyers of VCRs will also suffer. But government is the culprit. It overspends and runs big Budget deficits and keeps rates too low with too much accommodation. We didn't cause the overspending. We can only overspend if government creates artificial conditions."

What makes the situation more distressing is the response of the political opposition. Nobody seems to object strongly to arbitrary HP restrictions and a R750m forced loan to government by business.

Democratic Party (DP) Finance spokesman Harry Schwarz welcomed the measures, though he complained they came too late and expressed concern about pensioners and unemployed. And co-leader Zach de Beer, asked by the *FM* if that's the most outraged response we can expect from a party supposedly committed to free enterprise, says: "I think the country had reached a stage where action of this kind was inevitable. There may be room for questioning whether even the measures taken will prove to be sufficient."

On HP: "Given the situation, that's something government is entitled to do. But like so many other things, it's too little, too late, to repair the damage it has wrought."

On whether the loan levy will simply encourage government to spend more: "It depends what government does with the money. Du Plessis says it will be sterilised. I certainly dislike the levy very much and always prefer to rely on market forces to put things right. But it's fair to point out this carries a roughly market interest rate and will be negotiable."

De Beer says the DP sees political reform as the answer: "You must realise that the minister's action has been prompted largely by balance of payments considerations. The situation is as difficult as it is, because to use his own terms, he is operating without an international banker. That's precisely the result of government policy. The ultimate remedy for our economics lies in our politics."

De Beer is right that political change would help get us out of the mess, if it halted or reversed capital outflows. But is there not a single *economic* measure the DP can suggest as an alternative to government's increasingly *ad hoc*, anti-capitalist, rules and taxes?

Du Plessis, four months before a general election, says: "Our primary concern should be sound economic policy, not election popularity."

Somebody ought to point out to him that truly sound economic policy *would* bring election popularity. ■

TAX (320) Fmail 12/5/89

Ad hoccism rules

"Excess liquidity" is a novel reason for raising an impost. It's the main reason Finance Minister Barend du Plessis' new package includes a 10% loan levy on companies.

Arthur Andersen's Pierre du Toit notes that, excluding the Budget, SA has now suffered "10 major tax announcements in less than six months."

The implication is that Du Plessis does not think companies are paying *enough* tax. The fact is that the tax burden rises steadily to new highs, measured against the truest

Barend's loan levy swipes at the 'fat cats'

By BRUCE ALLEN

THE government's announcement of a 10 percent loan levy on companies has drawn fire from industry representatives who believe the new measure will have a severe impact on company budgets for the year ahead.

The levy is based on companies' latest tax assessment — of last year's tax payment — and is expected to add around R750-million to the Treasury bank balance.

Technically, the levy is a loan by companies to the government which earns interest and will be repaid at some stage. But industry spokesmen are concerned about the impact the measure will have on business in terms of lost interest and opportunity costs. Potential profits stemming from the effective investment of money now being paid to the government will also be lost.

Some stockbrokers anticipate a fall in share prices in anticipation of the effect the loan levy will have on company profits.

Stephen Meintjes, general manager of investments at AA Life, said the government was in a tight spot and was forced to take action. But he said that in a properly planned economy, measures like those announced last week would not have been necessary.

This sentiment was shared by the Association of Chambers of Commerce (Assocom) chief executive officer, Raymond Parsons. He is on record as saying: "While accepting that interim remedial measures may be necessary during the course of any fiscal year, short-spanned decisions as reflected in this package suggest a lack of coherence in the management of the country's financial affairs.

"Such action is also very disruptive to business planning and will have a negative impact on business confidence."

Meintjes said: "There seems to be a trend towards taking a swipe at what the government perceives to be the fat cats."

The principal motivation for the measures was the high level of liquidity in the economy, and it appears companies which paid tax last year are targetted as the holders of this liquidity.

By relieving organisations of their cash, the government hopes to reduce imports — primarily, plant and machinery. Some suggest that in an attempt to find the cash, many companies will have to postpone future development.

Meintjes points out that it is ironic that those companies which made significant tax payments last year are being hardest hit. Organisations which put more effort into tax planning to reduce their tax bills, on the other hand, are better off.

This bitter pill we could have taken weeks ago

The reasons why Barend du Plessis chose last week rather than some other to discover the woes of our economy, have more to do with voting patterns than economic ones. By HILARY JOFFE

Gerhard de Kock: Strongest yet stand on politics

AT first glance, it was not obvious why Finance Minister Barend du Plessis should have chosen last week to introduce his austerity package.

But view it against the background of electoral politics, on the one hand, and the gold price, on the other, and it begins to make sense.

The package, which included a one percent rise in interest rates, a 10 percent loan levy on companies, and tighter hire-purchase conditions, is part of an attempt by the financial authorities to slow down the economy in the context of a looming balance of payments crisis.

It's not a new problem. And it isn't necessarily worse this month than last month, although the fact that the gold price dropped below $380 an ounce after falling pretty steadily since last year, when it averaged $437, was an important factor, which Du Plessis cited when he announced the new measures.

It's clear that if the authorities were going to take action at all, it had to be now — as early before the September election date as possible.

could affect investment too, since much machinery is imported. The surcharge has been reduced to 15 percent, from 20 percent on most capital goods, but Du Plessis said few exemptions would be granted.

In presenting the new measures, Du Plessis warned consumers to stop spending and pointed to the fact that companies' imports had risen very rapidly. Capital goods were about 84 percent of imports.

Du Plessis' stress on South Africa's balance of payments problems were an admission, once again, of the pressure of financial sanctions. He referred to these directly in his budget speech in March.

Last week Du Plessis pointed to the fact that although the current account of the balance of payments would probably show a surplus of about R1-billion for the first three months of the year, South Africa's gold and foreign exchange reserves had hardly changed, indicating "a further large net outflow of capital in the first three months of this year".

Since South Africa has no significouldn't it be earlier? Most economists have been saying for some time that the measures already taken were not going to have the desired effect in damping consumer and company demand and several have called for sharper interest rate rises.

Commentators this week have asked why Du Plessis did not implement measures such as last week's at the time of the March budget, only seven weeks ago.

But at the time of the budget, it was not clear when the election was going to be. And it is possible that the government wanted the budget to look as good and optimistic as possible — in the event of an early election for example in May or June.

When confirmation came last week that the election would be in September, this may have left a little more space for Du Plessis to impose harsh measures which the electorate would not like and which could affect those without the vote even more severely.

The prime overdraft rate has now gone up from 12,5 percent at the beginning of last year to the present 20 percent charged by all the major banks as of this week. Prime is the rate banks charge their best customers — consumers and small businesses are usually charged at least three or four percent above this on their overdrafts.

Home loan rates are likely to go up too, although in the case of building societies, which usually give one month's notice of mortgage rate increases, this won't bite yet.

It seems inevitable, though, that most homeowners will be soon paying around 20 percent on mortgage bonds — compared to 12,5 percent early last year.

Homeowners with a R60 000 bond payable over 25 years could now be paying R1 006 a month, where early last year they were paying R654 a month.

Low-income homeowners, many of them black, who took out bonds at the low 12,5 percent rate would have seen their household finances steadily eroded. The monthly repayment on a R30 000 bond, for example, would have risen from R327 to R503 — and that, very likely, is on a monthly household income of less than R1 400.

Lower-income consumers will also be hit by the new hire-purchase restrictions, since for many this is the only way they can afford basics such as furniture or refrigerators. The new HP measures impose higher initial deposits and shorter repayment periods on consumers.

The new measures may also affect investment negatively, and hence employment, since borrowed money will cost companies more, and within the next eight weeks they will have to pay a 10 percent loan levy.

Changes in the import surcharge

seas, and has had to repay its foreign loans since 1985, a surplus on the current account of the balance of payments (the surplus earned by exports over imports) is needed to repay foreign loans and compensate for outflows on the capital account of the balance of payments. About four percent of gross domestic product is leaving the country by way of capital outflows.

If the current account surplus is not enough to cover the capital account outflow, the country has to draw on its gold and foreign exchange reserves.

JCI economist Ronnie Bethlehem says South Africa's net reserve position has been negative since the end of last year, when there was a deficit on the reserves of about R800-million. While the gold and foreign exchange reserves are usually presented as a gross figure — around R6-billion — Bethlehem says this must be set against the country's total short-term liabilities (debts payable within one year).

Bethlehem points to the figures on South Africa's gold holdings, which show a dramatic decline, from 40,2-million ounces in 1969 to 12-million in 1980 to only about 3,5-million now.

"The problem is that South Africa is in a cash fix," he says.

And the pressure of financial sanctions was highlighted this week, when Reserve Bank governor Gerhard de Kock came out with his strongest statement to date on the link between the economy and politics, suggesting that South Africa's economic problems required political solutions.

He was reported as saying: "The truth is that the political situation in South Africa finds itself in the world today has had, and will continue to have, adverse effects on the economy."

He argued that if South Africa could make progress in political reform, this could bring in foreign capital which would make possible an economic growth rate of four to five percent.

More black earnings in tax net

MIKE ROBERTSON 320

CAPE TOWN — Taxable earnings of blacks grew 18,3% last year to R3,5bn.

Finance Minister Barend du Plessis added yesterday, replying to a question from Harry Schwarz (DP Yeoville), taxable earnings of whites grew by 10,8% to R35,6bn, Indians by 10% to R1,9bn and coloureds 15,9% to R3,1bn.

Du Plessis said, in reply to another Schwarz question, 1,4-million whites, 236 519 coloureds, 124 603 Indians and 305 518 blacks paid direct tax in 1987/88.

A total of 901 whites, three coloureds, 11 Indians and five blacks paid tax on incomes of more than R250 000.

Du Plessis, replying to a question from Roger Hulley (DP Constantia), said R479,7m was collected in excise duties on petroleum products in 1988/89.

He added a total of R443,7m was collected in the previous financial year.

TAX (320) Fmail 12/5/89

Ad hoccism rules

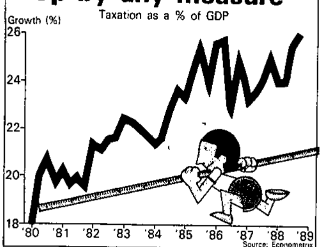
"Excess liquidity" is a novel reason for raising an impost. It's the main reason Finance Minister Barend du Plessis' new package includes a 10% loan levy on companies.

Arthur Andersen's Pierre du Toit notes that, excluding the Budget, SA has now suffered "10 major tax announcements in less than six months."

The implication is that Du Plessis does not think companies are paying *enough* tax. The fact is that the tax burden rises steadily to new highs, measured against the truest

(320) Fmail 12/5/89.

Up by any measure



benchmark, GDP (see **graph**).

Even as a temporary expedient, Du Plessis' new impost can't be reconciled with government's stated intention to reduce tax rates. And the informal view of Commissioner for Inland Revenue Clive Kingon, who would like company tax to fall from 50% to 35%, is diametrically opposed.

Moreover, while Du Plessis says the estimated R750m from the loan levy will not be used for spending, what happened to the extra R800m above *final* revenue estimates for the 1988-1989 tax year?

The new levy will apply to *all* companies as defined in tax law:

- □ Financial institutions;
- □ Life offices;
- □ Mines;
- □ Trading companies;
- □ Holding and investment companies; and
- □ Close corporations.

Applied retroactively to a company's latest assessed year, the impost is payable by July 31. Loan levy certificates will be issued at a coupon of 16% (taxable!), repayable in five years. The certificates will be negotiable instruments, like bankers' acceptances.

So a cash-strapped company will be able to sell the certificate at a discount immediately it pays the levy. A Revenue official points out that the R5 000 cut-off for the levy (as calculated) means that most "companies" will not pay it.

Said Du Plessis: "The excess in expenditure is caused not only by individuals' consumer demand but also substantial corporate expenditure." In a briefing, Du Plessis explained that the levy plans "to mop up massive liquidity among companies ... Government had no other remedy ..."

There is an element of truth to the liquidity argument. Net corporate saving has risen steadily from R7,1bn in 1981 to R9,7bn at end-1988. Gross corporate saving at end-1988 totalled R42,5bn; again, the amount has risen steadily year by year.

While recognising that companies indeed have "massive" amounts of dammed-up cash, Du Plessis's new impost attacks the symptoms, not the cause. Individuals (via the various corporate structures, but also including *inter vivos* trusts) have dammed up cash in companies because of differing treatments of income, and differential tax rates.

For example, dividends are paid after nominal company tax of 50%. Two-thirds of dividends received by an individual are taxable, at up to 45%. This means that of R1 taxable profit in a company, 65% could end up with the taxman. That excludes possible GST on the remaining few cents, if spent.

There are many other reasons companies accumulate cash. Undistributed profits tax, meant to encourage payment of dividends, has simply not worked. Instead, businessmen use legal personae to keep and redistribute cash; investing, for example, in listed shares.

Dividends received on such shares by a company are tax-free; once again, cash is dammed up. And so on. Until government makes a courageous and honest move to treat all income identically, and reduce tax rate differentials, it will run into problems. Attacking symptoms and not causes by ad hoccism only encourages shifty bookkeeping. ■

CAPE TIMES 12/5/89

Blacks paid R3,5bn tax last year

320

Political Staff

TOTAL taxable earnings of blacks in SA grew by 18,3% last year to R3,5bn, Finance Minister Mr Barend du Plessis said yesterday.

Mr Du Plessis said in reply to a question from Mr Harry Schwarz (DP Yeoville) that taxable earnings of whites grew by 10,8% to R35,6bn, Indians by 10% to R1,9bn and coloureds by 15,9% to R3,1bn.

He said that 1 421 711 whites, 236 519 coloureds, 124 603 Indians and 305 518 blacks paid direct tax in 1987/88.

A total of 901 whites, 3 coloureds, 11 Indians and 5 blacks paid tax on incomes of more than R250 000.

Replying to a question from Mr Roger Hulley (DP Constantia), the fiance minister said R479,7m was collected in excise duties on petroleum products in 1988/89.

More than R800m in unpaid tax unearthed

BDay 15/5/89

GERALD REILLY (320)

PRETORIA — Inland Revenue is digging into an almost bottomless pit of unpaid taxes and coming up with huge amounts — exceeding R800m last year.

Additional untaxed income discovered by the enlarged inspectorate staff and national service chartered accountants seconded to the Department of Finance amounted last year to a massive R1,286bn.

More than R1bn of this was undeclared company income, and the tax recovered on the total, with penalties, exceeded R500m.

Unpaid GST recovered, also including penalties, amounted to R280m.

In the first three months of this year the rate of recoveries, if anything, increased.

In the January-March period untaxed income discovered amounted to R284m, and GST recoveries amounted to R59m.

Army-seconded CAs investigations — involving intensive study of company books, assets and liabilities — found R54m in unpaid taxes last year, and yielded more than R80m in the first quarter this year.

Inland Revenue chief director Schalk Albertyn said it was estimated that each of the CAs was discovering on average more than R1m in unpaid taxes.

CAPE TIMES 15/5/89

'R800m unpaid taxes last year'

320

Own Correspondent

PRETORIA. — Inland revenue is digging into an almost bottomless pit of unpaid taxes and coming up with huge amounts — exceeding R800 million last year.

Additional untaxed income discovered by the enlarged inspectorate staff and national servicemen chartered accountants seconded to the Department of Finance amounted last year to a massive R1,286 billion, inland revenue chief director Mr Schalk Albertyn said.

More than R1 billion of this amount was undeclared company income.

Unpaid GST recovered, also including penalties, amounted to R280 million.

In the January-March period this year, untaxed income discovered amounted to R284 million, Mr Albertyn said.

320

BIG PAYOUT AWAITS MPs

Sowetan 15/5/89.

TAXPAYERS face a multi-million rand bill for retiring Cabinet Ministers and Members of Parliament.

President P W Botha is due to receive a further R116 000 golden handshake on top of the R300 000 he received five years ago when he changed from being prime minister to president with a monthly pension of R14 500.

President P W Botha

Then Mr Chris Heunis, the outgoing National Party Cape leader gets a golden handshake of about R450 000 with the retiring Natal NP leader, Mr Stoffel Botha getting R260 000.

Heunis' monthly pension will be about R13 000 and Mr Botha will receive about R10 700 a month.

The pension scheme is not, however, exclusive to cabinet members of National Party members. Any MP with more than 7,5 years of service qualifies for a pension while a pension is paid for any senior office after five years.

Previous experience in the defunct Provincial, SA Indian or the Coloured Representative Councils is also taken into account.

At least 30 MP's are already known to be preparing to retire while numbers of others could still announce that they will not stand again and others face losing their seats.

After the Argus group exposed the huge benefits being accrued by public representatives even if they left under a cloud Parliament appointed a select committee to look into the system.

Mr Pietie du Plessis, former Minister of Manpower, who recently was severely sanctioned by the Advocate General received a lump sum payment of R250 000 and a pension of R12 000.

Taxman takes big bite at Fedfood

Star 16/5/89

320

By Magnus Heystek, Finance Editor

The results of Fedfood, the widely diversified food processor and manufacturer in the Federale Volksbelegging-stable, fell slightly short of the expectation of most analysts with earnings per share rising by 21,1 percent to 56,6c on an increase in turnover of 14,5 percent to R1, 157 billion.

The dividend has been increased by 18,4 percent to 45c per share (38,0c) while the dividend cover has been slightly increased from 3,4 to 3,5 times.

However, what is impressive is the surge in operating margins. Operating income rose by 29 percent to R100 million, twice the increase in turnover.

After-tax profits, however, were reduced by the sharp increase in the tax bill which rose by 48 percent to R35,1 million.

After taking into consideration outside shareholders' interest, the income from associated companies and payment of dividends, the attributable income rose by 27,6 percent to R45,3 million.

Due to an increase of 5 percent in the weighted number of shares in issue, earnings per share increased by only 21,1 percent.

"Fedfood applied a stringent and successful anti-inflation programme. The five divisions within the group all made sound progress," said Mr Jan du Toit, managing director of Fedfood last night.

According to Mr du Toit, Fedfood's period of organic growth has resulted in a strong and streamlined company. Given the company's healthy financial gearing, future growth would be by way of expansion through mergers, take-overs and joint ventures, he added.

TRANSFER, STAMP DUTIES TO CHANGE

320

CAPE TOWN — A tax Bill which will affect exemptions from transfer duty and increase stamp duty on certain items was tabled in Parliament today.

The Taxation Laws Amendment Bill also provides for the increase of GST from 12% to 13%.

The Bill will, among other things:

- Restrict exemption from transfer duty in respect of heirs and legatees to property of a deceased;
- Provide for exemption from transfer duty in respect of the acquisition of property by way of a marriage concluded in community of property, and the acquisition of property by insurers under certain circumstances;
- Extend exemption from stamp duty to a company, society or association providing residential accommodation to aged or retired people;
- Increase stamp duty tariffs on certain items;
- Provide for stamp duty exemption on registration of transfer of marketable securities and on acquisition of marketable securities in certain instances; and
- Extend certain periods of exemption from stamp and transfer duty on certain registrations. — Sapa.

B Day 16/5/84

Stamp, transfer duty standstill extension hailed

BDay 19/5/89 **KAY TURVEY**

THE extension of the standstill of stamp and transfer duty has been widely welcomed by business as a major triumph in allowing groups to streamline without the tax penalty for another year.

The moratorium on stamp and transfer duties announced in last year's budget — to allow groups subject to at least a 75% controlling interest to restructure without paying duties — was to have expired at the end of June this year. In Parliament earlier this week the moratorium was extended until June 30 next year.

The moratorium, lifting stamp duty payable at 1,5% of the value of shares changing hands, and transfer duty levied at 5% of the value of fixed property, encouraged major rationalisations in the past year.

Liberty chairman Donald Gordon, announcing the restructuring of his group's off-shore interests, said the standstill resulted in a saving of R9m.

A Revenue spokesmen said 176 applications had been finalised for rationalisations out of about 300 applications received. The applications had often involved more than 100 companies in one group, and 203 companies in one instance.

The extension of the moratorium was seen as coup for Assocom, which made strong representations for it. It is, however, widely held that Revenue could not cope with the influx of applications.

Assocom taxation committee chairman Bob Wood said his organisation was delighted with the extension, although disappointed the exemption had not become a permanent feature of the law.

		Emergency on 12 June 1986 and the commemoration of "Soweto Day" (16 June 1976).
(iii) None. Winter vacation was advanced.	Falls away	*4 days #11 days

Vukukhanye Higher Primary School: usable classrooms

410. Mr K M ANDREW asked the Minister of Education and Development Aid:

(1) Whether all classrooms at Vukukhanye Higher Primary School, Guguletu, are usable in wet weather; if so, since when; if not, (a) how many classrooms (i) can and (ii) cannot be used when it is raining, (b) why can certain classrooms not be used and (c) since when has this been the case;

(2) whether in any classrooms ceilings are (a) missing and (b) severely damaged; if so, in how many classrooms;

(3) whether there are any broken window panes at this school; if so, how many;

(4) whether any representations have been received by his Department in respect of repairing the (a) roof, (b) ceilings and (c) window panes of this school; if so, (i) from whom, (ii) when and (iii) what was (aa) the purport of and (bb) his Department's response to these representations;

(5) whether there are any plans to repair the (a) roof, (b) ceilings and (c) window panes in question; if not, why not; if so, (i) what plans, (ii) when will they be implemented and (iii) what will be the cost involved?

B830E

The MINISTER OF EDUCATION AND DEVELOPMENT AID:

(1) No.

(a) (i) 8

(ii) 6

(b) Due to broken window panes

(c) Since 1987.

(2) Yes (a) 8

(b) 8

(3) Yes: 240

(4) (a), (b) and (c) Yes

(i) The Principal

(ii) Repeated requests from 1986 to date.

(iii) (aa) Repair of fire damage and window panes.

(bb) The repair of fire damage has been approved in principle, but could not yet be carried out, at a stage due to the unrest, and thereafter due to the lack of funds. The repair of window panes is normally the responsibility of the school. The expenses for such services are met from school funds.

(5) (a), (b) and (c) Yes

(i) The repair of the damaged classrooms, roof, ceilings and window panes.

(ii) The repair of the window panes: During 1989.

The other repairs: During 1990, subject to the availability of funds.

(iii) Approximately R400 000.

Crude-oil: landed cost

427. Mr R R HULLEY asked the Minister of Economic Affairs and Technology:

In respect of the latest specified date for which figures are available, (a) what was the landed cost in South Africa of crude oil in United States dollars per barrel, (b) what, in respect of 93-octane petrol, was this cost expressed in cents per litre at the pump and (c) what elements comprised the marketing margin in the latest petrol price composition?

B848E

The MINISTER OF ECONOMIC AFFAIRS AND TECHNOLOGY:

(a) US Dollar 16,29 during April 1989.

(b) The abovementioned cost is not directly taken into account in the South African price for 93 Octane petrol. The average landed cost of 93 Octane petrol for 4 refineries — three in Singapore and one in Bahrein — is being used as basis to determine the South African price. The landed cost currently reflected in the price of 93 Octane is 40,142 c/ℓ. The current under-recovery experienced is accommodated in the cumulative over and under-recovery account.

(c) The marketing margins for the oil companies (5,558 c/ℓ) and the retailers (8,7 c/ℓ) consist of all those costs normally incurred to distribute and market petrol and both margins are subject to price control.

Crude-oil: rand cost

428. Mr R R HULLEY asked the Minister of Economic Affairs and Technology:

(1) What was the average annual landed rand cost per barrel of crude oil in 1987;

(2) what was the (a) average quarterly landed rand cost per barrel of such oil in 1988 and (b) landed rand cost per barrel of oil as at the latest specified date for which information is available?

B849E

The MINISTER OF ECONOMIC AFFAIRS AND TECHNOLOGY:

(1) R38,75 landed cost

(2) (a)

1st Quarter of 1988	R35,52
2nd Quarter of 1988	R36,68
3rd Quarter of 1988	R37,77
4th Quarter of 1988	R31,42

(b) R41,46 landed cost during April 1989.

Oil pollution

429. Mr R J LORIMER asked the Minister of Environment Affairs:

(1) How many cases of pollution of the sea by oil occurred in 1988;

(2) (a) what was the cost of combating such pollution in that year and (b) what amount was recovered from the owners of the vessels concerned?

B850E

The MINISTER OF ENVIRONMENT AFFAIRS:

(1) 138

(2) (a) R3 583 million

(b) R49 614

Sales tax: irregularities 320

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

(a) How many cases of irregularities in respect of sales tax were discovered in 1988 and (b) what is the amount of tax involved?

B856E

The MINISTER OF FINANCE:

(a) 12 100

(b) Tax	R159 698 501
Penalties	121 183 973
	R280 882 474

Equalisation Fund: balance

460. Mr R R HULLEY asked the Minister of Economic Affairs and Technology:

What was the balance of the Equalisation Fund as at the latest specified date for which information is available?

B898E

The MINISTER OF ECONOMIC AFFAIRS AND TECHNOLOGY:

	R'm
Balance before BLS Trust Funds and current liabilities	566,814
Less: BLS Trust funds	44,826
Current Liabilities	362,455
Balance on 30 April 1989	159,533

Central Energy Fund: balance

461. Mr R R HULLEY asked the Minister of Economic Affairs and Technology:

What was the balance in the Central Energy Fund as at 31 December 1988?

B899E

The MINISTER OF ECONOMIC AFFAIRS AND TECHNOLOGY:

R3,275 million

Central Energy Fund: amount collected

462. Mr R R HULLEY asked the Minister of Economic Affairs and Technology:

What total amount was collected on behalf of the Central Energy Fund in the 1988-89 financial year?

B900E

The MINISTER OF ECONOMIC AFFAIRS AND TECHNOLOGY:

Only interest and dividends amounting to R438,575 million.

Individual taxpayers

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

(a) What was the (i) number of individual taxpayers in each income category and (ii) tax assessed in each income category expressed as a percentage of total tax assessed in the 1987-88 tax year and (b) what percentage of each group of taxpayers is Black?

B917E

The MINISTER OF FINANCE:

(a) (i) and (ii) (b) The statistics are not complete because ±17 per cent of individual taxpayers have not yet been assessed.

Income Category	Number of Individual Taxpayers In Income Category	Tax Assessed in Income Category as Percentage of Total Tax Assessed	Percentage Black Taxpayers In Income Category
Loss	12 846	0,00	0,00
0 – 5 000	205 687	0,02	1,63
5 001 – 10 000	352 168	0,96	5,13
10 001 – 15 000	391 066	3,84	4,72
15 001 – 20 000	258 461	5,83	1,80
20 001 – 25 000	207 276	8,09	0,78
25 001 – 30 000	170 696	9,88	0,30
30 001 – 35 000	138 707	11,00	0,14
35 001 – 40 000	106 434	10,87	0,06
40 001 – 45 000	76 419	9,64	0,03
45 001 – 50 000	51 784	7,82	0,02
50 001 – 60 000	57 110	10,66	0,02
60 001 – 70 000	25 484	6,07	0,01
70 001 – 80 000	12 327	3,58	0,00
80 001 – 90 000	6 693	2,28	0,00
90 001 – 100 000	4 125	1,61	0,00
100 001 – 150 000	7 490	3,85	0,00
150 001 – 200 000	1 944	1,50	0,00
200 001 – 250 000	714	0,72	0,00
250 001+	920	1,76	0,00
Total	2 088 351	100,00	14,63

NOTE: The above statistics do not include taxpayers under the Final Deduction System.

Company tax

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

What amount in company tax was collected from (a) mining and (b) non-mining companies in each month of 1988?

B918E

The MINISTER OF FINANCE:

1988	(a) Mining R	(b) Non-Mining R
January	1 044 645	767 132 955
February	852 162 154	234 710 342
March	103 436 089	594 030 325
April	1 231 200	619 723 397
May	110 047 184	81 767 117
June	186 408 753	402 051 857
July	3 477 292	1 646 254
August	695 245 300	308 626 335
September	85 281 843	1 019 806 053
October	58 268 687	1 470 317 366
November	71 837 892	116 671 313
December	513 472 641	477 856 994

Own Affairs:

Hostels: capacity/enrolment of pupils

55. Mr K M ANDREW asked the Minister of Education and Culture:

(1) (a) What is the (i) capacity of, and (ii) enrolment of pupils at, hostels in each province in respect of (aa) secondary and (bb) primary schools and (b) in respect of what date is this information furnished;

(2) whether any school hostels closed during the past 10 years; if so, (a) which hostels, (b) when, (c) where are they situated, (d) what are they being used for and (e) how many pupils could they accommodate;

(3) what is the current cost of building a hostel for (a) 50 and (b) 100 pupils?

B927E

The MINISTER OF EDUCATION AND CULTURE:

(1) (a) (i) (aa) and (bb) The honourble member is referred to the reply given to question 27 of 1989-03-21,

	(a) (ii) (aa)	(a) (ii) (bb)	(b)
Cape	16 379	6 642	1988-12-31
Natal	3 963	1 046	1989-03-07
OFS	6 784	3 313	1989-03-10
Transvaal	23 634	3 125	1989-03-06

(2) yes,

(a)	(b)	(c)	(d)	(e)
Cape				
M E Snyman	1987	Carnarvon	Taken over by Department of Public Works and Land Affairs	40
Frans Loots	1987	Vosburg	Leased to the Vosburg Agricultural Society	60
De Rust	1988	De Rust	Alienation being investigated	60
N J Heyns No 2	1988	Kimberley	Accommodates a CED Regional Office and art centre	60
Saamwerk	1988	Clanwilliam	Alienation being investigated	58
Barnard	1988	Graaff-Reinet	Alienation being investigated	43
Natal				
Melmoth Primary	1981	Melmoth	Private pre-primary school and accommodation for NED officials	40
Stanger High	1981	Stanger	Natal Provincial Administration Ambulance Service and accommodation for NED officials	100
Dannhauser Primêre	1986	Dannhauser	NED environmental education centre	60
Harding Primary	1987	Harding	Private after school care centre	50
Ellerton	1988	Ixopo	Accommodation for NED officials	70
OFS				
Anna van Gent	1987	Bethlehem	Transferred to Technical College	96
Huis Klomp	1988	Kroonstad	To be utilised by a special school	108
Kroonstad Primary	1988	Kroonstad	Prefab building in poor condition: demolished	100

320

TAX 320 Fmail 19/5/89.

World watch

Sanctioneers often overlook the benefits that the target country, paradoxically, can gain. While the topic has always been subject to secrecy laws in SA, a number of taxpayers are beginning to realise the benefits of the cancellation and abrogation of double tax treaties (DTT).

Those who stand to gain the most are, clearly, multinationals and SA companies specialising in export markets. For one of the features of DTTs is the exchange of information between tax authorities. Cancel a DTT and foreign tax authorities are likely to get a lot less from SA authorities.

As Ernst & Whinney's Ray Eskinazi argues, avoidance or mitigation of double taxation is not the only purpose of a DTT. "Prevention of international tax evasion through exchange of information and administrative assistance is also important."

The SA-US DTT — now terminated — went as far as to provide for mutual assistance, even in the *collection* of taxes in some cases. Though SA tax legislation imposes a statutory duty on Inland Revenue to preserve secrecy regarding a taxpayer's affairs, an exception exists where information is disclosed in compliance with a DTT provision.

But what happens in practice is not clear. "It is important to note," says Eskinazi, "that there does not appear to be a legal obligation for Revenue to notify the taxpayer that information is being exchanged."

Information may be exchanged in three ways — automatically, spontaneously, or on a specific request by one of the contracting states. Information sought by a contracting state could include details of the ownership of property, confirmation of a taxpayer's citizenship and residence, or verification of his filing and reporting of income.

SA has concluded DTTs with 24 different countries, with differing provisions regarding exchange of information. In terms of the German treaty, information may only be exchanged where it is required for implementation of the treaty. The Netherlands treaty excludes information obtained from banks and certain other institutions. The Canadian treaty (now abrogated) restricted the supply of information to requests.

The SA-US DTT contained wide-ranging provisions. It allowed for request, automatic and spontaneous exchanges and extended the obligation to information that could be of use to the other state in assessing taxes covered by the treaty.

These broad provisions were in line with the US tax system, which subjects to US tax the worldwide income of US citizens, permanent residents and corporations. With the termination of this treaty with effect from July 1 1987, the US no longer has access to information regarding SA-sourced income.

The SA tax system, based on the principle of source, would, in many instances, not necessitate extensive collection of information from the US. Clearly, US taxpayers earning income in SA stand to benefit from the cancellation of the US DTT.

It is difficult to assess the practical impact of information exchange in the SA context, mainly because of the paucity of published material. A report by Inland Revenue UK stated that in the year ending March 31 1986, 453 items of information (including 317 automatically) were sent to 32 countries and 309 items (including 127 automatically) received from 33 countries.

In 1985, Germany transmitted, on request, information in 82 cases. In terms of automatic exchange, the US sends and receives a vast amount of information. In 1984, about 704 000 documents were received by the Internal Revenue Service (IRS) and about 217 000 remitted to treaty partners.

New factors are coming into the picture. David Gilburn, head of KPMG's (represented in SA by Aiken & Peat) tax practice in Amsterdam, says computers have substantially increased the international exchange of information.

"Until recently," argues Gilburn "tax authorities simply did not have the technical expertise to swap huge volumes of information. A case in point is the procedures, systems and voluminous quantities involved in exchanging information about dividend, interest and royalty flows."

But practical problems associated with the exchange of information have recently been recognised worldwide. In the US, more co-operation is proposed between the Naturalisation Department and IRS to identify individuals who acquire US citizenship or permanent residence or, though residing and earning income outside the US, would fall within the US tax net.

On the other hand, the Council of Europe and Organisation of Economic Co-operation & Development's recent multilateral Draft Convention on Mutual Administrative Assistance in Tax Matters, providing for exchange of information and assistance in recovering taxes owed to fellow contracting states, has been unfavourably received by most of the 27 members. Then again, says Gilbourne, while many countries are striving to continue cutting tax rates, tax authorities are becoming more aggressive about their perceived slice of global income. ■

Taxation, spending criticised (320)

Govt policies draw fire from Cape chamber

B/Day 19/5/89

CHRIS CAIRNCROSS

CAPE TOWN — Government was criticised by organised commerce yesterday for "persisting with policies and actions that are seriously undermining efforts by the business community to maximise efficiency and effectiveness in the marketplace".

Three significant issues were singled out by Cape Town Chamber of Commerce president Anthony Coombes in his outgoing address at the chamber's annual meeting:

- Government's inability to contain its spending within reasonable bounds;
- The increasing tendency by government to change the rules of business with "retrospective" legislative action; and
- Continuing and unwarranted criticism by Finance Minister Barend du Plessis of business efforts to minimise the tax burden by making use of legitimate tax avoidance schemes.

Coombes said business confidence was being demoralised and business people were losing faith over government's inability to contain its expenditure to within reasonable bounds.

"Despite the government's acceptance of the need to keep borrowing down to 3% of GDP, it has consistently failed to achieve this target....

"The exposure of wasteful and inappropriate expenditure by the Auditor-General, and criticism of the cost inefficiency of own affairs administration by the Administrator of the Cape, are pointers to areas of profligacy in state spending which this country can simply not afford."

Coombes called for an independent investigation into government expenditure in order to verify the need and efficiency of expenditure by the various departments and agencies.

It was incumbent on government not to add to business uncertainty, for whenever it did so it simply added to the cost structure — which meant higher prices for the man-in-the-street and reduced competitiveness in international markets.

Coombes took the Finance Minister to task for his continued criticism of tax avoidance schemes. Within a competitive business environment it was just as incumbent on businessmen to minimise the cost to the business of taxation as it was on them to make every effort to contain costs in other areas.

"The fact that taxes in this country have risen to extremely high levels has increased the opportunity for achieving cost savings on taxation, and shareholders expect management to use every legitimate means open to them to maximise their returns.

"If the Minister is concerned at the incidence of tax avoidance he should realise that it is a symptom of the high tax burden. Instead of castigating taxpayers for avoiding tax liability, he should rather ease their tax burden," Coombes said.

Probe into captive insurance companies

StJ 19/5/87 (86) (320)

By Hellouise Norval

A commission of enquiry, to be chaired by Mr Justice David Melamet will soon turn the spotlight on the operations of captive insurance companies.

At issue is whether or not such operations amount to tax avoidance schemes and cause losses to South Africa's foreign exchange reserves.

A captive works on the principle of self-insurance. A subsidiary within a corporate group provides risk cover to its parent company and fellow subsidiaries. Premium income is retained within the group as are any profits made on the insurance transactions.

Over the last few years exposure to risk has become a more acute and serious business problem than ever before. For large companies self-insurance is an attractive proposition with captive insurance companies offering an inventive solution.

Tax havens

In common with international practice, South African companies have set up captives in tax havens such as TBVC countries, more particularly Ciskei.

An international tax journal quotes the tax havens which have attracted the establishment of captive insurance companies. It quotes Bermuda as having 1 000 captives, the Cayman Islands 330, Guernsey 160, Barbados 30 and the Isle of Man 30.

Anthony Chait, partner in Chartered Accountancy firm Fisher Hoffman Atride says a number of SA companies have set up captives in the above jurisdiction.

"They have done so with the consent of the Reserve Bank. In some cases exchange control has required that the premium is retained within the rand monetary area. In the event of a claim these funds are released. Other captives have been successful in obtaining permission to have premium income remitted to the captive abroad."

Anthony Chait — "Captives cannot be set up as post box companies".

Only larger corporate groups operate captives abroad. Insurance costs for these companies probably run into millions of rand. Mr Chait believes the volume of premium income flowing to these captives is significant enough to warrant a commission of enquiry.

Two issues, he says, probably prompted the investigation: Tax avoidance and exchange control considerations.

"Obviously the commission will examine to what extent the South African fiscus is being deprived of funds resulting from the operations of these captives. It is significant that the chairman is Mr Justice Melamet.

As President of the Income Tax Special Court he spends a considerable part of his time hearing income tax appeals. He is regarded as exceptionally well qualified and versed in matters of tax avoidance."

Exchange control

The other issue, says Mr Chait, is an exchange control consideration. "By allowing captives to be established offshore and often in tax havens beyond the borders of the country means a considerable outflow of premium income. This must have an effect on the South African reserves."

Increasingly tax authorities are casting a jaundiced eye on captives in terms of tax avoidance. Mr Chait suggests that in order to escape being labelled a vehicle for tax avoidance in relation to the company it supports, a captive should give consideration to accepting business from outside companies.

"Compelling commercial reasons must exist for the setting up of a captive, such as a competitive reduction in premiums and the ability to spread risks on the international market to avoid increased premium costs locally or an outflow of foreign currency. These actions would give captives more credibility."

Mr Chait warns that when a captive is established off-shore or in a tax haven it must not be perceived as a "post box company".

"A captive can't be set up off-shore for the purpose of receiving premiums when all the work is done in SA. A captive has to possess competent management, independant of the parent group's activities in SA.

"Should a captive come under scrutiny it must stand up as a business performing a specific function with sound commercial reasons. It can't afford to be seen as a sham set up in a tax-neutral jurisdiction. This is probably one of the main issues the commission will address."

Mr Chait stresses that a captive must underwrite any risks it might not be in a position to meet itself. "It must be able to pass these risks on to reinsurers so that its continued existence is not threatened in the event of a major claim."

Independent functions

A captive with independant management needs to carry out the following functions from its own business centre: Administration; the issue of proper policy documents and renewal notices which conform to international practice; the collection of premiums; the handling of claims procedures; statistical analysis; loss prevention and investment counselling.

"A company has to do its homework and sums and compare the costs of its current insurance with the costs of establishing and maintaining a captive. When a captive is located in a tax haven profits are not taxed which adds to the group's tax effectiveness. In this instance there is a double tax benefit as the insurance premium is a normal business cost and tax deductible in SA."

New tax provisions outlined to MPs

B/Day 22/5/89 (320)

CHRIS CAIRNCROSS

CAPE TOWN — The new provisions on rates of tax payable by individuals and companies in terms of the March Budget have been outlined in a memorandum tabled in Parliament on Friday.

They will be debated when the Income Tax Bill is introduced by Deputy Finance Minister Org Marais, and that is likely to occur at the end of the current session in view of the fact that the Bill has been placed second last on the official order paper, behind a list of 21 other items of draft legislation.

Considerable effort is devoted to explaining the application of the reimposed loan levy on companies, and to the changes brought about in the application of Site (Standard Income Tax on Employees).

Site changes envisaged increase the rateable tax level on individuals other than married women from R12 000 to R20 000. Unlike last year, when Site was first introduced, this tax will apply to all net remuneration of a married woman, regardless of the rate at which it is applied. This has meant changes which now will entitle a married woman to a primary rebate of R1 075, but no secondary rebates for children or for people over 60.

A more specific definition is also given to "married woman", to differentiate between those married women who are separated and/or are a second or subsequent wife in a polygamous marriage. The latter categories are now excludable from the Site rules.

New amendments now permit both husband and spouse to deduct the full amounts stipulated in respect of payments made to retirement annuities. These amount to the greater portion of R3 500 less pension contributions of R1 750, or R1 800 for reinstatement contributions.

The memorandum declares that Site is not intended to apply to part-time remuneration. To clear up any confusion, a definition of "standard employment" has been introduced to reflect the candidates for Site, namely:

- Employment in terms of which an employee is required to work for at least 22 hours a week, with no regard being given to temporary absences due to leave or any other exceptional circumstances;
- Employment whereby the employee is not permitted to work for another employer;
- Where any employer regularly or frequently employs persons for irregular periods, Inland Revenue may, after consulting the employer, declare such employment as standard employment.

Provision

The recently reimposed loan levy is payable at a rate of 10% of the normal tax in terms of the latest assessment issued to a company, and will bear simple interest at a rate of 16% a year, and will be repayable after five years. The memorandum declares that "latest assessment" is that which has been issued and posted by the commissioner no later that July 15 1989.

A new clause provides that the levy will be payable at a rate of 10% of each completed amount of R1 000 normal tax payable in terms of the latest assessment. The levy will be payable only in completed multiples of R100. It also contains a provision that the loan levy is not payable unless the total amount is R5 000. It is not payable on any tax imposed as a surcharge.

Companies in liquidation or in the process of being wound up, where the latter commenced no later than July 31 1989, will be exempted from paying the levy.

*Mr D S PIENAAR: Mr Chairman, the hon the Minister says he received no letter from me. With all due respect, I have difficulty finding a description which is parliamentary for the hon the Minister's contention. [Interjections.] The last sentence of the letter I received from the commission's secretary reads as follows:

> U brief en 'n afskrif hiervan word aan die Minister versend in opdrag van die voorsitter.

In other words, that was on the instructions of the judge. Is the hon the Minister denying that I sent a letter to the director-general of his department? Is the hon the Minister not aware of that, or are the matters discussed telephonically with the director-general yesterday and today being kept from the hon the Minister? Is that perhaps just an extension of the golden thread that has run through this whole affair, namely that the hon the Minister is washing his hands of the matter in an effort to shift all the responsibility onto the officials of his department?

The fact that the hon the Minister is dodging important questions, and the trouble we are having in obtaining copies of documents which served as documentary evidence before the commission, strengthens our suspicion that something is being hidden. We are not being trusted with the full facts. Something is being hidden. Whether these facts are being assigned to the archives, or whether it is simply being made very difficult for us to obtain the full facts and the underlying reason, South Africa is being forced to speculate, because we are not being presented with the full facts.

*The MINISTER OF EDUCATION AND DEVELOPMENT AID: Mr Chairman, I cannot understand how this hon member can speak about something being hidden. These matters to which he referred have been presented to the commission of inquiry, consisting of three eminent and distinguished commissioners, in a comprehensive and fully documented form. They considered the documentation and issued their report. As I have said in a previous debate, if there was anything improper in my conduct, surely they would have said so very clearly in that report. It is therefore quite ridiculous, and a misrepresentation on the part of the hon member for Potgietersrus, to speak about something being hidden.

If I remember correctly, it was in a letter to Mr Von Keyserlingk in which reference to local expertise was made. As far as that letter is concerned, I am quite prepared to make a copy of a portion of that letter available to the hon member so that he can read the exact wording, because it is a letter written by one of us to the other.

The letter we received from the firm B&D was addressed to me, and was expressly marked strictly confidential and private. I can well understand that too, because in it remarks are made extolling the virtues of their own product and making very crass and negative remarks about the product of their competitor. Against the background to my assessment of this matter, and against the background of what I explained a moment ago, one must very clearly see that here we have someone who was being fiercely and strongly competitive and who was expressing himself in crass terms.

I do not think it would be proper simply to make such a letter generally available, a letter which was expressly marked as strictly private and confidential. The letter was, in fact, submitted to the commission, and if the commission were of the opinion that the letter should be made available, I would naturally go along with that.

I again want to come back to the allegation the hon member made. He said that a letter was addressed to me in which they asked for a copy. I am in possession of a letter which was sent to the commission, a copy of which was sent to me by the commission for my information. If I do not know what the commission's arrangements are, and there is no accompanying request from the commission, I do not regard it as an instruction to make a specific piece of correspondence available to that hon member. That is a complete misrepresentation. [Time expired.]

Debate concluded.

320 **Donations tax-deductible**

2. Mr K M ANDREW asked the Minister of Finance:

> Whether the Government is considering allowing all donations to *bona fide* educational institutions to be tax-deductible; if not, why not; if so, when?

B1099E.INT

The DEPUTY MINISTER OF FINANCE: Mr Chairman, when I was director of a business school I tried very hard to get scholarships to

Black students to be accepted as donations. [Interjections.] I remember the years of trouble I had because a programme to train Black businessmen was not accepted as a university programme. So I have a lot of sympathy with the hon member for Cape Town Gardens. I would like now to read the answer of my department.

No, the Government is not considering allowing all donations to *bona fide* educational institutions to be tax-deductible. In terms of section 18A of the Income Tax Act donations to any university or college—tertiary institution—or educational fund established for schools providing education beyond standard six, are deductible for tax purposes up to the amount of R500 or 2% of taxable income in the case of individuals and 5% in the case of companies.

In paragraph 18.51 of its report the Margo Commission recommended not only that section 18A be retained but also 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 question as to how this particular form of tax relief is to be extended to taxpayers in respect of donations to primary schools is receiving the attention of the Department of National Education.

I am sorry for the hon member for Cape Town Gardens but this answer is actually very close to the answer which the hon member for Pinetown received some time ago.

Mr K M ANDREW: Mr Chairman, the hon the Deputy Minister has not actually answered the question in respect of why. The "no" is the answer to part of the question. He has not answered the other part.

It is common cause that more and better education is critical to the economic, political and social well-being of South Africa. Major obstacles to this include the segregated education system and a multiplicity of Ministers and departments resulting, *inter alia*, in wasteful duplication and under-utilised facilities, for example, the R1,5 billion worth of empty classroom spaces in White schools and one third of the teacher training spaces in White teacher training colleges being empty.

Secondly, there is the shortage of finance. This is repeatedly mentioned by hon Ministers and others involved in education. The hon the Minister of National Education mentioned a few weeks back that the numbers of students and pupils were going to go up by 4,1% per annum and that finance would go up by only 1% per annum. The implication is that by the next financial year, education will be an additional R420 million worse off, in one year, than it is this year.

The hon the Minister of Education and Culture in the House of Representatives said that they were short of at least R252 million. Our White hon Minister of Education and Culture mentioned that White schools were squeezed for funds. He has also mentioned that R500 million will be needed to provide equal pay for women teachers.

The hon the Deputy Minister of Education has said that there are 4 512 classrooms short, which are worth something of the order of R800 million.

Subsidies calculated against formulae for universities have been cut, some by as much as 25%. This could amount to something like R250 million or more in total.

We are asking that all donations for *bona fida* educational purposes be tax-deductible. The Margo Commission accepted the profound importance of education. It accepted that the cost to the State of tax-deductible donations is only 50% of the benefit to education. It further accepts that the private financial support for education is greatly increased if the donations are tax-deductible. It is essential that we mobilise all possible financial support for education and tax-deductibility will do just that.

Eroding the tax base is given as a reason for not doing it. In the short term it is true that it will have some effect but I suggest that, in the medium term, we will have a better educated, more productive population which will be earning more, paying more tax and contributing to a faster growing economy yielding more tax.

The hon the Deputy Minister owes it to the House to actually reply to some of these arguments and not simply read out the *status quo* position, namely about section 18A and the fact that there is an investigation. I hope the hon the Deputy Minister will not come . . . [Time expired.]

*Mr A GERBER: Mr Chairman, the CP has taken cognisance of the report of the Margo Commission in connection with donations for education. Numerous valid reasons were given in this report as to why such donations should be tax-deductible. The most important reason is that certain educational institutions have become largely dependent upon donations and bequests and that the Government does not have sufficient funds to replace those contributions. If one of the main reasons for making donations to educational institutions were taken away, viz the advantage that they are tax-deductible, we must accept that this would have extremely detrimental consequences for education in South Africa at present. Consequently the CP is prepared, under certain conditions, to accept that donations to *bona fide* educational institutions by both individuals and the business sector will be tax-deductible.

We also agree that it would not be fair if this concession did not also apply to primary schools. Primary school education is essential. That is where foundations are laid, and primary school education deserves just as much support as secondary and tertiary education. The CP would like these tax concessions to comply with certain conditions, however.

In the first place, as recommended by the Margo Commission, proper control should be exercised in order to prevent avoidance, abuse and evasion.

Secondly attention should be given to the definition of *bona fide* educational institutions so that one cannot abuse education because of incorrect motives.

Thirdly this concession may not lead to its abuse by the business sector in an attempt to influence educational policy. Unfortunately this has been the case particularly with tertiary educational institutions during the past few years, because we did not have a government strong enough to prevent that from happening. [Time expired.]

*The DEPUTY MINISTER OF FINANCE: Mr Chairman, I do not know why this question was put, because we all agree. We on this side accepted in the White Paper that we wanted to assist both primary schools and high schools. That is not a problem, but one must also be realistic. We have the problem that such a decision has to be implemented administratively.

†I think we have over 100 000 primary schools, and we would have to issue a certificate to every parent coming along with a R5 donation. A certificate has to be issued to give a person this tax allowance. Getting this system going is not as easy as switching on a light.

I want to point out, from the Government's point of view, that we support this system by way of allowing these sums to be subtracted for tax purposes, if it can be done.

*We have an administrative problem, however. I do not know how much administrative knowledge the hon member has, but I think he must know that when one has that many schools, one really has a problem when it comes to implementation. We are working hard. We have had numerous meetings with the Department of National Education to see how we can implement this decision in the White Paper in primary schools as well.

I must be honest. I do not know why this question was put, because we agree. If we can get the private sector and individuals to make a greater contribution to the training of our children, who could be opposed to that? [Time expired.]

Mr R M BURROWS: Mr Chairman, accepting the spirit of what the hon the Deputy Minister is saying, I am at a loss for words as to why action has not been taken more rapidly. The hon the Deputy Minister should be well aware that I have asked the same question for four years now, that is two years before Margo and subsequently last year and this year, and still no action has been taken. Not only has no action been taken, but the amount on which donations are made tax-deductible has not been increased from R500 for the high schools.

We must be aware that these are not fees that we are talking about. We are talking about donations to an established educational fund, not just the school itself. We must see, in the light of the remark of the hon the Minister of National Education in which he praised parents for their contribution of R1 600 million to education in this country and hoped that he would get more, that it is in fact incumbent upon the Departments of Finance and of National Education to reconsider this matter very urgently indeed.

That hon the Minister and the hon the Deputy Minister should be aware from the statements of the hon the Minister of Education and Culture that there are parents today who are paying for teachers in schools. They are each putting in R50 or R100 a month to pay for additional teachers. That is happening, and those amounts should be tax-deductible. They should know that there are parents who are paying by way of donations for buildings and for equipment at primary and in particular at preprimary schools, which the hon the Deputy Minister has not even mentioned.

I am afraid that we are simply seeing another delay. As we said with reference to equalising salaries, delay is merely going to make the position worse. My plea is that the problem be solved and that it be tackled most urgently.

Mr K M ANDREW: Mr Chairman, the hon the Deputy Minister says he supports subtracting things for tax purposes, but then he talks only in terms of section 18A. As my hon colleague has just asked, what about the limits of R500 and 2%? The whole point is to get as much money into education as possible, and this method enables one to finance education at half-price rates, because the State pays only half of what goes into education that way.

Controls are obviously needed, but I am thinking more and more about the big sums that could be going into education from all sorts of sources. We know that people hate to pay tax. Nobody likes paying tax. People tend to have a soft spot in their hearts for education anyway, so it will be that much sweeter to donate to education if one can make it tax-deductible.

I want the hon the Deputy Minister to address the issue of the R500 and the 2%, as well as the other restrictions about which he has talked, because donations to primary schools are not the only problem.

One of the ways I suggest of dealing with the administrative problems is, to start with, to have lower levels or a certain minimum level below which a donation is not tax-deductible. This will cut down the administrative workload, and one will not end up with the whole system blocked by those relatively small donations of R5 and R10 that he mentioned.

I hope that the hon the Deputy Minister will address the broader issue of the thousands if not millions of rand that could go into education at half price to the Government if those other restrictions were lifted as well.

*The DEPUTY MINISTER OF FINANCE: Mr Chairman, I have absolute sympathy with the hon members . . . [Interjections.] . . . but we realise the following.

†The moment one has tax expenditure or a tax allowance one must be extremely careful not to open a door everybody can go through, not for the purpose of assisting the children, but to avoid tax. That is the case. We also tried to assist exports. I am just taking the example of films. We lost R750 million in a matter of one or two years. We cannot introduce a system of tax allowances while we do not have any control over it.

*We have examples of certain schools in which the principal gets up and says: "The following parents have contributed," and then reads the names, and Johnny's parents may not have contributed. [Interjections.] No, we have examples of that. [Interjections.] We have examples of life assurance policies which are issued to combinations given by school funds.

We must be very realistic, and I am prepared to go and sit down with the Department of National Education and the hon member for Cape Town Gardens—should we both come back to this House—so that we can solve his problem, because I do not think we differ. We want our young people to be trained, and we want the business world to contribute, but surely we cannot develop a system in which there are tax concessions that ultimately benefit a number of people, whereas it is not their objective in any way to assist the children of South Africa. [Time expired.]

Debate concluded.

Pres 23/5/89

Taxpayers rush to make the deadline

320

By Carol Midgley

Inland Revenue offices around the country are bracing themselves for a barrage of last-minute forms from taxpayers trying to make the June 6 deadline.

Said a spokesman at the Receiver of Revenue office in Johannesburg: "People always leave this until the last moment and this year looks like being no exception."

A spokesman for Inland Revenue in Pretoria made a plea yesterday for taxpayers to include their bank or building society account numbers in their returns, to beat the spate of refund-cheque thefts over the last couple of years.

Figures recently released show that an unexpected R800 million has been collected by IR officers in unpaid taxes from last year, but the Inland Revenue claims there is no extra crackdown.

"It is merely an ongoing process dealt with by special investigation teams," said the Pretoria spokesman.

The Johannesburg office will put on an extra 10 staff between 4.15 pm and 6.15 pm over the next two weeks to aid any confused taxpayers. Last year about 173 000 were assisted.

HOLD ON

Tax-advice companies have reported a substantial increase in business since February, as individuals and companies alike make a last-ditch bid to hold on to as much of their earnings as possible.

Said a tax specialist at Southern Life Association: "The Receiver is definitely now more on the lookout for schemes leading to tax avoidance. The line between avoidance and evasion is becoming more blurred.

"However, at this stage in the game it is a little late to start looking at tax planning for this year's figures," he said.

"The tax return form has been simplified this year but people still get confused and need help. The man in the street is probably wise to make use of the offer of help from the Receiver in filling in his form."

More than 2,5 million tax forms have been sent out by Inland Revenue this year: 1,7 million to private individuals; 646 000 to businesses and 277 000 to close corporations.

B Day 27/5/87 (320)

SECRECY CLAUSE CARRIES R5 000 FINE

CAPE TOWN — A stricter secrecy clause, carrying a fine of up to R5 000, has been proposed for the Income Tax Act in a Bill tabled in Parliament yesterday.

A memorandum attached to the Income Tax Bill said the new clause would prohibit the publication or making known to any person other than an officer of Inland Revenue, of the "contents or tenor" of any instruction or advice given by the Commissioner for Inland Revenue in the performance of his duties concerning the examination or investigation of the tax matters of an individual.

Nor would it be permissible to disclose that any such instruction or advice had been given "or any information concerning the tax matters of a taxpayer or class of taxpayers".

This sub-section supplemented the existing provisions of the Act which provided for secrecy to be observed by such officers on information coming to their knowledge in the course of their duties.

The commissioner and his staff were not limited in the exercise of their duties or powers, provided they observed the secrecy provisions.

Anyone who had knowledge of any information published or made known by the taxpayer himself, or by the commissioner or a member of his staff in the exercise of their duties, would himself be free to publish or make such information known.

Carry

Where, however, information on any instruction by the commissioner for the examination or investigation of any taxpayer had been obtained in some other manner, the prohibition on publication would apply.

Contravention of the provisions of this section would carry a fine of up to R5 000 or two years jail, or both. — Sapa.

Star 23/5/84 (320)

More secrecy proposed in new tax Bill

A stricter secrecy clause, carrying a fine of up to R5 000, has been proposed for the Income Tax Act in a Bill tabled in Parliament yesterday.

A memorandum attached to the Income Tax Bill said the new clause would prohibit the publication or making known to any person other than an officer of Inland Revenue of the "contents or tenor" of any instruction or advice given by the Commissioner for Inland Revenue in the performance of his duties concerning the examination or investigation of the tax matters of an individual.

COURSE OF DUTIES

Nor would it be permissible to reveal that any such instruction or advice had been given "or any information concerning the tax matters of a taxpayer or class of taxpayers".

This sub-section supplemented the existing provisions of the Act which provided for secrecy to be observed by such officers on information coming to their knowledge in the course of their duties.

However, a taxpayer affected by any examination of his tax matters would be free to make known any information concerning his tax matters. — Sapa.

State taken to task for crippling tax burden

ARGUS 25/5/89

320

By MICHAEL MORRIS
Parliamentary Staff

BELEAGUERED pensioners and taxpayers were at the centre of debate on tax legislation in which opposition MPs sharpened their criticism of the government's "excessive" taxation and economic "mismanagement".

In what amounted to early election campaign engagements, the Conservative and Democratic parties took the government to task in debate on two money Bills — the Taxation Laws Amendment Bill and the Income Tax Bill — claiming that taxpayers in general and the elderly in particular were suffering because of National Party policy.

Deputy of Minister of Finance Dr Org Marais's remark a week ago that whites were no worse off today than 20 years ago, haunted him again as MPs tossed it back into the fray.

Basically sound

But the government struck back, saying the elements of a Budget praised earlier in the year by experts and recognised as basically sound by the opposition was now being attacked by MPs who had their eye on the election.

Mr Brian Edwards (NP, Maritzburg South) said there was "general favourable comment" when the Budget was presented, but now attitudes had changed.

Mr C L Fismer (NP, Rissik) said the government's separate tax package for married women would effectively cost R139-million, and tax "discounts" for senior citizens amounted to R23-million.

Dr Marais insisted policies reflected "the government's concern at the plight of elderly persons".

But Conservative Party finance spokesman Mr Casper Uys accused the government of increasing GST because it had "a cash flow problem" and that, as a result of the National

Dr Org Marais

Mr Casper Uys

Party's "overspending" the country was "overtaxed".

He said: "The average person is not in a position to save money and the little he does save is taken up in tax."

In a statement later, the Conservative Party said it "deplores the National Party's callous disregard for the human dignity of our elderly citizens" who had to "survive on a monthly pittance".

Democratic Party finance spokesman Mr Harry Schwarz — who said the elderly were being "neglected" — delivered a nine-point indictment of government policy.

South Africa was being "overtaxed"; money was not being used for "necessary" purposes; there was "inefficiency" in the administration of the country; services were "duplicated"; there was "confusion about government policies"; too much was spent on "apartheid institutions" which even the government acknowledged would have to go; there was "frustration" at the government's failure to implement tax reform; there was "fury" among the public at being told they were no worse off than 20 years ago "when they are struggling to maintain reasonable standards of living"; and it was clear there were "inadequate measures to control inflation".

He pointed out that 10 years ago, income tax accounted for 15 percent of State revenue. Last year it accounted for 30 percent. Ten years ago, GST accounted for 12 percent of total revenue, while last year it was 30 percent.

State taken to task for crippling tax burden

ARGUS 25/5/89

320

By MICHAEL MORRIS
Parliamentary Staff


Dr Org Marais Mr Casper Uys

BELEAGUERED pensioners and taxpayers were at the centre of debate on tax legislation in which opposition MPs sharpened their criticism of the government's "excessive" taxation and economic "mismanagement".

In what amounted to early election campaign engagements, the Conservative and Democratic parties took the government to task in debate on two money Bills — the Taxation Laws Amendment Bill and the Income Tax Bill — claiming that taxpayers in general and the elderly in particular were suffering because of National Party policy.

Deputy of Minister of Finance Dr Org Marais's remark a week ago that whites were no worse off today than 20 years ago, haunted him again as MPs tossed it back into the fray.

Basically sound

But the government struck back, saying the elements of a Budget praised earlier in the year by experts and recognised as basically sound by the opposition was now being attacked by MPs who had their eye on the election.

Mr Brian Edwards (NP, Maritzburg South) said there was "general favourable comment" when the Budget was presented, but now attitudes had changed.

Mr C L Fismer (NP, Rissik) said the government's separate tax package for married women would effectively cost R139-million, and tax "discounts" for senior citizens amounted to R23-million.

Dr Marais insisted policies reflected "the government's concern at the plight of elderly persons".

But Conservative Party finance spokesman Mr Casper Uys accused the government of increasing GST because it had "a cash flow problem" and that, as a result of the National Party's "overspending" the country was "overtaxed".

He said: "The average person is not in a position to save money and the little he does save is taken up in tax."

In a statement later, the Conservative Party said it "deplores the National Party's callous disregard for the human dignity of our elderly citizens" who had to "survive on a monthly pittance".

Democratic Party finance spokesman Mr Harry Schwarz — who said the elderly were being "neglected" — delivered a nine-point indictment of government policy.

South Africa was being "overtaxed"; money was not being used for "necessary" purposes; there was "inefficiency" in the administration of the country; services were "duplicated"; there was "confusion about government policies"; too much was spent on "apartheid institutions" which even the government acknowledged would have to go; there was "frustration" at the government's failure to implement tax reform; there was "fury" among the public at being told they were no worse off than 20 years ago "when they are struggling to maintain reasonable standards of living"; and it was clear there were "inadequate measures to control inflation".

He pointed out that 10 years ago, income tax accounted for 15 percent of State revenue. Last year it accounted for 30 percent. Ten years ago, GST accounted for 12 percent of total revenue, while last year it was 30 percent.

Tax proposals might cause marital friction

CAPE TOWN — In terms of new tax proposals wives would not have to tell their husbands what they earned, Brian Edwards (NP Maritzburg South) said today. (320)

During the first reading debate of the Income Tax Bill he said: "I'm not that sure that's such a good thing."

Chris Fismer (NP Rissik) said government was a "friend" of married couples in SA because it had relieved taxes on married women by R139m in the current budget.

Supporting the first reading of the Income Tax Bill, which incorporated measures announced in the Budget, Fismer said pensioners had also received tax discounts of R23m. He doubted whether this would be appreciated by Opposition spokesmen and media. — Sapa.

320

Expert tells of dramatic drop in disposable income

Marais 'out of touch with economic realities' in SA

BDay 25/5/89

CAPE TOWN — Deputy Finance Minister Org Marais is out of touch with harsh realities if he thinks South Africans are no worse off today than they were 20 years ago, says Stellenbosch University's Bureau for Economic Research director Ockie Stuart.

He says Marais's claim is invalidated by hard facts.

One way of showing how much worse off the average South African was today, was to look at the dramatic decline in real disposable income, a process which started in the 1970s and had continued unabated.

Real disposable income (RDI) was total individual income after tax and allowing for inflation.

From 1960 to 1969 RDI increased by 2,2% a year. From 1970 to 1979 it increased by only 1,5% a year and from 1980 to 1988 RDI actually decreased by 0,5% a year. This meant that from 1976 to 1988 RDI declined by 0,6% a year.

Stuart said these figures were based on Reserve Bank statistics.

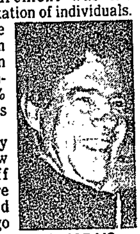
Another accurate measurement of a country's wealth was its gross domestic product (GDP).

"GDP by definition reflects the wealth of a country. If it increases at a rate less than the population growth, this indicates a process of impoverishment."

Stuart said that from 1960 to 1969 the per capita GDP increased by 3,5% a year. From 1970 to 1979 it again showed an increase but this time only of 0,8% a year and from 1980 to 1988 it declined by 0,6% a year.

From 1982 to 1987 per capita GDP decreased by 1,5% a year.

Another measurement was the growth in direct taxation of individuals.



MARAIS

In the 1960s the annual growth in taxes was 12,2%, in the 1970s this increased to 16,2% and in the 1980s swelled to 22,8%.

Yet another way of illustrating how much worse off South Africans were today compared with 20 years ago was to compare local trends with what had happened in other countries.

Since 1983 prices in SA had risen 100%. In New Zealand they had increased by 48%, in Great Britain by 27%, in West Germany by 6% and in Japan by 5%.

One commentator said that to find price increases comparable to those experienced in this country one would have to go to the banana republics of South America.

"South Africans have grown so accustomed to rapidly rising prices that they have stopped asking why this is happening to them. However, they should ask questions because the high rate of inflation is keeping them poor and, if continued, could possibly bankrupt them."

In contrast to SA, Britain was becoming one of the cheapest countries in the world, according to a survey published to guide international companies on cost of living allowances for employees sent overseas.

The survey by Employment Conditions Abroad Ltd showed that between 1980 and 1988 the cost of purchasing a shopping basket of essential items had increased by about 60% in Great Britain as opposed to 92% in Western Europe as a whole.

In SA the cost of food had escalated by 1 000% in the past 17 years. Motoring costs were on a par and property and rent were not far behind. These figures were based on statistics supplied by the government's Department of Statistics.

According to the Automobile Association, it cost 7,3c/km to run the smallest car in 1972 while today it cost 50c/km.

While in 1972 there were at least half a dozen cars that sold for less than R2 000, the cheapest car cost a little under R20 000 today. — Sapa.

WEDNESDAY
May 24 1989
Johannesburg

44c + 6c GST
Natal and Cape
53c + 7c GST

The Sta

South Africa's largest daily newspaper.
Established 1887.

Taxpayers may foot the bill as a result of toll cuts

Political Correspondent

CAPE TOWN — The whole toll tariff structure would have to be re-negotiated with the toll consortiums following yesterday's announcement of cuts in the toll tariffs, government sources confirmed today.

They said taxpayers might have to foot the bill for the Government's decision yesterday to slash tolls on existing roads.

News of the likelihood that taxpayers might have to foot part of the bill for the toll companies Tolcon and Tollway brought a sharp reaction today from Democratic Party finance spokesman Mr Harry Schwarz.

He said it seemed too much of a coincidence that tolls were being cut now just as the election campaign started.

"I want to know what the position is going to be after the election. Are we going to see an increase in tolls?"

Government sources said today the reduction of tolls on the Mooi River Plaza and the Grasmere Plaza would mean a restructuring of toll tariffs.

320

If this meant that the companies would suffer a financial loss compared to the original contract, there was a possibility that the Government, and therefore ultimately the taxpayer, might have to make up the difference, a Department of Transport source said.

● See Page 3.

Star 24/5/89

FCI, Seifsa express. . .

Concern over surcharge amendments

Cape Times 26/5/89

320

By BRUCE WILLAN

CONCERN over the government's ad hoc economic policy measures introduced recently has been expressed by the SA Federated Chamber of Industries (FCI) and the Steel and Engineering Industries Federation of SA (Seifsa).

Following written representations to the authorities in regard to the recent surcharge amendments, a highl-level joint delegation of FCI and Seifsa held discussions with the Minister of Economic Affairs and Technology, Danie Steyn, on Wednesday.

The delegation stressed that there is a sense of uncertainty in industry and a tax on imported capital equipment necessary for domestic industrial expansion would have a detrimental affect on SA's international comparative advantages.

In a statement issued by FCI yesterday, it said that the recent surcharge amendments may appear to be a reduction when compared with the original surcharge introduced in August of last year.

But because of the relative ease and the method used in granting exemptions implied a de facto 0% rate was applied in most cases.

The increase in accordance with the latest amendments, is then 15% according to the FCI, and in effect a tax on input.

While the FCI is sympathetic towards the government's predicament, it maintains that the surcharges are a short-term measure aimed at stabilizing the balance of payments situation but at the same time it is stiffling progress on expansion programmes which may be related to either import replacement and/or possible export of value added goods.

In an article published by the Cape Times on Wednesday, Minister of Finance Barend du Plessis explained that SA cannot afford to import machinery and appealed to industry to postpone importations.

However, this could be very expensive and may lead to a decline in business confidence.

The FCI has also pointed out that exceptions to the surcharge should ideally be based on net foreign exchange usage over a period of time and the degree of local value added to export products.

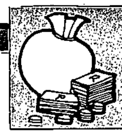
This it believes will add the incentive to replace imports and boost exports — and thereby reducing the foreign exchange burden.

However, the savings are only realized after some time and the action taken now by the authorities is designed to take immediate effect.

The delegation indicated that Steyn would consider the representations made by FCI and Seifsa.

A meeting with Barend du Plessis is scheduled to take place in June.

DU TOIT ON TAX



One message

Pierre du Toit is an international partner at Arthur Andersen

320
Finmail
26/5/89

In the affairs of State or society, it often pays to stand back from the specific and look for some pattern of general significance. In the spate of Revenue announcements, press statements and the like over the past months, there is indeed such general significance — it is a tangible manifestation that in the tax business not only the Indians, but very much the chiefs, too, are getting restless.

For those who doubt this, a brief listing of developments since November (note — which covers the supposed "festive" season!) may be instructive:

☐ **November 23** — an announcement is gazetted that the limitation of applicable capital allowances on leased plant, aircraft and so on will be extended to hotel allowances;

☐ **December 22** — Finance Minister Barend du Plessis announces official discomfort taxwise at certain, rather vaguely described, financial arrangements;

☐ **February 20** — a press release from the Commissioner's office announces draft legislation in part implementation of the intentions expressed on December 22 (the "preference shares" amendment and the proposed insertion of a Section 103(5));

☐ **March 8** — a press release (joint ministries of finance and economic affairs) announces, through draft legislation, a restriction on the amount of the marketing allowance claim. New (non-tax) export incentives are also announced;

☐ **March 23** — in a further press release, the amendments envisaged on February 20 are amended drastically (mercifully, though not sufficiently) in a sort of "pre-natal" surgery;

☐ **April 14** — a press release (Commissioner's office) announces tables to increase the value of privately used company cars;

☐ **April 14** — a separate press release (Commissioner's office) announces a government notice in terms of which the "prescribed rates" are increased. Debtors of Revenue will now pay interest at 18% (previously 15%); creditors will receive only 14% (previously 12%). Note that this increases the "Big Bully Differential" from 3% to 4%!;

☐ **April 14** — a separate press release (Commissioner's office) announces a government notice which increases the official rate for fringe benefit loan purposes from 13% to 16%;

☐ **April 17** — a press release (joint ministries of finance and economic affairs) announces another "pre-natal" amendment, this time to the draft legislation concerning the proposed marketing allowance restriction first announced on March 8 1989; and

☐ **May 5** — reintroduction of a 10% corporate loan levy by way of negotiable certificates is announced.

Ten major announcements in less than six months (plus the Budget, unannounced matters in this year's tax legislation, and "minor" issues like surcharge rate cuts and loss of exemptions) must tell several stories.

But I highlight the one dominant message.

The time for tax planning through opportunistic (and often suspect) little off-the-shelf schemes, ranging from third-rate movies to bleary-eyed breeding stock is over — management *must* learn to *manage taxes* within a business, with proper reviews of its current tax profile, proactive planning disciplines, management controls in the tax area, tax training needed internally and — very important — the reliability and effectiveness of the ever more burdensome, but vital, tax administrative function.

May 25 1989

Opposition MPs fire early election salvoes

Govt spending and taxation under fire

320 Star 25/5/89

Parliamentary Staff

Beleaguered pensioners and taxpayers were yesterday at the centre of a debate in which opposition MPs sharpened their criticism of the Government's "excessive" taxation and economic "mismanagement".

In what amounted to early election campaign engagements, the Conservative and Democratic parties took the Government to task in debates on two money Bills — the Taxation Laws Amendment Bill and the Income Tax Bill.

Tossed back

They claimed that taxpayers in general and the elderly in particular were suffering because of National Party policy.

The recent remark by Deputy Finance Minister Dr Org Marais that whites were no worse off today than 20 years ago was tossed back into the fray.

But the Government struck back, saying the Budget praised earlier in the year by experts and recognised as basically sound by the opposition was now being attacked by MPs with an eye on the election.

Mr Brian Edwards (NP, Maritzburg South) said there was favourable comment when the Budget was presented, but now attitudes had changed.

Mr C L Fismer (NP, Rissik) said the Government's separate tax package for married women would effectively cost R139 million, and tax "discounts" for senior citizens amounted to R23 million.

Conservative Party finance spokesman Mr Casper Uys said that as a result of the National Party's "overspending" the country was "overtaxed".

Democratic Party finance spokesman Mr Harry Schwarz — who said the elderly were being "neglected" — delivered anindictment of Government policy.

- South Africa was being "over-taxed", money was not being used for "necessary" purposes.
- There was "inefficiency" in the administration of the country, services were "duplicated".
- There was "confusion about government policies", too much was spent on "apartheid institutions" which even the Government acknowledged would have to go.
- There was "frustration" at the government's failure to implement tax reform.
- There was "fury" among the public at being told they were no worse off than 20 years ago "when they are struggling to maintain reasonable standards of living".
- There were "inadequate measures to control inflation".

He pointed out that 10 years ago, income tax accounted for 15 percent of State revenue. Last year it accounted for 30 percent. Ten years ago, GST accounted for 12 percent of total revenue, while last year it was 30 percent.

ing employees. — Sapa

CAPE TIMES 23/5/87

Minister on tax evaders

(320) 1986

BISHO. — The children of parents who failed to pay taxes should not be allowed at school and communities which failed to pay taxes should not be supplied with social necessities, the Ciskei Minister of Public Works, Chief D M Jongilanga, said on Monday.

During debate of the budget speech in the National Assembly, he also said tax defaulters should not be attended to at police stations.

SPV 29/5/87 (320)

Certificates delay leads to tax extension

Pretoria Correspondent

An extension to July 14 has been granted to taxpayers who are unable to submit their income tax returns by the June 6 deadline because of a delay by their employers in the issuing of employees' IRP 5 tax certificates.

A spokesman for the Commissioner for Inland Revenue said the extension did not represent a general extension for all taxpayers and was "merely a concession to those taxpayers who could not obtain their certificates".

He said the extension had been granted because a considerable number of employers were experiencing problems in issuing IRP 5 certificates.

Many requests for an extension had already been received because the IRP 5 certificate was required for tax returns.

It had been decided, therefore, that no steps would be taken before July 14 against taxpayers who were unable to submit their returns by June 6 because of a delay in the issuing of certificate.

The spokesman said taxpayers who were not in a position to submit their income tax returns by July 14 would have to apply in writing to their local Receiver of Revenue for an extension to prevent a penalty being imposed for the late submission of their return.

● See Page 6M.

Taxman's deadline often impossible to meet

(320) May 29/5/89

By Carol Midgley

Inland Revenue is urging taxpayers to present their returns before the June 6 deadline, but public sector workers claim they can't because of Government delays.

And the problem is compounded when married employees such as nurses and teachers delay the completion of their husbands' tax returns because of incomplete data.

Nurses employed by the province claim that they have not received their IRP5 forms before August for 20 years.

And teachers say it is often July before they receive theirs, which often leads to an impatient wait for refunds.

The Receiver of Revenue's office in Johannesburg explained: "If people know there will be a delay in receiving their IRP5s, they must apply for an extension.

"There is no problem with this, we are used to it. Every year public sector departments and large companies are delayed so we have to make special arrangements."

He added: "Anyone who is still having trouble filling in their tax returns should come to any of our regional offices where we will assist them."

(320)

Extension in tax deadline

AN extension to July 14 has been granted to taxpayers who are unable to submit their income tax returns by the June 6 deadline because of a delay by their employers in the issuing of employees tax certificates (IRP 5).

However, the extension does not represent a general extension for all taxpayers and it is "merely a concession to those taxpayers who could not obtain their certificates," a spokesman for the Commissioner for Inland Revenue said.

Problems

The spokesman said the extension had been granted because a considerable number of employers were experiencing problems in issuing IRP 5 certificates in time to meet the deadline.

Many requests for the extension of the time to submit returns had already been received because the IRP 5 certificate was required for the submission of income tax returns, he said.

The spokesman said it had been decided that no steps would be taken before July 14 1989 against taxpayers who were unable to submit their returns by June 6 because of a delay in the issuing of IRP 5 certificates.

320

Ergo chief welcomes tax proposals

Finance Staff

Recent recommendations by the Marais Committee on Taxation should benefit most mines and provide a more favourable climate for investment in new gold mines, says Peter Gush, chairman of East Rand Gold & Uranium (Ergo).

He says in the group's annual report that the most important of the recommendations is that the average effective tax rate applicable to gold mines should be equivalent to that imposed on other industries.

"Provided profit margins do not deteriorate significantly, the implication for Ergo is that the rate of tax should be slightly lower," he says.

On Ergo's financial performance, he says the company had another good year, with profit available for distribution increasing 32 percent to R65,5 million.

Peter Gush

"Record levels in the production of gold and acid were achieved at 11 992 kilograms and 542 000 tons respectively, while uranium oxide production was 10 percent higher than the previous year at 180 tons.

"This increased production, coupled with an eight percent increase in the gold price to R32 148 per kilogram, resulted in turnover rising by 21 percent to R451,3 million.

"However, the gold price increase was, for the second successive year, lower than the general rise in working costs," he says.

Mr Gush says that despite this further narrowing of profit margins, the higher production levels resulted in operating profits increasing R24,3 million to R133,4 million.

"The low and erratic grades of the underground ore-reclamation section at Simmergo, coupled with increasing labour costs, led to the closure of this operation in August 1988.

"The majority of the workforce opted for a severance package, rather than re-employment with associated companies," he says.

"This closure has led to lower overall grades at Simmergo, although unit costs have declined by 10 percent," he says.

In order to ensure a quicker return on the initial investment and because most of the higher-grade reserves are located closer to the plant, the company has followed a policy, established at the start of operations, of treating higher-grade reserves first.

As a result of the policy, the in situ gold value of the slimes delivered to Ergo has declined steadily from 0,80 grams per ton at the start of operations in 1979 to the present 0,56 grams per ton and 0,53 grams per ton expected next year.

"This decrease in grade will continue at all divisions as higher grade reserves are depleted, and efforts will continue to be made to counter the effect of the lower grades by improving gold recoveries," Mr Gush says.

Cape Times 30/5/89 (320)

PW's salary and pension are tax-free

Own Correspondent

JOHANNESBURG. — President P W Botha does not pay tax on his salary — unlike leaders in the United States or Britain.

As most citizens struggle to file tax forms before the June 6 deadline, Mr Botha and his wife Elize enjoy exemption under Section 10(1)(c) of the Income Tax Act.

Further, once retired, the president's pension, and that subsequently paid to his widow, remain tax-free.

However, any income from their investments or property will attract tax, Ernst & Whinney partner Mr Ken Walton says.

Bureau for Information figures reveal Mr Botha earned R173 811, including R35 379 in allowances, which were also tax-free, last year. Whereas a top executive may earn almost double this, after tax his net earnings will be in line with the president's.

Mr Walton says it is difficult to assess the wealth of the president as his income never comes under public scrutiny.

However, in the US, where the president is probably the most highly-paid of all world leaders — earning $200 000 (about R536 000) a year — his income tax returns can be published.

Mr Walton explains that under the Freedom of Information Act in the US, Americans are entitled to demand a wide variety of information from government about their country — including publication of their president's income tax return.

The Reagans' published tax returns for the year ended December 1987 shows their largest asset to be a ranch in California. The remainder of Mr Reagan's income was derived from trust funds set up in 1981 when he had to realise his share investments prior to inauguration as president.

In the UK, the only person excluded from tax is the queen. The prime minister, Mrs Margaret Thatcher, who is entitled to a salary of £63 000, (about R277 200), has in the past few years declined pay rises and draws the same salary as her cabinet ministers of £51 000 (about R224 200) a year.

State of emergency censorship restrictions apply to a wide range of reporting, comment and

President's perk: no tax worries for PW

KAY TURVEY

WHILE most South Africans are battling to complete their income tax returns before the June 6 deadline, President P W Botha and his wife Elize can relax.

Unlike leaders in the US and Britain, the President does not have to pay tax on his salary. He enjoys an exemption under Section 10(1)(c) of the Income Tax Act.

And when he retires in September, his pension will also be tax free, as will any pension subsequently paid to his wife.

However, any income from their investments or property will be taxable, says Ernst & Whinney partner Ken Walton.

Bureau for Information figures show Botha earned R173 811, including R35 379 in allowances, tax free last year.

Whereas a top executive may earn almost double this, after tax, his net earnings will be in line with the President's.

Walton says it is difficult to assess the wealth of the President as his income never comes under public scrutiny.

However, in the US, where the president is probably the most highly paid of all world leaders, earning $200 000 or about R536 000 a year, his income tax returns can be published.

Ronald and Nancy Reagan's published tax return in December 1987 showed their largest asset as his ranch in California.

In Britain, the only person excluded from tax is the queen. Prime Minister Margaret Thatcher, who is entitled to £63 000 a year, has recently declined pay rises and draws the same salary as her Cabinet Ministers — £51 000 a year.

Other members of the royal family pay taxes, though Prince Charles has that portion of his income earned from the Duchy of Cornwall tax free.

STAR 30/5/89

320

Tax eats into TML profits

(320)

Tax has eaten into Times Media Limited's (TML) profit for the year to March, with the bottom line showing a decrease on the previous financial year.

While pre-tax profit was up at R37,8 million (R26,8 million), the taxed figure was R25 million (R26,8 million).

TML says all estimated tax losses were brought forward and used in the year, which gave it an effective tax rate of 34 percent.

The group says it will have to pay full corporate tax rate in future.

Earnings per share were down at 1 246c (1 335c). A final dividend of 300c (200c) has been declared, bringing the total to 450c (300c).

Turnover rose 17 percent, mainly as a result of higher advertising tariffs and cover prices. This converted into a 40 percent rise in operating profit.

Investment income rose 47 percent as a result of higher interest rates on large amounts of surplus cash, partially offset by a reduction in dividends from Robinson & Co.

The interest charge of R1,179 million (R886 000) included a charge of R1,063 million (R791 000) on the shortfall in capital contributed to the joint operations with Argus Printing & Publishing.

The shortfall of R7,1 million (R6,9 million) is not reflected as a liability because the company is not obliged to reduce it. Star 30/5/89

The group continues to be in a strong financial position, with surplus funds of R42,7 million (R21,1 million).

About R26 million of the surplus is earmarked for payment of the final dividend, tax and the settlement of the purchase price of publishing businesses and titles acquired recently.

The board has decided on a 10-for-1 share split. — Sapa.

BUSINESS

TAXATION

ARGUS 1/6/89

Direct tax to go up 20 pc — Volkskas

320

By TREVOR WALKER
Business Staff

DIRECT tax is expected to increase by more than 20 percent this year and little significant drop in the inflation rate is likely, Volskas Bank says in latest Economic Spotlight.

The bank says the recent budget did little to neutralise the impact of inflation and the Minister of Finance will probably make an inflation adjustment next year if the new VAT tax system is introduced to replace GST.

It said the outlook for the rand on the international currency markets was very difficult to forecast as interest rates and the exchange rate could be regarded as the shock absorbers for the economy against expected and unexpected potholes in the road.

Should a trend in the economy be different to what was expected, or if international growth of prices deviated strongly or if some important political development took place in South Africa or abroad — this could all result in large unexpected fluctuations in the interest rate and exchange rate.

However, the real economy was to a large extent protected against the worst bumps in the road.

The bank believed that following the various tighter economic measures undertaken by the authorities interest rates did not need to be raised further.

But it said bearing in mind the still high inflation rate and the continuous net outflow of capital via the balance of payments, large drops in interest rates could hardly be anticipated nor afforded.

However, on the flipside, internationally, a wave of interest rate increases was making itself increasingly felt.

If this was extensive, South Africa would have no option but to raise interest rates yet further.

50% tax leap if VAT replaces GST — Ackerman

(320)

B/Day 11/6/87

CAPE TOWN — Consumers will pay about 50% more in tax if GST is replaced next year by a value added tax (VAT) based at 13% or 15%, Pick 'n Pay chairman Raymond Ackerman said yesterday.

At the company's annual meeting here he appealed to government not to introduce VAT at those levels, but to reduce it substantially, as VAT would be added on to foodstuffs.

Ackerman said Pick 'n Pay wanted to be able to lobby government to bring VAT down to 9% or 10%.

"GST works out at only about 9% because many foods are excluded. To bring VAT on at these rates will add roughly 50% more.

"It would be highly inflationary and absolutely wrong," he said.

Ackerman said as part of the fight against inflation he had called for a Supermarket Institute, like the US Food Marketing Institute, to fight primarily on four fronts:

- Lobbying government on anything that affected the consumer;
- Aggressively fighting collusion by monopolies or cartels;
- Sharing knowledge with other supermarket companies of their operations to try and improve efficiency and technology; and
- As a supermarket industry, to try and prevent international manufacturers from disinvesting as a collective voice — "and not just myself talking to American companies".

Inflation was really getting serious, he added. "If we hammer these four areas we will play a significant role in the country.

"But as competitors we will continue fighting each other tooth and nail on prices."

This year had shown it was tough. "Consumers are definitely spending less, more selectively." — Sapa.

TIMES MEDIA 320

Taxing time

FMail 2/6/89

There are several ways a company can provide for a future tax liability. One is to make tax provisions and only calculate EPS after this deduction. Another consists of keeping a high dividend cover and, though EPS may drop when tax starts, dividend growth may be maintained.

Times Media (TML) took the second course. As a result, in the year to March,

320 FMail 2/6/89

TML'S TAX BITE

Year to March 31	1988	1989
Turnover (Rm)	154	181
Pre-tax profit (Rm)	26,8	37,8
Attributable earnings (Rm)	26,8	25,1
Earnings (c)	1 335	1 245
Dividends (c)	300	450

dividends rose 50% on a decline in EPS of 7%. Cover was 4,5 times for the 1988 year, but fell to 2,8 times (2,1 at a full tax rate) and in future will be around two, says financial director Lawrence Clark.

It is only EPS and cover that fell. Turnover climbed 17% and, with a rise in margins from 15,4% to 18,3%, operating income leapt 40%. Interest income was boosted by higher rates and a doubling of the cash pile from R21,1m to R42,7m. Clark, however, points out that it is not as big as may appear — R26m is earmarked for tax payments (R13m), dividend payments (R6m) and amounts outstanding on acquisitions already announced (R7m).

Another acquisition may be in the air. TML has put out a cautionary announcement, which, according to market rumour, could refer to Thomson Publications, but Clark refuses to comment.

Investments rose from R14,8m to R20,3m last year following an increase in the M-Net investment, the purchase through the market of 26% of listed Dispatch Media, and a further contribution to the joint printing operation with the Argus group.

Towards year-end, TML acquired *Wiel* and *Transport Management*. *MIMS* and *Computaform* were bought with effect from April 1. As two other magazines, *People* (now breaking even) and *The Executive* (still making a start-up loss) were launched in the past two years, investors may wonder whether the group is not expanding back into the same problems it had just solved.

Clark says not: "We now have control of all our investments, which was not the case before, and they are mainly specialist niche marketing magazines. We want to expand those not reliant on advertising revenue for profits, which would add balance to our present businesses."

Another reason for TML's previous problems was an excessive number of assets, solved by selling some and forming joint operations with Argus. The rise in fixed assets from R7m to R13m is not a policy reversal, but the purchase of a fax system to replace a 15-year-old machine used to send *Sunday Times* material to Cape Town, Port Elizabeth and Durban.

The share price of R57 has put TML out of reach for a number of investors and the board has decided to split the shares 10 ways. "This won't induce large holders to sell," says Clark, "but should make the share more tradeable than last year, when only 17 500 were traded of a total issued 2m."

MD Steve Mulholland is fairly conservative in his forecast. He says competition is expected to intensify and thinks earnings will reach a plateau, but acquisitions will add impetus to the bottom line. Clark is cagey about how much they are expected to add to EPS, but is emphatic that they will earn more than the equivalent cash would have.

With current interest rates, this suggests a very high rate of return. M-Net is the exception again. Though doing well, it is not expected to start paying dividends this year.

It is unlikely that dividend payments will grow 50% again this year. But with even a small real increase, the forward dividend yield on the current price is around 9% — cheap for a company with such a strong balance sheet.

Pat Kenney

State policies are causing heartache to homeowners

Star 3/6/89 (320)

FRANK JEANS

A LEADING estate agent has slammed the Government for causing constant upheavals in the property market which cause heartache for homeowners.

Mr Scott McRae, managing director of Camdon's Nationwide, blaming Pretoria for the wild fluctuation in interest rates and tax policies, which he sees as discouraging homeownership, said: "There was a time when South Africa was almost a tax haven. Today the middle-class South African is carrying a disproportionate tax burden and is among the most heavily taxed individuals in the world.

"He is further disqualified from the benefits of tax allowances on his bond rate, such as those enjoyed in Britain.

"The housing industry might well be forgiven for believing that the Government is determined to turn South Africa into a nation of vagabonds without any fixed property."

He compared the South African situation to the "economic miracle" of Britain under Mrs Margaret Thatcher, which encouraged property ownership — creating a broad base of wealth and employment opportunities.

"In South Africa, we appear to have a 'couldn't-care-less' attitude towards home ownership.

"Little is done to encourage home ownership other than a meagre subsidy, which in any event is long overdue for upward revision."

Mr McRae sees a strategy to remove all the boom-and-bust conditions in the housing market:

- A forum to thrash out an overall blueprint for the industry.
- Adherence to a policy of strict ceilings on bond rates, irrespective of the overall pattern of interest rates.
- Allowances on mortgage payments, or at least the interest portion, for tax purposes.
- Maximum bond repayment periods to be 35 years as a standard policy.
- Release of the vast pool of insurance funds into the domestic housing market.
- Reduction on statutory transfer fee costs, a portion of which is tax.
- A scientific inquiry into non-traditional building methods via the agreement system, so opening the way to wider use of less expensive building materials.
- An adjustment to the rule-of-thumb system that bond repayments must not exceed 25 percent of salary.
- Elimination of bottlenecks in the land proclamation process, which continue to hold up developments and push up holding costs.
- Elimination of over-regulation of the industry, such as that being experienced in retirement village developments, the result of which will see prices rise drastically.

"At present, there is a total lack of overall planning for the property industry," says Mr McRae. "It is simply allowed to drift from boom-to-bust along with the rest of the economy."

● Illovo's magnificent four — each sold for R1 million. See today's PROPERTY GUIDE.

Today is D-day for tax returns

By Helen Grange 328

Star 6/6/89

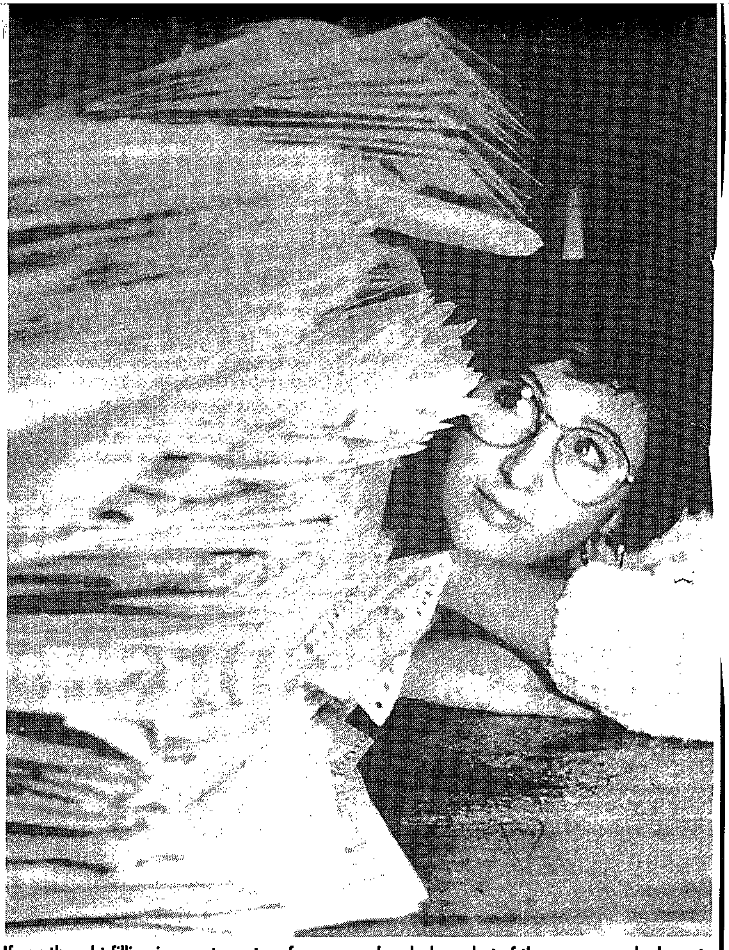
Today is the deadline for the submission of income tax returns by taxpayers who have received their IRP5 tax certificates.

However, according to the Department of Inland Revenue, taxpayers who have not yet received their IRP5 certificates have until July 14 to submit their tax returns.

Mr Schalk Albertyn, chief director of operations at the Department of Finance in Pretoria, has warned that this does not represent a general extension for all taxpayers, but merely a concession to those taxpayers who could not obtain their tax certificates on time.

Those taxpayers who will not be in a position to render their tax returns on July 14 will have to apply in writing to their local receiver of revenue for an extension to prevent a penalty being imposed for the late rendition.

Employers who are still experiencing difficulties in complying with the revised procedures for the issue of employees' tax certificates, should approach their local receiver of revenue for assistance.



If you thought filling in your tax return form was a headache, what of the assessors who have to process them. After yesterday's deadline for 1988/89 returns, Ms Marika la Cock of the Johannesburg Receiver of Revenue's office had difficulty looking enthusiastic.

● Picture by Stephen Davimes.

Mixed response to tax forms

Staff Reporters (320)

Taxpayers have responded well to the new tax return forms introduced in February this year, the Johannesburg Receiver of Revenue office says. Star 7/6/89

The new form, although it includes more questions than the old form, is easier to follow because of colour highlights.

The new form also sports a different, more presentable lay-out and design. Questions on the old form which proved to be problematic have been made clearer.

"We have had no complaints and people seem to be coping well with the new forms," said a spokesman in the receiver's office.

The spokesman attributed the fact that scores of taxpayers are making use of the free service offered by local receiver's offices — to "laziness".

"These forms require a bit of time and energy, and a lot of people would rather let someone else do it. Our offices have had their staff supplemented in the past few days to cope with the demand for help," he said.

However, not all the taxpayers who thronged the receiver's Johannesburg office to beat the deadline yesterday shared the taxman's enthusiasm about the new form.

Mr Roger Jervois of Johannesburg felt he was being manhandled by government bureaucracy. "The civil servants are acting like civil masters", he complained. "Why did they make the form so difficult when it was so simple?"

Some taxpayers complained of a "raw deal".

"Only legal dependents can now be claimed for, and not simply dependents as in the past," said Mr Andries Seriri of Soweto.

"This tax system is ideal for the first world, not the third," said Mr Seriri.

The taxpayers were not the only ones under pressure yesterday. One assessor had handled 191 forms in seven hours of solid work.

"I haven't had time to fill in my own tax form," he said. "I'll have to ask for an extension".

320

TAX 320 Fmail 9/6/89

By two

The latest move to make marriage less of a financial hazard is a concession in the Income Tax Bill, to be promulgated soon, which increases deductible retirement annuity (RA) contributions for a married couple where the wife is subject to Site.

Previously husband and wife could each deduct the greater of:

- ☐ 15% of his or her non-retirement funding taxable income (income received which is not pensionable); or
- ☐ R1 750 less his or her pension fund contributions; or
- ☐ R875.

Any unused portion could be transferred to the other spouse.

Under the new legislation, the husband can deduct the greater of:

- ☐ 15% on non-retirement funding taxable income; or
- ☐ R3 500 of his allowable pension fund contributions; or
- ☐ R1 750.

The wife can deduct the greater of:

- ☐ 15% of non-retirement funding taxable income; or
- ☐ R1 750 less her allowable pension fund contributions; or
- ☐ R875.

In addition, a married woman will no longer have to receive a directive from the Receiver of Revenue before she can lower her monthly Site tax. She has only to provide proof of RA contributions to her employer, who adjusts her Site tax.

"The Receiver had to change the ruling because his office underestimated the number of women who contribute to RAs and couldn't cope with the applications for directives," says Old Mutual tax specialist Lizette Labuschagne. "The Site system has reduced the administration burden for the Receiver and put it on the employer."

However, the fact that a married woman has only half the RA deduction of her husband demonstrates the system is still far from true separate taxation. Though a married woman subject to Site is a separate taxpayer, her husband still has to submit a copy of her IRP5 with his tax form.

Women with their own businesses, working for their husbands, with investment income or earning anything other than remuneration are not regarded as separate taxpayers and not entitled to their own RA deduction. "It is ironic that self-employed women who cannot join pension funds are not allowed to provide for retirement in a tax-efficient manner," says Labuschagne.

They have to submit all their earnings on the tax form of their husband, who is deemed the joint taxpayer. ■

Major tax boost for married couples

320

Star 10/6/89

Major SITE tax concessions for married couples through higher retirement annuity deductions are to be introduced soon.

The proposals, which are contained in this year's Income Tax Bill, effectively mean lower tax for thousands of South African women and their husbands who take advantage of the increased retirement annuity deductions.

The benefits will flow indirectly from a streamlining of the SITE tax system which, while assisting tax payers to provide for their retirement, gives Inland Revenue substantial cost savings.

Site specialist for a leading assurance company Lizette Labuschagne says Inland Revenue is to be congratulated on the suggested improvements.

"While further key changes must still be made to the system to give married women a fairer deal the latest amendments are a significant step towards more equitable taxation."

Her company says in the worst scenario a married couple will at least have an additional deduction of R875.

Directive

Among the proposed amendments married women who already have RAs will no longer need to obtain a directive from the Receiver of Revenue before their firms can lower their monthly SITE tax.

Under the new proposals all that will be required is for the employer to be given the RA. This will be provided by life assurers and means taxpayers will immediately have the benefit of lower tax.

The new system will lower the cost of administering SITE, leading to more efficient taxation and Inland Revenue manpower savings are expected to be considerable.

While welcoming the latest concession Ms Labuschagne says it is a pity that self-employed women, women working for their husbands and other woman not earning remuneration will not benefit from this deduction available to prevent poverty in post-retirement life.

"It is now obvious that many working women do in fact provide for their own retirement through retirement annuities and there is no reason why the working wife should only have half the deduction of that of her husband's.

"This effective increase in the deduction to those couples who will benefit from it is, however, a step in the right direction and will encourage those couples to provide for their own retirement. This is especially relevant when the plight and hardship experienced by pensioners are highlighted in most daily newspapers."

The change to the retirement annuity deduction results in an effective increase of this deduction to those married couples who qualify. The husband will now be entitled to a deduction of the full amounts, while the wife will be entitled to one-half of those amounts, with no provision being made for a transfer from one spouse to the other in terms of (B) and (C) of the formula.

The husband will be entitled to the greatest of:

(A) 15 percent of non-retirement funding income.

(B) R3 500 less allowable pension fund contributions.

(C) R1 750.

The wife will be entitled to the greatest of:

(A) 15 percent of non-retirement funding income.

(B) R1 750 less allowable pension fund contributions.

(C) R875.

Examples

These changes are best explained by an example.

In the 1988/1989 tax year EACH spouse was entitled to the following maximum deduction and they were able to transfer any unused portion in terms of (B) and (C):

The greatest of:

(A) 15 percent of his or her non-retirement funding "taxable income".

(B) R1 750 less pension fund contributions.

(C) R875.

Before the 1989 tax bill:

(A) A husband earned a salary of R20 000 a year and contributed R1 500 a year to a pension fund. His wife earned non-retirement funding remuneration of R18 000.

The husband's greatest deduction would be in terms of (C) of the formula, ie R875. He is not able to deduct in terms of (A) because he is not earning non-retirement funding income and his (B) would be R1 750−R1 500=R250. The wife's greatest deduction will be 15 percent of R18 000=R2 700.

(B) A husband earned a salary of R35 000 a year and contributed R2 600 a year to a pension fund. His wife earned R19 000 a year and contributed R1 400 a year to a pension fund.

The husband's greatest deduction would be in terms of (C) of the formula and he would be able to contribute and deduct R875 a year.

The wife's greatest deduction would also be in terms of (C) and she would be able to deduct R875 a year as well.

After the tax bill (applying to the 1989-90 tax year):

(A) The husband's greatest deduction will be (B), namely R3 500−R1 500=R2 000. The wife will still have a deduction of R2 700 in terms of (A).

(B) The husband's greatest deduction would remain in terms of (C) but he will now be able to deduct R1 750. The wife's greatest deduction will also remain under (C) and she will continue to be able to deduct R875 a year.

VAT proposals at yearend

320

S/Times 11/6/89

VALUE added tax (VAT) legislation is expected to be published towards the end of the year for comment, says a Coopers & Lybrand newsletter.

The legislation should be passed by Parliament at next year's sitting, and will come into effect in 1991.

This will allow 12 months for the business community to prepare for VAT. The newsletter says a position paper setting out the Government's view on the more contentious VAT issues should be published after the general election.

The paper will deal with such matters as the deductibility of input tax paid on the acquisiont of capital goods.

S/Times 11/6/89.

Costa rejects tax claims

By Robyn Chalmers

CLAIMS that South Africa's rate of tax is high may be misguided, says tax expert Costa Divaris.

Mr Divaris told a SA Property Owners' Association (Sapoa) executive programme this week that if one compared tax revenue with gross domestic product (GDP) — to the extent that either was measurable — one would find that taxes were not inordinately high.

"When the Government stops putting up taxes, that's when we'll know they are high. I predict a company tax rate of 55% within the next few years."

Commenting on the view that the tax burden rested unfairly on the individual, Mr Divaris said all taxes were passed to the consumer.

He dismissed the view that the Government spent too much, saying he believed any other Government would spend more to stay in power.

"The South African Government is, in fact, fiscally conservative."

(320)

However, there were problems with the tax system that were not being addressed. The system was in disarray because of the lack of leadership and the fact that it was being run by faceless committees.

Pension funds ready to fight tax proposal

Star 14/6/89 (320)

By Derek Tommey

The pension funds industry intends using every occasion to oppose a Government suggestion to tax the investment income of pension and provident funds.

Desmond Smith, newly elected president of the Pensions Institute, says such a move would be extremely inappropriate.

In an interview yesterday he said the proposal appeared to go against Government plans to get the private sector to bear a larger part of the burden of providing pensions for the aged.

Desmond Smith

He felt it was the wrong time to raise the matter as the Mouton Commission was looking into the whole question of pensions.

Mr Smith said it was difficult to know what action to take when there was nothing more definite than the odd statement.

But every opportunity should be taken to make the Government aware of the far-reaching implications should pensions funds be taxed.

Mr Smith (41) is senior general manager in charge of group benefits at Sanlam.

He said the Pensions Institute was raising with the Government the fact that private provident funds were not taxed, but that underwritten provident funds were.

The trade unions were calling increasingly for greater benefits from their provident funds, he said.

As a result, employers preferred to have their provident funds underwritten by financial institutions because this enabled them to guarantee benefits.

But if the management of a fund were handed to a financial institution, the return could be reduced by three or four percentage points because of tax having to be paid on its investment income.

Mr Smith welcomed the proposed abolition of prescribed assets for pension funds. He said it was a bold step to take in one swoop.

But the Pensions Institute was not completely satisfied with the draft guidelines for future pension fund investment.

One criticism was the proposal specifying that pension funds could invest up to 65 percent of their funds in equities and a total of 85 percent in equities and property.

Few pension funds had much money invested in property.

This provision could lead managers who wanted growth to increase their investment in the property market. This could lead to a shortage of suitable property for investment and push up property prices.

An aggravating factor was that property trusts were regarded as an equity investment and not a property investment.

Mr Smith said the guidelines were intended to be prudent. But in certain circumstances they could be imprudent.

However, the pensions industry had been assured by the Registrar of Financial Institutions that he would be extremely flexible in enforcing the guidelines.

OK chairman calls for food subsidies

320

BDay 14/6/89

SYLVIA DU PLESSIS

SUBSIDIES for lower-income households should be introduced if food is not exempted from value added tax, OK Bazaars chairman Meyer Kahn says in the group's annual report.

He adds delay in implementing VAT is also creating difficulties.

"It is not possible to plan for the future with any degree of certainty until such time as the exact nature and extent of this taxation becomes known," Kahn says.

The regional services councils' levies place an inequitable tax burden on mass-merchandise, labour-intensive retailers who operate on low margins and high turnovers.

"As we feared, there are indications that the current rates applicable to both the turnover and payroll levies may be increased," Kahn says.

He adds the March Budget speech contained little good news for the consumer, who is likely to be even worse off in the coming year through the continued impact of fiscal drag and GST hike to 13%.

"It is also disappointing that government was unable to curb its own level of spending during the budget year; even more so since the burden of this excessive expenditure once again fell on the individual taxpayer," he says.

While little or no increase in the real disposable income of consumers in the lower- and middle-income groups expected, he predicts trading performance will continue to improve, "albeit at a slower rate".

● KAHN

"This assumes continued social and industrial stability as well as reasonable restraint in any further fiscal and monetary measures."

MD Gordon Hood says restrictive measures introduced in August to curb HP sales were made "even more repressive" in May.

He adds these harsh measures, coupled with increased surcharges on imported goods, as well as the general slowdown in the economy, will hit turnover growth during the current year.

"Nevertheless, provided we experience reasonable social and industrial stability and restraint is shown in the introduction of any additional fiscal controls, I expect further improvement in the group's trading performance, although this will, of necessity, be at a reduced rate," Hood says.

Food subsidies warning

B Day 14/6/89

FOOD subsidies for lower-income households would have to be introduced if food were not excluded from valueadded tax, said OK Bazaars chairman Meyer Kahn in the group's annual report. (320)

Kahn also said the delay in implementing VAT was creating difficulties. It was not possible to plan until the nature and extent of this taxation became known.

The RSC levy was placing an inequitable tax burden on mass-merchandise, labour-intensive retailers which operated on low margins and high turnovers. — Sapa.

60 pc have not sent tax returns

320

A spokesman for the Directorate of Internal Revenue, Mr Des Goosen, says more than 60 percent of the country's salary-earners have not yet handed in their tax forms for the past tax year.

People who have not yet received their IRP5 certificates have until the 14th of next month to hand in their tax forms, or to seek an extension, reports the SABC.

Salary-earners who have received their IRP5 certificates should have handed in their tax forms by the sixth of this month.

Mr Goosen called on taxpayers to include their bank account numbers on their tax forms so that rebates from the receiver of revenue can be paid directly into their accounts. — Sapa. Star 15/6/89.

Buyers and sellers could get nasty tax shock

Capital offences . .

Star 17/6/89.

320

VERNON CRESSWELL
tax consultant at Arthur Young

While the South African tax system does not, as a rule, have any form of taxation of capital gains, this does not absolve the taxpayer from informing the Receiver about any capital gains made in a particular tax year. In some cases taxpayers are in for a nasty surprise when their assesment is returned.

A taxpayer is obliged to record the buying and selling of property in his return which is designed to establish whether he is a dealer or investor in properties. Short periods of time for holding the property may, for instance, indicate that the taxpayer is a dealer.

The return always requires the investor in property to indicate the purpose for which the property was purchased and the reasons for which it was sold. If property was acquired for

to income tax.

The intention with which the taxpayer carries out his activities is, therefore, very important.

Buyers and sellers of property are not the only taxpayers subjected to nasty surprises. A taxpayer who has, for instance, acquired property for the purpose of settling on it after retirement, and in the interim lets the property out to subsidise his bond interest, may be in for a nasty shock when the whole, or a portion of the expenses relating to the property, is disallowed.

The reason for this is that he acquired the property not to derive income from it, but merely to provide a santuary during his retirement and as a result income earned would merely be to supplement his bond interest.

In these circumstances the Receiver would argue that he did not incur ex-

being disallowed.

It may also happen sometimes that a person acquires more land than is necessary for a particular purpose and sells the excess at a profit. The circumtances in which this property is acquired are of paramount importance in determining whether or not the profit is subject to income tax.

Where he acquires the land for instance, with knowledge that he will be able to sell the excess off at a profit, the profit will be taxable. Where, however, he wishes to acquire a portion of the land to erect a building for the purpose other than resale, and the seller was only prepared to sell him the whole property, the proceeds arising out of any excess sold would not attract income tax as the would most likely be of a capital nature.

Usually the proceeds derived from the disposal of land or property received by way of a gift or inheritance are of a capital nature. This is, however, not always so as the activities of the taxpayer may indicate that he has ventured into a profit-making scheme and as such the proceeds would be taxable.

Many of the principles outlined above also apply to where a taxpayer acquires Krugerrands. Here the investor, like the pelican, likes to hoard this trove in his pouch.

The courts have held that the intention with which the Krugerrands were acquired is important in determining whether the proceeds on sale will be subject to income tax or not. If the buyer intends to keep these Krugerrands relatively "for keeps", then proceeds will not be taxable unless there has been a change of intention on their disposal. He must be very careful when he submits his reasons for the disposal of the assets as these reasons may indicate a change of intention, subjecting what would otherwise have been a capital profit to income tax.

SELLER BEWARE: If you're buying and selling properties with the intention of making a profit you could be liable for tax.

the purpose of resale at a profit — notwithstanding the fact that the transaction is a isolated one, such a profit would be subject to income tax.

If the taxpayer is involved in developing property and selling such property at a profit, he would carrying out a scheme of profit making and such profit would be subject to income tax. Conversely, losses are deductible.

If, on the other hand, land is required for the purpose of letting it or for the purpose of using it for private reasons, or in one's trade or business which is some activity other than the buying and selling of property, the proceeds derived from a subsequent sale will be of a capital nature, usually not subject

penses in the production of rental income, such expenses being deductible for income tax purposes, but rather earned income to minimise a private expense — his bond interest. Any related expenditure therefore would not be deductible from this income earned, as tha taxpyer would not have incurred it with the intention of earning rental income.

Taxpayers must always ensure which side of the fence they are sitting on. If they intend carrying on rental enterprises, for example, they must ensure that this is the purpose for which properties were acquired, and that there were no other intentions which may result in related expenditure

Do you keep SITE in your sights?

MANY employees subject to SITE don't realise the onus the tax places on them to keep their employers informed about changes in their personal circumstances, says Pim Goldby's Barbera Green.

"It's now coming to light that many people have not had the tax deducted at the correct rates in the 1989 year.

"This comes about because employers have not been informed about births, children starting to support themselves, death of elderly dependants and so on."

Her advice is that employees should all check that their employers have all the information they need for correct deduction of SITE.

No speedy end for GST administration

B/Day 9/6/84 KAY TURVEY (320)

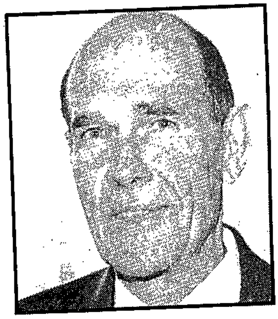
GST administration will take more than three years to wind down after the expected introduction of VAT next year, says Inland Revenue chief director (sales tax) Raymond Langley.

Langley said GST payments outstanding would not fall away with the introduction of the new tax.

For example, he said there were still 52 GST disputes waiting to be resolved by the Special Tax Advisory Committee and not all of these could be expected to be heard before the end of next year.

Further, many other disputes would have to be resolved in the income tax courts.

The new man about to pick our pockets



☐ HATTINGH ... closing loopholes

MAN IN THE NEWS

CAPE TOWN — Until the new Commissioner for Inland Revenue — Hannes Hattingh — officially takes over the chair from his predecessor Clive Kingon on July 1, he is loath to disclose what imprint he intends imposing on a post which has a material impact on all our pockets.

Like Kingon, though, 55-year-old Hattingh displays a kindly disposition. And, as with Kingon, one detects that this does not mean he will be less than precise in exacting from the taxpayer as much as the law dictates.

Notably, when asked where his priorities lie, Hattingh quickly singles out the burning issue of tax avoidance or "avoision". He voices the opinion that there is no such animal. Either taxpayers must comply with the law or they are operating illegally and "avoision" is playing with semantics.

Seemingly, Hattingh does not differentiate between evasion (which is illegal) and avoidance, which is not. He remarks that if taxpayers pay less than the fiscus demands through identifying loopholes in the law, then it is up to the Revenue authorities to act timeously to close off that loophole.

He sees his task, therefore, as a proactive one aimed at spreading the tax net as wide as possible, allowing as few incidental exemptions as possible. To that extent Hattingh seems destined to mirror the philosophy adopted by Kingon and which reflects a firm dedication to filling the State's coffers.

Growing concern

But there are limits beyond which he confesses he is not eager to go: the growing practice of imposing retroactive or retrospective tax legislation as a means of closing loopholes in the tax system is a bad principle to depend on, says Hattingh.

In so far as he is prepared to stick by that view, it is possible he could from time-to-time come up against the will of the political head of the Treasury, Finance Minister Barend du Plessis, who has — to the growing concern of the private sector — resorted to such retroactive procedures on more than one occasion. But Hattingh is quick to add that there may be occasions when they are necessary — even if the measures create uncertainty among taxpayers.

Hattingh appears to be comfortable with the realisation that it will be his main task as Commissioner to pilot into operation VAT as a replacement system to GST. Depending on the eventual passage of legislation, he remains confident VAT will be phased in during 1990 with few material difficulties.

Another of Hattingh's identified tasks is to refine the SITE system of taxation. He confesses that problems are still being experienced and further research and amending legislation will be needed this year.

Hattingh's appointment is a popular one with organised commerce and industry, by all accounts.

He entered the service back in 1951. After an initial five years in "headquarters", further experience was gained in postings to various Revenue offices round the country.

In 1969 Hattingh was posted back to the Commissioner's office, where he remained until appointed head of Johannesburg's Revenue office in 1985, and then a Chief Director last March.

CHRIS CAIRNCROSS

GOVERNMENT GAZETTE

OF THE REPUBLIC OF SOUTH AFRICA

REPUBLIEK VAN SUID-AFRIKA

STAATSKOERANT

Registered at the Post Office as a Newspaper *As 'n Nuusblad by die Poskantoor Geregistreer*

Selling price • Verkoopprys
(GST excluded/AVB uitgesluit)
Local **60c** Plaaslik
Other countries 95c Buitelands
Post free • Posvry

VOL. 288 CAPE TOWN, 21 JUNE 1989 KAAPSTAD, 21 JUNIE 1989 No. 11963

320

STATE PRESIDENT'S OFFICE

No. 1297. 21 June 1989

It is hereby notified that the State President has assented to the following Act which is hereby published for general information:—

No. 69 of 1989: Taxation Laws Amendment Act, 1989.

KANTOOR VAN DIE STAATSPRESIDENT

No. 1297. 21 Junie 1989

Hierby word bekend gemaak dat die Staatspresident sy goedkeuring geheg het aan die onderstaande Wet wat hierby ter algemene inligting gepubliseer word:—

No. 69 van 1989: Wysigingswet op Belastingwette, 1989.

Govt's poor management blamed

AA boss lashes out at new petrol levy

By Kaizer Nyatsumba

The Government's further taxation of "the already overtaxed motorist" by imposing additional levies on petrol was totally unacceptable, the chairman of the Automobile Association, Mr Denis Paxton, said yesterday.

Addressing the AA's annual meeting in Johannesburg, Mr Paxton said the association had strongly protested to the Government about the unacceptable fuel tax and levy.

"Regrettably, this (taxation) is another symptom of the generally poor management of the economy, and in particular the failure by the Government to meaningfully curb its expenditure. The price of petrol affects all aspects of the economy and results in widespread price increases giving another spin to the inflationary spiral," said Mr Paxton.

However, Mr Paxton assured motorists that the AA's close association with the National Energy Council put it in a favourable position to know that petrol price increases arising from economic factors such as the depreciating value of the rand and the cost of crude oil had been reasonable.

He said a recent survey showed that the majority of motorists were willing to pay toll fees on new roads, but were strongly opposed to the tolling of existing roads.

"There was also a strong view that the Government should be responsible for the provision of an adequate road network in view of the heavy tax burden imposed on the motorist," he said.

Mr Paxton said the AA was disappointed with the Government's reluctance to separate the driver's licence from the identity document in spite of good reasons for this.

He denied allegations that South African motorists were bad drivers.

Mr Caxton said 80 percent of fatalities among pedestrians involved blacks. Most of their accidents occurred between midday and midnight and could be attributed to lack of sidewalks and street lighting in certain areas, "and unfortunately alcohol certainly plays a role".

(320) Fmail 23/6/89

FM TAX PANEL

And justice for all . . .

Top experts look at the efficiency and fairness of SA's tax system

The *FM* Tax Panel recently met for the first time. It considered some broad issues in SA's tax system, such as avoidance/evasion, effectiveness and fairness, and effects of tax changes on foreign investors. It also examined problems over taxpayers' rights of recourse — and focused on the need for a better relationship between taxpayer and tax authorities. The panel comprises Dr Chris Stals, chairman of the Tax Advisory Committee (TAC); Prof Michael Katz (its vice-chairman); attorney Henry Vorster (Hofmeyr Van der Merwe); and accountant Chris Frame (Price Waterhouse). The discussion was chaired by Arthur Andersen's Pierre du Toit.

The attempts to distinguish between acceptable and unacceptable tax avoidance are entirely subjective and should be rejected.

HENRY VORSTER

***Du Toit:* Your first thoughts on fairness and effectiveness in our tax system?**

Stals: Fairness must be seen in the context of economic objectives, such as increasing investment, encouraging growth, controlling inflation and motivating the private sector.

We need to explain, again, precisely what role the tax system plays. There is a perception that government is cruel to demand that people pay taxes. But, simply, government has no money of its own. To satisfy all the demands placed upon it, it must levy taxes.

***Du Toit:* Is our tax system fundamentally responsive to what you require of it?**

Stals: Yes. But recent international experience shows that efficiency in a tax system can be measured only in the long term.

Vorster: A system is effective if the fiscus can exact, from the chosen tax base, the taxes sought by government in a manner that engenders the least possible resistance. In this sense, effectiveness requires an efficient and friendly administration; adherence on the part of government to an orderly legislative programme; and the passive support of a significant majority of taxpayers.

I would caution against the tendency to measure effectiveness of a tax system by the percentage increase in tax collected, an increase in the number of tax frauds detected, or the number of tax avoidance schemes legislated against. Objective assessment shows our system to be wanting.

Estimates of tax fraud are well above the inevitable levels. Most practitioners will attest to the general disenchantment of taxpayers. The legislative pattern is haphazard, extra-parliamentary and seriously disruptive of ordinary commercial dealings. The effectiveness of any system that needs 10 major extra-parliamentary announcements in six months must be seriously questioned.

Fairness must apply to taxpayer and tax collector alike. Failure to recognise the application of the rule of law to fiscal matters makes our system inherently unfair. Retroactive legislation is a good example. In many cases the taxpayer is treated unfairly, often with no obvious corresponding benefit to the fiscus: for example, the denial of a right of objection to the exercise by the commissioner of discretionary powers.

For fairness, tax laws must also be certain. There are too many provisions (such as the Sales Tax Act and Income Tax Act) which are obscure and create uncertainty. More particularly, attempts to distinguish between "acceptable" and "unacceptable" tax avoidance are subjective and should be rejected. I submit that SA's system fails on both counts — fairness and effectiveness.

Katz: Neutrality is one of the most important aspects of the tax system, and a vital part of effectiveness. Neutrality means that investment decision-making processes should not be tax-driven, and that the form of business vehicle chosen should be irrelevant to tax consequences.

The traditional aspects of equity (fairness) are well known. But we should never forget the vital avoidance/evasion issue. There are two types of avoidance, *acceptable* and *unacceptable*; then there is *evasion.* Unacceptable avoidance and evasion by any one taxpayer increases the burden for all others.

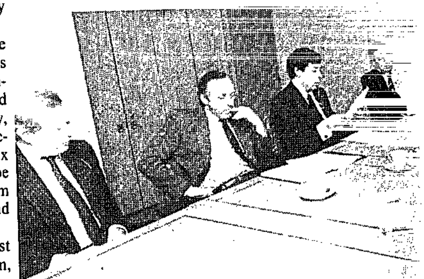
Frame: We must not judge effectiveness by the ability of the system to collect tax. It's the economy that counts, not the fiscal system. Fiscal legislation is a very poor second to economic action. And an effective piece of legislation should be judged by whether it solves more problems than it creates.

"Fair" is not an appropriate term for fiscal legislation. You cannot be neutral between taxpayers. I know of no system which is, and no system which has attempted to be. For example, there is no such thing as "avoision." Either you break the law or you do not. If you do, you are a criminal and should be prosecuted. Avoidance is simply taking your right under the law to its extreme. The problem is that our legislation is not effective — and ought to be changed.

***Du Toit:* I don't believe our system is fundamentally unfair, with two qualifications:**

- **The increasing measure in which we tax without commensurate representation; and**
- **Ineffectiveness must lead to unfairness.**

In effectiveness we fare a lot worse than in fairness. The cost of ineffectiveness is serious. We have too much volatility, vagueness



***FM*'s Bruce, Frame, Vorster, Stals, Du T**

(320) Finmail 23/6/89.

paranoid, causing discomfort in some vague place, that it in practice set the commercial world into confusion. Yet it was not as blatantly retroactive as MTC or the loan levy.

Stals: The loan levy was a monetary, not tax measure, intended to drain surplus liquidity. There was much discussion on the levy. If it had not been retroactive, it would not have worked. But I can assure you that the authorities have become more sensitive to the question of retroactivity.

Frame: Whatever the motive, we are making major inroads on our image as a First World country. Plenty of countries indulge in retroactivity as a way of life. Luckily we have not yet reached that stage.

***Du Toit:* Apart from retroactivity, the final pref share law contained blatantly unfair elements. Also bullying elements, like recharacterising the dividend in the hands only of the recipient, not the paying party.**

Stals: Perhaps a slightly different wording, a more sympathetic explanation, of the original pref share announcement would have been better. The commissioner could have said that he intended to make recommendations to the minister, but "before I do so I will consult with the private sector ... This is a document I am issuing. I want your reaction in the next two months or so and then we will take a final decision."

***Du Toit:* Precision would have been preferable.**

Stals: It is very difficult to be precise in these circumstances.

Vorster: However kindly the announcement may have been intended, whomsoever you may have invited to participate, from December 22 the law was suspended.

Stals: Why do you say that?

Vorster: Because the announcement said the law would be amended retroactively.

Stals: No, the commissioner said: "I will recommend to the minister ..."

Vorster: I have never known any such recommendation not to be accepted.

Frame: "Recommended" or not, the effect in practice is to say that any transactions using pref shares will cease.

***Du Toit:* What about the full-time allocation of a judge to the Income Tax Special Court?**

Vorster: It's good, but it doesn't go far enough. A taxpayer can wait six to eight years before a matter gets to the tax courts. Many procedures have to be examined and smoothed out, particularly discretions. Once an objection is lodged it is in the hands of the commissioner. The taxpayer has no say, unlike Supreme Court proceedings where litigation can be expedited by either side.

***Du Toit:* Pre-litigation procedure to deal with disputes such as rulings on discretions and interpretations — as in the US — that are binding in some degree may be an answer.**

Katz: Margo looked at this in great detail, with far-reaching recommendations. It was said that the whole process must be hastened. A related problem is the issue of manpower in the commissioner's office.

***Du Toit:* The main benefit sought is, again, "certainty." Can this be given more priority?**

Stals: The recommendations were accepted in principle. I don't think they've had time to give attention to it. I agree that it should be shifted up the TAC's priority list.

***Du Toit:* The cost benefit here is very large.**

Stals: Yes, indeed.

Vorster: The intermediary tribunal for sales tax disputes hasn't expedited matters at all. The tribunal takes as long to be put together by the commissioner as does a case to the Special Court. And I remember an occasion when the commissioner lost, and refused to be bound by the tribunal.

***Du Toit:* That mechanism is not sufficient. One should look at a binding ruling both bodies can subject themselves to. The benefit proportionate to the difficulty of getting this done is very large.**

Stals: We will consider hiring someone from outside the department to help this.

Katz: This must be given priority, because a desirable outcome can be achieved.

***Du Toit:* Many say the whole rulings procedure should be beefed up.**

Frame: Ultimately it's a question of the people, of professionalism. I don't think SA can afford the kind of people found, say, in the US Internal Revenue Service.

Katz: In SA people have abused the rulings procedure, using IR as a consultative body. After one ruling with a few holes in it, they would go back, and so on, until their scheme was blessed.

Frame: I agree that rulings have been exploited. But if we can't afford the people, perhaps we can look at a less sophisticated system for general guidance.

***Du Toit:* Will SA move to a two-tier tax system, for informal and formal sectors?**

Stals: We are slowly working towards systematic co-operation between fiscus and informal sector. It's premature to say whether we will have a two-tier system. The TAC has just met; the informal sector is one research project we have selected from a long list.

The loan levy was a monetary, not tax measure, intended to drain surplus liquidity.

CHRIS STALS

Certainly the artificiality of some recent tax schemes has assumed Alice in Wonderland proportions.

PIERRE DU TOIT

***Du Toit:* Is there anything in the notion that, up to a certain level, we need simplicity?**

Frame: Simplicity does not lead to clarity. Just the reverse. Simplicity leads to arbitrary interpretation, which leads to complexity. For a black-and-white answer, you need detailed legislation that's complex in relation to the problems it's trying to solve.

***Du Toit:* Precisely articulated, and therefore more complex.**

Frame: You cannot solve a complex problem with simple legislation. But you must keep it as simple as you can. SA does not have a complex system compared with, say, Canada or Australia. We have a very, very simple system. That is our problem.

Katz: We don't legislate for ad hoc situations. We try to work on general principles, like capital and revenue. Compare that with the US code, with more than 9 000 sections.

Frame: If you ask a CPA (US accountant) and an SA chartered accountant the same series of questions, the CPA would come up with a far more precise answer.

***Du Toit:* Recent retroactive law has hit, among others, foreign investors. This is highly undesirable. While special pleading is to be condemned, is there not a genuine case for protecting foreign investors and investment?**

Frame: I don't think it's possible.

Vorster: Our tax law must grant relief to foreign investors who pay punitive taxes because of an investment in SA.

Stals: The general Margo philosophy is that we should not use the tax system to achieve discriminatory objectives. Such problems should be solved elsewhere.

***Du Toit:* Any concluding comments?**

Katz: It is crucial that everyone participates in tax reform in the widest possible way. We need to work towards a system that is acceptable to all, and effective for all.

Frame: We have progressed in the past two years. In future we need less retroactive anti-avoidance type law, and to watch our "tax image" abroad.

Vorster: The biggest obstacle to reform is the low moral ebb of the taxpayer, and the onslaughts on the system's integrity by excesses by taxpayer and government alike.

Stals: We have accepted that tax reform is an ongoing process. It is essential to have a healthy, constructive relationship between the tax authorities and the taxpayer. If there is anything we can do to improve this relationship, we will do our best. ■

(320) Fmail 23/6/89.

and viciousness in increasing retroactive law. But the avoidance/evasion issue, and how it affects taxpayers' perceptions, epitomises all the problems raised in the discussion of effectiveness and fairness.

Katz: There must be a good relationship between the fiscus and taxpayer. It helps the collection process, deters avoidance and evasion, and improves efficiency. The authorities categorically recognise this necessity.

Stals: The fiscus-taxpayer relationship certainly needs improvement. The problem is: how? Inland Revenue (IR) is overburdened with day-to-day administration. So far, we have the Margo-created Tax Advisory Committee (TAC), and a secretariat has been created. These are real efforts to improve the relationship.

Vorster: The more important question is: *what* is being done about the fiscus-taxpayer relationship? In the world of real day-to-day practice, where it's all-important, the relationship breaks down. The taxpayer's faith in the system must be restored.

Katz: The multiplicity of discretions, and their not being subject to objection and appeal, is highly undesirable. As a policy one wants to eliminate as many as possible.

***Du Toit:* There have been some frightening examples of the effects unappealable discretions can have.**

Stals: This is true of any economic policy measure — for example, decentralisation. I'm against any discretionary power.

***Du Toit:* There are sharp differences of opinion on avoidance/evasion. There is, allegedly, an area between the two, called "avoision."**

Katz: In a much-publicised debate in the UK, which was fiscal, political, judicial and colloquial, Sir Geoffrey Howe said: "There is a point when avoidance can be regarded as improper and unacceptable." Again, a court

There is a stage where avoidance becomes unacceptable. When one talks to professionals and clients, you find a sense of morality.

MICHAEL KATZ

found that something "had to be done" where there were artificial schemes.

These comprised a series of pre-ordained transactions with "no business objective . . . the sole objective was tax avoidance . . ." Avoidance had got out of hand. SA has had similar experiences. Look, for example, at bloodstock schemes, which were often totally artificial. Lawyers, accountants, doctors, merchant bankers and all climbed in, signing agreements where a tax benefit was based on being a bona fide farmer!

In some recent judgments, the Appellate Division has acted against unacceptable avoidance. So have the tax authorities. If a scheme becomes an unacceptable avoidance, I think you are entitled to respond.

Vorster: Tax avoidance has become very emotive. But a series of 1988 UK decisions again condoned legitimate avoidance. Canada has issued a directive to bring more precision to the area. Prof Katz's approach, on the other hand, is entirely subjective.

Who decides what is acceptable and what not? The answer, in my view, is the law, and only the law. No tribunal can answer the question — nor can I, nor the accountants, nor the commissioner. If there is to be a strengthening of tax provisions, the work belongs to parliament.

Frame: So often tax authorities and politicians, and many others, confuse the law with what they imagine the law to be. But the realities are harsh. In day-to-day finance decisions, tax prevails and tax is an outflow. IR has not yet understood that tax planning is legitimate. Evasion is a criminal act not recognised by any accountant or lawyer.

Du Toit: Certainly the artificiality of some recent tax schemes has assumed Alice in Wonderland proportions. The response should be to look at the law as it exists. Those schemes would collapse, just on the law.

Prof Katz has referred to "unacceptable avoidance." Unacceptability can only relate to some objective standard.

Stals: If an action is illegal, I agree that the culprits should be prosecuted. If evasion takes place, appropriate legislative action should be taken. But we have a problem in that some huge "schemes" are discovered when parliament is not sitting.

Katz: There *is* a stage where avoidance becomes unacceptable. When one talks to professionals and clients, you find a sense of morality: "I don't care whether it is lawful or unlawful, that's not something I would do."

Du Toit: There are many things, perfectly legal, neither we nor clients would do; but as long as they're legal, we'll defend anyone's right to do them. The alternative is anarchy. Retroactivity raises the same problem.

Katz: Nobody agrees with retroactivity. Hence the Margo recommendation that an announcement on a huge anti-avoidance scheme should be accompanied by proposed *precise* draft legislation. It avoids retroactivity and uncertainty. But it should be done sparingly and only in very significant cases.

***Du Toit:* We cannot afford this kind of law. Overseas investors ask whether they should expect another retroactive minimum tax on companies (MTC), another retroactive loan levy. The price to the integrity of the system is disproportionate to any advantage of retroactivity. We had a debacle when pref shares were attacked.**

Frame: There was a gap between the December 22 announcement on pref shares and the final, final law. A lot of foreign investment was involved. It was almost unbelievable that in a country such as SA suddenly you never knew what was going to happen.

Simplicity does not lead to clarity. Just the reverse. Simplicity leads to arbitrary interpretation, which leads to complexity.

CHRIS FRAME

Stals: The intention of the December 22 announcement was to give an opportunity for IR to consult with the private sector before drafting the final legislation.

Frame: A tax consultant can't run his professional life out of a folder of press cuttings and press releases. Government must consult, but not through newspapers.

Katz: Perhaps consultation ahead of the announcement would have been preferable.

Stals: How do we avoid charges of preferential treatment? You say: "Call interested parties" — but everybody's interested.

Katz: IR may want to take immediate action because the outflow is perceived as huge. Perhaps it would have been preferable for the TAC to call in accountants, lawyers, merchant bankers and commercial bankers. Prior exposure to these people might have given a more desirable result.

***Du Toit:* There is a learning process for the legislature. Whatever the intention of the pref share announcement, it was so broad, so**

...s Sergeant, Katz, *FM*'s Coulson

NOTICE 664 OF 1989

SOUTH AFRICAN RESERVE BANK

Statement of Assets and Liabilities on the 31st day of May 1989

Liabilities	R	*Assets*	R
Capital	2 000 000,00	Gold	3 728 145 250,04
Reserve Fund	53 612 552,00	Foreign:	
Notes in circulation	7 810 622 114,00	Bills	—
Deposits:		Investments	140 299 142,03
Government	4 761 746 012,28	Other assets	1 334 579 695,63
Provincial administrations	829 002 378,81		
Bankers	2 013 693 879,85	Total gold and foreign assets	5 203 024 087,70
Other	383 172 962,96	Domestic:	
Other liabilities	7 435 946 520,30	Bills discounted	2 069 800 000,00
		Loans and advances:	
		Government	--
		Other	1 633 676 268,71
		Securities:	
		Government	146 505 531,14
		Other	91 006 295,77
		Other assets	14 145 784 236,88
	R23 289 796 420,20		R23 289 796 420,20

Ratio of gold reserves to liabilities to the public less foreign assets: 50,9 per cent.

The gold reserves as at 31 May 1989 were valued at R912,84 per fine ounce, compared with the valuation price of R882,96 per fine ounce as at 30 April 1989.

Pretoria, 6 June 1989. C. J. SWANEPOEL, General Manager.

KENNISGEWING 664 VAN 1989

SUID-AFRIKAANSE RESERWEBANK

Staat van Bates en Laste op die 31ste dag van Mei 1989

Laste	R	*Bates*	R
Kapitaal	2 000 000,00	Goud	3 728 145 250,04
Reserwefonds	53 612 552,00	Buitelandse:	
Note in omloop	7 810 622 114,00	Wissels	—
Deposito's:		Beleggings	140 299 142,03
Regering	4 761 746 012,28	Ander bates	1 334 579 695,63
Provinsiale administrasies	829 002 378,81		
Bankiers	2 013 693 879,85	Totaal aan goud en buitelandse bates	5 203 024 087,70
Andere	383 172 962,96	Binnelandse:	
Ander laste	7 435 946 520,30	Gediskonteerde wissels	2 069 800 000,00
		Lenings en voorskotte:	
		Regering	—
		Andere	1 633 676 268,71
		Sekuriteite:	
		Regering	146 505 531,14
		Andere	91 006 295,77
		Ander bates	14 145 784 236,88
	R23 289 796 420,20		R23 289 796 420,20

Verhouding van goudreserwes tot verpligtings teenoor die publiek min buitelandse bates: 50,9 persent.

Die goudreserwes soos op 31 Mei 1989 is teen R912,84 per fyn ons gewaardeer, vergeleke met die waardasieprys van R882,96 per fyn ons soos op 30 April 1989.

Pretoria, 6 Junie 1989. C. J. SWANEPOEL, Hoofbestuurder.

(23 June 1989)/(23 Junie 1989)

NOTICE 665 OF 1989

DEPARTMENT OF FINANCE

EMPLOYEES TAX DEDUCTION TABLES

1. In terms of paragraph 9 (2) of the Fourth Schedule to the Income Tax Act, 1962 (Act No. 58 of 1962), as amended, it is hereby notified that employees tax deduction tables (identified as Volume 31) have, in terms of paragraph 9 (1) of the Schedule, been prescribed for use by employers as defined in paragraph 1 of the Schedule.

KENNISGEWING 665 VAN 1989

DEPARTEMENT VAN FINANSIES

WERKNEMERSBELASTINGAFTREKKINGS-TABELLE

1. Kragtens paragraaf 9 (2) van die Vierde Bylae by die Inkomste belastingwet, 1962 (Wet No. 58 van 1962), soos gewysig, word hiermee bekendgemaak dat werknemersbelastingaftrekkingstabelle (geïdentifiseer as Volume 31) ingevolge paragraaf 9 (1) van die Bylae vir gebruik deur die werkgewers, soos omskryf in paragraaf 1 van die Bylae, voorgeskryf is.

Plan to beat tax rebate thieves

THE Receiver of Revenue will from this year pay tax rebates directly into the tax payer's bank and building society accounts, a spokesman for the Department of Inland Revenue confirmed yesterday.

Mr Des Goosen, the department's director of operations development, said from Pretoria the new move would hopefully bring to an end the widespread thefts of rebate cheques which have been causing a lot of concern among the taxpayers. Sowetan 23/6/89

It also follows the appointment of a commission of inquiry after the matter was raised in Parliament earlier this year. 320

Over the past two years, thousands of cheques involving several millions of rands have been stolen and fraudulently cashed by syndicates of thieves.

Goosen appealed to taxpayers who have not yet submitted their returns to furnish their banking particulars in their tax forms to avoid the recurrence of cheques going astray.

He said more than 767500 taxpayers had already submitted their returns by June 19. He also said the department had granted concessions to taxpayers who had not yet received their buff forms from their employers.

The deadline for submitting tax returns for those who have not yet received their buff forms had been extended to July 14.

Beating inflation — car or allowance?

S/Times 25/6/89 (320)

By **BRONWYN ALLAN**
Associate Director Coopers & Lybrand

IN this day of rampant inflation and rising costs, the question often asked by executives, in respect of motor vehicles is, would I choose the company car option or the travel allowance route?

It is difficult to recommend one above the other, as the benefits derived from each change depending on the circumstances.

In other words, not every executive may be offered the travel allowance option, as it is generally offered only to the executive who has to travel on company business — the executive who is "desk-bound" will derive no benefit from it.

The first question to answer in respect of choosing between the two is: do you do the necessary business mileage? If not, the company car may be the choice for you.

The Company Car

The company car has for many years been a firm favourite, as the executive only pays fringe benefit tax on the private usage of the car, which represents a certain amount every month, which is deducted from his salary, (according to Government company car tables).

For example, the value of private use for a car with a determined value of R90 000 and a 3 000cc engine, is R541 per month (according to the 1988 tables). This amount is subtracted from the executive's salary.

The Margo Commission suggested that the fringe benefit tax should be increased every year, which makes this option less popular.

The value of private use of the same car increases to R622 a month on June 1 1989, with the introduction of the amended company car tables.

This represents a sizable increase of 15%. The following table demonstrates the difference in the fringe benefit tax between the 1988 and proposed 1989 tables.

Example:

Determined Value	Value of private use 1988 R	1989 R
R45 000-3 000cc engine	334	384
R69 000-over 3 000cc engine	483	555
R97 000-3 000cc engine	587	675
R125 000-3 000cc engine	759	820
R150 000-3 000cc engine	863	940

As can be seen from the above example, the increases are quite substantial. It has been argued that even with the adjustments in the annual company car tables this benefit still remains attractive, as it is cheaper to have the use of a company car than to purchase a car oneself.

But what must be considered is that a company car never belongs to the executive. However, he has a cost in the form of a taxable benefit.

On the other hand, the travel allowance finances the acquisition of the car which is an attractive option with the current high resale value of certain cars.

The question has been raised as to whether the fringe benefits tax payable on company cars can be reduced in any way. Generally, the answer is no.

There are circumstances where it may be, for example, if the executive chooses to drive a less expensive car, he will then pay less fringe benefit tax every month.

In our experience this is not the prevailing attitude, as executives prefer to drive expensive cars. The fringe benefit tax can be reduced if the executive bears the cost of the petrol for private use — by R58 per month or by R35 if he bears the cost of the maintenance.

Due to the escalating cost of cars, even the employer has had to look at the company's fleet option more closely.

Many are opting to replace company cars every four or five years as opposed to the traditional three years in order to reduce the costs.

The Travel Allowance

The question facing many executives is that it might be cheaper to choose a company car instead of a travel allowance.

This may be so in certain circumstances but it depends on the executive's intention — does he want ownership of the car or is he prepared to use the company car, whichever model is offered?

The majority of executives opt for ownership, but are frightened of escalating car prices and petrol increases.

Is there any hope? Yes, the travel allowance offers a way of financing a car because, in effect, the employer is "purchasing" the car for the executive.

How? The allowance granted to the executive every month (to compensate him for using his private vehicle on company business), takes into account the monthly payments to the bank, (be it on instalment sale, lease or rental), petrol and maintenance.

So in effect, the employer is "giving" the executive an allowance for the latter to purchase a vehicle and to cover the costs of the business kilometres driven. Business kilometres are calculated at the rate per kilometre, multiplied by the distance travelled during the year but *not* including the distance travelled between home and work.

A distance of 10 000 kilometres is deemed to be private use if no logbook is kept.

The allowance is granted to cover the *business kilometres* undertaken every year, and the executive will therefore be taxed on the *unexpended portion of the allowance*, as illustrated below:

Example:

Value of vehicle	R57 000
Annual kilometres	35 000km
Private	10 000km
Business	25 000km
Fixed cost portion	50,0c per km
Fuel cost portion	12,5c per km
Maintenance cost portion	7,1c per km
	69,6c per km

Tax deduction will be 25 000km x 69,6 = R17 400. Thus if an allowance of R17 400 is given to the employee it will not be taxed, as it has been used entirely for business.

The remuneration package of the executive is reduced by the amount of the allowance (just as with company cars), but although the amount is larger, the executive will be the *owner* of the vehicle.

Other advantages of the travel allowance, from the executive's point of view, is that they are not subject to PAYE which provides cash flow advantages and the employee can choose the vehicle he wishes to drive.

In addition, certain tax advantages can be gained, depending on whether the car has been financed by lease, rental or instalment sale.

Rental and lease payments are 100% tax deductible while a wear and tear allowance on the costs of the motor vehicle and the annual finance charges can be deducted on an instalment sale.

For the executive who does not do the necessary kilometres, in other words, who is desk-bound, the company car is recommended.

If the executive undertakes a substantial amount of business travel or wishes to own his own car in times of escalating costs, the travel allowance is the ideal route to go.

Move to end rebate thefts

Sowetan 26/6/84

(320)

THE Receiver of Revenue will from this year pay tax rebates directly into the taxpayers' bank and building society accounts, a spokesman for the Department of Inland Revenue has confirmed yesterday.

Mr Des Gooden, the department's director of operations development, said in Pretoria the new move would hopefully bring to an end the widespread thefts of rebate cheques which have been causing a lot of concern among taxpayers

Serious

The matter was seen in such a serious light that it was raised in Parliament earlier this year and a commission of inquiry was appointed.

Over the past two years, thousands of cheques involving millions of rands have been stolen and fraudulently cashed by syndicates of thieves.

Goosen appealed to taxpayers who have not yet submitted their returns to furnish their banking particulars. This would avoid the recurrence of cheques going astray.

He said more than 767500 taxpayers had submitted their returns by June 19.

The deadline for submitting tax returns for those who have not yet received their buff forms has been extended to July 14.

TAXES

ARGUS 28/6/89 (320)

Government rakes in R7,57-billion

From DEREK TOMMEY

JOHANNESBURG. — The government raked R7,57-billion into its coffers in the first two months of the current fiscal year, an increase of 38,6 percent on the R5,47-billion of revenue collected in the same two months last year.

In the March Budget, Minister of Finance Mr Barend du Plessis estimated tax revenue this year would rise by 14 percent.

The increase is well above the inflation rate, showing that tax rates have risen substantially.

This is the case if one takes into account the failure to adjust income tax for fiscal drag, the increases in GST and other domestic excise duties and customs surcharges.

But this increase in revenue seems badly needed.

Departmental issues in the first two months rose strongly — by 31,6 percent to R12,8-billion from R9,7-billion in April/May last year.

The result was that departmental issues exceeded government tax revenue by R5,24-billion in these two months — a significant increase on the R4,3-billion shortfall in the same period last year.

The injection of R5,24-billion into the economy in April/May must have given business a boost. But the "high" has probably faded as government expenditure, after its normal surge in the first two months of the fiscal year, usually tends to level off for the rest of the calendar year.

It seems that from the end of August, the next provisional tax date, the government could actually siphon money out of the system.

Big spenders in April and May included the Department of Development and Planning, which laid out R1,85-billion — an increase of 43,1 percent; the Department of Defence, which spent R1,58-billion — an increase of 37,4 percent and the Department of Finance, which spent R1,92-billion — which somewhat surprisingly in these inflationary times was a decrease of R73-million on last year's figures.

ZONE

4M The Star Thursday

Nats plan substantial tax cuts

Star 29/6/89

(320)

Political Correspondent

The National Party plans to go to the electorate with a commitment to make substantial cuts in individual and company tax over the next five years.

The plan appears to have been inspired by the NP's fear that bread-and-butter issues will cost it heavily at the polls.

It was disclosed in Pretoria yesterday that the economic targets include:

- A reduction in the marginal tax rate for individuals from 45 percent at R80 000 income to no more than 40 percent at the R100 000 income level.
- A reduction in company tax from 50 to 40 percent and the phasing out of tax abatements as recommended by the Margo Commission.
- A reduction in the deficit before borrowing to about 3 percent of Gross Domestic Product.

Less specific targets include:

- Reduction of inflation to "more acceptable levels".
- A continuous programme of privati-sation and deregulation.
- Industrial strategy focused on export promotion and import replacement.
- Continued reconstruction of the agricultural sector.

Tax cuts promised by Nats

GM Times 27/6/89

320

Political Correspondent

PRETORIA. — In a high-stakes election gamble, the National Party has committed the government to reducing personal income tax and lowering nominal company tax rates within the next five years.

The tax relief plan, which will be submitted to the NP's federal congress here for approval today, commits the NP during its next five-year term to:

- "Lowering personal income tax, reducing marginal rates to a maximum of 40% at the income level of R100 000 (as far as possible in terms of 1989 values) instead of the present 45% at R80 000."
- "Reducing company tax from 50% to 40%, and phasing out tax abatements as recommended by the Margo Commission."

Asked how the government found itself able to make such commitments when such adjustment had not been deemed feasible in the past, the minister responded: "Nothing concentrates the mind better than the knowledge that you will be hanged at 6am."

Some observers interpreted this as indicating that the government might be nervous about the outcome of the September general election.

However, the NP has left itself an escape hatch in the tax relief plan, which will go ahead "providing there is no drastic adverse change in prevailing domestic and foreign circumstances".

The Minister of Finance, Mr Barend du Plessis, said this was the first time in an election that the NP had set "quantifiable tax objectives", adding that the venture contained "risks".

INTERNATIONAL TAX

320 Fmail 30/6/89

Go to Ireland

By 1992, members of the European Community (EC) intend to harmonise tax rates and do away with tariffs and duties which restrict trade between themselves. Non-members, like SA, will then have more difficulty in trying to penetrate and create markets for themselves there.

One answer is to move all or part of manufacturing operations to a suitable offshore territory. A possibility, suggests Ernst & Whinney's Raoul Kaplan, is Ireland.

Manufacturing profits in Ireland pay 10% tax, whether or not goods are exported, and are guaranteed until at least the year 2000.

The term "manufacture" is not nearly as limited as in SA. Acceptable activities include grain drying, pasteurising milk, ripening bananas and motion picture production.

A foreign investor can get an advance ruling that activities will qualify. Due to the wide definition, argues Kaplan, even if only part of the process is carried out in Ireland, it can still be regarded as manufacture.

"This could be advantageous if a businessman wants to carry out part of the process in SA, using, for example, cheap raw materials or labour. Semi-finished goods could be sent to Ireland at a relatively low mark-up and manufacture completed there."

Reserve Bank approval is needed to invest offshore. The Bank requires that offshore profits be remitted to SA. However, such

320 Fmail 30/6/89.

remittance will be a dividend and, for a company, tax-free. And it will be free from any withholding taxes in Ireland.

Other profits which qualify for the 10% rate are:

☐ Software development and data processing, where the project has received an employment grant from government;
☐ Any profits, manufacturing or not, derived in Shannon (in south-western Ireland);
☐ Shipping;
☐ Export-orientated financial services conducted in the Dublin "free trade area;" and
☐ Earnings of "export trading houses." ■

Pressure causes woes — Barend

320

Star 30/6/87

South Africans were paying high taxes and high interest rates because of the international action against the country, said Finance Minister Mr Barend du Plessis.

Speaking at the NP federal congress, he said the congress had a good case if it complained about high taxes and interest rates.

The Government was committed to reducing tax rates and interest rates.

He said the situation had been caused by the world taking action to force an unacceptable system upon the country.

The country's economic problems started about 20 years ago with the arms embargo.

This was followed by the oil boycott, sanctions, the nuclear boycott and the refusal of foreign banks to renew loans.

Over four years, R25 billion had to be repaid in foreign loans, while the drought had cost an estimated R23 billion.

 320

Tax experts scoff at NP's plans

By MEG BRITS

THE National Party's five-year tax proposals were yesterday dismissed by tax experts as electioneering and "politically unattainable".

They said neither corporate nor individual taxpayers were likely to pay less actual tax as a result of the reduction scheme proposed by the NP — it was more likely losses on direct tax revenue would be recovered in forms of indirect taxation such as GST or VAT.

They also pointed out that the legislation affecting the collection of tax in the current financial year had already been promulgated and was unlikely to be changed until after the election on September 6 — in fact until after the next main budget.

A tax spokesman for Arthur Andersen and Associates said: "It is unclear what the timing or phasing of moves to reduce income tax would be, but it's unlikely that they would have any real effect, especially for individuals, until well after the election."

The tax partner of Arthur Young in Cape Town said that the only way changes could be made was for the Minister of Finance to announce his intention to introduce legislation once parliament had reconvened after the election. Such changes would thus have to be made retroactively.

The NP's proposals involve lowering company tax to 40% from its present 50% while phasing out deductions and special allowances, and lowering the marginal rate for personal tax on income to 40% of R100 000 from its present 45% of R80 000.

The Arthur Andersen spokesman said the first proposal would indicate that, over the next five years, the intention was to reduce the overall corporate tax base by 10%.

The latest Reserve Bank figures available, for the 87/88 tax year, indicate that corporate tax accounted for R10,8-billion of a total direct tax revenue of R25,1bn.

Revenue from personal income tax stood at R14,5bn of the total direct taxation receipts.

The minimum revenue from direct tax on companies in the next five years could thus have been expected to be around R54bn — of which R5,4bn would be "lost" in terms of the new plan.

The spokesman said this would probably be easily recovered in indirect taxes such as GST or VAT.

The most recent GST figures from Inland Revenue indicate that, as the inflation rate rises, so do the government's receipts from GST. In the first four months of this year, GST collections totalled more than R1bn more than in the same period last year.

And the tax spokesman for Arthur Young pointed out that the removal of deductions or special industry allowances would also result in an overall increase in revenue.

"Any money for special projects, such as gaining an edge in a technological field, will have to come in the form of a direct cash subsidy.

"However, it appears the whole scheme would be politically unattainable, simply because the public appears to prefer tax concessions to direct subsidies."

PRETORIA. — The proceeds from privatisation would be largely used to reduce South Africa's national debt, which would in turn bring down income tax, the Minister of Privatisation and Administration, Dr Dawie de Villiers, said yesterday.

Addressing the National Party's federal congress, he said SA was a threatened country, and had to ward this off.

The government's economic goal was growth, so that more job opportunities could be created.

Through privatisation, the government wished to give more people a share in South Africa's economy. — Sapa

Worrall for European talks 'NP toyo-toyi'

erday that the five- version

320

Suff. W.E. Argus 1/7/89

'Slim chance of tax cuts'

From CLAIRE GEBHARDT

JOHANNESBURG. — Minister of Finance, Mr Barend du Plessis, stands very little chance of being able to cut taxes — should he wish to do so.

This is the reaction of economists and tax experts to the NP's five-year plan to cut both personal and company taxation.

They point out that to slash taxes, Mr du Plessis would first have to slash government expenditure.

Failing that, the only way to lower taxes is to increase indirect taxation, they say.

Spending

Government spending drives taxation, says Econometrix's Mr Tony Twine.

"Mr du Plessis is being pretty explicit on his revenue proposals because obviously there is an election coming along, but not explicit about how he is going to stop spending money.

"The kind of tax relief he talks about requires a substantial decline in government expenditure, the bulk of which goes on wages and salaries and which would make for a lot of unhappy civil servants," he adds.

United's Dr Hans Falkena believes state expenditure would have to be cut by about a third to give any manouverability with taxes.

He points out that government expenditure, is likely to increase yet again in 1989, "as no new taxes are envisaged this year and the number of civil servants it still growing rapidly."

Add to this the ever-present needs to upgrade the socio-economic infrastructure, large defence expenditure, and the usual election sweeteners, and one sees that this is not the sort of climate for tax cuts, he says.

Price Waterhouse director, Mr Chris Frame, says "the taxpayer has been promised tax cuts for many years but one way or another the percentage paid by the individual has continued to increase, either directly or indirectly."

"VAT is likely to improve collections but is unlikely to be introduced before the end of next year, while GST at 13 percent has become a most unpopular tax with evasion an area of major concern.

"VAT is an extremely complicated tax and its introduction is likely to lead to hugely increased administration costs. Recent reports estimate that government may have to recruit an extra 1200 people."

Personal income

Mr Twine says that one way or another Mr du Plessis is still getting a lot of tax.

"In this fiscal year Mr du Plessis has budgeted for a 19,5 percent growth in personal income tax receipts, even after taking into account the concessions announced in the Budget. This figure is well in excess of the rate of inflation."

Rejection of CBT wrong — Margo

W/G Argus 1/7/89

320

From CLAIRE GEBHARDT

THE Comprehensive Business Tax (CBT) proposed by the Margo Commission was rejected on erroneous grounds, says Mr Justice Margo.

The only way now for government to reduce direct taxation would be to introduce VAT, initially at unacceptably high levels because of the current economic problems, he says.

In an interview this week, Mr Justice Margo said the government had accepted business representations although they were ill-founded.

Mr Justice Margo

"Business was under the misapprehension that CBT would hit exports.

"But it would on exporters, not a tax on exports and no section of the community would have been hurt by it."

A broad-based tax at a very low rate, CBT was to have been introduced as a primary source of indirect taxation.

Embracing all business sales and services, it was intended to make good revenue lost through other reforms which included significantly lower levels of individual and company taxation and GST rates.

The real basis on which government decided not to go ahead with CBT was the suggestion that exporters be reimbursed for what they lost by CBT, he said.

"It was feared that this could lead to retaliatory action under GATT, but in fact damage to any particular industry would have been addressed by subsidisation," he said.

Calling for income tax for individuals to be dramatically reduced and compensation sought in indirect taxation, Mr Justice Margo emphasised that the redistribution of wealth and resources was not in the taxation side but on the expenditure side.

"If everybody pays VAT these resources will be applied to schools, hospitals, social welfare, pensions, food for the poor etc.

"High income tax rates are killing off the economy, destroying business incentive and fuelling the brain drain."

Though administrative costs of VAT will be higher both for the authorities and the businessman, Mr Justice Margo points out that the International Monetary Fund has advised that VAT is likely to improve recovery by about 60 percent of what is at present being evaded on GST. The informal sector too will be drawn into the net.

CBT, unlikely though it is to be introduced, is still the tax of the future, he adds

Described as his most revolutionary proposal, it is based on the American state of Michigan.

An income tax because it would be levied on the incomes generated by business activity, an indirect tax because being levied at a flat rate on the whole of income it could not take the circumstances of an individual taxpayer into account in the way that a direct tax does, and a broadly-based tax because it would embrace the generation of every type of business income.

In Michigan, the only area in the world to have the tax, it led to a repeal of corporate income tax, property tax on inventories, franchise tax, privileged tax on insurers and taxes on savings and loans.

Less purchases

Basically the tax base comprises the sum of salaries, wages, interest, royalties, rent profit and depreciation.

Its formula (simplified) is sales less purchases on goods and services.

"There is every reason for assuming that it will work as effectively in South Africa as it does in Michigan," said Mr Justice Margo.

FRINGE BENEFIT: Car perks are likely to remain tax concessions, thanks to pressure from the car-manufacturing lobby.

Cars perks are likely to remain major tax benefits

Star 11/7/89 (320)

MOTOR vehicles are likely to remain one of the most tax-efficient fringe benefits, despite Inland Revenue's general tightening of perks taxes.

This is because of the power of the vehicle-manufacturing lobby which is dead against any rise in perks taxes above current levels — and the threat that large overseas manufacturers would pull out of the country if high perks taxes hit the market further.

These views emerged at a seminar on alternative forms of remuneration held this week by David Browne and Barry Giesken, tax managers with Pim Goldby in Durban.

David Browne said that "soft loans" and motor vehicles were among the best benefits available.

The fringe benefits tax on cars was pitched lower than originally envisaged and, in view of the pressures, it was likely they would remain so.

Referring to "soft" (cheap) loans, he said the official rate of 16 percent, adopted from June, is about six or seven percentage points below the cost of funds generally available to the public from banks.

These give companies a lot of leeway in structuring loans to suit individual needs.

Both speakers emphasised there were a number of areas which should be studied by employers who are missing the boat when it comes to using tax concessions, officially allowed by the Department of Inland Revenue, to create a more contented and stable labour force.

Mr Giesken said alternative forms of remuneration created greater wealth for employees at little extra cost to the employer.

Four perks

He gave an illustrate example of how an employee with a basic salary of R40 000 could enjoy an annual tax saving of R8 235 through implementation of four perks — non-contributory medical aid and provident funds, a motor vehicle and residential accommodation.

Addition of one further perk — a second car for the employee's wife — for a higher-level employee earning R100 000 led to tax savings of R12 328 for the employee.

He said there were three basic types of perks — those involving "salary sacrifices after accrual" (for which the employee "gives up" something in return for the benefit), those granted at a normal increment stage and those governed by specific inclusions in the law — specific items like travelling allowances and subsistence allowances.

He stressed that such schemes had to be carefully considered to ensure they did not fall foul of tax laws.

There were several other pitfalls to avoid.

Bursary schemes, for example, were a good way of motivating staff.

However, he was concerned about possible abuse of such schemes, and warned that abuse of any kind would lead to the law being amended.

Companies setting up bursary schemes for tertiary education should ensure there was an independent method of awarding such bursaries on merit.

When it came to the practice of supplying a second car — for use of the employee's spouse — he cautioned that it was best for the company to pay only for the fixed costs.

The beneficiary should pay for variable costs, avoiding the dissatisfaction of having one employee's spouse use the vehicle far more heavily than another's.

Accountants get option over deferred tax

B/Day 4/7/89

(320) KAY TURVEY

UNCERTAINTY over deferred tax should be resolved with the revised General Accepted Accounting Practices AC102.

SA Institute of Chartered Accountants technical director Graham Terry says the statement narrows the permissible options down to two bases.

The Accounting Practices Board would have preferred to permit only one basis but, because there was no clear indications which would become universally acceptable, it was decided to permit both the comprehensive and partial basis of computing for deferred tax, Terry said.

Successor to Stals needed for tax post

KAY TURVEY

THE appointment of Finance Director General Chris Stals as Governor of the Reserve Bank from November leaves open the chairmanship of the Taxation Standing Advisory Committee.

Tax experts and Revenue officials are in the dark as to who will succeed Stals as chairman. Finance Minister Barend du Plessis had yet to name a successor, Stals said yesterday. BDay 4/7/89.

He described the tax committee appointment as vital, given pending tax legislation, the most important of which would be the introduction of VAT and its smooth implementation over the next few months.

Stals has chaired the committee since it was reconvened 15 months ago, after the report of the Margo Commission.

Stals's broad-minded approach has augured well for tax reform. Among private tax consultants he is respected for the objectivity he has brought to tax problems without being intimidated by the demands of the fiscus, and his strong contribution to the level of tax debate. (320)

He will also relinquish his position as economic adviser to the Finance Minister and here, too, a replacement has not yet been named.

Urgent meeting on provident fund tax

320 BDay 6/7/89

LESLEY LAMBERT

CAPE TOWN — An urgent meeting of the Tax Advisory Committee has been scheduled to address an inequity between the way privately managed provident funds and those underwritten by life assurance companies are taxed.

The inequity which has developed because of the scrapping of prescribed asset requirements, gives funds managed by private companies a significant tax advantage over funds underwritten by life companies. Up to now, members of funds managed by companies like Alexander Forbes and Associates have had preferential tax treatment, while the life funds have been taxed.

To even out the playing field, the private funds have had to invest according to the pension funds' prescribed asset requirements. The underwritten funds have complied with the less restrictive requirements for life assurance companies.

When the prescribed asset requirements fall away, the life companies will be left with a tax disadvantage and nothing to compensate for it. Those which currently administer funds worth more than R1bn in annualised premium income, fear the inequity could affect their ability to attract future business and keep existing funds.

A spokesman from the office of Chris Stals, Reserve Bank Governor-designate and chairman of the Tax Advisory Committee, said yesterday the meeting had been scheduled after requests from the Life Offices' Association for a hearing.

According to Old Mutual chief actuary Theo Hartwig, the financial authorities have ackowleged the changes present an "unjustifiable anomaly" and are faced with the decision either to make the funds tax-free in the hands of the assurance companies or to tax the private funds. Industry sources say the latter is more likely.

Provident funds are generally preferred by trade unions because they allow departing member employees to take home a lump sum in cash rather than receive a monthly payout after a certain age.

LOA executive director Dick Geary-Cooke says while most trustees of these funds generally prefer underwritten to privately administered funds, there has been pressure for some funds to change to private arrangements.

"The advantage of staying with a life fund is the security provided by a guarantee which is backed up by substantial reserves, actuarial and investment expertise and compliance with the new investment regulations which will replace prescribed asset requirements."

Southern Life, which has the lion's share of the underwritten negotiated provident funds, administers 10, including the R480m NUM fund, and is currently negotiating three more. Assistant GM Mike Hogan says the assurer has considered alternative plans to overcome the disadvantage if the situation remains unchanged.

Tax relief plan is suspect, says DP (320)

CAPE TOWN — The Government's offer of minimal tax relief to people earning more than R80 000 a year was suspect, because, with inflation at more than 15 percent, by the time the adjustments were phased in fiscal drag would have make them worse off anyway. Star 6/7/89.

Mr Ken Andrew, the Democratic Party candidate for Gardens, said this yesterday at an election campaign launch.

He said high taxation and the rising cost of living were placing unbearable burdens on most South Africans.

The GST rate was exorbitantly high, and to charge it on medicine was disgraceful.

Pensions were ridiculously low — and on these and inflation, the Government's silence was deafening.

National Party leaders were too afraid to commit themselves to scrapping even one of the major remaining apartheid Acts, yet wanted the public to believe they were offering renewal and new action.

Nothing could be further from the truth, said Mr Andrew. — Sapa.

CAPE TIMES
6/7/89 320

Tax relief plan 'suspect'

By ANTHONY JOHNSON
Political Correspondent

THE "fat cat" Nationalist government's offer of minimal tax relief to people earning over R80 000 a year was suspect, the DP candidate in Gardens, Mr Ken Andrew, said last night.

"With inflation at more than 15% a year, by the time the adjustments were phased in, fiscal drag will ensure that most of those salary earners are worse off anyway," he said.

Speaking at a DP election campaign launch in Vredehoek, Mr Andrew said high taxation and the escalating cost of living were placing unbearable burdens on most South Africans.

"On all these crucial issues, the government's silence is deafening."

What was needed was sustained economic growth, but this depended on investment and productivity, both of which demanded the removal of apartheid.

● Meanwhile, the head of the Department of Local Government, Housing and Works, Mr Callie Reynecke, said yesterday that the state's R18-million upgrading of houses in Ysterplaat and Ruyterwacht was a one-off scheme and that the finance would take the form of a low-interest loan, which residents would have to repay.

The DP has said that the scheme is an election ploy to garner the NP votes in Maitland.

320

SITE DIFFICULTIES DELAY TAX ASSESSMENTS

KAY TURVEY

TAXPAYERS can expect their assessments late this year due to complications with the new SITE tax.

Johannesburg Receiver Kobus Stone said yesterday many employers had experienced difficulty in completing employees' tax certificates (IRP5s) because of the new tax. Therefore the due date for tax returns had been extended to mid-July.

Consequently many returns would arrive late and assessments could only then be sent out later, probably late in August.

At the end of June about 50% of the 238 000 tax forms sent out by the Johannesburg office and due before June 7 were still outstanding.

Stone said the office was still receiving numerous queries on SITE, a final tax introduced last year which replaces PAYE and eliminates the need to submit tax returns for certain taxpayers.

Salaried married women who earned less than R20 000 and unmarried people earning below R12 000 did not have to render tax returns in the past year. However, in the 1989 budget SITE was extended to cover all working wives and individuals earning less than R20 000.

Taxpayers who have submitted returns in the past year, but may now be eligible for SITE, will be notified by the Receiver once their latest returns have been assessed.

Stone said cases of single taxpayers earning just below the R20 000 cut off point would have to be examined. If there was a possibility that they might earn above this figure in the current tax year they would be reminded that they would have to continue submitting returns.

320 Fmail 7/7/89.

TAX

320

Standard approved

The Accounting Practices Board (APB) has made a final decision on deferred tax, one of the most uncertain areas in financial reporting. It has revised GAAP Statement AC 102, effective for all financial years beginning on or after July 1.

The statement narrows the options down to two. Graham Terry, Technical Director of the SA Institute of CAs, says the APB would have preferred only one. "But, as there is no clear indication yet which will be universally accepted, it was decided to permit both the comprehensive and partial bases."

The partial method is preferred, Ernst & Young's Garth Coppin points out, especially in times of inflation. It results in:

- ☐ A reduced tax charge;
- ☐ Increased after-tax profits and EPS;
- ☐ Higher dividends, if cover is maintained;
- ☐ Possibly a higher share price as a result of the increased earnings and dividends.

Says Coppin: "While these are attractive to management and shareholders, certain disadvantages may more than outweigh them. For example, the trend of EPS is likely to be more volatile. And if tax allowances are withdrawn or considerably reduced, companies will have to provide for the shortfall in deferred tax.

"Moreover, it could lead to a company's technical insolvency if large amounts of deferred tax have to be provided."

The statement will have a significant impact on the investing community. For example, Amrel's latest annual report notes that it is one of the few in the furniture industry still using the comprehensive method.

Chairman Meyer Kahn says that if Amrel considered deferred tax as shareholders' equity, "as is common practice in the industry," its gearing ratio would decline from last year's 0,87:1 to 0,72:1.

Terry says the partial basis may only be used if certain criteria are met. The enterprise must be a "going concern" and management must be able to make a "reasonable estimate" of future tax that will become payable on reversing timing differences.

"Companies that changed to the partial basis have not always reversed deferred tax provisions raised in prior years. The new statement requires that where the partial basis is used for the first time, deferred tax provisions built up under the comprehensive basis should be adjusted and any excess transferred to reserves." ■

Star 8/7/89

320

Don't wait for new law, make a will

SINCE the proposed Capital Transfer Tax (CTT), which will replace Estate Duty and Donations Tax, will not make the legislative table this year, those intending to plan their estate should certainly not "just sit on the fence" waiting for it to come into force.

This advice comes from Bruce Howard, Deputy General Manager — Marketing at AA Life. "The need for prudent estate planning is on-going because of the impact it can have on the future of families and relatives," he says. "In fact, it should be accorded just as much careful consideration and attention now in view of impending new legislation as it has been previously.

"People in the throes of estate planning should now look at preparing effective and detailed wills as the most practical instruments through which to address their planning needs."

The natural tendency is, while the current lack of clarity about the new law continues, to postpone estate "pegging" arrangements and the disposal of assets, emphasises Howard. "It could well be self-defeating to allow this to happen."

The reason for the delay in introducing CTT, he explains, "is that the Receiver of Revenue is so overloaded with other new legislative proposals that he cannot give it the necessary attention".

In the interim, the estate planner should give a lower priority to estate duty "pegging" — that is the disposal of assets to a company or trust in order to fix the dutiable value of assets in the planner's estate by donation or sale.

This is due to (i) a lower rate of estate duty (15 percent) compared with the previous maximum rate of 35 percent, attributable to the growth in the value of assets. (ii) the substantial exemption — up to R1 million — and deduction in respect of bequests to a surviving spouse. (iii) it can cost up to 5 percent in transfer costs to peg the value of some assets.

The need is for flexibility because of the current uncertainty over the final outcome of CTT on trusts. For example, the proposed 15-year application of CTT to the value of trust assets could make a person potentially liable to estate duty sooner if they place assets in a trust (and possibly more than once).

In this situation, planning could backfire in the case of the younger wealthy planner, says Howard.

Urging that estate planners look at the will option, Howard says: "The need for a carefully structured will to cater for a planner's wishes regarding the distribution of his assets, catering for minor children and providing for tax efficiencies (which may require the creation of one or more testamentary trusts in terms of the will), remains.

"This is particularly the case since one never knows when death will occur. In this context, one must plan on the basis of the current law but provide for flexibility where possible.

"Should the law change to the detriment of the provisions of a will in the future, it can then be revised by amendment (codicil) or a new will can be drawn up."

vital areas of a hard or floppy disk.

● The Lehigh virus will also cause all the data on your hard disk to be lost.

Tax break for medics

POST-graduate education expenses for doctors are tax deductible again. They were eliminated six years ago.

The Journal of the Dental Association of SA says the Minister of Finance has ruled that doctors may deduct these expenses from March 1, 1989.

3 20

Partner Anthony ~~Chait of~~ Fisher Hofman Stride says the SA Medical and Dental Association is empowered to determine, with the concurrence of the Commissioner for Inland Revenue, how much of such expenses are to be allowed as a deduction.

He is at a loss, however, to explain why the Government did not heed the Margo Commission's recommendation to extend the deduction.

Tax deadline looms, but only half of SA's returns are in the bag

0 10 day 12/7/89 (320)

GERALD REILLY

PRETORIA — Government is demanding an extra 23% in income tax from salary and wage earners this year, and so far about 800 000 (47%) of them have failed to submit returns before the July 14 deadline.

Finance minister Barend du Plessis's expectation from salary and wage earners for the 1989/90 financial year is R17,370bn compared with R14,135bn in 1988/89.

Last year the department issued more than 150 000 summonses for non-submission of returns, and there are still 181 000 outstanding returns for the 1988/89 tax year. Most are defaulters.

The large number of non-submissions this year, with the deadline only four days away, is about 10% greater than at the same time last year.

Flood

The deadline was extended from June 6 to July 14 mainly because of a delay by many employers in issuing IRP5s.

An Inland Revenue spokesman said a flood of returns was expected before Monday.

He said the target was to have the majority of the 1,75-million tax forms processed by the end of January. The department had the staff to make this possible, but the extended deadine would cause a few weeks delay in completing the work.

INFORMATION TECHNOLOGY/Edited by Melanie Sergeant

Filling the SA tax program gap

320

WITH the frequent and complex changes being made to SA's tax law, the market for computer-based solutions has stood wide open for some time.

In order to fill this gap, a new locally written software package has been developed. Called TAX-Ability for Home Users, the package is from the same stable as the software package for tax consultants called TAX-Ability, both of which are published by the Juta Tax Library.

It incorporates the latest legislation as interpreted by tax fundis Costa Divaris and Michael Stein, and is written and marketed by The Software Lab.

The Lab's MD Dawid Cattell said: "We are so sure of our product that we are offering a R100 rebate to anyone who has spent that amount or more on a similar tax package."

It can be run on any IBM PC/XT/AT or compatibles, and store data for three individuals.

"Advanced design incorporates real-time processing, giving users immediate feedback of calculation results when entering or editing any information," said Cattell.

"The effect of every entry on taxable income, the total tax for the year, rebates, deductions and tax rates are shown in 0,12-seconds.

"The package can also to do 'What-If?' analyses, allowing users to assess alternatives — from whether they should use a company or a personal car to the effects of revenue after tax contribution increases.

"This allows them to understand all their options before making a decision, based on correct and reliable tax calculations," Cattell claims.

Tax programs are very popular in the US, outselling many popular word processing and spreadsheet packages. In fact, one tax package sold 1,5-million units in the US last year.

"It is surprising that the SA market has taken so long to follow the US trend," said Cattell. He attributes this to the fact that good programs are difficult to develop, calling as they do for the twin skills of programing and tax knowledge.

TAX-Ability provides annual updates after the release of new legislation for both software and the system manual at a discount of 50% off the price to new subscribers. The original purchase includes data for the current and previous tax years.

Another plan for women's tax

KAY TURVEY (320)

THE Department of Inland Revenue is looking into separate taxation for professional and non-salaried working wives. B/Day 19/7/87

Commissioner Hannes Hattingh says ways of including these women under Standard Income Tax on Employees (SITE) are being investigated.

The extension of SITE to include all salaried married women was seen as the biggest concession of this year's Budget. It provides for a final deduction of the tax liability and replaces PAYE. Only income from investments and property are taxed with a husband's earnings.

The exclusion of wives who earned fee income or worked for their husbands, however, was seen as a shortfall of SITE. However, Hattingh says a problem in refining SITE lies with how to overcome the splitting of income — for example, a high-income partner putting part of his or her earnings in the name of the spouse, thus lowering the tax rate.

Call to establish taxpayers' guild

Star 19/7/89 Political Staff (320)

CAPE TOWN — A taxpayers' guild for in-depth consultation between Government and taxpayers is suggested by Dr Andreas Wassenaar, former Sanlam chairman, in a book, "Squandered Assets", published today.

The long-time critic of Government economic policy and public service bureaucracy says that South African taxpayers, "the people who carry the country financially", are completely at the mercy of the lawmakers.

"There is no forum where taxpayer and law-maker can meet each other other for an exchange of views on matters which the lawmakers are about to place on the statute books."

This, he says, is the fault of the taxpayer.

"He is apparently satisfied to leave himself and his fellow-taxpayers entirely at the mercy of the lawmaker until it is too late. By the time the taxpayer feels the pressure and raises his voice he is not dealing with the intentions the lawmaker may have, but complaining about laws."

A taxpayers' guild would consist of several chambers, one for each of the large taxpaying groups, he says.

Its first task would be to act as a watchdog over the cost of implementing contemplated legislation and to study the "truckloads" of regulations in the Government Gazette.

Dr Wassenaar returns to the attack on what he calls the "pensions bandwagon" for civil servants, parliamentarians and town councillors, arguing that a huge hidden national debt has been built up through the deficits in public pension funds.

(Report by T Wentzel, 122 St George's Street, Cape Town.)

Ball probe: should NP pay?

B'Day, 20/7/89

MICHAEL ACOTT

FORMER Sanlam chief Andreas Wassenaar questions whether the NP, rather than the taxpayer, should bear the costs for the commission of inquiry which investigated Chris Ball's involvement in providing funds for advertisements calling for the unbanning of the ANC in 1987. (389A)

The commission was appointed after Ball, then Barclays MD, denied an accusation by President P W Botha that he had advanced the money for the advertisements. It found Ball authorised a R100 000 overdraft for Yusuf Surtee, knowing the money was being borrowed on behalf of the UDF to pay for the advertisements.

In his book "Squandered Assets", Wassenaar notes that no charges were brought against Ball or the bank after the commission's report.

"Is this an indication that the purpose of the commission of inquiry was purely to prove political disloyalty, and not to prove a crime? There is an inquiry into the placing of an advertisement, but no allegation of fraud or embezzlement of funds.

"An answer to this question was required to prove whether the State President's statement in Parliament was justified. The issue at stake appears to be entirely of a political nature." (320)

He asks whether the taxpayer should pay for the Ball Inquiry, or whether the NP should foot the bill.

LOA moves to simplify insurance tax

KAY TURVEY

MOVES are under way which — if successful — could lead to the abolition or revision of complicated legislation governing the tax treatment of insurance policies.

The Life Officers' Association is drawing up a memorandum to present to the authorities to simplify the Sixth Schedule to the Income Tax Act, which causes an "administrative nightmare" for life offices.

Drafting is in the early stages. Refinement of this provision will make it easier for life assurers to develop more flexible products, and should do away with what has been described as anomalies and "absurdities".

Abolition would have little impact on revenue, as its contribution to the fiscus is negligible, says Abri Meiring, Old Mutual legal services manager and convenor of the LOA taxation committee (policyholders).

320

He says the schedule abuses the fiscal measure to force life offices into the long-end of the investment market, which should rather fall under the Registrar of Insurance and be covered by the Insurance Act. B|Day 20|7|89

LOA executive director Richard Geary-Cooke says developments since the last amendment of the Sixth Schedule make it possible to simplify or possibly abolish the legislation.

☐ To Page 2

Insurance

B|Day 20|7|89

320

☐ From Page 1

Long-term insurers have entered an inter-office agreement not to issue policies for less than five years, which are more attractive than those offered by banks.

Further, the acceptance of the trustee principle for the new taxation formula for life assurers makes refinement of the schedule more likely.

This principle acknowledges life offices as custodians of policyholders' funds.

As such they should be taxed at the average rate deemed to apply to the policyholder, and not at company rates.

Tax refunds to be delayed

Staff Reporter 320

Tax refunds will be "slightly late" this year because of delays in the conversion in the Receiver of Revenue's offices to a new computer system.

A spokesman for the Receiver in Pretoria said refunds would be made on a "first in, first out" basis, which meant those taxpayers who had submitted their income tax forms early would be refunded sooner.

Star 16 20/7/89

'vey July 2, 1989

(320)

Tax anomaly causes fears of backlash

S Times 2/7/89

A SERIOUS tax anomaly between pension and provident funds has arisen as a result of the abolition of prescribed assets and the amended taxation of life-assurance companies.

The result is of great concern in the pension industry.

The different tax rates of the two types of funds were offset by the varying prescribed assets requirements. But because of the abolition, the imbalance could cause industrial unrest.

Provident funds in an assurance company could pay as much as 50% tax on investment income.

Bill Haslam, managing director of Timelife Insurance, says: "The officials at Inland Revenue understand the argument, acknowledging the anomaly.

"But they are worried they cannot change it until they understand why the anomaly was there in the first place. Since it is an anomaly, it cannot be answered, which leaves the industry in an impasse.

Vital

"It is vital for Inland Revenue to move fast because most provident fund business concerns the black trade union movement. Most unions have decided that members' interests are best served by a provident fund which permits the payment of a cash sum at retirement. The pension fund benefit is payable in the form of an income.

"If the provident fund is invested with an assurance company — most funds are — they are required to pay tax on investment income. It is not difficult to see that they might interpret that as being selective taxation on their members and it could result in industrial unrest.

"The alternative is for the trade unions to withdraw their funds from the assurance companies and run their own provident funds so as not to be taxed.

"They would then be faced with the investment problems and the volatility of the equity market and a possible repeat of the October 1987 crash. They prefer the security of guarantee-type funds which are only available through assurance companies."

Dilemma

Guarantee funds are similar to a building society account where money is invested and interest or a bonus is added annually. Guarantee fund annual bonuses average 16%.

It is understandable, therefore, that there is a dilemma for the black trade unions. If they wish to eliminate tax, they have to take their money from the assurance company — but suffer the swings and roundabouts of market movements.

"This is a situation which could provoke union leaders to adopt a tough stand which we hope will not reach a point where they are moved to encourage industrial unrest. But if 1981 is anything to go by, this is a sensitive issue to be handled speedily and with care.

"I fervently hope that Inland Revenue will move quickly to solve this taxation anomaly," says Mr Haslam, previously pensions director of Southern Life.

Pensioners' tax trap

320 Finall 21/7/89

Tax avoidance schemes must always be viewed extremely carefully, bearing in mind that non-exposure to tax may take years to be verified and involve expensive test cases. One scheme that needs — at very least — careful consideration is known as "life rights."

Involving the marketing of retirement village accommodation, it is coming under severe criticism from tax experts and starting to attract the attention of Inland Revenue. If Revenue acts, it will, some experts believe, reap tens of millions of rands from developers. But the big losers are likely to be unit "buyers" themselves, who are mostly, if not all, pensioners.

The schemes have various permutations but involve the acquisition by the "buyer" of the right to occupy a particular unit in the retirement village. This right subsists for the lifetime of the "buyer" and is in terms of an agreement which obliges the "buyer" to make an interest-free loan to the developer.

The main selling point is that, subject only to monthly levies, the buyer gets "free" occupation, in that the loan will be repaid to the buyer's estate after his death. Developers argue that the buyer gets cheaper accommodation than in a conventional sale.

Closer scrutiny tends to suggest otherwise. What is not disclosed is that several massive tax traps are hidden in the packet.

For income tax purposes the loan advanced to the developer is disclosed as a loan. In some cases this illusion is perfected by registering a mortgage bond in favour of the "buyer" over the unit.

However, the obligation to repay the loan is conditional on the developer being able to find a new occupier willing to make a new loan at least equal to the first loan. This is the first tax trap. The full amount of the loan is gross income in the hands of the developer.

Says Henry Vorster, tax lecturer at Wits University and a member of the *FM* Tax Panel: "The developer is clearly parting with rights of occupation while retaining ownership. In these circumstances, consideration received by him must be gross income and can never be of a capital nature."

A serious downside for the developer is that development costs will, in all probability, not qualify for deduction. It cannot be argued that the developer is holding units as trading stock because under the life rights schemes he sells merely rights of occupation and not the property itself.

The "purchaser" is really an occupier in the position of a lessee, because there is no transfer of ownership. The tax consequences to the developer are disastrous — a prime example of tax avoidance gone wrong.

The occupier, equally, does not escape the tax net. His return on the loan to the developer takes the non-cash form of free occupation. Such a return is indisputably "gross income" and subject to tax, though there are no SA precedents on how this income would be computed and taxed.

Developers involved in such schemes win hands down. So far, with or without knowing the full tax consequences, they have argued that the schemes afford cheaper accommodation to the aged. In truth, their main object could be claimed to be to avoid payment of income tax by developers on sales proceeds of residential units.

An added bonus for the developer is that

Hattingh ... not deductible

the occupier bears all risks of ownership without any of the benefits:

☐ He bears the cost of maintaining the development, through escalating monthly levies. A financial burden, it should be noted, which a tenant would not normally have;

☐ The risk of "resaleability" of the unit is carried by the occupier;

☐ Capital appreciation in the unit, an obvious benefit of real ownership, remains with the developer. A unit "sold" for an interest-free loan of R100 000 could 10 years later be worth R500 000. The developer need only repay the R100 000 and pocket the balance tax-free — or so developers would like to believe. If the occupier were the owner, the capital appreciation would be his and in most instances of a non-taxable capital nature;

☐ The occupier has no guarantee for the solvency of the developer and no security of tenure. The mortgage bond to secure repayment of the "loan" is cold comfort for the occupier and a mere sales gimmick.

As usual, developers and selling agents refuse to disclose full details of the schemes or copies of standard documentation.

Comments Vorster: "Schemes vary in detail but the basic concept of disguised loans seems to be a common feature. Though I would caution against over-generalisation, it is obvious that some developers have overlooked the tax implications of schemes. Inland Revenue is likely to be disenchanted when the full facts become known to it."

Hannes Hattingh, Commissioner for Inland Revenue, comments: "It is not possible to express any authoritative opinion on the basis of certain supposed conditions which may be present in an agreement. The true nature of any agreement must be determined from examining all terms and conditions.

"But it appears in this case that the developer never has to repay an occupier's contribution out of his own funds — any repayment would be funded by the payment made by a subsequent occupier. In these circumstances, it seems doubtful that the occupier's payment can be regarded as a loan.

"Furthermore, as the occupier obtains a right of occupation for only a limited period, it would seem incorrect to say that the payment is nothing more than a front-ended rental. It would follow that, while the payment constitutes gross income, the development cost would be of a capital nature and thus not deductible.

"The above conclusion, if correct, must also apply to the occupier. He obtains a right of occupation at a cost equal to the loss of interest on his contribution, or possibly, the contribution itself. I do not think, however, that the value of the right of occupation can be said to be gross income in his hands."

Says Arthur Andersen's Pierre du Toit: "While one has inevitable sympathy with the commissioner's criticism of these transactions, the principal issue at stake is that the directorate (of Inland Revenue) now has, not only the right, but also the duty, to test the schemes before the law. If the transactions fail the test, the perpetrators should be hammered and, if it stands up, left alone."

Developers have had a tax holiday which may come to a sudden, costly end. Unfortunately, the real losers will be the occupiers.

THE EXCHEQUER

(320) Fmail 21/7/89

Galloping taxes, spending

Is there a glimmer of hope that increases in government spending have peaked? Finance D G Gerhard Croeser says so. In an unprecedented move, he issued a written statement ahead of Exchequer figures for the first fiscal quarter to end-June.

Croeser is at pains to point out that transfers from the Exchequer account in the *Gazette* "indicate that R16,4bn was *made available* to departments ... as against R13bn for the same period in 1988, an increase of 26,3%" (almost treble the official 9% estimated for the year as a whole).

He continues: "These transfers do not represent *actual expenditure*" (his emphasis). There is a lag between appropriations from Exchequer and actual spending by departments. Croeser adds: "Though some requisitions may appear high, they are in line with projected requirements ... and do not at this stage indicate overspending."

He argues there are further reasons not to regard the 26,3% spending increase too seriously:

☐ Total transfers for the quarter are 25,6% "of the main Budget and 25,2% of the main Budget plus R1bn reserve";

☐ A year-on-year comparison of particular departmental votes is affected by one-off payments, transfers of functions between departments and the January 1989 general increase in salaries; and

☐ The expenditure pattern fluctuates from year to year.

It is a pity that none of these excuses can be applied to the even more dramatic increase in Exchequer receipts: for the first quarter, up 36,6%, against an officially estimated 13,9% for the year.

Reasons relate to the complex operation of certain taxes and imposts (*Economy* June 23), particularly bracket creep as inflation swings upwards, the increase in GST, and the mass phasing out of practically all remaining business tax concessions.

And the import surcharge picture (officially, to "protect the balance of payments") is beginning to filter through. For the quarter, customs and excise receipts increased 53% on a year ago to R2,1bn.

Much of the management of the Exchequer should be seen against the lead-up to the general election. So far, buoyant receipts have encouraged sweeteners such as housing subsidies and one-off bonuses for pensioners. But the relentless increase in receipts demands responsible political action.

There is more to come from the retroactive 10% loan levy, and from the fuel levy in yet another petrol price increase. And RSC levies, "decentralised" from the Exchequer, are raising tens of millions of rands a month.

Huge revenue increases could become a major lobbying point. With businessmen increasingly resorting to open criticism, the pressure to cut the tax burden is increasing.

This week Corbank chairman Bob Aldworth and CE Laurie Korsten argue that government expenditure is rising at "a rate which makes it difficult to reduce the tax burden in the near future." Citing reasons why GDP growth is not as high as it could be, they say that "long-term motivation to invest, take risks and work harder is seriously hampered by the heavy tax burden."

Celebrated government critic Andreas Wassenaar released a new book this week, *Squandered Assets*, with more bad news. He alleges that government has "saddled future taxpayers with an awesome burden by building up hidden debt of between R30bn and R40bn" — contained, he says, in pension fund deficits and other contingent liabilities.

Persuasively as it can be argued that Exchequer spending growth this year has peaked, it is difficult to sympathise when examining some individual increases:

☐ State President (20,8%);
☐ Parliament (19,7%);
☐ Development Planning (47,3%);
☐ Foreign Affairs (30,6%);
☐ Development Aid (19,6%);
☐ Education & Training (25,1%);
☐ Defence (39,1%);
☐ Public Works & Land Affairs (32,5%);
☐ Justice (36,7%);
☐ Finance (25%);
☐ Administration: House of Representatives (31%);
☐ National Health & Population Development (23,2%);
☐ Police (40%); and
☐ Bureau for Information (52,9%).

Moreover, there is evidence that the Exchequer is increasingly used as a macro-economic tool. The Exchequer cash balance reflected an opening surplus of R2,9bn for June, and closed with R5bn. Enormous amounts of money were raised, mainly through short-term TBs, evidently to drain liquidity from the system.

This will have a sharp dampening effect on July money supply figures. When Exchequer cash surpluses are released, predictably before or around the election, interest rates look certain to fall.

REPUBLIC OF SOUTH AFRICA

REPUBLIEK VAN SUID-AFRIKA

Government Gazette
Staatskoerant

Selling price • Verkoopprys
(GST excluded/AVB uitgesluit)
Local 60c Plaaslik
Other countries 85c Buitelands
Post free • Posvry

Regulation Gazette
Regulasiekoerant
No. 4396

Registered at the Post Office as a Newspaper
As 'n Nuusblad by die Poskantoor geregistreer

Vol. 289 PRETORIA, 24 JULY / JULIE 1989 No. 12020

320

GOVERNMENT NOTICE

DEPARTMENT OF FINANCE

No. R. 1584 **24 July 1989**

REGULATIONS UNDER SECTION 48 OF THE SALES TAX ACT, 1978.—AMENDMENT

The Minister of Finance has in terms of section 48 of the Sales Tax Act, 1978 (Act No. 103 of 1978), made the regulations in the Schedule.

SCHEDULE

Definition

1. In this Schedule "the Regulations" means the Regulations under section 48 of the Sales Tax Act, 1978, published by Government Notice No. R. 339 of 20 February 1987, as amended by Government Notice No. 676 of 3 April 1987, Government Notice No. R. 1523 of 17 July 1987 and by Government Notice No. R. 1030 of 27 May 1988.

Amendment of regulation 1 of the Regulations

2. Regulation 1 of the Regulations is hereby amended by the substitution for the definition of "taxable liquor transaction" of the following definition:

" 'taxable liquor transaction' means—

(i) the sale of liquor to, or the importation into the Republic of liquor by, any liquor trader; or

(ii) the sale of liquor exported from the Republic in the circumstances contemplated in paragraph (a) (iii) of the definition of 'exported' in section 1 of the Act: Provided that the provisions of this paragraph shall not apply in respect of the sale of liquor exported from the port or settlement of Walvis Bay; or

(iii) the sale of liquor exported from the Republic to any place in the Republic of Bophuthatswana in the circumstances contemplated in paragraph (a) (i) of the definition of 'exported' in section 1 of the Act;".

Commencement date

3. The amendment effected by Regulation 2 shall come into operation on 1 August 1989.

GOEWERMENTSKENNISGEWING

DEPARTEMENT VAN FINANSIES

No. R. 1584 **24 Julie 1989**

REGULASIES KRAGTENS ARTIKEL 48 VAN DIE VERKOOPBELASTINGWET, 1978.—WYSIGING

Die Minister van Finansies het kragtens artikel 48 van die Verkoopbelastingwet, 1978 (Wet No. 103 van 1978), die regulasies in die Bylae uitgevaardig.

BYLAE

Woordomskrywing

1. In hierdie Bylae beteken "die Regulasies" die Regulasies kragtens artikel 48 van die Verkoopbelastingwet, 1978, gepubliseer by Goewermentskennisgewing No. R. 339 van 20 Februarie 1987, soos gewysig deur Goewermentskennisgewing No. 676 van 3 April 1987, Goewermentskennisgewing No. R. 1523 van 17 Julie 1987 en deur Goewermentskennisgewing No. R. 1030 van 27 Mei 1988.

Wysiging van regulasie 1 van die Regulasies

2. Regulasie 1 van die Regulasies word hierby gewysig deur die omskrywing van "belasbare dranktransaksie" deur die volgende omskrywing te vervang:

" 'belasbare dranktransaksie'—

(i) die verkoop van drank aan, of die invoer in die Republiek van drank deur, 'n drankhandelaar; of

(ii) die verkoop van drank wat vanuit die Republiek uitgevoer word in die omstandighede beoog in paragraaf (a) (iii) van die omskrywing van 'uitgevoer' in artikel 1 van die Wet: Met dien verstande dat die bepalings van hierdie paragraaf nie van toepassing is nie ten opsigte van die verkoop van drank wat vanuit die hawe of nedersetting van Walvisbaai uitgevoer word; of

(iii) die verkoop van drank wat vanuit die Republiek na 'n plek in die Republiek van Bophuthatswana uitgevoer word in die omstandighede beoog in paragraaf (a) (i) van die omskrywing van 'uitgevoer' in artikel 1 van die Wet;".

Datum van inwerkingtreding

3. Die wysiging aangebring deur Regulasie 2 tree op 1 Augustus 1989 in werking.

On strike . . . some staff members carry placards outside Johannesburg Hospital yesterday. ● Pictures by Etienne Rothbart.

320

Hospital staff conditions to be probed

By Toni Younghusband, Medical Reporter

Star 26/7/89

An independent committee of inquiry will apparently be appointed to investigate domestic staff grievances at the Johannesburg Hospital.

About 300 cleaners and kitchen workers went on strike for four hours yes-terday in protest against conditions.

They called for an end to the use of temporary staff, income tax deductions and segregation.

Workers interviewed by The Star said they were very worried about the hospital's policy of "selling jobs".

"If you apply for a job they ask you for R50 and if you pay it you will get the job," several cleaners said.

A workers' committee met hospital authorities and it was agreed that an independent committee be established to investigate grievances.

Although National Education, Health and Allied Workers' Union (Nehawu) officials were apparently present at the meeting, they issued no statement and could not be contacted at the time of going to press.

● More than 90 percent of domestic workers at the Morningside Clinic who went on strike last week returned to work yesterday. A clinic spokesman said that after lengthy negotiations with Nehawu officials it was agreed that staff would be re-instated under certain conditions.

"About five workers who had already received final warnings regarding their conduct over a period of time were not re-instated," he said.

Loan levy loophole for some companies

S Times 30/7/89 (1000) (320)

Business Times Reporter

COMPANIES and close corporations may still challenge their liability to pay loan levies — due tomorrow — if they believe they can claim a reduction on normal tax assessments.

Ron Rankine, a partner in chartered accountants Aiken & Peat, says companies must be sure that the tax rate they are objecting to or appealing against was applied and posted by the Receiver of Revenue before July 15.

A company must have a "reasonable prospect of succeeding" before the taxman will consider allowing the loan levy to be based on a lower assessment.

Mr Rankine says the possibility of relief came to light in a case where a company received an assessment which showed the Receiver had "added back" a large sum, which had expensive implications for the company's 10% levy commitment.

The basis for the "add back" was open to question. But before the Receiver would agree to the levy's being calculated on a reduced amount, he required the company to lodge a formal objection to the assessment.

Companies which believe their assessments warrant an appeal or an objection will have to move fast if they wish to take advantage of paying a levy on a lower rate, says Mr Rankine.

The relief could also be obtained if the Receiver is satsified that the normal tax for a company's latest assessment is due to an error.

There is also the possibility that loan levies could be handled as negotiable financial instruments. A register of loan levy certificates will be drawn up by the Treasury each six months.

TAXATION – 1989

OCT →

320 Fmail 17/11/89

CLOSE CORPORATIONS 320

Tax on enterprise?

The Receiver of Revenue's clamp-down on the use of close corporations (CCs) to avoid PAYE has created unease throughout the computer contracting industry. Most of the estimated 1 000 computer contractors operate CCs.

Johannesburg firm Safricomm was last month instructed by the Receiver to deduct PAYE before paying CCs run by its contractors (*Economy* October 27). Only those CCs that obtain a directive from the Receiver are exempt from PAYE, says Safricomm group MD Ralph Church. He expects all the company's contractors that run CCs to apply for directives.

The Safricomm ruling, which came into effect from October 1, is questionable in terms of strict tax law. Technically, the Receiver might well have to proceed in terms of Section 103 of the Income Tax Act (the general anti-avoidance section) in cases where the income is genuinely receivable by a CC.

Other large computer contracting agencies have been visited by Revenue officials and it is likely they will have to comply with a ruling similar to that issued to Safricomm. Some agencies are concerned that the new tax requirements — and the current confusion that surrounds them — will make contracting less attractive to computer staff.

On a broader note, concern has also been expressed that Revenue's ruling amounts to an attack on the formation of small business, which, research has shown, are the biggest providers of new employment.

The Computing Services Association (CSA) — which represents the interests of many computer contracting agencies — is attempting to clarify the issue. The association held an exploratory meeting with Revenue officials this month and hopes to influence the drawing up of a blanket directive for CCs and sole traders in contracting. The CSA has offered its services to the Receiver, says association representative Tony McKenzie. He expects the CSA to be notified this week whether its offer has been accepted.

The CSA achieved mixed results early this year after lengthy discussions with Revenue officials about the application of GST on the development of software. This had long been considered a service activity not liable for tax. However, the Receiver thought otherwise and computer companies that develop software for clients were instructed in August to add GST to their bills.

The CSA claims to have limited the GST which software companies are required to pay by highlighting the distinction between software design, programming and testing. In broad terms only, the programming stage of software development, when computer code is generated, incurs GST and design and testing are still considered service activities. The CSA claims the acceptance by the Receiver of this distinction means only R3m, instead of up to R13m, will be added to the software sector's tax bill in the coming year.

Many computer companies still believe the payment of GST on software development is not only unfair but totally impractical. Ironically, one of the most controversial aspects of the Receiver's recent stance concerns the work performed by computer contractors.

To avoid being liable for GST at least one agency has stipulated to customers that, while its contractors will continue to write software programs, they will not be responsible for compilation (the process that turns the software into code that can be understood by the computer). By ensuring that only the customers' employees compile the programs written by the contractors — a process that involves little more than pressing a key on the computer — the contracting agency argues it has not been responsible for the manufacture or sale of a product and is, therefore, not required to pay GST.

Meanwhile, as part of its bid to secure software development incentives from the Board of Trade & Industry, the CSA has appointed auditing firm Coopers & Lybrand to conduct a preliminary review of the local software sector. The research, due to be completed next month, will form part of the CSA's presentation to the BTI.

The CSA began canvassing the BTI for grants to encourage software exports and import replacement in July. It had hoped to present the BTI with a detailed justification for its request in September but this is now unlikely to take place before next year.

The R40m-a-year incentive programme for the electronics industry, details of which were announced by the Department of Trade & Industry last month, precludes developers of computer software. ■

Barend's bid to square the tax-spending circle

S/Times 1/10/89 (320)

REX

Cees Bruggemans reviews the local and world scene

GEORGE Bush promised the US electorate, "Watch my lips: no tax increase" — and has so far kept his word.

South African lips also seem intent on lower taxes, the target apparently being a 40% top marginal rate at R100 000 income compared with the current 45% at R80 000. Of course, timing is everything in a highly inflationary environment.

If such a reduction were to be implemented from March next year, there would be much rejoicing. But often it takes time to deliver on good intentions, such as those stated in the Government's five-year plan to invigorate the economy.

But if the tax change were to be achieved only in five years, a high inflation rate will see to it that most of us pay more tax anyway.

SPENDING

Finance Minister Barend du Plessis appears anxious to convince everyone that it is not merely a gimmick: the intention really is to lower the tax burden on the heavily burdened — because re-election would otherwise be that much more difficult in five years.

The lowering of the direct tax burden should be real, implying that the inflation rate should be forcefully reduced. Compensatory increases in indirect taxes are not recommended as a way to maintain the revenue base.

Instead, spending should be reduced, although VAT will be introduced and presumably generate more income for the State.

What makes this entire proposal suspect is the myriad of inconsistencies. One dubious proposal is difficult enough to believe, but three: materially reducing inflation, controlling State spending *and* reducing direct taxation?

It is accepted that greater deficit spending is not considered an option, and that indeed the deficit before borrowing as a percentage of gross domestic product should be reduced to below 3% and kept there. Reducing the inflation rate will be extremely difficult — but not impossible, provided backbone is acquired with regard to deficit financing and money-supply management, and by implication interest rates.

But even then it will be difficult to overcome the lack of efficient competition in many of our key markets, a feature that tends to entrench inflationary behaviour and therefore expectations.

The truly fascinating feature is the promise to control spending. Having lately fought a not unsuccessful campaign on the basis of wanting to negotiate with all reasonable South Africans, such a policy initiative will presumably cost money as more and more South Africans will seek, and successfully negotiate, access to privileged social goods such as improved education, housing, health care, social welfare and security services.

If we are not to be involved in a costly attempt to keep the race groups separate but equal, we presumably will still be called on to take part in a further generous redistribution of income as our society proceeds further down the road of normalisation to an integrated social economy.

OBVIOUS

If that remains the agenda, and little suggests that it will not, Government spending by definition will continue to rise as a portion of national income.

What then remains intriguing is how the Government hopes to finance such activity while easing direct taxation and not resorting to deficit financing.

The most obvious explanation is the virtuous process of privatisation. By selling as many State assets as possible and by denying present public activities access to Government funds, it may be possible to square the circle of higher spending with lower direct taxation and deficit funding.

Unfortunately, the Government has little credibility after two decades of getting things seriously wrong.

It is therefore difficult to believe that miracles can still happen in our fiscal condition. Of course, both Australia and Britain have succeeded in radically reversing their fiscal positions from large annual deficits and reliance on public borrowing to generous annual surpluses in government finances and a consequent reduction in the national debt.

VIGOROUS

Much of this success can be attributed to a vigorous pursuit of privatisation. There is certainly little that can be restraining our Government back from taking this one soft option, and there is indeed much to be said from a political point of view for success in this area.

A mandate for change will cost lots of money, and the simultaneous promise of an easing in tax pressure will be as crucial when it is time to face the electorate again.

Only privatisation offers a harmless way of achieving both these important political objectives in a responsible manner. However, so far little light has been thrown on the progress of the privatisation process.

We know of tens of billions of rands of potential Government funds that could be unlocked along this way over several years, but there are few firm indications as to how much can be counted on to become available in any one year.

Also, this reliance on the magic privatisation billions should be seen in context, and not as an issue with a life all its own. Privatisation is a means by which the Government can obtain a part of the private institutional cash flow available for investment.

LIMITS

There are thus certain limits to privatisation proceeds — unless we want an undue proportion of our "seed" money (available investment funds) to be siphoned off into funding social expenditure by the Government.

Most intriguing of all, however, is the real agenda of the tax structure. How will the real tax burden turn out in the next five years, and how much will be successfully shifted into indirect forms such as VAT, fuel levies, regional council levies and others in order to obtain both a broadening of the tax base, increase of the tax burden (privatisation having limits) and reducing the contribution of direct taxation (possibly only relatively rather than absolutely)?

CONTENTIOUS

These are highly contentious issues as the recent political campaign has borne out, and they could become more, rather than less, explosive in the years ahead as the process of income and wealth redistribution continues.

The temptation will be to say only good things, while carrying on with the agenda at hand.

Although sterling progress may be achieved this way, it would come at the cost of credibility.

LOA asks for Sixth Schedule to be dropped

LESLEY LAMBERT

CAPE TOWN — A standing committee of the Life Offices' Association (LOA) has drawn up a memorandum urging government to scrap the Sixth Schedule to the Income Tax Act in next year's Budget.

The memorandum includes proposals for the treatment of the complex and controversial tax legislation applied to the life insurance industry as well as measures to replace it. B/Day 4/10/89

LOA executive director Dick Geary-Cooke confirmed yesterday that LOA members had been invited to comment on the memorandum by the end of October. However, he said, it was a preliminary position paper and was likely to change before being submitted to the financial authorities.

In its present form, the memorandum urges the authorities to abolish the Sixth Schedule totally and immediately and to replace it with more appropriate measures, according to industry sources.

The reasoning behind this, they say, is that the Sixth Schedule has become largely obsolete. Its original function — to prevent the use of life policies as tax shelters for wealthy taxpayers — has become redundant as the basis of taxing life offices has changed.

Loophole

(320)

Any previous attraction of a possible tax shelter has effectively disappeared because the current rate of 45% applied in the income-expenditure formula is the same as the top marginal rate for individual tax payers, sources argue.

The legislation has become unfair to policyholders by threatening to impose double taxation on certain of them, they say.

The Sixth Schedule was introduced in 1972 to plug a perceived loophole for tax avoidance.

Over the years, amendments and new provisions have been tagged on to the original legislation, not only to plug new loopholes that have emerged, but also to prevent the life industry from competing for public savings with deposit-taking institutions like building societies.

In 1987, the Margo Commission reported and, by way of a majority view, recommended the abolition of the Sixth Schedule and the introduction of a new basis for the tax-

□ To Page 2

Sixth Schedule

B/Day 4/10/89

(320)

□ From Page 1

ation of life offices.

This was followed in 1988 by intensive deliberations between the LOA and the Tax Advisory Council on a more appropriate basis of taxation. These culminated in the Budget announcement that, in line with the trustee principle, life offices would be taxed on an adjusted income-expenditure basis.

Nothing significant was said at the time about the future of the Sixth Schedule.

The memorandum is understood to recommend that if the life industry's tax rate is reviewed, a relatively simple measure should be introduced to discourage wealthy taxpayers from using life assurance as a tax shelter.

4/10/89 STAR (320)

Assocom to take Govt to task on excessive taxation

By Michael Chester

The Association of Chambers of Commerce and Industry is planning to deliver a grave warning to the Government that excessive taxation lies at the root of South Africa's weak economic performance.

Demands that Finance Minister Mr Barend du Plessis starts an action programme with sweeping reform of the whole tax system are likely to be agreed by big business at Assocom's annual congress that starts in Port Elizabeth on October 17.

Assocom is likely to propose the lowering of marginal tax rates, the scrapping of taxation on fuel, the withdrawal of import surcharges, a halt to double taxation on dividend payments and the removal of ad valorem excise duties as first moves towards a new tax package.

A blistering attack on the relentless increase in the tax burden on business and individuals alike will be led by the Witwatersrand chamber and backed by the Cape Town delegation.

Witwatersrand president Mr Aubrey Pitt will propose that Assocom formally voices grave concern at the negative impact of tax levels on economic growth, the "gross violation of the canons of equity" in the present tax system, and the growing flow of revenue wasted on excessive government spending.

FORBIDDING

"The taxation landscape is dreary and overhung by forbidding clouds that cause concern," argues Mr Pitt in a background paper. "There is little apparent evidence of the existence of any definite or clear plan for tax reform."

The government had so far introduced little of the reform recommended by the Margo commission of inquiry after its exhaustive probe into problems and potential solutions.

High taxation and the amount ploughed into excessive government expenditure was undermining both corporate and consumer confidence and acting as a brake on new investment.

The whole tax system needed to be steered back to the fundamental canons of fair taxation, meaning clarity and simplicity and equal treatment for all taxpayers.

Tax levels had a key influence not only on day-to-day business management and administration but also on longer term development planning. It was crucial that fundamental principles in the system were honoured.

6/10/89

LIFE TAX (320) F.Mail

Obsolete schedule

Hopes in the life industry are high that the cumbersome Sixth Schedule of the Income Tax Act will be abolished, following last week's recommendation by the Life Offices Association Standing Committee on Taxation to member companies that they ask for its abolition in the March 1990 Budget.

Abri Meiring, convenor of the committee, says the Schedule has lost its perceived function as "plugging a loophole." It was intended to prevent investors paying a large single premium on a pure endowment policy, to benefit from relatively lower average tax rate of investments of life offices. The legislation prescribes a minimum term to maturity of 10 years, no early withdrawals, no increases (to keep pace with inflation) or decreases (if the policyholder can't afford the ones he's paying) in premiums and a minimum element of life cover. These rules are enforced by threat of a penal tax on gains on policies which do not conform.

But, since its introduction, the tax structure of life offices has been changed. The current rate of 45%, applied to the income minus expenditure formula, removes any advantage for individual tax payers.

Meiring recommends the focus should be on "the characteristics of payments under the policy and the tax profile of the particular policyholder, rather than the characteristics of the policy."

The other reason for the Schedule is to protect building societies against what is often described as the use of insurance policies as deposit accounts. However, Meiring argues, in 1988, life offices agreed investment products of five years or less should be left to banks or building societies. Blurring of boundaries could be avoided by amending the definition of a life policy in the Insurance Act "to incorporate appropriate limitations, such as minimum terms to maturity and minimum life cover components if this is still deemed necessary in the light of recent self-regulation."

Meiring argues the Sixth Schedule:

- ☐ Stifles new product development; and
- ☐ Places a burden on administrative systems of life offices. ■

ECONOMY

Even the taxman can't take gilt off being a star earner

Star 10/10/89 (320)

Don't let the rat race get you down.

Inflation and high taxes may be lying in wait, but the rewards that come with success in the company hierarchy are still huge.

A new nationwide survey into salary trends shows that a senior executive in South Africa can still take home 10 times more than a humdrum clerk — plus a bundle of perks that makes the mind boggle.

To demonstrate the sort of pay package likely to be collected as you climb the corporate ladder, Hay Management Consultants have drawn a profile that fits the average senior executive running a division inside a large group or a managing director in the smaller-scale league.

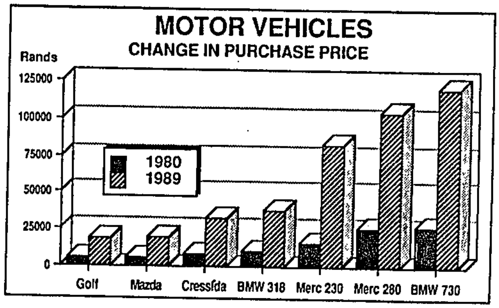
An average basic salary of R141 816 a year turns out to be only a start. First, add to that a 13th cheque at Christmas (R7 238), a R1 254 entertainment allowance and other odds and ends. That pushes what the Hay team calls the base salary to R153 688.

Next come incentive bonuses, likely to be linked to individual and company performance. That, say the researchers, can be expected by 60 percent of executives and works out at an average of R21 379 — swelling the pay package to R175 067.

Standard benefits at that level — the company's contributions to pension and medical aid schemes — add an average of R17 894.

Yet to be counted are the perks. All executives in the profile enjoy a company car deal' — nowadays worth R28 264 a year on average.

(Hay puts the value of a company car in perspective by showing what has happened to the purchase price of cars since 1980 — along with comparisons of what it costs the company every year to keep them on the road, following the AA formula of combining the vehicle's value with total running expenses. *(See tables.)*



The majority of executives also dip into company housing schemes, worth about R5 577 on average.

There is also scope for executives to put their club fees on the company bill — worth another R436 a year. There may be about R500 to cover telephone costs too.

It all brings the guaranteed package to an average R208 719. If the executive picks and chooses a really clever mix of perks, the average total remuneration climbs to R230 000 a year.

And if he is not flagging in the rat race and aims to move up, as chief executive of a R1 billion group in command of a labour force of around 4 000, he can expect a package worth on average R320 000 or more.

And that's not all. The Hay team find it hard to persuade the top brass to divulge the details of what they may pick up in the way of options to take bundles of shares in the company. But they believe share packages can sometimes be worth more than an entire year's salary in the inner sanctum of the boardroom.

There's always a sting in the tail somewhere, though. Almost everyone's pay packet has been stung by inflation. It is only the lowest income groups — at labourer or unskilled level — that have seen their base earnings climbing faster than inflation since 1982, largely due to efforts to close the black/white wage gap.

Middle to senior executives need brace themselves for the taxman snatching no less than 42 percent of 1989 earnings of R123 000.

Oddly enough, the tax burden has actually eased a little for the big guns at the helm of really large corporations. A group managing director whose basic earnings were R84 600 in 1982 saw no less than 48,6 percent swiped by tax. At least, by a reshuffle in marginal tax rates, the tax bill on the R204 700 in base earnings in 1989 will be nipped back a notch — to 44,9 percent.

The taxman has not managed to snitch all the glamour of star status.

MICHAEL CHESTER

MOTOR VEHICLES

Two RSCs raise levies

Cape Times 12/10/89 320

Own Correspondent

JOHANNESBURG. — Two major regional services councils (RSCs) have raised their levies in the first signs of what is expected to be a spate of similar increases.

However, the rises also come at a time when some RSCs are being criticised for:

- Raising revenues which they do not or cannot yet spend;
- Excessive expenditure on white salaries and general staff costs; and
- Unnecessarily retarding infrastructural development by funding it only from levy income and not using their borrowing powers.

Pretoria raised its services levy (salaries and wages) by 28% to 0,32% (0,25%) and its establishment (turnover) levy by 35% to 0,135% (0,10%) from October 1 1989.

The Western Cape RSC has raised only its turnover levy by 50% to 0,115% (0,10%%) from November 1 1989.

So far, RSC levies have been uniform — 0,25% on payroll and 0,10% on turnover. This change is the first sign of regional differentiation. RSC expert David Solomon believes it could ultimately develop into rate-based regional competition for business growth.

The number of RSCs is increasing rapidly nationwide — in the last 10 months, 12 of the 31 RSCs have been established, mainly in rural areas.

Last year, it was announced that the 12 Transvaal RSCs expected to collect R467m in 1989/90 — a 32% increase on 1988/9. But in 1988/9, they underspent by 50% — spending on 308 instead of 986 projects — so R180m has been carried forward, giving them a budgeted total income of R647m.

Spectrum

Release . . and how it happened

By TOS WENTZEL
Political Correspondent

THE release of eight political prisoners by President De Klerk is the culmination of years of behind the scenes negotiations following a move by former President Botha in 1985.

Speaking at the beginning of a new session of Parliament on January 31 of that year he came with an offer which was aimed at finding a formula to release political prisoners, especially Mr Nelson Mandela, who had been in prison for many years.

He said the government was willing to consider the release of Mr Mandela provided he unconditionally rejected violence as a political instrument.

The offer would also be extended to other political prisoners.

Mr Botha said on that occasion that the government was not insensitive to the fact that Mr Mandela and others had spent a long time in prison even though they were duly convicted in open court.

Apart from the undertaking to abandon violence Mr Mandela would also have to give the commitment that, if released, he would not conduct himself in such a way that he would again have to be arrested.

Four political prisoners accepted the offer and were releassed, but Mr Mandela and five others who were sentenced to life imprisonment at the Rivonia trial in 1964 refused to do so.

Announcing this on February 14, Mr Botha said their continued imprisonment must now be contributed to their refusal to renounce their commitment to violence.

The matter did not end here. It now moved on to a level about which the public never heard.

24 HOURS NEWS WATCH

P W Botha

F W De Klerk

ers the unbannin of the

meet him at the house.

One of those who continued his regular visits was Mr Coetsee. He was later joined by Dr Gerrit Viljoen, the Minister of Constitutional Development.

For many months the government figures tried in vain to persuade Mr Mandela that he and the ANC should abandon some of the cornerstones of their strategy as a precondition for possible future negotiations with the ANC.

In order to prevent the talks from ending in deadlock or from breaking down altogether discussions then began on the issue of releasing Mr Mandela's jailed ANC colleagues.

This led to the release of Mr Govan Mbeki at the end of 1987 and later some PAC figures.

After statements by Mr Mbeki at a press conference soon after his release to the effect that he stood by his old marxist principles he was banned and restricted to Port Elizabeth soon after his release.

The release of Mr Mbeki had been a calculated risk from the government's point of view and Nationalist politicians said later that it had been bungled.

Overseas pressure for the release of Mr Mandela continued.

On April 17 Mr Botha again referred to the Mandela situation when he spoke in Parliament.

He then urged Mr Mandela to play a role in creating an environment which could facilitate his release.

He noted that Mr Mandela's case was being treated "with circumspection" by the government.

He said it ought to be clear to everyone that it would be futile if his release led to his rearrest and even heightened the conflict.

On this occasion the government even went out of its

FLASHBACK: The joyous moment of release for ANC chairman Mr Govan Mbeki as he meets walks into the blaze of international TV and press acclaim alongside Winnie Mandela, wife of jailed ANC leader Nelson Mandela, outside Pollsmoor Prison

peaceful development in South Africa," according to Mr Coetsee.

On July 12 Mr Mandela confirmed Mr Coetsee's version.

He said he would like to confirm that his release was not an issue at this stage. As implied in the original statement he would like to contribute to the creation of a climate which promote peace in South Africa.

This has clearly remained his intention but, while he is said to be "highly satisfied" with the decision to release

'Release . . . only for a package'

By DENNIS CRUYWAGEN
Staff Reporter

NELSON MANDELA went to prison because of an ideal and he will not dream of leaving it without a "package", his wife Mrs Winnie Mandela has said.

She gave this reply after being asked when her husband will be freed.

"Our expectations have been whipped up over the past 26 years. You don't ex-

on July 18 when the African National Congress leader "made it clear" to his family visiting him on his 71st birthday that "we shouldn't expect his release very soon", according to his son from his first marriage, Mr Makgatho Mandela.

Speaking from Umtata he said his father "wants the government to move a lot further than it has done. The situation must be a lot closer to the ideal he went to prison for before he'll step out of

De Klerk) has suddenly decided to release them."

Mrs Cachalia said Mr Mandela had told her "was seeing Minister of Justice Kobie Coetsee".

Mr Makgatho Mandela said his father had told him in August he was negotiating with the government for the release of his co-accused in the Rivonia Treason Trial.

"He said he was speaking to the government on their behalf . . . thereafter they could discuss his release.

Release . . . only for a package'

By DENNIS CRUYWAGEN
Staff Reporter

NELSON MANDELA went to prison because of an ideal and he will not dream of leaving it without a "package", his wife Mrs Winnie Mandela has said.

She gave this reply after being asked when her husband will be freed.

"Our expectations have been whipped up over the past 26 years. You don't expect a man to leave prison without a package. I don't think he'll dream of coming home without a package. It's like a father returning home from shopping empty-handed," she said.

She disclosed that Mr Mandela had been negotiating with the government since August 1986 for the release of his co-accused in the Rivonia Treason Trial.

"At first he had regular contacts with Mr Kobie Coetsee (Minister of Justice) and from 1987 he started having contacts with other ministers as well."

Mr Mandela told life-long friend Mrs Amina Cachalia as early as June that his "colleagues" would be freed from prison this year.

However, he said his release from captivity was "not going to happen this year", she said.

This message was repeated on July 18 when the African National Congress leader "made it clear" to his family visiting him on his 71st birthday that "we shouldn't expect his release very soon", according to his son from his first marriage, Mr Makgatho Mandela.

Speaking from Umtata he said his father "wants the government to move a lot further than it has done. The situation must be a lot closer to the ideal he went to prison for before he'll step out of prison."

Mrs Cachalia and her husband, Yusuf, saw Mr Mandela in his quarters at Victor Verster prison on June 8 this year.

"When I last saw him he said he was talking to people about releasing his friends. He didn't mention names. But said he was discussing the release of his colleagues."

At that meeting, Mandela had not given a date on which his "colleagues" would be freed neither did he say if it would be unconditional freedom.

"He just said he had seen Walter Sisulu twice before our visit. He mentioned that he had entertained all the Rivonia Treason Trialists in his quarters before Christmas."

She was not surprised at the impending releases.

"This thing has been going on for a long time. It's not that De Klerk (President F W De Klerk) has suddenly decided to release them."

Mrs Cachalia said Mr Mandela had told her "was seeing Minister of Justice Kobie Coetsee".

Mr Makgatho Mandela said his father had told him in August he was negotiating with the government for the release of his co-accused in the Rivonia Treason Trial.

"He said he was speaking to the government on their behalf ... thereafter they could discuss his release.

"He said he was negoatiating on their behalf with some cabinet ministers and he had no idea of when they would be released."

Mr Mandela said he was not "at liberty" to disclose the names of the cabinet ministers.

Asked about his father's prison conditions, he said that Mr Mandela was a prisoner in every sense of the word.

"It's just that his prison conditions have been made more civilised. . .he's living in a modern house and not eating prison food. But warders still guard him."

Apart from his family, other visitors to Mr Mandela were carefully screened.

"All we have to do before a visit is to call Victor Verster prison and make the necessary arrangements. However, whoever else wants to see him must apply to prison authorities for permission."

... Mandela and five others who were sentenced to life imprisonment at the Rivonia trial in 1964 refused to do so.

Announcing this on February 14, Mr Botha said their continued imprisonment must now be contributed to their refusal to renounce their commitment to violence.

The matter did not end here. It now moved on to a level about which the public never heard.

Since 1986 Mr Mandela became involved in serious dialogue with senior members of the government led by the Minister of Justice, Mr Kobie Coetsee.

At the start of this he was in Pollsmoor where he was moved after having spent many years on Robben Island.

Apart from his family he was only allowed the occasional visit by an overseas politician — most of the requests for such visits were turned down — and occasionally by Mrs Helen Suzman MP.

She found that he was an old-style black nationalist, not a communist, who was in favour of peaceful solutions. It appeared, however, that he was strongly committed to certain principles such as the unconditional release of all political prisoners, the unbanning of the ANC and moves to provide for black political rights.


F W De Klerk

In 1988 he was admitted to the Constantiaberg Clinic in Cape Town where he was treated for tuberculosis for a considerable time.

During this time Mr Botha said he hoped that Mr Mandela would make it possible for him not to be returned to prison. In government circles there was speculation that there was a move to start a release plan for him in stages.

At the end of his treatment in the clinic he was moved to a house in the grounds of the Victor Verster prison in Paarl. From then on he was given much more freedom to receive visitors. His family was given virtually unrestricted rights to visit him and on occasion some of his old compatriots were taken to

... in Parliament.

He then urged Mr Mandela to play a role in creating an environment which could facilitate his release.

He noted that Mr Mandela's case was being treated "with circumspection" by the government.

He said it ought to be clear to everyone that it would be futile if his release led to his rearrest and even heightened the conflict.

On this occasion the government even went out of its way to get a copy of Mr Botha's speech to Mrt Mandela as the president was speaking in Parliament.

According to top government sources that speech indicated significant nuances in Mr Botha's approach to Mr Mandela's release.

While in the past Mr Botha had referred to conditions under which Mr Mandela could be released he now invited him to become constructively engaged himself.

Government thinking had shited from the insistence on the renunciation of violence to commitment to peacefuk solutions.

On July 8 came the sensational news that that Mr Botha and Mr Mandela had met at the Tuynhuys.

They had "availed themselves of the opportunity to confirm their support for

Mr Coetsee.

On July 12 Mr Mandela confirmed Mr Coetsee's version.

He said he would like to confirm that his release was not an issue at this stage. As implied in the original statement he would like to contribute to the creation of a climate which promote peace in South Africa.

This has clearly remained his intention but, while he is said to be "highly satisfied" with the decision to release some people he appears to be sticking to some of his other demands including the unbanning of organisations.

What would have been unthinkable not so long ago happened this week when Mr Coetsee and Dr Viljoen visited Mr Mandela in Paarl to discuss with him the rlease of the eight. As Mr De Klerk put it in his statewment Mr Mandela had been "fully apprised of the proposed release."

Significantly Mr De Klerk has stated that the prisoners are being released unconditionally and Mr Coetsee has added that no restrictions are being imposed on the men.

In way the release is meant to test the water for the release of Mr Mandela at a later stage but there are no indications of when this could happen.

Confusion over tax on close corporations

B/Day 13/10/89

KAY TURVEY

TEMPORARY staff contracting businesses have been thrown into confusion by Inland Revenue's recent clampdown on sham close corporations (CCs).

Reacting to widescale abuse by employees who resign to enter into contracts to provide the same services through a CC, IRS Commissioner John Hanssen said immediate action would be taken.

Temporary staff contracting businesses had been told to ignore the existence of CCs and apply PAYE tables.

(320)

The Association of Personnel Service Organisations in SA (APSO), representing about 80% of the temporary staff contracting businesses in SA, is to write to the commissioner for clarification and for recognition of special circumstances.

APSO vice-president John Dawkins said the main concern was not whether these CCs were taxed or not but at what rate they should be taxed. Many of the contracting draughtsmen, artisans or accountants worked with more than one agency so total income was not known.

He said many agencies appeared to have been given different directives by the IRS.

Ernst & Young's Ian Mackenzie said although some CCs "can and should be challenged", there were also many legitimate ones "through which properly structured services are being rendered".

B/Day 13/10/89. (320)

Mining taxes in need of reform in three areas

JOHN STEWART

THREE areas of essential mining tax reform were identified at a conference in Johannesburg yesterday.

Anglo American group tax consultant Marius van Blerck called for:

- Further phasing-down of mines' marginal rates to achieve neutrality with other economic sectors;
- Relaxation of ring-fencing; and
- The exemption of certain classes of share transactions from capital gains tax.

In the past 10 years the top marginal rate on gold mines had increased from 63% to 75%, the flat rate on diamond mines from 47,25% to 56,25%, and the flat rate in respect of other mines from 42% to 57,5%, compared with the current corporate tax rate of 50%. With royalties payable to the state, the effective rate for gold and diamonds was about 80% and 60% respectively, he said.

In the past, the imbalance did not impose too much hardship because profit margins were high, but since 1979 mines' margins had come under pressure from higher taxes to fund rising government spending; from softening commodity prices and from declining grades and rising costs in the gold sector.

While reforms had been initiated in the 1989/90 budget, Van Blerck suggested that ordinary company tax should be lowered to 40% and that the mining sector phasing-down schedule should aim at the new target.

Decreases

A major constraint to mining industry growth, he said, was the introduction in 1985 of the ring-fencing provision that capital expenditure on a particular mine may only be set off against income from that mine. Even worse, expansion costs by a mine into an adjacent area were not deductible from its mining income if the expansion was deemed to be a mine.

"The latter effect dramatically decreases the rates of return on new mining projects and, unless relaxed, will simply rule out a number of the proposed new mining developments brokers are so fond of speculating about," he said.

In theory, the Receiver had the right to overrule this ring-fencing provision, but in practice this was seldom done because of the rationale for the provision to protect the tax base from fast rising mining capex costs.

A compromise that presented itself would be to set off 60% of a mine's expansion capex against its tax base, provided that the reduction would not reduce the tax base by more than 30%, and a capital allowance of 10% applied against the remaining 40% of the cost of expansion.

Finally, Van Blerck said many companies, including mining houses, with substantial share investments from past "greenfields" investments were inhibited from disposing of such investments because the gains might be taxable in full if held to be of a revenue nature. This fear was largely responsible for the relative illiquidity, or inertia, of the JSE. This could be overcome by a low-rate tax on real profits derived from share transactions, with an adjustment reflecting the period of holding.

B/Day 18/10/89

Tax and govt spending need attention — Relly

320

Own Correspondent

PORT ELIZABETH — Four areas needing continued effort to help improve SA's economy were oulined in Port Elizabeth last night by Anglo American Corporation chairman Gavin Relly.

Opening the annual Assocom congress which coincides with the 125th anniversary of the Port Elizabeth Chamber of Commerce, he said the list was by no means exhaustive.

The four areas comprised the tax system and government spending; establishing priorities for spending; deregulation and privatisation; and productivity.

He said there was a need to continue to restructure the tax system and to reform government spending. Much political will would be needed by the new administration to carry through this difficult task. He welcomed the reduction in spending by the President's Council as a token of good faith.

While overall government spending would have to be within the bounds of affordability, Relly said, spending in some areas would have to receive priority. This applied particularly to education.

"May I also make a plea for attention to more adequate funding ... so that both the calibre of recruits and the number of police can be increased to the advantage of the entire South African community."

Benefit

Government needed to make more progress on deregulation and privatisation. Its assurance that it would use the proceeds of privatisation primarily for paying off debts must be carried out.

The private sector, however, also had an important duty, together with government, in the area of deregulation and privatisation: to draw those who had been excluded from the economic mainstream into those processes through debate and explanation and by ensuring that they, too, benefited from the process.

"I think many in business have simply assumed that the virtues of the process of deregulation and privatisation are self-evident, and have not made an adequate attempt to understand why segments of the black community are highly critical of them or to reassure often legitimate fears."

Finally, he said, there was the issue of productivity. Attempts by the business community to impose productivity on the workforce in a top-down way were bound to fail.

"It is only by inviting the full participation of the workforce in generating schemes to improve the productivity of enterprises that the sort of improvement which is vital to the economic well-being of the country can be achieved."

Referring to the process of political change, which was accelerating, he said the primary role of the business community would be to continue to produce wealth and to engage in all the activities.

Business would not be able to produce wealth if it did not demonstrate that it was committed to a new SA.

Getting its own house in order meant meeting enormous challenges in the industrial relations and human resources areas, Relly said.

Major change needed in SA tax — Hersov

B/Day 20/10/89

320

BARRY SERGEANT

MATERIAL changes are needed in the tax system, says Anglovaal's Basil Hersov in his chairman's review for the financial year.

"The withdrawal of various incentive allowances and a more aggressive tax regime has led to South African companies paying substantially higher rates of taxation in recent years and changes are needed, both for individuals and for companies."

Hersov says a major reason for the ever-increasing tax burden is the "gross waste inherent in the structure of the system of governing SA and, with notable exceptions, in the way the system is administered".

Solving these problems requires urgent political reform.

Hersov says that one of the most important changes needed is to the system of taxing surpluses on the realisation of investments which, in as much as it concerns mining houses, results in "the sterilisation of large amounts of capital" needed for new mining and job-creation.

Hersov says the tax on individuals' dividend receipts is, in effect, a second tax imposed on the profits of their investments.

He argues this "penalty", eliminated for close corporations, should be eliminated for companies.

But Hersov welcomes the proposals to reduce company tax to 40% and individuals' marginal tax rate to 40% as a "significant reform".

Referring to calls to reduce national expenditure, Hersov argues the financing of deficits cannot continue without damaging the future of the economy.

Hersov urges tax reforms to foster jobs and development

By Magnus Heystek
Finance Editor

Basil Hersov, chairman of Anglovaal, has appealed to the Government to make drastic changes to those aspects of tax policy that are hindering development and job creation by mining houses.

Writing in the annual report, he pleads for a change in the system of taxing surpluses on the realisation of investments in the hands of mining houses.

"This practice results in the sterilisation of large amounts of capital that are urgently required for new mining developments and hence employment opportunities," he says.

Most of SA's large mining houses have billions of rands tied up in equity investments. But fear of being taxed on the realisation of part, or all, of them, has resulted in large blocks of shares being "locked up" indefinitely.

Anglovaal, for instance, had equity investments of R1,22 billion at June 30.

Mining house chiefs have in the past called on the Government to give clear guidelines on the disposal of such investments, but to no avail.

Mr Hersov, while acknowledging several important changes in policy, criticises other aspects of taxation.

The withdrawal of various incentive allowances and a more aggressive regime have led to companies paying substantially higher tax rates in recent years and changes are needed, both for individuals and for companies, he says.

As far as individuals are concerned, the tax imposed on their dividend receipts is, in effect, a second tax imposed on the profits from investments.

This "penalty" has been eliminated for close corporations and needs to be eliminated on dividends received by individuals.

He says an important reason for increasing tax burdens is the "gross waste inherent in the structure of the system of governing South Africa and, with some exceptions, in the way the system is administered".

Deficit financing by way of loans will only further damage the economy, he says.

While he has no quarrel with expenditure on government services that cannot be more effectively provided by private enterprise, Mr Hersov says:

"The huge bureaucracy required to administer the host of unnecessary laws and regulations, controlling every aspect of daily life in a so-called private enterprise economy, must be reduced.

"The country cannot afford the cost of the ever-growing numbers of people falling into this nonproductive category."

This is tied to the political system that, because of racial groupings, requires the duplication of various departments.

Mr Hersov questions whether SA can afford 15 departments of education and 14 of health.

He calls for the Government to accept the De Lange Committee's recommendation for a single Ministry of Education and for political reform to remove the problems created by operating different administrations for different race groups.

The Government must accept normal business discipline and good financial management and must eliminate unnecessary costs.

"Business requires an environment of greater certainty in tax matters in which it can have a high level of confidence in planning and management.

"The imposition of ad hoc changes in tax law and retroactive taxes damage confidence.

"South Africa must develop a fiscal system that is fair and one in which the tax rate is acceptable to the community as a whole," he says.

Star 20/10/88 (228) (220)

Nine challenges for SA's economic success in the 1990s

320

BDay 20/10/89

RUDOLF GOUWS

THE economic challenge to SA in the 1990s is to turn around the progressive deterioration in economic growth, living standards, job creation and inflation, and the relative deterioration in per capita incomes.

The abolition of apartheid is a necessary, but not a sufficient condition for bringing the turnaround about. With apartheid, SA will remain unstable, out of bounds to foreign bankers and investors and unable to run the current account deficits that are the typical corollary of rapid growth.

If we did move towards a generally acceptable democratic government, and if economic policy challenges were tackled with resolve, the economic energies of the entire population would be released. The door of international loan capital and eventually of renewed private foreign investment would at least be unlocked, if not thrown open.

The first economic policy issue is the challenge to halt, and then reduce, the share of the government in the economy.

1. Reduce the state's claim on the economy's resources.

In the early 1980s the worldwide trend towards rises in government spending and tax revenue in relation to the size of the economy was halted or reversed by policy changes in most countries.

In SA, however, government's consumption and current spending not only rose in relation to GDP, but at a faster pace. Sharply rising government spending necessitated sharply rising government revenue.

The rising tax burden was felt particularly by private households. Lower disposable (after tax) income contributed to a collapse of net personal saving and slower growth in real consumer spending. Households did not stop saving to spend more, but to pay more tax.

SA has one of the world's highest marginal rates of direct personal tax and a low threshold where the maximum marginal rate takes effect. Our 50% (plus 10% loan levy) company tax rate is also one of the highest.

Government's intention to lower, over five years, the maximum marginal tax rate on individuals and the company tax rate to 40%, is encouraging. But even at 40% we will only just (and in important cases not even) match those countries with which we shall be competing.

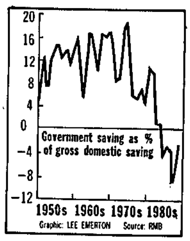
2. Reverse the impact of government finances on the balance of payments (BoP).

The rise in current government spending, especially during the 1980s, was such that even the sharply rising tax burden could not keep pace. From 1982 government started financing a portion of its current spending with borrowings.

Instead of contributing to the total pool of savings (gross domestic savings), it absorbed savings or "dis-saved", contributing directly to the BoP problem. The difference between gross domestic savings and gross domestic investment is equal to the country's external current account balance.

To become a net saver again, the government would have to run a deficit smaller than its target of 3% of GDP. But to return to earlier levels of government saving, the government would have to strive towards a balanced Budget within three or four years.

The repair of its own savings position is the most important contribution the government can make to relieving the shortage of domestic savings, and to the fundamental improvement of the country's BoP.



Graphic: LEE EMERTON Source: RMB

3. Establish a firm framework for policy decisions.

A disappointment of economic policy conduct has been the apparent lack of a sufficiently strong framework within which decisions are taken. Examples are the two conflicting announcements on salary adjustments for public servants last year, the 10 different announcements on tax issues during the latter part of the last fiscal year and the introduction, only six weeks after the Budget, of a loan levy on company tax.

4. Orientate policy to the long term and shun "fine tuning".

The interventionist approach of influencing the economy by accelerating or slowing down government spending, lowering or raising tax rates and increasing or decreasing the size of budget deficits has been jettisoned almost everywhere.

Other countries have seen the light regarding fine tuning. SA needs to strive for consistently conservative fiscal and monetary policies which do not aim to steer the economy in one or other direction.

5. Reduce reliance on monetary policy.

Because fiscal policy so often had an expansionary impact on domestic demand, monetary policy has had to carry a disproportionate burden. The true "blame" for the 1984/85 experience, when the prime overdraft rate reached 25%, does not lie with the Reserve Bank, but to an important extent with the conduct of government finances from 1983 to 1985.

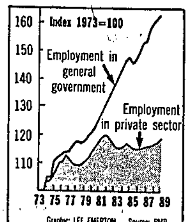
In late 1983, when the gold price was falling sharply, and domestic demand and imports were rising rapidly, government granted large salary increases for public servants, helping to push the 1984/85 borrowing requirement to 2,5 times the budgeted figure. The consequent drain on liquidity through the BoP, and burgeoning credit demand, left the monetary authorities no option but to allow interest rates to rise.

The sharp rise in interest rates during 1988 and up to the middle of this year was also to an important extent the counterpart of a too expansionary fiscal policy. Had the government stuck to its February 1988 intentions on public servants' remuneration, the two prime rate increases early this year could possibly have been avoided.

6. Conduct consistently conservative monetary policy.

The most important reason for SA's inflation since 1970 has been interference with the level of interest rates. This led to excessive rises in credit demand (which immediately translated into an excessive rise in the money supply) and so to inflation.

The new Governor of the Reserve Bank, Dr Chris Stals, has taken a strong stand against inflation, and for consistently positive real interest rates. The implied longer-term orientation should ensure that inflation is slowly ground down with sharp recessionary consequences.



Graphic: LEE EMERTON Source: RMB

If it is backed by a longer-term orientation in fiscal policy, SA can look forward to a less volatile business cycle, improved average growth in the 1990s, and a return to single-digit inflation by say mid 1991.

7. Work towards the abolition of exchange controls.

Continued exchange control over residents and the reintroduction of exchange control over non-residents in 1985 are an admission that government has not created an economic and political environment within which South Africans and foreigners feel comfortable leaving their financial assets.

Exchange controls address the symptoms and not the causes of the downward pressure on the rand's exchange rate. A major challenge to government in the 1990s is to create economic and political conditions for the abolition of exchange control.

8. Accelerate privatisation and deregulation.

The thrust for further deregulation should continue, but as long as it does not include the abolition of the Group Areas Act, we will not get the full economic benefit of deregulation because this law interferes with labour and business mobility. Without the abolition of this law, scepticism of large parts of the black population about the government's motives with deregulation will continue.

9. Tread carefully with industrial policy.

Virtually worldwide, governments are moving away from interventionist approaches and embracing "structural policies" which are really nothing more than the removal of rigidities and impediments which the governments imposed on their economies in the first place.

To the extent that government feels it should encourage outcomes which the market might not have brought about, or brought about quickly enough, efforts should be directed at encouraging exports, and not at protecting local manufacturers against imports.

I sense that the need for these nettles to be grasped has been accepted in the government. The corporate sector is, to my mind, in far better shape than for a long time to tackle new economic challenges.

If the political and economic policy challenges are adequately met, the SA economy can still suprise us all in the 1990s.

☐ **Gouws is group economist of Rand Merchant Bank Ltd. This is a synopsis of his address to the Hollandia Forum yesterday.**

LABOUR LETTER

LETTERS

320

Business Report

Call to change SA tax system

By BRUCE WILLAN

GOVERNMENT should create an "environment of greater certainty in tax matters", so that the business sector can be more confident in its tax planning and management, says Anglovaal chairman Basil Hersov.

In his review for the year ended June 30, 1989, Hersov says the withdrawal of various incentive allowances and a more aggressive tax regime has led to SA companies paying substantially higher rates of tax in recent years.

Calling for changes to be made to the tax system for both individuals and companies, Hersov says one of the most important changes which should be made is the present tax on surpluses on the realisation of investments.

With particular reference to mining houses he says this taxation "results in the sterilisation of large amounts of capital that are urgently required for new mining developments and hence employment creation opportunities".

Hersov has also called for the scrapping of the tax on dividends received by individuals from companies.

Calling this tax a "penalty" and a "second tax", Hersov points out that this has been eliminated for close corporations and should be eliminated for individuals.

In contrast to Hersov's criticism of the taxation system, he welcomes proposals to reduce both the individual and company marginal tax rate to 40% as a significant reform.

This, he says, will contribute to the ending of tax avoidance schemes.

But, he stresses, it is most important for these reductions to flow from reduced government expenditure and not through higher indirect taxes.

One of the reasons for the increasing tax burden, he says, is the "gross waste inherent in the structure of the system of governing SA and, with some exceptions, in the way the system is administered".

He points out that financing the deficit with loans will only further damage the economy.

"The huge bureaucracy required to administer the host of unnecessary laws and regulations, controlling every aspect of daily life in a so-called 'private enterprise economy', must be reduced. The country cannot afford the cost of the ever-growing numbers of people that fall into this non-productive category," he says.

Although it may be premature, Hersov believes that a feeling of cautious optimism exists throughout the private sector in this respect.

But, he points out that there has been a reversal of the previous pattern; "today there is a slightly more positive political outlook, yet the economic outlook is less promising than previously."

This, he adds, could be beneficial for SA in some respects, especially if the government realises how important it is to achieve economic stability as well as growth in real terms.

"By working with the private sector to achieve these targets, government may find reasonable solutions to many of the outstanding political problems," he concludes.

BUCHIZYA MSETEKA

In Dakawa, ANC exiles train for the day apartheid goes

318 7/10/89

DAKAWA (Tanzania) — Far from its beleagered homeland, the African National Congress (ANC) runs an ambitious project to teach its members useful skills for a post-apartheid South Africa.

Aided by the Scandinavian governments, the ANC has transformed this remote village 260 km west of Tanzania's capital Dar es Salaam into a thriving settlement for 1 000 of its members.

Gullies have given way to large fields of maize and vegetables. Pigs, cattle and chickens abound.

There are schools and a vocational centre. Houses are going up fast to accommodate a further 7 000 ANC members due to arrive here next year under plans to build up the ANC presence in Tanzania, a safe 1 600 km from the South African border.

Dakawa is self-sufficient in food and produces enough to supply ANC members elsewhere in Tanzania. The settlement hopes ultimately to produce a surplus of grain, meat and vegetables to sell to its Tanzanian neighbours.

Nothing in the rural peace of Dakawa reminds the followers of South Africa's largest guerilla movement of the violent unrest at home or the repeated detentions most of them suffered before fleeing into exile.

Manager Mr Dennis Oswald and his labour force of about 90 grow 90 tons of maize a year and grind it into meal, the staple food at the centre. They hope to double production this year.

They grow a variety of vegetables, and keep 800 pigs, 400 cattle, 1 000 goats and 3 000 chickens to feed more than 2 000 ANC members in Tanzania from the organisation's own resources.

The ANC runs another large farming and educational settlement at Morogoro, 55 km south of Dakawa, and diplomatic sources say the guerilla movement has secret military training camps in the south of the country.

Visitors to Dakawa are screened as they drive through the steel gates, but there is no sign of guns or tight security at the farm that was set up in 1983.

Mr Oswald refuses to discuss military aspects of the ANC because "my main priority is imparting technical and agriculture skills to the lads."

ANC staff live frugally, says Mr Spencer Hotson (42), an architect of Afrikaner stock who fled in 1964 to join the ANC.

"As most homes are under construction accommodation here is still a problem," he says, pointing to about 20 tents scattered around the camp.

"But we are provided with food, welfare, education and health care."

The camp is preparing to accommodate 7 000 new members next year when 180 homes now under construction are completed. Site workers provide their own building materials and expertise and make their own bricks.

Mr Oswald, an ANC veteran who fled South Africa in the 1960s, has been instrumental in building both Dakawa and the Freedom College at the nearby Solomon Mahlangu settlement.

He said that in addition to feeding the ANC in Tanzania, the two settlements train people in agriculture, industrial trades and business administration.

Mr Veli Kataja (31) heads a 15-man Finnish team running the leather factory at Dakawa, training apprentices to make shoes, boots and sandals.

Dakawa and another settlement, Solomon Mahlangu, both have their own primary and secondary schools and vocational centres to teach carpentry, plumbing, electrical and mechanical engineering, textile processes and brick-laying.

A neat 100-bed hospital stands out as you enter Solomon Mahlangu. Built by the Dutch in 1983, it caters for both ANC members in Tanzania and the Tanzanian residents of Morogoro town. — Reuter.

2/9/87

320

Taxpayers may have to pay for ethanol plant

THE Automobile Association is concerned about the announcement that the go-ahead has been given for an ethanol production plant.

It argues that if the project has to be supported financially by the Government, it will more than likely look to the motorist to foot the bill.

The Managing Director of the AA, Mr Peter Elliott, said it was always a concern of the AA that the reasons why projects were initiated were forgotten over time.

In this case these included the improvement of the economy of the sugar cane industry, the creatiion of jobs and a small contribution to South Africa's strategic self-efficiency in liquid fuel.

He said that should the project require financial support from the Central Treasury in the future, it was hoped the Government would remember why it had initiated the project and not simply see it as a fuel production project — with the motorist again being considered the easy tax target.

The motorist was, in the AA's opinion, already being taxed more than enough, he said.

By MICHAEL BELLING, manager, marketing communications, at Sage Life

Site makes it easier — and profitable

(320)

S Times 3/9/89.

ALTHOUGH the tax concessions, both before and at retirement, relating to retirement annuities should not make us lose sight of the real purpose of an RA as a retirement planning tool, they should not be overlooked — particularly in the light of recent legislative changes.

These changes not only increase the amount of deductible contributions in many cases, but they can provide an appreciable increase to net income after retirement.

The move towards separate taxation of husbands and wives through Site has led to these developments.

When Site was introduced last year, both husband and wife could deduct the greatest of:

A — 15% of non-retirement funding taxable income, or

B — R1 750 less pension fund contributions — or

C — R875

Any unused portion of B or C could be transferred to the other spouse. In the case of existing RAs, a concession was often made with regard to the 15% as well.

Now the husband's deductions have reverted to pre-Site levels, the greatest of

A — 15% of his non-retirement funding taxable income, or

B — R3 500 less his allowable pension fund contributions, or

C — R1 750

A wife who is subject to Site may now also deduct the greatest of:

A — 15% of her non-retirement funding taxable income, or

B — R1 750 less her allowable pension fund contributions, or

C — R875

This means that where a husband or a wife claim their deductions separately the deductible limits have been increased by at least R875 a year — and they could be far higher.

Claiming the deductions is now far easier for a wife who is subject to Site. A directive from the Receiver of Revenue is no longer required.

The wife need only satisfy her employer that she is contributing to an RA for the employer to deduct the contribution from her gross monthly remuneration when calculating tax.

Many women are still not subject to Site and their earnings are added to those of their husbands for tax. Women with their own business, working for their husbands, with investment income or earnings other than remuneration are not regarded as separate taxpayers and are not entitled to their own RA deductions.

The second significant aspect relating to RAs under the new Site regimen involves annuity payments and tax concessions after retirement. Where the wife has her own RA, her annuity after retirement is subject to Site and is not included in her husband's income irrespective of whether or not she was a Site taxpayer during the premium-paying period.

Separate annuities will have the effect of reducing their combined income. Tax will be levied at the rate applicable to each of them, which could result in an appreciable increase in their after-tax income.

For example, if their joint taxable income after retirement is R50 000 a year, with the wife's only income being R10 000 from an RA, their combined net income now will be R37 409.

Previously with joint taxation, it would have been R35 640 (assuming they had no children and were both aged 63). At higher income levels, the difference would be even greater.

B/Day 7/9/89.

320

Life assurers dissociate themselves from tax policy

LESLEY LAMBERT

CAPE TOWN — Major life assurers have objected to comparisons between their loans to policyholders and Norwich Life's Protax plan, saying this could result in blanket action similar to that imposed on pure endowments in 1985.

Norwich's policy — which received critical attention from the industry and tax authorties — provides a tax-free funding vehicle for provisional taxpayers and a haven into which funds can be invested and withdrawn tax-free.

To maintain the tax-free status of an endowment policy from which money is withdrawn within the first 10 years of existence, the withdrawal has to be interpreted as a loan, for which tax legislation makes provision.

While legal advisors interpret the nil interest rate loan system formulated by Norwich for Protax policyholders as a partial surrender, some actuaries say the line dividing it from normal policy loans is very fine.

Norwich legal advisor Thea Heunis says the line is so thin that if Inland Revenue rules that Norwich's loan system renders the Protax policies nonstandard and thus taxable then the same treatment should be meted out to all other policy loans.

Conventional policy loans attract interest normally equal to the bonus rate earned by the insurer's investment portfolio.

Replaced

But because the interest charged by the insurer is regarded as investment income and is therefore taxable, policyholders who do not borrow against their policies are effectively subsidising those who do.

Norwich has formulated a nil interest rate loan system on the basis that it prevents cross-subsidisation and is more equitable for policyholders.

It sells interest-bearing or growth units equal to the loan the policyholder needs for a provisional tax payment. These units are then replaced in the fund by non-growth units.

No interest is charged on the loan and it can be repaid by the repurchase of growth units at the ruling price.

Some actuaries say the effect is similar to that of a partial surrender as far as the bonus is concerned because it is paid on a net rather than a gross amount.

Norwich says that because the unit exchanges do not amputate the fund in any way, they are loans, not surrenders.

The actuaries say the system goes against the spirit of the legislation, which allows loans as an emergency benefit, not as the sole purpose of what is essentially a life insurance policy.

And, if it was more widely adopted, they say, there was the possibility that the tax authorities could apply the sledgehammer to all policy loans in the same way they altered the pure endowment market overnight in 1985.

Many in the industry believe an immediate solution to the problem would be not be to clamp down on policy loans but to require that all life offices marketing the schemes advise the Receiver of Revenue of policyholders and their transactions.

Inland Revenue figure correction

PRETORIA — The additional 1 200 staff to be employed by the Commissioner for Inland Revenue to administer VAT will be paid more than R20m a year and not R200m as stated in error in Business Day yesterday.

The extra zero was a transmission error.

Business Day regrets the error. B/Day 7/9/89

320

Foreign tax rebate clarified

B/Day 7/7/89 (224) - (320)

KAY TURVEY

AS THE number of international tax treaties with SA declines, the application of tax credits needs to be clarified, tax experts say.

As more and more tax treaties are abrogated or not renewed, clarification is needed on how to alleviate hardship created by the possibility of being taxed in two countries.

A Practice Note issued by the Commissioner of Inland Revenue has adopted the pro rata method — based on an average rate of tax — for determining the SA normal tax attributable to the inclusion of foreign sources of income.

However, an anomaly arises where the taxpayer is an individual as the attributable SA tax will be lower under the pro rata method compared with the "top slice" method, which is based on the marginal rate of tax.

In the case of a company, both methods give the same result, because a company is subject to a flat rate, Deloitte Haskins & Sells associate director Orlando Fernandes points out.

He says that although the tax relief will not be significantly used by the individuals as their ability to invest off shore is restricted, the legislation should be amended.

This is because it does not address the date on which foreign-source income and foreign taxes should be converted, which is of particular importance given the volatility of the exchange rate, which can significantly effect the amount involved.

Further, the utilisation of excess foreign tax rebates is not dealt with as is the manner in which foreign source income should be calculated, as it is not stipulated whether this should be based on gross or net income.

(320) W Mail 8-14/9/89.

BUSINESS

Some modest tax relief for married women who earn

SOUTH Africa is still a long way from separate taxation for married people. But a tax formula which once applied only to single people earning up to R12 000 or married women up to R20 000 now been extended to all married women — as long as they earn a salary.

This year, *any* married woman who is "remunerated" pays what is known as Site (Standard Income Tax for Employees).

The principle of Site is that people taxed entirely in terms of that system (married women and others earning up to the limits set for Site) do not have to submit tax returns. It is a system superimposed on the traditional pay-as-you-earn (Paye), rather than a replacement for it, and it carries certain advantages: it lowers the tax rate for married couples and, particularly, for high-income married couples because their salary income is no longer added together; and the rates are slightly different.

A relatively small class of better paid women are affected by this year's extension — those earning R20 000 or less make up 80 percent

With each passing year, most people pay more taxes. A tax formula recently extended to all working married women can help some people keep their taxes down

of working married women, Finance Minister Barend du Plessis pointed out when he introduced Site in last year's budget.

The new measure does little more than prevent the tax burden increasing for working women: the government has not budgeted for any drop in its revenue as a result of Site in the current year.

People's tax burdens tend to creep up year by year as they earn more, moving into higher tax brackets — so called "fiscal drag". Site, it seems, will do little more than neutralise this to some extent for married working women.

But the current tax tables clearly show that married women earning high salaries are better off as a result of Site than they would have been otherwise.

This is particularly so for women who earn salaries in the maximum marginal tax rate bracket. For married women who qualify for Site, the maximum marginal rate is 38 percent — somewhat lower than the 45 percent maximum marginal rate which single people or married breadwinners pay.

The effect is that women who earn salaries of R4 000 or more are probably better off if they are married, the current Site tables show.

Below this level, a married working woman would usually still be paying more tax than her single counterpart — but less than she would without Site.

Examples from the current Site tables show, for example, that a single woman earning R24 000 a year pays R4 153 in tax (17 percent), where her married counterpart pays R5 046 (21 percent).

But a married woman earning just over R4 000 a month pays about R370 a year less in tax than her single counterpart. As her salary rises from this level, the advantage increases.

The tables illustrate the advantages of Site for the high income "Dinkie" (dual income no kids) couple, jointly earning R120 000 a year. They would be paying almost R44 000 in tax (an average rate of 37 percent) without Site. But if the wife earned a salary of R60 000 and was liable for Site, their tax bill would fall to around R35 450. The difference is not as great as it looks, though, because the Site couple would lose the advantage of the joint assessment allowance for married couples who are taxed jointly.

This couple would be well into the maximum marginal rate tax bracket. Site does offer an advantage for those who aren't, but to a lesser extent.

But not all married women are taxed in terms of Site.

Married women excluded from Site are those who do not receive "remuneration", defined as that which is "payable to any person in cash or otherwise for services rendered or to be rendered".

The definition covers a broader range of women than simply those who receive salaries — and Site is payable by those working part-time as well. The definition may for example, cover certain consultancy relationships or those who provide professional services. Many self-employed women would however be excluded.

And Site would apply only on the "remuneration" part of a married woman's income — if she, for example, earned interest or dividends these would be taxed as part of her husband's income.

One class of married women who are excluded from Site are those regarded as breadwinners — whose husbands earn less than R7 500 a year.

According to Barbara Green, tax expert at Pim Goldby, the main advantages of married women's Site is it is no longer limited to those in the under R20 000 bracket. It includes part time employees, and it has distinct advantages for couples at maximum marginal tax rates.

She stresses too that everyone pays Site to some extent. It applies to the first R12 000 of single people's pay as well as to the first R20 000 of the pay of all married persons.

But she points to anomalies and problem areas which remain in the application of Site for married women.

One anomaly she points to is that married women can claim transport allowances on Site, but cannot claim entertainment allowances — which have to be added on to the husband's income and taxed accordingly.

We'll cut income tax, vows Barend

(320)

Star 9/9/89

FINANCE STAFF

FINANCE Minister Mr Barend du Plessis has promised to deliver on the National Party's election pledges of lower personal and company tax.

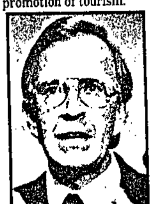
The Government would also take a new look at the whole question of subsidies, he said.

Stressing that the State would meet its manifesto obligations, Mr du Plessis said: "South Africa has few choices when it comes to economic possibilities. The money supply has to be kept under strict control and this has to be backed or underpinned by sound economic policies.

"We have to reduce the deficit before borrowing and instil a new ethos of cost conservatism," the minister said.

The Government's plan of action includes:

- A cut in personal income tax, with a reduction in the marginal rates to a maximum of 40 percent at the income level of R100 000, instead of the present 45 percent at R80 000.
- A cut in company tax to 40 percent from 50 percent, together with the phasing out of tax abatements as recommended by the Margo Commission.
- A cut in inflation to more acceptable levels.
- Privatisation and deregulation of the economy, the reconstruction of agriculture and the promotion of tourism.



BAREND DU PLESSIS: Promises to deliver

Mr du Plessis said the government could not "just raise an indirect tax such as GST, although this is the route, that is indirect taxes, that we have to pursue".

This was apparently a hint that subsidies, in whatever form they are financed by the Treasury, will be phased out as quickly as possible.

The Democratic Party spokesman on finance, Mr Harry Schwarz, said interest rates would have to remain high well into the new year and there was "definitely no soft landing for the home-owner".

- The Permanent Building Society has announced that it will grant bonds to home owners earning more than R2 500 a month at below the market rate.

'Highway robbery' by traffic officers

KAIZER NYATSUMBA

Star 9/9/89

BLACK taxi drivers claim they are being blackmailed by traffic officers in the PWV area who are demanding bribes said to run into millions of rands.

Persistent allegations to this effect have resulted in the Southern African Black Taxi Association (Sabta) launching an intensive investigation.

The head of the Sabta investigation team, Mr John du Preez, this week told Saturday Star the taxi association viewed the problem in a serious light and would soon approach the appropriate traffic authorities.

The problem, Mr du Preez said, was com-

● TO PAGE 2.

SATYR

"I'm not part of the crowd — purple is my natural colour."

Iscor brings in big shots to boost listing

S/Times 10/9/89

Business Times Reporter

ADDING lustre to its shares which will be priced on Tuesday, Iscor has appointed three of SA's most dynamic businessmen to its board.

They are Derek Keys of Gencor, Meyer Kahn of SA Breweries and Warren Clewlow of Barlow Rand.

The appointments are intended to show prospective shareholders that Iscor has been transformed from a sluggish bureaucracy into a lean and profitable company.

Merchant banks and stockbrokers met representatives of the State on Friday to negotiate a price for the shares to be offered in a privatisation which could be worth up to R4-billion.

Sources close to the action say that for convenience, the shares will be priced at R2. All that remains to be settled is the number in issue after the listing.

One source says 1,5-billion shares are already in issue and another 500-million will be issued at R2, capitalising Iscor at R4-billion. That would be roughly five times last year's taxed profit of R812-million and four times 1990 earnings.

Another source says this is on the high side. The State wants the issue to be a success and will probably let the shares go at a historical PE of 4,5, suggesting a value of R3,6-billion.

Friday's meeting also considered to what extent the offer should be underwritten and what proportion of the State's shares should be sold.

The State is keen to sell its entire 70% stake, and the Industrial Development Corp is expected to keep its 30%. The public is expected to be offered 175-million shares at R2, Iscor staff 200-million and institutions the balance.

Finance Minister Barend du Plessis and Minister of Privatisation Dawie de Villiers will consider their proposals this weekend. A final offer price will be announced on Tuesday.

Intense

The Government has gone to extraordinary lengths to "sell" the corporation to the public for more than two years.

With many share prices on all-time highs, public interest in the offer is intense. Would-be investors have clamoured for information.

Iscor's share information office has received 15 400 calls since it opened on August 21. More than 90% of callers indicated that they were likely to buy shares.

Mr Keys, Mr Kahn and Mr Clewlow and another private-sector director, Jan van den Berg, take the places on the board of Sarel du Plessis, Rod Ironside, Leon Knoll, Hendrik Schoeman and Philip Theron.

Mr Kahn tells Business Times: "I'm flattered at the appointment. The Iscor management has done an amazing job. I'm convinced that Iscor can become a major player in world steel and that prospects are excellent.

"Many countries have become too sophisticated for smokestack industries and have moved into high tech and services. But they all need steel.

"The weak rand, cheap energy and raw materials and Iscor's expertise make Iscor competitive."

Mr Kahn says his role as a non-executive director will be to "give a view without blinkers, support management in its strategic thinking and provide contacts and connections".

Although the Government wants to maximise the Iscor share price, would-be investors seek to minimise it.

Profit

One fund manager says that although Iscor's performance in the past five years was impressive, it pales alongside those of Highveld Steel & Vanadium and Samancor.

Iscor's profit grew from R291-million in the year to June 1985 to R824-million by June 1989. This is a compound growth rate of 30% a year.

Highveld's taxed profits climbed from R32,4-million in the year to December 1984 to R119,5-million in 1988. That is a compound growth rate of 39%.

But one earnings forecast for Highveld's 1989 financial year is R340-million. That puts the five-year compound growth rate above 80% a year. Highveld is 5,6 times historical earnings, but only about 4 times forecast earnings.

Samancor's profits climbed from R14-million in 1984 to R188-million in 1988 — more than 90% a year

● To Page 3

Gold uses glamour in a R300m ad campaign

Beauty spin-off a money-spinner for SA producer

Business Times Reporter

MARKETERS have always realised that a pretty girl is one of their most potent weapons.

So it is with the heavyweight World Gold Council, based in Geneva.

The anonymous girl on the left is one of the stars of a new television commercial produced by the council as part of its R300-million-a-year campaign to convince the world of something South Africans have always known — gold is precious.

The spectacular commercial is flighted to appear on TV screens throughout West Germany, France, Italy and the UK towards the end of October.

TV is merely one of the tools employed by the council to promote the use of gold. It also sponsors large print advertising programmes and it organises exhibitions of gold jewellery throughout the world.

The promotion has also turned into a money-spinner for Johannesburg-based TV and video producer Barry Rosen. He has been appointed a specialist consultant to the council for its film and video productions.

Saving

Mr Rosen is joint managing director of Spot Shop, a specialist marketing and advertising consultancy in Schachat Gendel Venture Marketing.

Co-managing director Mike Gendel says: "Barry's first consultancy with the council was on the new commercial. It credited him with helping to bring down the cost of the project from $560 000 to $300 000 — a 47% saving."

The saving will be used to increase flighting of the commercial.

Now Mr Rosen has been asked to work with the council on projects in other parts of the world.

The savings were achieved by critically reviewing all elements of production costs, says Mr Gendel.

"We are sometimes regarded as mavericks in the industry because we question everything.

"But it is possible to reduce costs without adversely affecting quality."

Giants go to war

BUSINESS Times carries another absorbing report today on Ken Romain's book, Larger than Life — Donald Gordon and the Liberty Life Story, published by Jonathan Ball.

The book's importance goes far beyond chronicling the amazing rise of Liberty Life. It also describes in fascinating detail some of the contentious and important transactions leading to five or six players dominating the SA private sector.

Mr Romain tells all about the grabs for SA Breweries, Edgars, Standard Bank, the Prudential and Sun Life and in doing so, sheds new light on several of the most powerful figures in business life.

While it is very much Donald Gordon's view of events, the book goes out of its way to permit others to have a say. The book is most important in breaking what frequently appears to be a conspiracy of silence among the most powerful individuals in commerce and industry.

● See Page 5

800 wanted to help VAT collections

S/Times 10/9/89

320

Business Times Reporter

THE Department of Inland Revenue is looking for 800 collectors to help impose value added tax.

Commissioner for Inland Revenue Hannes Hattingh says his staff of 7 700 in 32 offices is fully occupied gathering tax under the existing system and implementing the recommendations of the Margo Commission.

He wants 800 more highly numerate people to help collect VAT.

Mr Hattingh admits that VAT will impose a heavy burden of paperwork on close corporations, companies and individuals across the economy — but it will be more difficult to evade than general sales tax.

There will be no exemptions from VAT. Unless the Minister of Finance decides he wants more money from indirect tax, the rate could be lower than GST's 13%.

Mr Hattingh's staff has been singularly successful. In the first four months of the current year, collections were up by 37%. Revised estimates are that the total take this year will be R46-billion — up from R40-billion last year. The cost of collection is about R204-million.

Worms

Mr Hattingh's "army worms" — 250 young chartered accountants and 200 B Comms, who work for the department instead of doing army training — are reaping a rich haul.

In 43 125 desk audits, his inspectorate has wrung additional taxes and penalties of R60-million from reluctant payers. Nearly 6 000 inspections have yielded another R200-million.

Inland Revenue denies rumour on film assessments

320

B/Day 13/9/89

BARRY SERGEANT

COMMISSIONER for Inland Revenue, Hannes Hattingh, has denied rumours in Johannesburg that his office has issued a blanket decision on assessments for investments in movies.

The rumour, to the effect that foreign expenditures incurred under a movie production transaction had been disallowed, sent shock waves into the film industry.

In an interview last night, Hattingh said that far from issuing such a blanket ruling, he had asked for film production tax returns to be expedited as quickly as possible, on a case-by-case basis.

The rumour emanated from an assessor in the special section of the Johannesburg Receiver's office created to deal exclusively with tax returns related to motion pictures.

The issue is vital to thousands of individual and corporate taxpayers, as no assessments for investments regarding motion pictures have been issued for more than three and a half years. A senior tax consultant says the amount of tax money involved is about R250m, implying that a minimum R500m taxable income has been sheltered.

Inland Revenue has been tardy issuing returns on movie investments because with returns offered of up to 1 500% there was an inevitable amount of abuse. An attempt was made to clean up the role of tax in movie financing in April 1987 by the introduction of Section 24F to the Income Tax Act, but some abuses continued.

The film industry is currently in a state of suspended animation as it awaits the final details of a subsidy system that will replace tax expenditures.

Most, if not all, previous movie transactions depended critically on the claiming of such expenditures under Section 11 *bis*, the marketing allowance. Not only would such a disallowance be unthinkable for cash-strapped investors and a despondent industry, it would also amount to retroactive law.

Employees can do SITE

B/Day 13/9/89

(320)

KAY TURVEY

INLAND Revenue is allowing SITE employees to submit tax returns in an effort to refund tax resulting from numerous employers not performing the correct tax calculations.

As a final deduction system, SITE was intended to eliminate the need for tax returns from salaried married women and employees earning less than R20 000. However, Revenue is now allowing affected employees to submit returns so as to refund any amount the employer was supposed to refund and did not.

Revenue legal draughtsman Ian Meiklejohn said a lot of employers were not getting the new system right, so a backstop was required.

Tax experts have welcomed this practice which is not sanctioned by law. SITE, an alternative method of taxation in which the liability of certain employees' tax applicable to their earnings would be determined in a final form by their employers, was introduced last year.

Ernst & Young partner Ian Henstock welcomed the lenient attitude adopted by Revenue to cope with SITE's "teething problems".

He said there were three other areas where overpayment could have occured. These were:

- ☐ Where a married woman wishes to apply her retirement annuity contributions to her liability for SITE;
- ☐ Where medical expenses exceed the the greater of R1 000 or 5% of taxable income; and
- ☐ Income received by the wife, where she is the sole bread winner or her husband earned less than R7 500.

Good news for tax-payers who believe that 60% figure

B/Day 17/9/89 (320)

BARRY SERGEANT

SOME trendy Johannesburg economists have it that South Africans are paying inordinately high tax rates. Such is their influence, and so beholden are their listeners, that what they say is taken as law.

A financial publication said recently: "... as most salaried people already pay more than 60% of their earnings in tax (income tax, GST and excises)..."

It is the "60%" that has become a catch-figure, and many people believe it. But the figure, on the statement as given, is extremely difficult to find in reality.

Let's take an extreme example, of an unmarried person (who pays the highest income tax rate) who earns taxable income (which is always less than "earnings," because of pensions and other sundry deductions) of R1m a month.

This year's tax tables show that such rare person would pay, on taxable income of R12m a year, total income tax of R5,4m, a tax rate of 44,94%. This rate is just short of the top personal marginal tax rate of 45%.

Make further unrealistic assumptions. First, that the taxpayer spends all his remaining income on items which attract GST. (The assumption is not a good one, because he is likely to save portions of his disposable income, and not all his spending will be on items that attract GST.)

It is then possible to calculate how much GST he pays. How much excise the taxpayer coughs up is more difficult to calculate; it all depends on his spending habits. We do know that estimated GST collections for 1989-1990 are R15,2bn, and excise R2,5bn.

Given that the taxpayer pays an exact proportionate amount of excise as he pays GST (rand for rand), based on the estimates for the economy, it can be said that the effective GST rate is 15,12% rather than the actual 13%.

Analysis

Assuming that the 15,12% figure is meaningful, the taxpayer, on disposable income of R6,6m after paying income tax, would cough up R868 000 in GST and excise. This gives total tax paid — income tax, GST and excises — of R6,3m. So a taxpayer earning taxable income of R1m a month pays a tax rate, as defined, of 52,2%.

But what would be more meaningful is an analysis of what "most salaried people" are earning, and what they pay in tax.

The most recent Central Statistical Service survey does not cover all "salaried people" in the economy, but it does produce figures for five-million people with jobs, and for people working in the major sectors. CSS says that the average salary and wage a month earned by the people surveyed was R1 258.

This is a "gross" figure, meaning that taxable income would be a lower figure. But, assume the most conservative, that the full figure is taxable, and this gives annual taxable income of R15 096.

Ignoring deductions, and again assuming that the taxpayer is unmarried, income tax payable is R2 374. And again assuming that all disposable income is spent on items attracting the full "GST and excise" rate of 15,12%, the extra tax payable is R1 671.

Total income tax, GST and excise payable by this average income earner is thus R4 045, a tax rate of 26,8%, less than half the magic "60%". The actual rate paid by the average person would decline rapidly with a non-working wife, maximum tax permittable contributions to pensions and retirement annuities, and derivation of exempt income, such as the first R1 000 on deposits.

In general, it can be said the average salaried person pays a maximum of a quarter of their earnings by way of income tax, GST and excises. To be meaningful, the individual's tax rate, if such a thing can be measured, would have to include his contribution to other significant imposts such as the import surcharge and the fuel levy. Other minor imposts such as stamp duties and fees, transfer duty, estate duty and operative taxes on interest and dividends might also make a marginal difference.

The very broadest view that can be taken of how much tax the average person pays is by pooling all taxes paid to the Exchequer. SA, says CSS, has about 10,7-million economically active people — another crude, but useful, measure.

Earnings

Assume that these individuals pay *all* imposts imposed in the economy, including personal income tax, corporate income tax, mining tax, and so on. The total estimated revenue intake for 1989-1990 is about R55bn, meaning that the *average economically active* person contributes R5 140 in all imposts for the year.

This, given the CSS's average gross earnings of R15 096, gives a tax rate of 34%. Again this is far below the magic "60%" figure.

At the end of the day, while it may be true to say that somebody with taxable income of R1m a month is coughing up more than 60% by way of taxes, the 60% figure evidently has no relevance whatsoever to the average man.

to announce the completion

CAPE TIMES 14/9/89 (320)

Govt 'committed to cut taxes'

By MIKE ROBERTSON

GOVERNMENT had a contractual obligation not to increase personal income tax, company tax and the deficit before borrowing, Finance Minister Barend du Plessis said yesterday.

Du Plessis said in an interview with Business Day that the NP by promising to reduce all three in its election mainfesto had placed a contractual ceiling on them.

The minister said he was not in a position to give a commitment that personal taxation would be reduced at the next Budget. But added, however, that "the taxpayers can be assured that we regard our tax commitments as a contract which we will honour.

"Within the next five years there will definitely be a lowering of income tax."

Du Plessis said government would be unveiling a new economic development plan either at the year-end or the beginning of the new year.

The plan would take cognisance of a number of economic development programess — like export incentives — which had been instituted in recent years.

The aim of the new programme would be to ensure the optimum utilisation of scarce resources to ensure the highest possible growth rate and maximum employment in circumstances of price stability.

"This does not imply a controlled economy," he said.

Rather it was a bid to direct state resources towards the same end as those of the private sector.

Du Plessis said there was every indication that SA would achieve the 2% growth rate he predicted in his Budget speech.

He believed the deficit before borrowing could be lower than the 4,1% of GDP he predicted in the budget.

Government, Du Plessis said, did not need a single cent of privatisation receipts to meet its borrowing requirements.

The Cabinet would meet to decide on what to do with the expected R3bn privatisation receipts, but it was his preference that they be used to pay off existing state debts.

"Our first priority is to pay off existing state debts. By the time the proceeds of privatisation reach the Treasury, we will have satisfied our loan requirements for the year."

Although government revenue was subject to seasonal fluctuations, it looks as if it would be substantially higher than he had predicted in the Budget.

In pite of reports that the introduction of value added tax could be delayed, Du Plessis said: "VAT will come in the course of the next financial year."

The minister said in his Budget speech that without new capital inflow foreign debt repayments could be as high as R4,2bn this year.

He said in the interview that: "We have had some rollovers here and there, but at the moment I have no reason to believe they will greatly deviate from what I said in the Budget.

"Our present debt standstill agreement ends on June 30 next year and it is very important for SA to close realistic agreements that will enable us to meet both our international and domestic commitments."

Du Plessis said that so far government had been able to scrupulously keep state spending to within its R1bn contingency reserve.

"In our present circumstances and with the present techniques of budgeting, it's literally impossible not to have the flexibility of a contingency reserve.

"But I am finding that there is much better understanding of the purposes of the reserve, and I am confident that the President and my collegaues are giving me their best possible support."

Barend: VAT comes in next year

320

Govt outlines new plan for SA economy

BDay 14/9/89

MIKE ROBERTSON

CAPE TOWN — Government's new economic plan would be unveiled by January, Finance Minister Barend Du Plessis said yesterday.

The plan was a bid to direct state resources towards the same end as those of the private sector and would also take into account programmes to give incentives to export.

In a wide ranging interview with Business Day, Du Plessis said the aim of the new programme would be to ensure the optimum utilisation of scarce resources and the highest possible growth rate and maximum employment in circumstances of price stability. But this did not imply a controlled economy, he added.

● DU PLESSIS

In spite of reports that the introduction of value added tax (VAT) could be delayed, Du Plessis said: "VAT will come in during the course of the next financial year."

He also said the Cabinet would meet to decide what to do with the more than R3bn privatisation receipts which were expected, but he preferred that they be used to pay off existing state debts.

"Our first priority is to pay off existing state debts. By the time the proceeds of privatisation reach the Treasury, we will have satisfied our loan requirements for the year."

Although government revenue was subject to seasonal fluctuations, he said, at the moment it looked as if it would be substantially higher than he had predicted in the Budget.

He said government had a contractual obligation not to increase personal income tax, company tax and the deficit before borrowing.

The NP, by promising to reduce all three in its election mainfesto, had placed a contractual ceiling on them.

Du Plessis said he was not in a position to give a commitment that personal taxation would be reduced in the next Budget.

He added, however, that: "The taxpayers can be assured that we regard our tax commitments as a contract which we will honour.

"Within the next five years there will definitely be a lowering of income tax."

Du Plessis said there was every indication that SA would achieve the 2% growth rate he had predicted in his Budget speech.

He believed the deficit before borrowing could be lower than the 4,1% of GDP he predicted in the Budget.

In addition, government did not need a single cent of privatisation receipts to meet its borrowing requirements.

Du Plessis had said in his Budget speech that without new capital inflow, foreign debt repayments could be a high as R4,2bn this year.

He said in yesterday's interview: "We have had some rollovers here and there, but at the moment I have no reason to

□ To Page 2

Govt outlines plan

320

□ From Page 1

believe they will greatly deviate from what I said in the Budget."

SA's present debt standstill agreement ended on June 30 next year and it was very important for SA to clinch realistic agreements that would enable it to meet both international and domestic commitments, he said.

So far government had been able to keep state spending scrupulously within its R1bn contingency reserve.

"In our present circumstances and with the present techniques of budgeting, it is literally impossible not to have the flexibility of a contingency reserve.

"But I am finding this fiscal year that there is a much better understanding of the purposes of the reserve among my colleagues and I am confident that the President and my colleagues are giving me their best possible support," he said.

GST (320) Fmail 15/9/89

Quashing rumours

Rumours of a two-percentage-point rise in GST — to 15% — have been circulating again in recent weeks. But D-G Finance Gerhard Croeser describes them as ludicrous. He adds: "The Exchequer has a surplus of revenue and there seems little justification for further measures to curtail consumption expenditure at this stage."

Croeser says, however, that Finance Minister Barend du Plessis' intention to cut the top marginal tax rate, and raise the threshold at which it applies, may imply a future change in emphasis from direct to indirect taxation, as recommended by the Margo Commission. "But the successful curtailment of government expenditure might mean an indirect tax increase won't be necessary even with a reduction in personal tax rates."

Speculation started when Du Plessis announced in June that, as part of government's five-year plan, he would cut personal

income tax within the next five years. (He hopes to reduce the top marginal rate to 40% at annual incomes of R100 000 instead of the present 45% at R80 000.) It gained impetus recently — presumably because, with the general election out of the way, government could feel free to make unpopular moves.

However, the soonest Du Plessis could make an announcement regarding personal tax is in the March Budget.

Croeser estimates about R1,5bn additional revenue will be collected this financial year — mainly from higher than expected GST and income tax collections. "Salaries in the private sector seem to have increased by more than the 15%-18% we estimated and corporate profits have also been higher."

One reason offered for a GST increase to 15% is that it would cushion the shock of VAT. Says Croeser: "Government hasn't yet decided on the tax base for VAT so no one knows at what rate it will be introduced." He says draft legislation has to be finalised and submitted to parliament early next year.

"We've promised a six-month time lapse once the law has been passed for the business sector to change systems to accommodate the new tax. So the earliest it could be introduced is the last quarter of 1990." ■

320

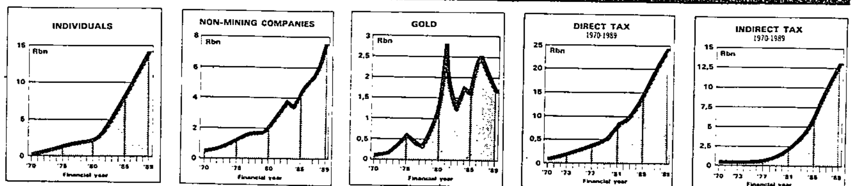
We're your friends, says SA's No 1 tax collector

Business Times Reporter

AFTER two months in office, Commissioner for Inland Revenue Hannes Hattingh has one regret — the adversarial relationship between his department and its customers.

He says: "People seem to be scared of us or angry. That's a pity. We want to be helpful and friendly."

INDIVIDUALS FORK OUT MOST AS BURDEN SOARS



HANNES HATTINGH ... honesty and courtesy

Advice

Although advisers tell their clients that in the realm of tax there is nothing but the statute — you pay what you absolutely have to pay and nothing more — Mr Hattingh believes the relationship can be based on honesty and courtesy.

"We are not hostile to taxpayers. We realise that nobody likes to pay tax, but people should accept it as necessary. We need to improve the flow of information on where tax comes from and where it goes. Then people would pay more readily.

"Each May and June we invite taxpayers to come to us for advice. We can actually help them save tax. In the area of Site, for instance, many people are unaware that a married woman often does not have to include her income with her husband's."

Mr Hattingh admits that the number of disputes ending up before the special tax courts is rising — but that is because more and more companies and individuals are using tax advisers who are becoming ever more innovative.

The distinction between income and a capital gain is still by far the biggest bone of contention. Mr Hattingh realises that it is also a major problem in financial markets, for instance, leading to a no-sale attitude among shareholders.

Avoision

But he holds no immediate hopes of a solution. The Margo Commission recommended an objective definition to replace the present subjective haggling — but there is no sign yet of a definition.

Mr Hattingh has been with the department all his 38 working years. He rose through the ranks. After serving as Receiver for Johannesburg, he was made deputy commissioner before his present job.

He steps into the shoes of some colourful former commissioners — such as the celebrated wit, Micky van der Walt, who coined the word avoision.

In contrast to his predecessors, he is quiet and diffident. He reads, gardens, listens to music and follows the Blue Bulls for fun.

He is certainly no fire breather, even if his army worms — national servicemen drafted to help collect taxes — are something of a scourge in the business community.

Mr Hattingh says that contrary to rumour, the 250 young chartered accountants and 200 B Comms borrowed from national service to complement his inspectorate do not receive bonuses for meeting collection targets.

Progress

The inspectorate garnered R260-million of tax that would have been avoided or evaded last year. With inspectors carrying out 5 876 in loco inspections, GST collections in particular have improved.

VAT will require a lot more paper work than GST, but companies will carry the major administrative burden. VAT will be harder to duck than GST, so collections should be better.

There will be no exemptions. So, unless the authorities decide to reach even deeper into taxpayers' pockets, the rate could be lower than the present 13%.

Mr Hattingh reports good progress in implementing the recommendations of the Margo Commission. Numerous tax expenditures have been scrapped. Ring fencing is in place around mines and the farms of part-timers and depreciation write-offs, in most cases, now take place over three years at the rate of 50%, 30%, 20%.

Some tax advisers say certain Receiver's offices are inundated with work and that assessments are coming out late, but Mr Hattingh insists there are no particular problems.

There have been complaints that the Receiver delays repayments to taxpayers — but Mr Hattingh says now that Inland Revenue pays interest, it does not have a vested interest in stalling payment.

Mr Hattingh says all 32 offices are on-line to the department's mainframe computer in Pretoria. It has not been necessary to spend hundreds of millions on computing power — and no major expense in this area is in prospect.

Mr Hattingh's next big challenge will be VAT. Draft legislation being prepared will soon be released for public reaction. He hopes VAT will be in place by late 1990.

The department will add 800 collectors to its national staff of 7 732 to help administer the tax. The staff has doubled since 1982 — but revenue has kept ahead.

The department increased its take by 37% in the first four months of this year, but Mr Hattingh does not expect the tempo to last.

Astonishing

"Sales tax rose by a percentage point and the economy has taken longer to cool than expected. In addition, debtors allowances have been phased out. Our revised estimates are that we shall collect R46-billion, only 15% more than the R40-billion of last year."

Companies are expected to pay R9,5-billion (R8,1-billion), individuals R17,7-billion (R14,4-billion), and sales tax will net R15,2-billion (R12,9-billion).

The graphs show the astonishing growth in the takings of Inland Revenue over the years, also the growing burden on individuals, who pay most of GST.

GEC chases exports

AFTER research and development to identify foreign trading opportunities, GEC Switchgear has embarked on an export drive.

South America and the Far East have been identified as markets for the company's products and orders are being processed and responses given to firm inquiries. A large order ... has been completed.

General manager Trevor Stone says heavy investment has been made in researching the export market and senior personnel have visited many countries in Europe and the Far East.

GEC Switchgear's factory at Knights will increase production in the next 12 months

S/Times 17/9/89 (320)

Millions lost in big Site muddle

HUNDREDS of thousands of South Africans, black and white, may have lost millions of rands through incorrect Site deductions by employers.

Companies and individuals can expect long delays in receiving their assessments. Barbara Green of Pim Goldby says the Receiver of Revenue is sending many tax forms back to companies, largely because of confusion about the Site method.

Extended

Miss Green says officials of the Receiver started 1989 company assessments only on August 14.

Johannesburg Receiver senior official Linda Pretorius says, however, that to her knowledge the branch has not returned forms to companies because of the time delay.

"Small branches with more time may have sent forms back, but Johannesburg has set up a Site group to deal with problems. Officials have completed a large amount of assessments and dispatched refunds."

Site was announced by Finance Minister Barend du Plessis in his 1988 Budget. It originally applied to married women who earned up to R20 000 a year, but was extended in March this year to include all net remuneration earned by married women.

In the case of persons other than married women, the limit was increased from an amount calculated at a rate of R12 000 a year to R20 000. The R12 000 limit still remains for the 1988 year, however.

Confusing

For example, a married man who earned R22 000 last year would pay Site on R12 000, and Paye on the remaining R10 000.

When Site was introduced, the private sector slated it as being highly confusing. Many experts called for the scrapping of the Site system, which

By Robyn Chalmers

they described as seriously flawed.

One of the major problems appears to be the onerous burden placed on employers when calculating Site. It is a final tax, and employees cannot get refunds if they discover there has been an incorrect deduction.

It has also been found that the computer systems of many companies are not adequate to cope with Site. Many previously workable systems have become obsolete, but have managed to wreak a fair amount of havoc before being replaced.

Annuities

Life assurers have had to cope with their fair share of hassles over Site. When taxing retirement annuities, many found they had not had enough time to gather details from policyholders.

As a result, they have had to tax annuitants at the maximum rate for the past year, and policyholders have no recourse because overpayments are non-refundable.

Apart from late assessments, taxpayers were slow in returning the 233 000 certificates (IRP5) issued by the Johannesburg office of the Receiver.

The forms were due in by June 7, yet by the end of that month about half were outstanding. The Johannesburg office is still receiving inquiries about Site.

Consensus among tax experts is that there have been widespread miscalculations of Site, and that the lower-income groups have been hardest hit.

Defrauded

Black Sash co-ordinator Sheena Duncan says that the Johannesburg advice office dealt with a stream of clients "defrauded of part of their wages by incorrect Site deductions".

She claims that working-class Site taxpayers have no right to see employers' tax assessments, to challenge their accuracy or to reclaim overpayments.

In an analysis of political reform trends, Econometrix director Azar Jammine says that between the 1985-86 and 1987-88 years, the number of blacks paying personal income tax more than doubled from 6,4% to 14,6%.

Dr Jammine says the Government will be faced with a dilemma by 1993 when the number of blacks paying tax will outnumber whites. It will either have to draw thousands of black workers into the tax net, and give them the vote, or lower taxes and face a huge loss of revenue.

Time Life looks up

Business Times Reporter

TIME Life, the youngest player in the life-assurance industry, is growing strongly.

Managing director Bill Haslam, who left Southern Life early this year to join the new company, says that in May, June and July Time Life wrote new business worth R3-million in the independent broker market.

"We are proud of this achievement by a young player," says Mr Haslam.

Time Life, an arm of listed management and financial services group Time Holdings, was the first SA company to be given a life-assurance licence in 20 years when it was formed in December 1987.

Seven months ago it expanded from its original niche in the mortgage protection market, mainly for Time Housing, to offer a tax-provider plan for indepedent brokers.

"We have surpassed all expectations and are receiving substantial recurring premium income," says Mr Haslam.

...property situated in the Eastern Trans-
vaal Hoedspruit area. 21 different species of

Star 20/9/89. (320)

Taxes eroding SA's price edge – expert

Impact of GST is 'greater than 13 pc'

By Michael Chester

General sales tax may appear to load shopping bills by a simple 13 percent, but in fact the total impact is to boost actual consumer prices by as much as 20 percent, a tax expert disclosed yesterday.

The full clout of GST and other indirect taxes was exposed by Mr Bob Cole, chairman of the fiscal policy committee of the Federated Chamber of Industries, when addressing an FCI conference on South Africa's export outlook.

He said the chain reactions of indirect taxation was one of the main causes of South Africa slipping lower and lower down the ladder of world trade contenders as they eroded SA's price edge on export competitors in overseas markets.

Prices climb

Mr Cole, taxation manager of the Barlow Rand, said GST set to work with multipliers on additional capital and production costs that caused the basic pre-tax price of commodities to climb by another five to seven percent.

The result was that the overall increase on selling prices was as much as 18 to 20 percent.

Consumer price increases were also worsened by a chain of other indirect taxes that burdened producers — from customs duties and surcharges to Regional Service Council levies. These price repercussions added to the prices of products intended for export and the home market.

The analysis, said Mr Cole, supported the argument that the Government needed to bring in the private sector to work out a new joint action plan to combat economic ailments.

Co-operation, he said, was crucial if South Africa hoped to reverse its downward spiral on international economic rankings, now demoted by the World Bank from "middle income" class to "low income" classification.

Joint action was also crucial to tackle problems such as high inflation and low productivity that held down economic growth.

South Africa's share of world exports had tumbled from 1,5 percent in 1965 to a meagre 0,9 percent at a 1987 count — while the share taken by a number of overseas countries that set off in similar or worse economic circumstances had soared.

Over the same period, Japan's share had doubled from under five percent to almost 10 percent; South Korea's had rocketed from 0,1 percent to two percent; Hong Kong's from 0,9 percent to 2,1 percent; Taiwan's from zero to more than twice the SA level, said Mr Cole.

"The problem we face in South Africa," he said, "is that we lack a management structure where both the private and public sectors make contributions to the detail of a new economic model.

"We hear of five-year plans but we are never privy to the detail," he said.

New signals from the Department of Trade and Industry, however, showed intentions to face the problems and to invite co-operation.

Tax bonus for life insurers

Cape Times 22/9/89

320

JOHANNESBURG. — Finance Minister Mr Barend du Plessis has given provident fund beneficiaries a multi-million-rand windfall by scrapping tax on income derived from their investments.

The Life Offices Association (LOA) confirmed the move yesterday, saying the minister had approved a recommendation by the Tax Advisory Committee to exempt the assurance industry from tax on investment income derived from provident fund business.

The recommendation was made in response to pressure from the industry to iron out an anomaly in which underwritten funds were treated as taxed business, while privately managed funds were untaxed.

In representations to the financial authorities earlier this year the LOA said the inequity would seriously affect their ability to attract future business and keep existing funds.

In a letter to the LOA, the Commissioner for Inland Revenue, Mr Hannes Hattingh, said necessary amendments to Section 28 of the Income Tax Act would be passed during the 1990 parliamentary session.

However, the exemption would be effective from the current year of assessment, applying retrospectively to all year-ends following April 1989, he said.

Industry sources say the amendment will release several million rands' worth of tax money, particularly from the "giants" — Sanlam, Old Mutual and Southern Life — which have the lion's share of underwritten provident fund business. Most of this will be passed on to provident fund beneficiaries.

Taxman probes close corporations

(320) B Day 25/9/89

BARRY SERGEANT

INLAND Revenue has launched an attack on a "sham" scheme involving "ex-employees" and close corporations (CCs).

The scheme, which tax experts in recognised professional firms describe as "doubtful in law", enable taxpayers to substantially delay payment of tax.

In an announcement today, Inland Revenue said immediate action would be taken with regard to "ex-employers" and "ex-employees". It was unclear whether the action would be retroactive.

Employers could be personally liable to recover taxes from "ex-employees" involved in schemes. "Ex-employees" involved in the schemes identified would have to effect stern-to-stern changes in their personal finances.

Revenue spokesman John Hanssen said the scheme involved employees who resigned from the service of their employers to form a CC. They then contracted their services out through the CC. "In other cases, these ex-employees purport to render their services as independent contractors."

Hanssen cited draughtsmen, artisans and computer programmers as examples of taxpayers who were involved in the schemes.

The schemes' main advantage was much improved cash flow for the taxpayer through postponed tax payment.

Charge

Accountancy firm Ernst & Young's Chris Hassall, who questioned the scheme's legality, said the advantage was that a CC was not obliged to pay employees' tax.

An employee who paid R1 000 a month in PAYE could resign and charge his "ex-employer" through the CC. The "ex-employer" would then not deduct PAYE when it paid the CC, as a CC is not an employee.

The "ex-employee", who had been paying R1 000 a month, would now have to pay tax on the first two provisional assessments raised in a tax year.

"But in cash flow terms, he would only really be caught on the third provisional, which could be 18 months after he started on the scheme," said Hassall.

Hanssen said that if such an "ex-employee" was subject to the control or supervision of any other person, as to the manner in which his duties were performed, or if the amounts payable to him were payable at regular intervals, PAYE had to be deducted. "The interposition of a CC will be regarded as a sham transaction and ignored.

"Employers who fail to deduct PAYE in these circumstances will, in terms of the law, be held personally liable for payment of the amount not deducted." The employer would have recover the money from the "ex-employee" involved.

Inland Revenue is aware that the schemes have gained popularity rapidly.

One common belief (which Revenue did not refer to) is that by setting up a CC, the taxpayer would be in a position to deduct everything twice. Another incorrect belief is that by using CCs, taxpayers will be in a tax-loss position for at least three years.

However, it remains unclear how widely the CC schemes are practiced, and case-by-case action could present Revenue with a logistical nightmare. Accordingly, Revenue will conduct PAYE inspections with a view to identifying non-payment in the CC schemes under investigation.

Hassall said a further worrying element of the schemes was that "ex-employees" became "independent contractors" but remained on the "ex-employer's" pension fund.

Bona fide

Legally, an employee had to be in full-time service to be a member of an employer's pension fund. In these cases, by setting up CCs, "ex-employees" were getting the best of both worlds.

Hanssen said it was important to note that bona fide independent contractors would not be affected.

"The provisions will not apply to fees paid by any employer to a recognised service organisation in respect of services rendered by an employee of that organisation."

Govt will waive R100m in taxes

(320)

BARRY SERGEANT

B/Day 25/9/87

GOVERNMENT will waive more than R100m in taxes in the giant R3,7bn Iscor listing, to help ensure its success.

The merchant banks employed as agents for the issue say government conceded it would be inconsistent to raise R3,7bn from the issue and simultaneously raise money by way of the applicable taxes.

The first tax that would have been payable on the issue is marketable securities tax (MST), of 1,5%, (R56m). Also applicable, in theory, is fringe benefits tax on free and discounted shares to Iscor employees.

The difference between the "cost" to employees, and the market value, is in theory taxable at the employee's marginal rate. It is impossible to calculate exactly how much perks tax would be payable by staff, as it is uncertain how many shares available at a discount will be taken up.

The perks tax that would be payable by employees could be to an upper limit of R50m. Foregoing the tax amounts to a huge added bonus for Iscor employees.

Merchant bankers involved in the issue say that government conceded that it would be "internally incoherent" to raise R3,7bn, that effectively goes into state coffers, and raise a further amount of more than R100m in taxes on assets of which it was the vendor. Moreover, if MST had been made applicable, the simplicity and integ-

☐ To Page 2

Iscor tax (320)

B/Day 25/9/87

☐ From Page 1

rity of the issue would have been lost.

However, because the law stipulates that MST and perks tax are payable when securities are traded or given away, various government departments will make book entries as if the taxes had in fact been collected. The effect will be that the net cash flow, as opposed to book entries reflecting the higher "collection", will remain R3,7bn, minus the sums foregone by the issue of free and discount shares.

The law determines that MST is not payable in the event of a new issue of shares, but the shares that will be taken up in the Iscor offer are in fact "old", or second-hand shares and therefore subject to tax. The Companies Act does not make provision for a tax-free conversion of state shares into private shares in the event of privatisation.

To overcome this, Iscor sold its shares to government. Government, in turn, is selling the shares to institutions, Iscor employees, the Industrial Development Corporation and the public.

320 Fmail 29/9/89.

PAYE AVOIDANCE 320 Fmail 29/9/89.

Revenue threatens

Inland Revenue (IR) has declared war on employees who resign and enter into contracts to provide the same services through a close corporation (cc). Revenue says draftsmen, artisans and computer programmers have been prominent in this.

320

In some cases, the employee resigns and then enters into a contract with his previous employer as an independent contractor, without even interposing a company or cc.

Revenue points out that if a person is "subject to the control or supervision of any other person as to the manner in which his duties are performed or his hours of work," PAYE must be deducted from amounts paid to him. The same requirement applies if amounts payable are periodic in nature ("payable at regular daily, weekly, monthly or other intervals.")

Revenue warns that employers who fail to deduct employees' tax in these circumstances will be held liable for tax not deducted. They could also be liable for interest and a 10% penalty from the date on which tax should have been deducted.

These requirements, concedes Revenue, do not apply "to fees paid by any employer to a recognised service organisation" for services by an employee of that organisation.

But Revenue takes the argument into questionable territory by saying that "the interposition of a cc must be ignored" — if one is used to avoid (not evade) PAYE.

There is no authority in the 4th Schedule to the Act (the legal basis for the system) for PAYE to be deducted from a company (including a cc). Consequently, if the purported structure of a new contract for provision of services is to be overridden, more is needed.

Firstly, an ex-employee may commit outright fraud, by giving entirely fictitious details of a cc to his former employer and simply paying cheques in favour of the (non-existent) cc into his own bank account.

Then there are cases where a "former employee" indeed registers a cc, but ignores it for all practical purposes. Conditions of employment continue as though nothing had happened. Ccs are even being paid leave pay!

Though it might be difficult to decide every case, a common law doctrine of "substance over form" should usually apply. This would leave the individual subject to PAYE and the employer, correspondingly, liable to deduct tax.

The final situation is where a cc or company is employed legitimately as a legal personality through which services are offered. Revenue is stretching its case to argue that it can automatically deduct PAYE in such cases. It is an important principle that a taxpayer may arrange his affairs to pay as little tax as possible.

Revenue could still invoke the general anti-avoidance provisions of S103 which would require it to prove the "abnormality" of the transaction on a case-by-case basis.

This can hardly be an attractive prospect for Revenue, suggesting a rather unpleasant and wide-ranging amendment to the Act lies in store at the earliest Parliamentary opportunity to make life unreasonably and unfairly difficult for many classes of business which render services through a cc.

It is nevertheless possible to sympathise with Revenue, which sees PAYE being undermined in a variety of circumstances. As usual, the innocent will have to pay to some extent for the misdoings of the guilty.

It is equally possible to sympathise with middle-income salaried taxpayers, caught between the hammer of a progressive tax scale and the anvil of inflation. It is understandable that some of them have begun to engage in legitimate tax-planning, as the affluent have done for many years. ■

inflation, without taking taxes into account. come increasingly draconian.

Tax evasion is now the norm

320 Star 30/9/87.

MAGNUS HEYSTEK

TAX planning has mushroomed into a multi-million rand industry in the space of a number of years — thanks ito a profligate government that seems unable to control its own spending.

As more money is needed to fund an apparently insatiable civil service, more revenue sources are identified and ultimately exhausted.

Expenditure

The end result is a complex, disjointed and badly administered tax system that has undermined the basic tenets of any tax system, namely that of fairness and equitability.

In less than 10 years South Africa has changed from one of the lowest-taxed countries in the world to one of the highest. While the rest of the world has successfully embarked on tax reform which has led to lower personal taxes, South African taxes have kept on rising.

As can be seen from the graph, South Africa's tax burden has dramatically increased during this decade. Government expenditure, which lies at the root of the problem, has increased from about 20 percent of the gross domestic product in 1980 to current levels of around 33 percent.

The result has been a sharp drop in personal disposable income, which has declined in real terms in five out of the last eight years.

During the same time the average tax rate of the individual has been sharply boosted by what is commonly called fiscal drag. The average tax rate of an individual who earned R10 000 in 1980 has risen from about 2 percent to 20 percent.

The difference between tax avoidance (legal) and tax evasion (illegal) has became very blurred in recent times, leading to the coining of a new phrase: tax evoision.

This has partly been the result of retroactive measures by the Goverment to close loopholes in the Income Tax Act. The rationale seems to be: set up some kind of tax-avoidance scheme and keep very quiet about it in the hope that the authorities don't pick it up.

If and when they do pick it up and close the loophole, walk away from it all and try to set up some other kind of scheme. And so the endles game continues.

Tax evasion, contrary to tax avoidance, has become a national pastime in South Africa. Until recently this practice has been the sole franchise of big business. But no longer. Today, wealthy individuals and even not-so-wealthy individuals all lustily take part in this national pastime.

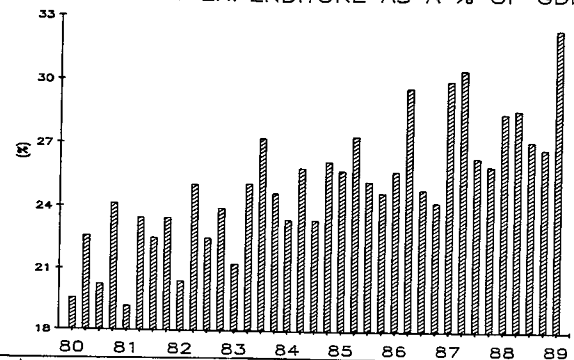
Tax avoidance, using the existing law, is neither immoral or illegal as has been suggested by various leaders in recent times. It is every individual's right and duty to minimise his tax payments, provided this is all done within the ambit of the existing laws.

Recommendations

The Government appointed the Margo Commission into SA's tax structure which released its report in August of 1987. Several far-reaching and important changes to the current income tax law were proposed, but only some peripheral recommendations have been introduced thus far.

However, the Government has indicated that it intends implementing several major recommendations, including VAT, during the course of next year. But instead of simplifying the current tax situation, experts feel, it will only serve to further confuse the matter, making tax planning even more paramount.

GOVERNMENT EXPENDITURE AS A % OF GDP



You can retire in comfort and save on your tax bill

Star 30/9/89

320

THE reality of inflation is one of the most serious problems facing those planning their retirement.

Unbridled inflation has persisted for the past five years and has forced those making financial arrangements for their later years to re-plan and examine ways that will provide them with a level of income to safeguard their future.

A retirement annuity investment could provide the answer to retirement planners and retirees, says Bruce Howard, deputy general manager (marketing) at AA life.

"Generally, the person retiring goes on to a fixed pension, with some provision for inflation, such as a 5 to 7 percent annual increase," says Howard.

"Often a retired person is able to manage initially on less than his full pension and is looking for the means to save the surplus, as well as his retirement capital, so as to provide additional income in the future when the purchasing power of his pension becomes eroded by inflation and will not be enough to make ends meet."

Mr Howard gives this example. The manager of a large company retires at 63, receiving a R100 000 lump sum from his pension fund and a R3 000 monthly pension. Up to his retirement he did not consider investing in a retirement annuity or, even if he had, his maximum investment was probably R1 750 a year (the maximum tax deduction being the greater of R3 500 less deductible pension contribution, or R1 750).

"In retirement his pension is 'non-retirement funding income' and qualifies for the 15 percent retirement annuity deduction rule.

"Therefore, he can deduct a retirement annuity contribution of up to 15 percent of his pension (R36 000 a year). At least R5 400 will qualifiy for tax deduction and it could be even more if he also invests 15 percent of his other investment income under the 1988/89 tax tables.

"His marginal tax rate is approximately 38 percent and he can invest his retirement annuity contribution on an annual or monthly basis with a 38 percent subsidy from the Receiver."

Mr Howard continues: "He will be building up a 'reserve pension' fund until he is 69 last birthday (the latest retirement age in terms of retirement annuity fund rules) or earlier, if needed, to supplement his pension in future years when inflation eats into it.

"In addition, the investment returns that he will enjoy on this 'reserve pension fund' will probably be much greater than any alternative investment route available."

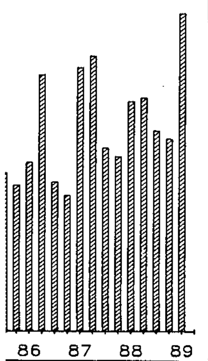
Alternatively, if the person needs all his pension income to live on, he or she can make the retirement annuity investment by way of an annual contributon from the retirement capital. In other words, the person could fund the retirement annuity out of his capital and for every R62 invested, the Receiver will invest R38.

"The retired person will therefore be building up a much greater amount of capital to supplement his pension than he could otherwise and, remember, tax rates tend to reduce over time and, therefore, the rate of tax saved on the deduction of retirement annuity contributions can be expected to be greater than the rate of tax paid in future when the person draws a pension from the retirement annuity fund that has been built up."

---

orm

AS A % OF GDP



what's not

ence while he is on holiday, these costs n his hands.

tibility of costs incurred in attending a itside the Repubic would depend largely for the fair, said Mr McGurk.

ance is so solicit orders for goods to be o purchase stocks, the costs would qualiion.

ance, however, could arise if the trip is or the purpose of creating or improving capital assets. The costs of trips to acssets, new agencies, or to negotiate long- finance could be subject to disallow-

s may wish to send their employees to conferences to study the latest methods es, or to attend training courses.

on occasion, the Receiver has been empt to disallow the costs in the hands of e (on the basis that the expenditure is ture), such attempts should be resisted

not necessarily any 'enduring benefit' for since employees tend to come and go.

ncommon, however, for employees to be h travel perks 'under the counter', of ation is made in either the employer's or eturn of income. Clearly such practices evasion and should be discouraged.

er planning, travel incentives can be such a way as to minimise any adverse ons while at the same time maintaining and honesty of both employer and em- Mr McGurk.

paramount.

80 81 82 83 84 85 86 87 88 89

Travel perks — what's legal and what's not

Star 30/9/89

(320)

THE use of travel incentives has become an important and more widely accepted part of remuneration packages, but these carried income tax consequences for both employer and employee, says Aiken & Peat' partner Pat McGurk.

He said that the lure of an overseas trip had proved to be an important tool in securing and motivating staff for the benefit of employers.

The incentive can take various forms, including visits to foreign countries to obtain knowledge of foreign markets, to participate in trade fairs, or simply holiday incentives granted for reaching specified sales or budget targets.

"It is not uncommon for employers to encourage, or even sometimes require, their executives to travel overseas in order to 'broaden the mind' and remain abreast of all foreign technical and market developments. For this reason the employer will meet the costs of airfares and, on occasion, all or portion of the executive's accomodation and subsistence costs.

"In the hands of the employer, the costs will be generally regarded as a 'salary related' expense and should thus qualify for deduction.

"Whether this ground will be sufficient to avoid tax in the hands of the executive will depend on the facts of each case, but in particular the nature of the company business.

"Executives working for companies involved in marketing, high technology and similar industries are more likely to be successful in avoiding tax as the trip could be regarded as work related.

"The case of the executive would be strengthened further if the requirement to travel was incorporated into the employment contract.

"In certain cases, the costs of the spouse are also paid by the employer when the executive travels on business. The justificaton is usually that the executive is required to attend important social functions at which business entertainment is anticipated. The spouse is thus performing a service on behalf of the company and no 'benefit or advantage' arises for the executives.

"Again, the success of this argument would depend on the facts of each case, but it is likely to have more prospect of success in a large and prestigious company. The Receiver of Revenue will also need to be satisfied that the entertainment is for the purpose of benefiting the business and does more than satisfy ordinary 'social needs'.

Incentive scheme

"A travel incentive scheme is frequently regarded as a major form of motivation for sales staff. In the hands of the employers, the costs clearly should be deductible since they are incurred in promoting the business of the company and in retaining a 'happy and contented staff', Mr McGurk said.

The salesman's case is somewhat more difficult.

"As the benefit or advantages arises because of services rendered, the cost of the trip to the employer is usually subject to taxation in the hands of the salesman, unless the trip can be classified as a business trip. This can be done, for example, where the salesman is required to call on overseas clients or principals in order to conduct company business.

"At least, in this manner the cost of the airfare should be free of tax in his hands.

"Clearly if the employer pays the salesman's personal subsistence while he is on holiday, these costs are taxable in his hands.

The deductibility of costs incurred in attending a trade fair outside the Repubic would depend largely on the reason for the fair, said Mr McGurk.

"If attendance is so solicit orders for goods to be exported or to purchase stocks, the costs would qualify for deduction.

"Disallowance, however, could arise if the trip is undertaken for the purpose of creating or improving or acquiring capital assets. The costs of trips to acquire fixed assets, new agencies, or to negotiate long-term capital finance could be subject to disallowance.

"Employers may wish to send their employees to participate in conferences to study the latest methods and techniques, or to attend training courses.

"Although on occasion, the Receiver has been known to attempt to disallow the costs in the hands of the employee (on the basis that the expenditure is capital in nature), such attempts should be resisted by taxpayers.

"There is not necessarily any 'enduring benefit' for the employer since employees tend to come and go.

"It is not uncommon, however, for employees to be provided with travel perks 'under the counter', of which no mention is made in either the employer's or employee's return of income. Clearly such practices constitute tax evasion and should be discouraged.

"With proper planning, travel incentives can be structured in such a way as to minimise any adverse tax implications while at the same time maintaining the integrity and honesty of both employer and employee," said Mr McGurk.

TAX AVOIDANCE

(320) Fmail 4/8/89.

Revenue scores a hit

Inland Revenue has scored a major psychological victory by winning a crucial R155m tax case. The contested transactions, involving an ingenious form of would-be tax avoidance, took place under structures created within the tax haven of Ciskei.

The *FM* understands that the particular financial products involved could (in form, if not substance) loosely be described as pure endowment policies. The general nature of the transactions was to route money into and out of Ciskei from SA.

Ciskei has no company tax and a maximum 15% personal tax rate. It did not take too much creativity to — in theory anyway — use these attractions for the benefit of SA taxpayers. With the same currency and loose border controls between the countries, they suddenly had access to a tax haven. This was a first — because of foreign exchange regulations, SA taxpayers had never before had such easy access to such an entity.

Only a few details of the case have been made available to the *FM*. For example, while the case appears to involve R155m, this does not necessarily imply that is the amount of taxable income involved. That figure is probably substantially less.

The decision, made in the Special Income Tax Court, may never be made public — yet it is arguably one of the most important test cases in SA tax history. The Special Court, which effectively conducts hearings *in camera*, needs the permission of the taxpayer to publish judgments. Otherwise, it is only if the case goes on appeal to the Supreme Court that the names of the parties may be made public.

However, this particular case has such far-reaching implications that its details have become widely known in tax circles. The *FM* understands the judge came down very heavily on the taxpayer — so severely that an appeal is not even being considered.

One observer has described the transactions under question as "pure veneer" that cracked under even the most modest scrutiny. On the other hand, those involved for the taxpayer say the decision represents a hardening of attitude towards taxpayers. It is felt any kind of scheme structured around Ciskei law could be regarded as "unacceptable avoidance" purely because of its tax haven attributes.

The case may be seen as significant from the authorities' viewpoint in that judgment involved a wait of only 18 months, far shorter than usual. For Revenue, the outcome has to be satisfactory since existing law *can* now be used to counteract "unacceptable" avoidance, rather than the authorities having to resort to harsh retroactive legislation.

The case opens the way for many other similar cases. In recent years, a number of sophisticated schemes involving large amounts of money grew around the Ciskei tax haven benefits. Amending law, in effect retroactive, was passed in 1987. This provided that a resident of SA who held shares in a foreign company that derived any untaxed profit would be taxed on that income as if it had been earned in SA.

The amendment indirectly affected the case in question. It is believed Revenue proceeded so as to clarify extremely fine and ingenious parts of the transaction designed to bypass the amendment.

While the outcome of the case may embarrass the parties involved, including professional advisers, it is clearly in the public interest to publish the facts. This would be to the benefit of taxpayers — it is not simply a case of one man's loss being another man's gain. A precedent has been set and needs to be understood. ■

Changeover to SITE system is delaying tax assessments

Argus 7/8/87

320

By CLIVE SAWYER
Tygerberg Bureau

TAX assessments in Cape Town and Bellville have been delayed by up to a month by the introduction of the Standard Income Tax on Employees (SITE) system, according to the Receivers of Revenue for the cities.

The Receiver of Revenue for Bellville, Mr Johannes Smalberger, was reacting to complaints from taxpayers who had not got their assessments in spite of having sent in returns before the May deadline.

"SITE has given us extra work to do, but we hope to catch up in the next month," said Mr Smalberger.

He could not say when the first assessments would be sent out because they were issued from a central computer in Pretoria.

The Receiver of Revenue for Cape Town, Mr Ernst Conradie, said reprogramming the computer to cope with the new SITE system had taken "some time".

MANUALLY PROCESSED

"This has meant quite a backlog, but we have processed a number of returns manually."

Cape Town taxpayers could expect several assessments to be sent out in the next month, he said.

Mr Smalberger said the introduction of SITE had affected both Pay As You Earn (PAYE) and provisional taxpayers.

"For instance, several company directors may be provisional taxpayers, but are subject to SITE," said Mr Smalberger.

A Bellville taxpayer who did not wish to be named, said his assessment normally arrived in June, but still had not come.

Referring to a report that 30 percent of Bellville tax returns were late, he said: "I do not understand how they can be so far behind if they have 30 percent less work to do."

When he had asked about the problem at the Bellville office he had been referred to several different departments, but had not been given a satisfactory answer, he said.

320 Bday 9/8/89.

VAT not before 1991, says expert

KAY TURVEY

VAT is unlikely to be implemented until March 1991 and this gave businesses a long lead time to prepare for the change-over.

Ernst & Young partner Ian Mackenzie, addressing the "Tax Update Seminar" in Johannesburg yesterday, said there were still many varied and conflicting answers from government on a timetable for VAT.

Yet, he believed it was unlikely to be introduced for another 18 months.

Mackenzie said it was almost certain the Cabinet would not make final decisions on the new invoice based tax until after the elections.

As there were still many politically unfavourable decisions to be made, little attention could be expected to be given to VAT until November this year, at the earliest, although Revenue had completed the drafting.

Evasion

Therefore the document setting out the principles of the new tax to the private sector would not be given out until January/March next year.

Mackenzie said government had advocated VAT as a cure to all evils, selling it as allowing for less evasion and therefore a lower rate.

But, it was unlikely the rate would be less than the present 13% for GST and would more than likely be 15%.

Further, government had to deal with the socio-political problems of including foodstuffs in the VAT net, for to have a differentiated rate or an exclusion once again opened the "evasion vortex".

VAT plans lag —'unlikely pre March 1991'

CAPE TIMES 7/8/89 (320)

Own Correspondent

JOHANNESBURG. — VAT is unlikely to be implemented until March 1991, however, this gives businesses a long lead time to prepare for the changeover, according to a tax expert.

Ernst & Young partner Ian Mackenzie, addressing the "Tax Update Seminar" yesterday, said there were still many varied and conflicting answers from government on a timetable for VAT.

Yet, he believed it was unlikely to be introduced for another 18 months.

Mackenzie said it was almost certain the cabinet would not make final decisions on the new invoice-based tax until after the elections.

As there were still many politically unfavourable decisions to be made, little attention could be expected to be given to VAT until November, at the earliest this year, although Revenue had completed the drafting.

Therefore, the document setting out the principles of the new tax to the private sector would not be given out until January/March next year.

Mackenzie said government had advocated VAT as a cure to all evils, selling it as allowing for less evasion and therefore a lower rate.

However, it was highly unlikely the rate would be less than the present 13% for GST, and would more than likely be 15%.

Further, government had to deal with the socio-political problems of including foodstuffs in the VAT net, for to have a differentiated rate or an exclusion once again opened the "evasion vortex".

The issue of transport fares for buses, trains and planes was an additional problem, as was construction.

 (320) Pruail 11/8/89

Payroll liaison

Representatives of the Computing Services Association (CSA) have for the past six months been beating a path to the offices of the Commissioner for Inland Revenue on behalf of software vendors unsure about the application of GST in their businesses.

Now that the association has obtained some degree of clarity about the effects of GST on computer software and services (*Technology* August 4) it has taken up cudgels on behalf of developers of payroll software.

Changes in tax legislation and the short time given to implement these changes cause frequent headaches for payroll vendors. Not only do they have to revise the products they market but all existing users must be provided with updated software to cater for the new legislation. More than 75% of all PAYE calculations are estimated to be processed using some form of computerised payroll system.

Payroll vendors have frequently lamented the time Inland Revenue takes to release details about tax changes and contend that this information is often ambiguous. The introduction of SITE tax, where final determination of taxes rests with the employer, has aggravated this situation.

A committee representing the interests of payroll suppliers was formed as a special interest group within the CSA last week. Its members, drawn from leading payroll suppliers Accsys, Paywell, Paywise, Q Pac and Sage, are optimistic that by working closely with Inland Revenue they will be able to reduce the disruption that tax changes cause vendors and users of computerised payroll systems.

Committee member Dick Bradley, MD of Accsys, says the group hopes to work with not only Inland Revenue but also with other organisations which influence companies' payrolls, such as the administrators of the Unemployment Insurance Fund and Workmen's Compensation Act, and tax authorities in neighbouring states.

It has already received recognition from Inland Revenue — which would rather deal with a single representative body than a collection of individual payroll vendors — and expects to present its grievances to the tax authorities soon.

Discussions between the two parties are expected to focus on ways of easing the implementation of new tax laws. The payroll companies are unlikely to be given advanced information about changes to legislation. ■

Exploit tax-free investments while they last

Star 1/8/89

320

Money Matters

MAGNUS HEYSTEK

THE Government has postponed its decision to phase out the tax-free benefit on certain types of investments, notably building society, Post Office and Treasury investments.

The orginal decision to phase out these tax-free benefits was announced during last year's Budget speech and the phase-out period should have started on March 1 this year.

For some reason, still unclear to many people in the savings industry, this decision has been postponed to March 1 next year, which provides hard-pressed investors with some relief until these concessions are finally withdrawn.

According to an informed source, pressure might have been brought to bear upon the authorities by the Post Office which stands to lose most of its attraction to savers and investors. However, this could not be confirmed.

But there is no doubt that the Post Office as a financial services institution will have to undergo a drastic change in terms of the products offered if it wishes to survive. It will have to offer the same products and services offered by other insititutions.

But, to my mind, the Post Office and the Treasury are currently offering excellent returns on their indefinite-period tax-free investments.

Six months

The Post Office is paying 9,5 percent tax free on its savings certificates up to a maximum of R70 000 per taxpayer. Not only is this maximum higher than investments at banks and building societies but the minimum investment period is only six months.

Treasury Bonds, also offering a tax-free 9,5 percent, are available on amounts up to R60 000 per taxpayer.

To beat the net return, an investor in the highest marginal tax bracket of 45 percent will have to earn at least 17,3 percent elsewhere. As far as I know, this rate is not available, even for large sums of money.

So until March next year, investors can still earn tax-free returns on certain types of investments. Savers and investors, especially in the higher marginal tax brackets, should use this avenue for as long as possible.

The sad fact is that even without the added burden of tax, the saver will still be less well off if the effect of inflation is taken into account. And with interest rates set to start coming down towards the end of the year, coupled with an expected upturn in the inflation rate, savers will have no choice but to watch the real values of their savings slowly being undermined by inflation. That is why it so important to invest in real assets.

For people in lower marginal tax brackets, it really does not make sense to invest large sums of money in tax-free and partially tax-free savings instruments. They would do far better investing in other higher-yielding instruments available to them.

Above is a schedule of tax-free investments still available to investors:

320

More blacks being drawn into Receiver's net

Tax or vote dilemma for Govt

By Michael Chester

A leading economic research unit contends in a new analysis of political reform trends that South Africa has now come face-to-face with the blunt choice of making changes to the whole tax system — or granting the vote to blacks drawn into the income tax net.

Unless tax bills were accompanied by full political rights, black taxpayers were bound to see themselves as victims of more social injustice, argues Dr Azar Jammine, director of the Econometrix think-tank.

The issue had arisen as a result of widening of the tax net as the chase between inflation and wage levels forced thousands of blacks into income tax brackets, he said.

Doubled

Between the 1985/86 and 1987/88 tax years, the number of blacks in the overall total of taxpayers had more than doubled from 6,4 percent to 14,6 percent.

If the process had continued unhindered, with inflation at about 15 percent, by 1993 blacks would have out-numbered whites in a head count of income taxpayers.

Dr Jammine said it was because the Government spotted the trend that it set out last year to delay the flow of more and more black workers into the tax net — and inevitable confrontation with the vote issue.

It did so by increasing the size of primary rebates and raising the threshold marking the starting point of income tax.

"However," he added, "the Government has now come close to its limit in lifting the tax threshold."

Options

Once the limit was reached, within two years the Government might be forced to choose between bringing hundreds of thousands of black workers into the tax net or lowering taxes across the board — with a tremendous loss of revenue.

"In the face of such options the Government would appear to have two choices: either grant full political rights to blacks ... or shift the burden of tax dramatically away from direct to indirect taxation."

The proposed switch from GST (general sales tax) to VAT (value-added tax) at a high rate could enable Government to afford to reduce direct taxes to some degree.

"It is just possible that one of the principal forces driving Government to reform is its desire to be able to justify taxing the black community so as to spend funds on social upliftment — instead of having to rely on irritable white taxpayers to foot the bill."

Tax changes significant

320

Sowetan 18/8/89

By SIZA KOOMA

THIS year the Government introduced a few changes in the tax laws.

The object was to partly relieve taxpayers of the burden of taxation.

Among the most significant changes were the new system of taxation for married women.

The new law states that married women will no longer be taxed jointly with their husbands.

Deductions

They now fall under the SITE system of taxation which allows for tax to be deducted monthly from their salaries by their employers.

These changes, though, do not say anything about women who work for themselves, are in partnership with their husbands or work in closed corporations.

Matsheru Matsheru, a noted tax expert, has examined the implications of the new tax system on non-salaried wives.

He said that in the tax year ended in February 1989, all married women were taxed under the SITE system.

The SITE limit was R20 000. This meant that a married woman who earned a remuneration which was not more than R20 000 was taxed under the SITE system only.

She did not have to submit a tax return with her husband.

Her remuneration was taxed via her employer who deducted SITE tax from her salary and sent it to the tax collector.

However a married woman who had earned income which was not remuneration such as interest from investments, rental income from fixed property, dividend from shares, etc, were taxed jointly with their husbands.

Excluded

The new rules say that all married women, irrespective of how much they earn, are subject to SITE.

But again if they earn an income which is not defined as remuneration, such income is taxed in the hands of their husbands.

The following women are excluded in the SITE system:

- self-employed women;
- estate agents earning commission;
- partners earning fees;
- director-shareholders of both private and public companies;
- members of closed corporations and others.

Because these women are excluded from SITE determination they do not benefit from the SITE system.

This applies even if they earn a salary.

Relief

They fall under the old joint taxation system. Their income is taxed jointly with their husbands.

However, their husbands are entitled to relief according to the joint assessment allowance.

The disadvantage of the joint taxation system is that:

- the tax burden is on the husband's shoulders;
- the wife does not have any confidentiality;
- where spouses are taxed to the limit, one spouse, usually the wife, would leave her job to stay at home.

This had the effect of driving skilled workers from commerce and industry, thereby increasing the problem of the brain-drain.

Also, the wife might withhold income that should be included in the tax form, thus falsifying the declaration made by the husband that all the information in the return is true.

This can expose the husband to legal action by the tax collector should he discover that the husband omitted a taxable income.

There is no provision that the husband's plea that he did not know about his wife's other income will be a valid excuse.

Good tax planning can relieve married people from the heavy burden of joint taxation.

Planning

For example, if a non-salaried woman - a woman whose income does not fall under remuneration - is director of a company she can resign from the position and work as just an employee and fall under the SITE system.

A married woman who wants to start a business can register it under any other person's name, except her husband's, to escape the joint taxation system.

There are many tax planning opportunities that a married woman can take advantage of with careful study of the tax laws.

To be continued on Monday

WOMAN

Child tax relief - how to get it

Sowetan 23/8/89. 320

TODAY Matsheru Matsheru discusses child tax rebate relief. How does one qualify for it?

Parents with children aged between 18 and 26 years will qualify for child rebate if they meet the required conditions.

The child should be:

* Unmarried and under the age of 21, wholly or partially dependent on his or her parents for maintenance and not liable for payment of normal tax for the relevant year.

* Unmarried and under the age of 26, wholly or partially dependent on his or her parents for maintenance, not liable for the payment of normal tax for the relevant year and a full-time student at an educational institution of a public nature.

* Alive during any portion of the tax year and incapacitated by mental or physical infirmity from maintaining him or herself, wholly or partially dependent for his or her maintenance on the parents and not liable for the payment of normal tax for the relevant year. This applies whether or not the child is married.

Last year any child, in one of the above categories, who earned a remuneration sufficient - when calculated on an annual basis - to qualify him or her to pay Site tax disqualified his or her parents for child rebate. This was a tax hardship to lower income groups or any taxpayer who wanted to use their children to supplement family income.

The rule changed this year. In terms of the new rule any parent or parents whose child earns a remuneration sufficient - when calculated on an annual basis - to attract Site can claim a rebate on the child. But this relief applies only where the child is liable for Site tax only.

Example

This means that a child who earns a non-Site remuneration disqualifies his or her parent from a child rebate. For example if a child has a remuneration which is more than R20000 during any tax period or tax year he or she disqualifies the parent from claiming a child rebate.

Any taxpayer can therefore continue to enjoy a child rebate as long as the child's earning is within the Site system.

Taxpayers who qualify for this relief are the following:

* Any other person who is a second wife, divorcee, widow or single parent.

* Spouses who are subjected to the joint taxation system, as in cases where the wife and husband run their own business.

* Spouses where the husband earns an income which is not more than R7500 a year, his income could be remuneration or any other income, such spouses are subjected to the Joint Taxation system and thereby qualify for child rebate.

A married woman who is married in the ordinary sense of marriage and is the first wife of her husband, is permanently married and not separated from her husband and whose husband earns an income which is more than R7500 does not qualify for a rebate.

Matsheru Matsheru.

Righting taxpayers' wrongs

320

Ray Eskinazi is with Ernst & Young

It has been suggested a Bill of Rights for taxpayers would help create an equitable and impartial tax system (*FM* April 7).

The US only recently, in the Technical & Miscellaneous Revenue Act promulgated last November, introduced a *Taxpayer Bill of Rights*, to provide a better balance between the rights of taxpayers and the authority of the Internal Revenue Service (IRS) in administering the Federal tax system.

The Bill was the subject of much controversy and congressional deliberation. Though the IRS was initially opposed, it now agrees the Bill will serve a commendable purpose. It gives both individual and corporate taxpayer procedural safeguards.

One of the more significant provisions relates to taxpayer interviews. Previously, when IRS audited a return, it claimed the right to interview a taxpayer directly (for corporations, usually the responsible corporate officer or employee). It sometimes insisted on this even though a taxpayer had retained a qualified representative — such as a CPA (chartered accountant) or attorney — to handle matters relating to the audit.

Now there are legal rights which can be claimed. First, at or before any interview, the IRS must explain to the taxpayer the audit process and his rights. Second, if at any point during the interview the taxpayer indicates a desire to retain or consult with a qualified representative, the interview must stop until the taxpayer has arranged to do so.

If the taxpayer does retain a qualified representative, he cannot be compelled to accompany him or her to the audit meeting unless the IRS issues an administrative summons. The IRS can, however, ask the taxpayer to attend such interviews voluntarily.

Some of the procedural protections of Rights make the audit process more convenient to the taxpayer. The IRS must select a reasonable time and place to conduct an audit. Congress has even requested that, within a year, IRS must publish rules specifying what is "reasonable."

A further provision allows a recording of the interview to be made. The IRS may also make a recording but must advise the taxpayer beforehand and supply him with a copy or transcript if he requests one and is prepared to pay associated expenses.

Another provision relates to damages.

Before the Bill, the taxpayer generally had no remedy if any action by an IRS employee caused him damages, even if the employee intentionally disregarded IRS rules and regulations. The Bill now allows the taxpayer to sue government if an IRS employee intentionally disregards the tax codes or regulations in collecting a tax liability (but not in determining the amount of tax).

A taxpayer who sues within two years may recover up to US$100 000. The IRS cannot block the action on the grounds the taxpayer was partly responsible, but damages may be reduced if the taxpayer could have reasonably mitigated the injury.

A third provision deals with taxpayer reliance on IRS written advice.

Before the Bill, taxpayers bore the burden of risk of relying on erroneous IRS advice. This situation seemed particularly inequitable in regard to written advice. A taxpayer could still be subject to a penalty if he filed an incorrect return while relying on IRS provided guidance. The IRS must now withdraw any portion of any penalty imposed due to erroneous written advice provided by it.

The new safeguard applies to written responses to specific written requests when it is reasonable for a taxpayer to rely on such advice — assuming, of course, the taxpayer provided IRS with accurate information.

The Bill also deals with cost and fee awards. It expands a rule permitting a taxpayer who wins a tax case in the Federal Court to receive reasonable litigation costs if government's position was not substantially justified. This rule now applies to certain administrative proceedings.

To encourage the resolution of claims, the IRS can settle for administrative and litigation costs. If it does not (or the taxpayer disagrees with the proposed settlement), the taxpayer can appeal to the Tax Court.

The introduction in SA of a Bill of this nature would go a long way to eliminating the unilateral stance often adopted by Revenue.

There is no reason the taxpayer should not have some immediate recourse, for example, where terms of a written ruling are not adhered to by Revenue.

Our Income Tax Act could do little better than follow the US example of taxpayer protection by providing statutory authority for an independent third party, a Taxpayer Ombudsman, to issue a taxpayer assistance order if, in his opinion, the taxpayer is suffering or about to suffer significant harm as a result of Revenue action. ■

3,20

Fmail
25/8/89

A tax speciality

Two less likely bedmates than sport and tax are difficult to find. But the relationship is vital to the success of the current "international" rugby tour and the hoped-for "international" cricket tour.

Establishing the bottom line of who pays how much, and for what, is difficult. Do sports sponsors make a killing, thanks to tax law? And what is the "cost" to taxpayers?

The start to an answer lies in Section 18B of the Income Tax Act, inserted in 1986. This grants a special tax allowance to sponsors of international events held in SA. "Allowance" means that the sponsor must have income at least equal to the total qualifying sponsorship rands, to benefit fully.

S18B defines an "international event" as any cultural, educational or sporting event held in SA. "Sponsorship expenditure" is defined as including that spent as sponsorship on and advertising directly connected with, the event. A limitation is that all such spending must qualify as a deduction in the sponsor's normal calculation of tax payable.

The allowance granted is equal to *80% of so much of the expenditure incurred as the minister of finance directs.* In other words, S18B is entirely discretionary. If the full 80% is granted, the sponsor's effective cash saving (at the 50% company tax rate) is 90% of its entire cash outlay.

Practice, however, is entirely different. Last year, internal practice was changed and the ceiling reduced from 80% to 30% for a "Category A" event (cash saving: 65%) and 15% for a "Category B" event (57,5%).

S18B, however, was not amended, so that, in extreme cases, the minister of finance, in consultation with the minister of national education, can give a sponsor the full 80%. The cut in the ceiling was part of the overall attempt to cut State spending.

In practice, applications for qualification under S18B arrive at National Education within the first two months of the fiscal year. While S18B is a "tax expenditure" (it cuts a company's tax payment, rather than being a direct State handout), National Education, nevertheless, has a notional budget of how much the State will "spend" under it.

Many observers seem to think that international sports events fall into the lucrative export incentive category. This is not the case; S18B is a stand-alone section. No further tax breaks are available under export categories A-D, which are due for major changes from April 1 1990.

This year government (or the taxpayer) is spending over R1bn on "export trade promotion", none of which goes to sport. In line with Margo, it is thought that none of export categories A-D will survive. But it is virtually certain that S18B will stay in the Act. Margo believed "that encouragement of international events should be in the form of direct aid rather than tax-based." Sponsorship allowances were "not recommended."

This was rejected out of hand by government's White Paper. There are probably many political reasons, mainly the confusion between the overlap of sports and politics. Direct aid is a lot more politically discernible than tax allowances working through a complicated part of the tax system.

It is likely that the two current "rebel" tours are seen by National Education as extraordinary events. Put another way, it is practically certain that the two ministers will agree to allow the full 80% allowance, without reference to the departmental budget.

Even then, they may set a rands and cents ceiling, as with almost all international sponsorships, to limit the total cost to the State and possible abuse.

A main reason for the special treatment of the two current tours is the tremendous interest they are bound to generate.

By comparison, the costs of getting a single boxer like Mike Tyson to fight here would be disproportionately high. Such an event would be lucky if it qualified for even 30%.

The taxpayer "costs" involved in the rugby and cricket tours are negligible. First National Bank, sponsor of the rebel rugby tour, won't say how much it's spending. But if the two tours "cost the taxpayer" say, R30m, this would constitute an increase of only 0,05% in total State spending. Hundreds of thousands of rugby and cricket supporters would support that to the death.

Besides, according to ad agency Hunt Lascaris TWBA, sports sponsorship in SA is about R300m a year and growing at a real 2% a year. This has all kinds of favourable spin-offs for State revenue collections, not least, GST on advertising and the millions collected on horseracing.

Tax assessments soon on 'thorny' film investments

30/8/89 (320) BDay

BARRY SERGEANT

COMMISSIONER for Inland Revenue Hannes Hattingh says assessments involving motion picture investments will be ready soon. Not a single assessment on this type of investment has been returned to taxpayers for some three and a half years.

The amounts involved run into hundreds of millions of rands and concern individuals and most commercial entities, particularly trusts and partnerships. Dozens of companies, including some listed on the JSE, have disclosed material interests in film ventures.

While profits in such ventures may have already been accounted for, no effective cash savings have been finally approved by Hattingh. He describes the motion picture phenomenon as one of the "thorniest" problems in tax history.

The most important date in motion picture tax-based financing was April 1987, when Section 24f (S24f), which formalised the rules applying to the industry, was promulgated. For some 18 months before this, the industry experienced a Hollywood-style boom.

In this "pre-S24f" period, by using debt (typically, dollar denominated loans), many schemes were leveraged to an extent that would have caused a consultant in a blue chip organisation to shiver with fear.

Focused

The schemes indicated returns that exceeded 200%. More important, on paper, it was impossible for the investor to lose, regardless of how the picture fared at the box office. In reality, these investors have not yet seen a cent of cash of their "tax" returns.

It is believed the pre-S24f schemes have caused the bulk of Inland Revenue's headaches, and this is where its attention has been focused.

Moreover, it is an open secret that in this earlier period of motion picture financing, so-called "rough cuts," were shipped to SA where full tax breaks were claimed, as if the picture had been made here.

Inland Revenue's special motion picture unit, based in the Johannesburg Receiver's office, has probably had to investigate the issue transaction for transaction.

The situation has been aggravated by the use of *en commandite* partnerships. These, since effectively banned in motion picture financing, disclosed only one partner of the 20 allowed. But in practice, by using "subsidiaries", hundreds of investors could have been involved in a particular motion picture.

Nevertheless, from a tax viewpoint, many motion pictures made in either period were genuine articles. But the tardiness of Revenue's investigation brought the industry to a virtual standstill earlier this year. A new deal for the industry, based on subsidies rather than tax breaks, has yet to be finalised.

The Vatman cometh

320 Fmail 10/11/89.

David Clegg is a partner of Ernst & Young Associates

Unlike the caped crusader currently careering across our cinema screens, the Vatman has been notable by his absence since his arrival was first announced in December 1987. Anyone who has read the financial press over the past two years will know the perceived pros and cons of the VAT system and particularly of the difficulties of introducing it in SA.

There will be hard political decisions on the taxation or "exemption" (the word is used loosely and not in its technical VAT meaning) of foodstuffs, transport, the building and property industry and capital goods. All these decisions have a direct influence on the nominal rate at which the tax will be introduced and that, of course, is the hardest decision of all.

How long will this state of limbo last? When will the tax actually be implemented? Informed consensus is that actual implementation cannot be before the end of 1990, will probably be early in 1991 and may — or probably should — be later!

Readers with long memories will remember that sales tax was announced in about October 1977 and introduced on July 3 1978 — a premature birth which gave rise to protracted teething troubles. Government, Inland Revenue and commerce have all learned from that experience that it does not pay to rush the introduction of complex tax systems. An interesting lesson can be learnt from the Canadian experience..

Introduction of VAT (named GST there) was mooted in Canada in a White Paper released on June 18 1988, followed in April 1989 by detailed proposals, including a commitment to introduction on January 1 1991 at a rate of 9%.

Draft legislation is expected within eight weeks, giving a lead time for planning of 12 months. This is in contrast to the official SA position that business will have at least six months between the issue of final legislation and implementation date. The time frame adopted by Canada seems the more realistic one and is supported by Professor Ben Terra of the University of Leyden, in the Netherlands, whose field of study is VAT and who says "any country which attempts to introduce VAT in less than 18 months from the release of detailed proposals is looking for trouble." That is from a continent in which there is no "Third World" within commerce and industry.

Decisions taken by Canada include:

- Exemption (with no input VAT credit for the supplier) of long-term residential rents, used housing, health services and education;
- Zero rating (no VAT charged at rental level but VAT input credit for the supplier) of exports, basic foods and medicines.

All new construction of residential housing is fully taxable as are all commercial property sales.

Though it is reliably understood the Revenue Department has been working on draft legislation for some time and that the New Zealand system has been used as a working model, it seems likely that, by the time Cabinet has considered the points mentioned above (and others), it will be early 1991. Only then will Revenue have the opportunity to slot those various decisions into the framework of its existing draft and tidy it up enough for release for general comment.

If that is so and if government can be persuaded to permit the lead times which seem to be accepted as necessary elsewhere in the world, then it is likely to be late 1991 before Vatman comes to rescue us from the evil twosome of bracket creep and GST!

R3-bn to cut taxes

CAPE TIMES 10/11/89 320

Own Correspondent

JOHANNESBURG. — Finance Minister Mr Barend du Plessis has given the clearest indication yet that tax cuts are on the cards for the March 1990 budget.

At yesterday's handover of the R2,915-billion cheque from the privatisation of Iscor, Mr Du Plessis said the proceeds would mean benefits for both government and individuals.

The government had also just received R90,2 million from the privatisation of the SA Mint.

"Given current economic circumstances," said Mr Du Plessis, "we have decided to utilise these funds to reduce the public debt, as has been indicated in the past as the government's first choice.

"This will have several important direct and indirect benefits for taxpayers, as will be evident from the next Budget."

GOVT DECIDES ON ISCOR PROCEEDS
— Page 12

He said a direct benefit from the Iscor proceeds would be the reduction of public debt, which would mean "a substantial saving in the interest cost of public debt.

"In addition, this saving will be recurring annually in future. Based on current market rates of interest, this annual saving should amount to more than R500 million a year.

"On the one hand, it could effect a reduction in government expenditure, in taxation — especially personal income tax — and in the deficit before borrowing, and consequently also dis-saving by the central government. This means, among other things, tax relief and that the government will need to place less upward pressure on interest rates.

"On the other hand, it would also facilitate consideration or possible increases in a few urgent high priority expenditures, for example, the provision of low-cost housing or infrastructure. Furthermore, a profitable Iscor will, through its corporate tax payments, contribute to spreading the tax burden over a wider base. The effect of this significant interest saving will be reflected in the 1990-1991 Budget."

Rethink on mining, agriculture BDay 16/11/89.

Govt hints at revision of company tax

320

GRETA STEYN

DEPUTY Finance Minister Org Marais yesterday hinted at changes to personal and company taxation and a rethink of policy on mining and agriculture.

In a speech at the SA-British Trade Association annual meeting in Johannesburg, Marais said the incidence of taxes was so uneven it was detrimental to productivity and savings in the case of the individual and too high in the case of companies.

● MARAIS

It was of utmost importance that the bulge in personal income tax rates be levelled out and taxes on savings in the form of dividends and interest be adjusted.

Company taxes had to correspond more closely with company tax in other countries. A clearer definition of capital gains and operating income was required.

"We have to look at fringe benefit tax again," Marais said.

"We are giving serious attention to agriculture and mining. You can't promote new gold mines if you tax the richer ones more than 70%, or agriculture where the inefficient units may be oversubsidised."

This had led to the problem of capital-deepening instead of an increase in output as a result of capital investment.

"A micro-economic policy to increase productivity must receive prime attention."

On customs tariff protection of the manufacturing sector, he said many products enjoying protection were manufactured with capital-intensive techniques, leading to a demand for capital and highly skilled labour.

"The Board of Trade has changed its industrial policy to a more outward-looking approach to trade, by linking protection to a firm's export performance."

Marais said a free market approach was often simplistically summarised as a fight against inflation by means of high interest rates, a cut in the size of government by means of a decrease in government spending, a cut in tax rates, and a policy of deregulation and privatisation.

But "talk of a free market philosophy is cheap, economic growth buys the whisky. Forget that you can be 'a bit pregnant'. If you believe in a free market philosophy it must be applicable to all sectors of the economy where feasible."

He added, however, that SA was a country with a limited market and a distorted labour structure.

"Some intervention will always exist."

Personal tax cuts top State priorities

320

Argus 16/11/89

Business Editor

HARD-HIT individual taxpayers and companies are clearly near the top of a government list for tax relief.

This is the interpretation of a speech by Dr Org Marais, Deputy-Minister of Finance, in Johannesburg.

He admitted taxes are too high and said the authorities intend to tackle the tax system.

"The incidence of our taxes is so uneven that it is detrimental to productivity and savings in the case of the individual, and too high in the case of the company."

PRIVATISATION

Dr Marais told the South Africa Britain Trade Association the government was committed to lower taxes, privatisation and deregulation at all levels.

It was of utmost importance that the bulge in personal income tax rates be levelled out, he said.

Taxes on savings in the form of dividends and interest must also be adjusted.

"We can't ignore the fact that inflation and taxes distort our financial markets."

The very low real interest rates of the past had contributed to the low level of savings.

SAVINGS FLOW

Savings were also flowing away from deposit-receiving institutions to insurance and pension funds.

"Company taxes must correspond more closely to company tax in other countries and a clearer definition of capital gains and operating income is required.

"We also have to look again at fringe benefit taxation."

TAX AVOIDANCE

Pie in the Ciskei?

The Transvaal Special Income Tax Court has dealt a heavy blow to tax schemes based on shifting the source of interest income to independent national states. The attraction of these is that, for instance, only a 15% withholding tax is payable in Ciskei.

The general principle is that liability to tax depends on income being derived from a source within SA. If funds are invested in interest-bearing investments in SA, an individual will pay 45% at the maximum rate; companies and close corporations pay 50%.

The scheme thrown out by the Court worked this way: a professional firm in SA, X, solicited funds from clients, including the taxpayer. It described itself as "an investment holding company, deriving income from interest on investments and having its registered office in Johannesburg."

X would take clients' money for investment, against security for repayment of either a Treasury bill or a banker's acceptance. The client would make out a bank-guaranteed cheque, payable to X's account in Johannesburg with a major bank. By line account, the amount would be transferred to X's trust account in King William's Town.

A partner in X then travelled to King William's Town, confirmed the funds were deposited and drew a cheque on that account for deposit in an account held by the firm with another bank in Bisho, Ciskei.

A cheque drawn on this account would then be paid into the account of a Ciskei-registered investment company, established by X and managed and controlled by one of its partners. The Ciskei firm had no full-time staff. Terms of the loans were determined by X, which also acquired the securities through a Johannesburg broker and held them in custody, also in Johannesburg.

To pay for the securities, the Ciskei company would send a cheque to Johannesburg. On redemption, the amount received would first have to satisfy the obligation to repay the capital sum, plus agreed interest, to X's client. Surpluses — which it appears were achieved by X — were split between X itself (75%) and the Ciskei company (25%).

Curiously, in one transaction, it was proved there was no actual transfer of money to Ciskei and subsequent retransfer to Johannesburg, even though the sequence of operations was claimed by the taxpayer to be "a bona fide arm's length transaction."

The judge found the signing of the loan agreements in Ciskei was "rubber stamping" and a device by the professional firm for the purpose of the scheme. In finding against the taxpayer, the Court relied on the important precedent of CIR vs Lever Brothers and Unilever Ltd in the Appellate Division.

That decision held that "provision of credit" is the originating cause or source of interest received on a loan by the lender. A further test was applied: what would "the practical man" regard as the real source?

The judge described the procedures as "round-tripping." He held that the dominant and only real and basic cause of accrual of the income was that funds were made available in Johannesburg, to purchase an asset there, which would be held in Johannesburg and redeemed there.

What's more, the proceeds would be used to repay — in Johannesburg — the loan made by the taxpayer, together with interest due to him. So the source of the interest was Johannesburg, making it taxable in SA.

The case is significant, in particular, because it was decided on general principles, without resorting to the anti-avoidance provisions of section 103 of the Income Tax Act. It is a victory for the doctrine of substance over form, which is of broader importance in SA law than income tax issues.

Probably many more tax schemes of an intensely artificial nature, involving the interposition of partnerships, companies or close corporations, would not stand up to scrutiny by a strong judge in the Special Court. Nor should it be forgotten that the onus is on the taxpayer, if assessed, to prove on a balance of probabilities that the amount in question is not subject to tax.

Of course, even if the decision had gone the other way, it would have been open to the commissioner to have the Act amended to deem income to have a source within SA in comparable situations. It is more than likely this would have been the response. ■

17/11/89.

Business Report

Call for broader tax base

Own Correspondent

JOHANNESBURG. — The tax system in SA is inequitable and a broader tax base could reduce the tax rate to around 10% to 15%, according to Pretoria University legal academic Johan Piek.

The poor paid more tax in SA than the rich, he maintained, and this iniquity provided the sort of frustration that fuelled revolution.

Piek, who has been devising an alternative tax system for some years, said sales tax, as an example, actually only cost the high income earner 6,5% while the poor paid the full 13%.

He explained this by saying that a person earning R200 a month or R2 400 a year should not be paying tax at all.

However, a person earning this amount of money would pay nearly all their earnings on items subject to general sales tax. This represented an annualised tax of R312 at the prevailing GST rate of 13%.

By contrast, the average well-paid individual did not spend his whole salary on GST. He would spend a large proportion of his income on items not subject to GST such as house bonds, a pension and/or retirement annuity fund and perhaps life insurance.

"You would find that roughly half your cash receipts are not subject to GST. That would mean you pay GST at only half the 13% rate, or 6,5%. If you invested some of your money, you would probably find you are paying less than 6,5%."

Piek said anomaly of the rich and politically powerful paying less tax was a consistent theme throughout history and did not only apply to SA.

However, he believed a future SA would have to revise the tax system, and this could be started now in such a way that tax revenues to the State could be raised, while individual tax would be lowered.

He said the complaint was heard that whites paid more tax. However, he said those who owned the major share of wealth should pay the major proportion of taxes.

"It is said that 80% of the stocks on the JSE are owned by the big five companies. These companies do not pay a fraction of the taxes they should in relation to the proportion of the country's wealth that they hold."

Piek said indirect taxes like GST assumed that all have the same ability to pay tax, and yet if a poor person and a rich person both bought R100 worth of groceries, their tax bill would be the same. "This is patently unfair."

Present definitions on income in the Income Tax Act excluded important elements of increases in wealth, such as the so-called income of a capital nature.

"In our present tax system a salary of R10 000 is taxed but an inheritance of R10 000 is not. There is no reason to make this distinction, both receipts increase a taxpayer's ability to pay tax. Therefore, our tax base should be the net increase in wealth of a person."

Piek said methods for determining this were by and large part of State auditing systems and could easily be drawn on.

"Houses can be valued by using municipal property valuation systems. The value of a taxpayer's car is known in terms of the motor vehicle registration system. The contents of a taxpayer's house can be valued as a percentage of the value of his home. Some empirical research would have to be done to determine the percentage that should be used. Shares and art collections would be valued at market value.

"It is not suggested that all annual increases in the net value of a taxpayer's assets should be included in his income right from the start. It should be done gradually as taxpayers get used to the system.

"Taxpayers could initially be taxed on the net increase in the value of assets once these items pass from the taxpayer's hands by way of sale, gift or bequest.

"Indexation would be allowed in terms of which the taxpayer can deduct the gain due to inflation."

Piek said that the widening of the tax base would also ensure that almost all other taxes could be dropped once the full system was introduced.

[redacted]

Business urged to join forces with the masses

Cape Times 23/11/87

320

By AUDREY D'ANGELO
Financial Editor

BUSINESS must avoid falling into the trap of forming a partnership with government, Pierre du Toit, a partner in accounting firm Arthur Andersen, warned at the Cape Times Businessman of the Year lunch yesterday.

Instead, it should form a partnership with the masses who were both its workforce and its customers and whose sheer numbers gave them power.

Du Toit also called for a Taxpayers' Charter, on the lines of those in Britain and Canada, which would restore an element of trust and a belief in fairness to the tax system.

"Economically that trust becomes vital to the survival of the tax system and thus to the economic survival of our society and ultimately to the survival of society itself. Loss of that trust will cause the tax system ultimately to become an instrument of impoverishment and decline.

"In a SA where we already have to ensure our economic survival in the face of continued international isolation we have to maximise our resources, and for that we need to bring trust back into our tax system.

"Also," Du Toit continued, "politically we need to bring trust back into the tax system. Disenfranchised, or at best malenfranchised, communities of colour are increasingly becoming part of our tax world and we dare not exacerbate the cry of 'No taxation without representation' with mistrust in the tax system itself."

He called for a Taxpayers' Charter — "a formal serious statement from the authorities as regards tax administration.

"The UK already has such an instrument. Canada is another example. While neither has enforceability as such in a court of law, it is generally considered that they have assumed a practical importance which has contributed to trust between those authorities and their taxpayers.

"In those instruments especially procedural issues are dealt with. Taxpayers are guaranteed their right to a fair hearing. They are presumed to be honest until the opposite is proved. They are promised the right of equal treatment in comparable circumstances.

"They are guaranteed courtesy. More fundamentally, they are granted, explicitly, their right within the law to reduce their tax burden. And equally importantly, they are assured that those who seek to escape their share of the burden through illegal means will be brought to justice."

Discussing the need to avoid a business partnership with the government, and to form one with the masses, Du Toit said: "One does not need to be in partnership to encourage and powerfully support what one finds good in government.

"At the same time, not being in partnership enhances the ability to resist and oppose that which one finds cruel and counter-productive."

Du Toit said the present era was one of hope and expectation. "But one fears, especially overseas, unrealistic expectation. When the probably equally unrealistic disillusionment sets in — as it will — business cannot afford to have the world community see it as partner to that perceived disillusionment.

"If that happens, business will finally have been lost as possibly our last umbilical cord with the civilized world outside."

Du Toit said that business and "the people, the workers, the masses" were the two main power bases in SA.

Business was the engine of wealth, money. Even the government was subject to that power because without business there was no wealth, no tax and no government.

The masses were the people who "dig our raw materials, work our factories, drive our distribution trucks, man our tills. They also buy our goods, use our services, directly or indirectly spend money in our businesses.

"And," continued Du Toit, "they have the numbers. In the inescapable, inexorable, irreversible, undeniable force of their numbers lies the other power."

The partnership between the two should start with business being more active in the management of this country.

It must praise government for "doing right by our new partners". It must protest, oppose and resist any harm done to them.

Such a partnership made good business sense. "Business has the money. The people have the future. In partnership business can bring wealth to their future. They can bring a future to the wealth of business.

"If we do that, we may still become a tripartite partnership — one between business, an accepted government and all the people of a peaceful and prosperous SA."

Call for small-business tax concessions

320

THEO RAWANA

GOVERNMENT had to consider introducing tax concessions for small business based on levels of inventories and debtors, said Len Walker of accounting firm Price Waterson at the weekend.

It should also look at the feasibility of tiered tax rebates on profits.

Walker was responding to last week's announcement by Deputy Finance Minister Org Marais that company tax was to be reviewed, but he stressed that the small business dilemma needed to be urgently addressed.

If a company's turnover increased from 100 to 200 and debtors increased from 50 to 100, a tax allowance should be given on the outstanding debtors' position, Walker said.

"A lot of small businesses only see paper profits and invariably have no money in the bank. Their lack of liquidity makes them sitting ducks for takeovers by bigger companies that have better cash flows."

In a developing country like SA, small business had to be stimulated through all possible means, including tax concessions, reduced red tape and other incentives, he said.

"It is also critical that small business proprietors regard bankers, lawyers and accountants as members of an advisory team to be used on a regular basis. All too frequently these specialists are only approached when the business is in dire straits."

Walker, whose Johannesburg-based company has had years of experience advising small business with cash flow problems, said small businesses needed tax concessions to improve their cash flows and enable them to make a greater contribution to the SA economy.

"The taxman has to find a way to ease the burden on small companies that are finding it extremely difficult to finance expansion with their after-tax income.

"Too many entrepreneurial enterprises, already battling with high interest rates, are building up loan accounts and struggling to pay the tax bills," he said.

Surcharge on imports to be phased out

Cape Times 30/11/87

(320)

Own Correspondent

JOHANNESBURG. — The import surcharge is going to be phased out as soon as economic circumstances permitted, Finance Minister Mr Barend du Plessis said last night.

In a statement issued after consultation with the Minister of Trade, Industry and Tourism, Mr Du Plessis also said suitable adjustments would be considered under the Credit Agreements (Hire Purchase) Act.

Mr Du Plessis said the government was not in favour in principle of the retention of the surcharge, which was intended as a short-term stabilisation measure to secure balance of payments objectives.

"The surcharge is, therefore, kept under constant review and the public may rest assured that it will be phased out as soon as economic circumstances permit," the statement said.

Conditions governing hire purchase sales, as well as anomalies that might exist, were under constant review.

● 'Too early to ease HP restrictions' — Page 8

220

Star 1/12/89

Moderate tax concessions likely

By David Canning

DURBAN — Moderate tax concessions could be implemented next year as a result of a number of official economic decisions now surfacing, according to Dave Mohr, chief economist at the Old Mutual.

Mr Mohr was reacting to news of pending defence spending cuts, a likely easing of credit restrictions and possible reductions in the import surcharge.

Indications that the economy "is in a downward phase" led Finance Minister Barend du Plessis to say ealier that he would be making announcements — by next Budget in March at the latest — about the import surcharge and tight credit restrictions. The restrictions were imposed in an effort to cool the economy.

David Mohr

Mr Mohr said that the higher gold price, defence cuts, reduced import surcharges and easier credit restrictions would have a definite impact on the economic outlook next year.

Nevertheless, he expected South Africa's gross domestic product to grow by only 0,5 percent in 1990, compared with about two percent this year.

However defence savings could help the Minister of Finance to effect some minor tax concessions. Greater tax reforms were unlikely because the Government didn't want spending to grow too quickly.

Mr Mohr did not expect that the import surcharge would be removed completely — but reduced. It was still policy to restrain imports.

He said there was a political perspective to Mr du Plessis's statement that adjustments to the Credit Agreements Act (governing hire-purchase financing) would be considered once the conditions had been fully reviewed and ecomomic circumstances permitted.

It appeared that lower-income groups were most heavily penalised by the current restrictions. Higher income groups had alternative forms of finance, like credit cards, with which to make credit purchases.

Mr du Plessis's statement also follows an aborted attempt to have HP restrictions on furniture and appliances eased a couple of a weeks ago. Relaxed conditons were gazetted but immediately withdrawn.

INCOME TAX

Time for a magna carta

■ Taxpayers need and deserve clarity if they are to plan soundly

Relations between Inland Revenue and the body of taxpayers have, in recent years, become poisoned by mutual mistrust and recrimination. The fiscal status of honest citizens has become tainted by the behaviour of a minority determined, as tax imposts have risen, to test the tax law to its limits. Revenue has forgotten — or, in its frustration and rapacity, decided to ignore — certain basic moral principles in the calculation and collection of taxes.

Those principles include basic tenets of tax law — recognised throughout the West — like the right of a taxpayer to organise his affairs to pay the least tax the law requires, abstention from retroactive legislation and certainty in the application of the law.

In recent years, the idea has grown up abroad that these basic fiscal principles should be embodied in a taxpayer's charter, clearly and simply written, to which departments of inland revenue should adhere.

The concept — that of a magna carta for taxpayers — has validity in SA. Any South African who has to pay tax, particularly if he operates a business which also has to pay, knows that the relationship between citizens and the tax collectors is fraught.

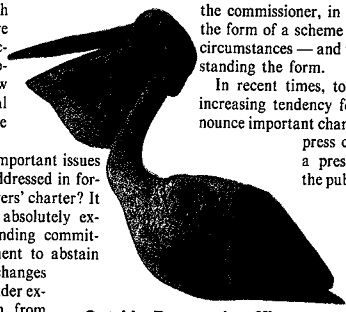
The need for improvement was recently acknowledged by government itself. Deputy Finance Minister Org Marais has recognised substantive deficiencies in the tax system — for example, that the incidence of taxes was uneven and that a clearer definition of capital gains and operating income was required. He felt that obscurities and irrationalities needed to be ironed out.

Cleaning up the tax structure is only half the battle. The other is to tackle the procedural, administrative and related issues now being addressed abroad. The two sides need to be dealt with concurrently; there is a strong interaction between substantive tax law and the procedural and administrative side.

What are the important issues that need to be addressed in formulating a taxpayers' charter? It *must* include an absolutely explicit, morally binding commitment by government to abstain from retroactive changes to tax law, even under extreme provocation from individual taxpayers who test that law through ingenious schemes.

Government draftsmen should anticipate the thinking of clever tax lawyers in dreaming up schemes. Of equal importance, the legislative response to closing loopholes has all too often been tardy. If this response could be speeded up, the urge to legislate retroactively could also be contained.

In any event, the Commissioner for Inland Revenue has at his disposal certain important features of the Income Tax Act to deal with tax avoidance schemes. These include the generally applicable principle that the onus is on the taxpayer — in the event of a disagreement — to prove that the amount in dispute is not subject to tax. Then there is the dragnet provision of Section 103 which enables the commissioner, in effect, to look behind the form of a scheme under certain defined circumstances — and to impose tax notwithstanding the form.



Outside Revenue's office ... wonderful bird

In recent times, too, there has been an increasing tendency for government to announce important changes to the tax law at a press conference or through a press release. Obviously, the public has to be informed of imminent changes to the law, in order to plan accordingly. But what is vital is that this should be followed up quickly by the formal draft Bill. For it could have an immediate impact on taxpayers' lawful activities.

Government should also make a major effort (as the Margo Report urged) to reduce the amount of discretion vested in the commissioner and make the remaining discretions subject to full appeal. A commitment to this should be firmly embodied in the charter. Nothing — apart from retroactive amendment — is as destructive of the principle of certainty in fiscal matters as the substitution of administrative discretion for the clear words of a statute.

Rapid legislative response is also relevant to the recurrent tendency at Revenue to blur the distinction between legitimate avoidance and dishonest evasion; and a tax charter should trenchantly reinstate the principle of the essential difference between the two concepts. Avoidance is nothing but the taxpayer availing himself of the right to order his affairs under the law as it stands.

Arguments heard from past commissioners have reflected resentment that taxpayers often do take advantage of the wording of the Act — resentment expressed through the ominous use of coined words like "avoision." The charter should proclaim a firm commitment to maintaining this distinction.

Certain improvements to the substantive structure of tax law would do a great deal to enhance relationships between taxpayer and taxman. Many tax schemes are evolved to bring income within the scope of specific concessions designed to operate effectively as subsidies. Free-market economists disapprove of this on general theoretical grounds. But their effect on the relationship between taxpayer and fisc is equally damaging. So the charter should include a renewed commitment by government to work special concessions out of the law as soon as practicable.

On the procedural side, the time has come to provide more formalised ways of enabling

DECEMBER • 1 • 1989

Financial Mail

(19) Finmail 1/12/89

ECONOMIC POLICY

Avoid sticky fingers

The enormity of the Reserve Bank's losses on providing forward cover for foreign exchange transactions has, deservedly, come under the spotlight lately. So has the fact that these will, eventually, have to be borne by the taxpayer, one way or another.

But what is not so widely realised is that this is a zero-sum game. Those billions have not just disappeared into a black hole; they represent profits in *somebodies'* hands. And, as it turns out, those somebodies just turn out to be importers who, rightly believing that the rand was a weak currency, flocked to hedge their positions.

Exporters, who could equally well see the trend, naturally saw little need to make use of the facility.

It is those same importers, of course, that the authorities thought it necessary to clobber last year by the notorious import surcharge.

This is an object lesson in what happens when the authorities try to interfere — or intervene — in the market mechanism. If providing forward foreign exchange cover was thought to be a profitable business, banks and others in the private sector would be only too happy to offer the facility. Trouble is, in recent years, guessing the course of the rand has been a one-way bet.

Those with longer memories will recall that, a couple more years back, many private-sector companies listened to the advice of SA's leading banks on the outlook for the rand — and got it spectacularly wrong. At least then the losses were carried by those whose judgment was at fault.

This time, the losses have been for taxpayers' account and it has, to boot, taken two lots of civil servants, one to administer the subsidy and another to claw back as much as possible through the surcharge.

And all because of attempts to manipulate the exchange rate of the rand at a level other than that which would be set by márket forces and protect certain special interest groups against the harmful consequences.

Not that the damage stops there. There are also adverse spin-offs for interest rates and the whole pattern of demand (and thus resource allocation) is distorted.

Virtually any subsidy, or other attempt to interfere with the price-fixing mechanism (which is what subsidies amount to), has similar effects. Forward cover and the import surcharge are singled out only because the unhappy circle of cause and effect can be so clearly traced.

One of the arguments for a change of power in a democratic society is that it gives the opportunity to clear out all the distorting concessions made to special interest groups by the old government. Trouble is, a new government soon finds itself giving in to its own special pleaders — often with the best of intentions.

The only sensible long-term solution is that government should restrain itself from dabbling in the market and confine itself to ensuring that the market functions efficiently. Smooth out short-term fluctuations in the rand by all means, but do not try to buck the long-term trend. That's a recipe for disaster, as many Central Banks have found.

Don't try to dictate interest rates, which are determined by many forces, not all of them controllable. But by all means ensure steady growth in the money supply, which at a basic level can be controlled, at a rate related to the growth rate of the economy at large.

Don't try to control specific prices, which is inefficient and doesn't usually have the desired effect. If it is desired to assist particular groups thought to be under-privileged or needy, do so by direct subventions, whose cost is apparent and which can easily be modified or scrapped.

In general, as we have said so many times, remember that the best government is usually the smallest government. ■

ECONOMIC SUMMIT

A necessary journey?

(304A) Finmail 1/12/89

It's encouraging to know that the business leaders who spent three hours talking to President F W de Klerk and five Cabinet ministers on Monday discussed the importance of combating inflation, economic growth, control of State spending, creation of job opportunities and so on. But should we not be told a few more details?

The bland official statement simply recites the agenda. If the sole purpose of the meeting was to raise the issues, one wonders why it took so many high-powered individuals so long. How did this event differ from the jaw-jaws under P W Botha, which soon deteriorated into one-way harangues?

There appear to be two main answers. First, this time round there was a genuine two-way communication, with both sides listening as well as talking.

Secondly, it was an attempt to circumvent the weaknesses introduced into the composition of the Economic Advisory Council (EAC) in the latter stages of the P W era.

For years, private-sector EAC members represented, among others, bodies like Assocom, the FCI and AHI. In a counter-productive "reform" they were replaced with individuals, who had no brief or mandate from the business community at large. Significantly, all the private-sector delegates on Monday represented broad business groups.

In political matters, F W has shown clear awareness that the time for talk is over: action is needed, and fast. The same need holds for the economic arena. But it would be premature to dismiss Monday's meeting as just another non-event; what counts is what happens next. ■

(320) Finweek 1/12/89

taxpayers to get rulings from the tax authorities — rulings of binding effect to enable them to plan their affairs honestly and rationally when faced with fiscal uncertainty. A typical case would be the issue of whether the proceeds of a particular transaction in shares or property will be regarded as income or capital. Now, the value of a ruling is derisory and this is an appalling deficiency in tax practice.

Linked closely to this is the need to improve access to the courts and to achieve speedy adjudication of all tax disputes.

As do the UK and Canadian tax charters, the SA version should state that the honesty of each and every taxpayer is to be presumed unless the contrary is proved. And there should be an undertaking that all taxpayers are entitled to courteous treatment by all officials at all times.

Certainly, the creation of a tax ombudsman to assess and pursue taxpayers' complaints about shoddy treatment by Revenue would help the restoration of public confidence and respect for the law.

Creating the confidence that precedes a rising investment trend is always a difficult and delicate matter that has to be nurtured. Certainty over taxation is not the only condition necessary to achieve it. But, without it, whatever else is done will be neither enough nor lasting.

It is unlikely the charter could be given the force of law but the force of moral suasion in the event of a breach would be a powerful means of discouraging official abrogation. ■

Hiccup delays city workers' tax refunds

320

Staff Reporter Cape Times 1/12/85

CAPE Town's Receiver of Revenue office is "a little behind" with this year's tax assessments but staff are working flat out to catch up and refunds of overpaid tax are being sent out continuously.

This assurance was given yesterday by the Cape Town receiver of revenue, Mr Ernst Conradie, who also appealed to people not to telephone with queries.

"This just causes delays. The chap has to drop everything and look for the file," he explained.

COMPUTER PROGRAMME

Mr Conradie said this year's assessments were slightly behind because of a "hiccup" with a computer programme.

"We are working flat out to get these refunds out as quickly as possible. We can only ask that the public bears with us, and we have got quite a big percentage out already.

"We know how the public feels — we're taxpayers ourselves."

A matter of trust

(320) Fmail 1/12/89

Pierre du Toit is a partner at Arthur Andersen.

In the turbulence of our first timid steps towards a new SA it is fitting that the possibility of a Bill of Rights is receiving serious attention. At the same time, it is vital to remember that, in his capacity as a taxpayer, the citizen, including the corporate "citizen," stands in a relationship towards the State which is both a fundamental constituent of stability and a classic potential source of revolution.

The notion of some declaration of intent, some public charter, some formal commitment on the part of the authorities on tax, therefore, goes to the heart of the viability of any new SA. While no government is likely to commit itself too far in advance on matters of tax policy or substantive tax law, there are both scope and need for a commitment on the sensitive issue of attitudes towards enforcement and on procedures. The key is to rebuild trust between State and taxpayer.

The need

The plea for public definition of taxpayers' rights can be justified in the light of philosophical, political and economic considerations.

We profess to adhere to a liberal political philosophy which dictates a minimum role for the State; the notion that the State should be restrained and scrupulously fair in the collection of its taxes, an area where it stands in financially self-interested conflict with its citizens, is, therefore, not foreign to our political philosophy.

Politically, the majority of our taxpayers regard themselves as disenfranchised; we cannot afford to exacerbate the dangers of the cry of "no taxation without representation" with a tax regime which does not strive consistently and publicly towards fairness.

Economically we can never hope to meet the awesome task of feeding, clothing, housing and educating our millions if the relationship between State and taxpayer is bedevilled by perceptions of oppression, mutual mistrust and hostility.

By these criteria, how do we shape at the moment? Speaking at this year's *FM* Investment Conference, Professor Edwin Broomberg suggested that the State's reaction to perceived tax avoidance is assuming "oppressive" proportions. At last year's conference, I voiced my own concern that the "tax body-politic" — the combination of legislator, taxpayer, administration and the courts — was in danger of disintegrating.

Other commentators before and since have expressed similar fears, notably in the published proceedings of the *FM*'s first tax round table earlier this year. This stage of affairs is not surprising in a society under as much political, social and economic pressure as our own; yet, if it is not broken it will become a vicious circle with massive potential for destruction. The breaking of this vicious circle turns around the word trust. And the word trust is the primary purpose of a taxpayer Bill of Rights.

Content and nature

It is not reasonable to expect from the State any detailed advance commitment on substantive or tax policy issues, nor to expect at this stage a constitutionally binding Bill of Rights. But much is possible short of that.

Revenue in the UK, for example, has issued a "Taxpayer's Charter," which undertakes that taxpayers "will have (their) tax liability decided impartially and be required to pay only the amount of tax properly due according to the law." Taxpayers "will be treated in the same way as other taxpayers in similar circumstances" and "will be presumed to have dealt with (their) tax affairs honestly, unless there is reason to believe otherwise."

In Canada, a formal "Declaration of Taxpayer Rights" states that "you have a right to arrange your affairs in order to pay the minimum tax required by law." And "You can also expect your government to administer tax law consistently, and to apply it firmly to those who try to avoid paying their lawful share."

Both tax charters also record the taxpayer's right to review or appeal. This finds an echo in the Margo Report where the commission argued powerfully against unappealable discretions. The commission dealt with the counter-argument that such a commitment implied the probability of a great increase in tax litigation very simply: the obvious remedy is to have additional or longer sessions of the Special Income Tax Court rather than to *withhold fundamental rights from taxpayers.*

Much can be done by a public commitment to principles of equity in the areas of enforcement and procedure. It is true a declaration creating a commitment to permit, potentially, review by the courts even of legislation seems unfeasible. Yet, even if this "justiciability" — as the SA Law Commission refers to it in their working paper on a Bill of Rights — is impossible, a public commitment to certain rights and attitudes in declaration form can still have real value.

First, if respected by all parties, it engenders the trust which is a prerequisite for an effective tax system. Second, as has been experienced overseas, in the UK especially, it does in time assume a public standing which the authorities are loath to be seen to be transgressing.

Why now?

First, because the need is immediate and is growing. Second, because the climate is right. We have a new administration which is committed to a new SA with greater respect for fundamental rights. We have a Minister of Finance who, in answer to a question in a television discussion following this year's Budget, confirmed the taxpayer's right lawfully to reduce his tax burden. And we have a Commissioner of Inland Revenue whose innate sense of fairness is widely respected in the business community. We have, I believe, a taxpaying and business community which still wants to operate lawfully within a generally accepted system.

Though time is short, I believe we still have enough goodwill and trust to achieve this goal.

All signals point to tax cuts next year

320 2/12/89 STAR 2/12/89. 320

DEREK TOMMEY

MAJOR changes in income tax and company tax are in the pipeline.

Minister of Finance Barend du Plessis is expected to announce significant reductions in both taxes in his Budget next March as the Government starts to implement its "conservative revolution" in economic policy.

The reduction in taxes is not the result of the Government's sudden change of heart and the desire to make a generous gesture.

It stems rather from the realisation that the economy cannot grow much when taxes are high, and it cannot grow at all when high taxes are accompanied by high interest rates.

The Reserve Bank is determined to keep interest rates "real" (which means high in current conditions) in order to squeeze inflation out of the system. So the Government has no choice but to lower taxes if the economy is to grow.

A further factor favouring tax reductions, as opposed to lowering interest rates, is that tax cuts are not inflationary as long as they are matched by cuts in government spending.

And the word from Pretoria is that the way is being opened for the tax cuts next year and in ensuing years by major cuts in government spending.

The term "conservative revolution" was used by the Deputy Minister of Finance, Dr Org Marais, in a speech two weeks ago.

He said it was not necessarily a grand and immediate onslaught but a series of carefully planned tactical victories, each paving the way for the next assault.

He said it was often claimed that South Africa's taxes were too high.

"I prefer to put it in a different way, namely that the incidence of our taxes is so uneven that it is detrimental to productivity and savings in the case of the individual and too high in the case of the company."

It was of the utmost importance that the bulge in personal income tax rates should be levelled and taxes on savings in the form of dividends and interest adjusted.

"Company taxes must correspond closer to company taxes in other countries," he said.

With the Government thinking on taxes running along these lines, expectations are that in the Budget next March it will try to implement its election promise of reducing the maximum rate of income tax from 45 percent at R80 000 to 40 percent at R100 000.

Little attention was paid to this election promise at the time it was made.

One reaon was that no date was given for the proposed change. Another was that the Government did not spell out what it meant to people in the lower income categories.

Defence cuts

But the expected sharp cuts in defence and other spending, added to the continued buoyant tax revenues, are believed to have paved the way for the implementation of the new tax rates.

No tables of the proposed rates are available but rough calculation suggests that a married person earning R15 000 a year could see tax payments drop by around R850, while a married person earning R20 000 a year could save about R1 000 in tax.

At an income of R30 000 a year the tax savings would rise to R2 000, and at R50 000 the saving would amount to around R3 000. For larger incomes the savings would be proportionately greater.

These tax cuts are substantial and worth having. But it should not be overlooked that after two years of high inflation and unchanged tax rates, major reductions are necessary to offset fiscal drag and prevent South Africans from being taxed into poverty.

Such tax reductions should help to encourage savings, something the Government wants to stimulate.

Lower personal taxes are also expected to lead to lower company taxes. This is because in many instances company profits would be paid out as personal income at the lower tax rates and the Government would not gain much from the higher rates.

But a more important reason for cutting company tax is that the Government is aware that high taxes are a drag on new investment, both by local and overseas companies.

Foreigners have pointed out that in present circumstances South Africa is a most unattractive investment area.

Foreign firms operating here are hit by high inflation, falling exchange rates, a political risk and then by a tax rate which is almost half as high again as they pay in their countries.

Under these conditions the return on their investment cannot be anything else but small — even negligible.

However, the Reserve Bank has begun to tackle the inflation and the exchange rate problems, the State President the political risk — and now it is the turn of the Minister of Finance to solve the tax problem.

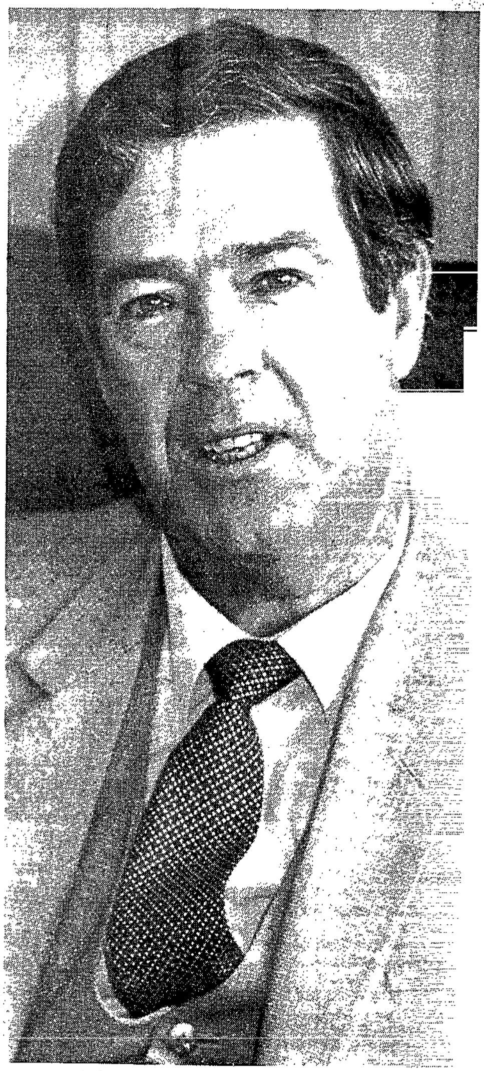
Meanwhile, another more down-to-earth reason why South Africa needs to reduce its company tax to the levels prevailing overseas is that multinationals usually arrange to make most of their profits in the countries where the tax rates are lowest.

With companies in South Africa having to pay 50 percent of their profits in tax, against 35 percent in the United States and Britain, it is obvious that few multinationals will report high profits in this country.

This is a clear case where "less means more" — where lower tax rates will produce more revenue.

It is clear that the Government has good reasons for cutting both income and company taxes next year.

Reports from Pretoria are that it will do its best to ensure this will happen.



TIME TO CHEER: Org Marais spells out a new era in taxation

Most of them managed to climb back on to the raft but Mr Frew drifted away.

Frew's body was found about 12km downstream on Sunday morning.

Mogoba welcomes lifting of restrictions

BDay 5/12/89

THE lifting of restrictions on former Methodist leader the Rev T S N Gqubule has been welcomed by Methodist Church of Southern Africa presiding bishop the Rev Stanley Mogoba.

The restrictions, in terms of the state of emergency, were lifted on Friday after direct representations had been made earlier by Mogoba to Law and Order Minister Adriaan Vlok at a meeting in Pretoria.

Mogoba said in a statement he was pleased at the speed with which the matter had been handled.

"It is a sad reflection on the state of our country when outstanding church leaders of the calibre of Dr Gqubule, and other lesser-known Christians, are restricted.

"However, one appreciates that the government has seen the need to lift the restrictions on Dr Gqubule, and I trust that this will contribute to the establishment of peace in SA," Mogoba said.

SA could move towards a climate of real dialogue only all were free to express themselves.

He called on government and people and organisations opposed to it to adopt "mature attitudes" towards the process of negotiation. — Sapa.

320

Tax benefits

BIDay 5/12/89

line with the prime rate in the longer term.

UBS's Mike Deblanche agreed withdrawing tax benefits would gradually increase the cost of money to building societies, but given fierce competition, home loan rates might not rise significantly.

With regard to tax-free Treasury Bonds, Du Plessis said bonus conversion bonds were due to expire on February 28 1990, and no interest would accrue thereafter. Investors should therefore apply for redemption.

The present series of indefinite-period Treasury Bonds would close next week and the bonds would be redeemed next February. No interest would accrue on unredeemed bonds after this.

To replace the closed series, a second series would be offered with partial tax concessions.

The new series would continue to attract tax concessions, but at a lower rate. As with investments in the Post Office Savings Bank, tax-free interest would be reduced to 80% as from March next year and thereafter by 20 percentage points a year.

Barend targets building societies

320

Tax benefits to be phased out in 5 years

B/Day 5/12/89

KAY TURVEY

TAX concessions on certain investments with building societies, the Post Office and Treasury would be phased out over five years from March next year, Finance Minister Barend du Plessis announced yesterday.

The gradual withdrawal of these tax benefits on building society investments has allayed fears that the move would drive up mortgage rates. Tax-free deposits, which pay a lower rate than taxable deposits, have previously served to subsidise mortgage lending.

The abolition of all tax concessions attached to these investments was envisaged in this year's Budget and is in line with the commitment to level the playing field in the financial services industry.

Du Plessis said all dividends accruing to subscription shares and special indefinite-period shares would be 80% tax free from March 1 1990, and 60% tax free from March 1991. These shares are currently fully tax free.

The tax-free portion would then reduce by 20 percentage points each year until the dividend was fully taxable.

The dividend rate would continue to be fixed by the Finance Minister in light of the general interest rate pattern and to ensure the taxable portion reflected a market related rate of interest.

Further, building society paid-up indefinite period shares, which are currently tax free to the extent of 33,3%, would have this concession reduced by 20% each year from March until they were fully taxable.

Such shares issued after March 1991 would be subject to the conditions applying in terms of the phasing out programme.

The existing tax concessions of paid-up fixed term shares would apply for the full five-year phasing out period, but new shares issued after February 1990 would not enjoy any tax benefit.

Building society spokesmen said the conditions were in line with expectations.

NBS GM Brian Short said as the concessions were to be phased out, they would not significantly increase the cost of money for building societies and would therefore soften the impact on mortgage rates in the short-term.

Further, they should appreciate that there would be adjustments to the rate of interest, to ensure the taxable portion of the investment would pay market-related rates. This would prevent any panic or a run on the societies.

Allied Group MD Kevin de Villiers said the phased withdrawal was a move in the right direction. But given the authorities' desire to encourage savings, the tax-free limit on interest for fixed deposits might be raised.

He said tax-free deposits had subsidised the home-owner and it could be expected that home loan rates would move more in

☐ To Page 2

Tax benefits

B/Day 5/12/89

320

line with the prime rate in the longer term.

UBS's Mike Deblanche agreed withdrawing tax benefits would gradually increase the cost of money to building societies, but given fierce competition, home loan rates might not rise significantly.

With regard to tax-free Treasury Bonds, Du Plessis said bonus conversion bonds were due to expire on February 28 1990, and no interest would accrue thereafter. Investors should therefore apply for redemption.

The present series of indefinite-period Treasury Bonds would close next week and the bonds would be redeemed next February. No interest would accrue on unredeemed bonds after this.

To replace the closed series, a second series would be offered with partial tax concessions.

The new series would continue to attract tax concessions, but at a lower rate. As with investments in the Post Office Savings Bank, tax-free interest would be reduced to 80% as from March next year and thereafter by 20 percentage points a year.

Star 5/12/89 (3 20)

The Star
Finance

Tax concessions on savings to be phased out

By Peter Fabricius,
Political Correspondent

As announced in the Budget earlier this year concessions on investments with building societies, the post office and the Treasury are to be phased out over five years from March 1 next year, the Finance Minister Mr Barend du Plessis announced yesterday.

He said no paid-up fixed-term shares with tax advantages will be offered by building societies from February 28. The Treasury's Bonus Conversion Bonds will also be redeemed on that date.

Mr du Plessis gave the following details of the changes.

Building societies

- Dividends on subscription shares and special tax-free indefinite period shares — which are now tax-free — will be only 80 percent tax-free from March 1 1990. The tax-free portion will be reduced by 20 percentage points a year until the dividend becomes fully taxable.

The dividend rate will continue to be fixed by the Minister of Finance in the light of the general interest rate pattern and also to ensure that the taxable portion represents a market-related rate of interest.

Building societies will be allowed to continue offering these investments on the new conditions.

- Tax concessions on paid-up indefinite-period shares (deposits) — will also be phased out over five years. The shares are now one-third tax-free.

This concession will be reduced by 20 percent — or six-and-two-thirds percentage points — each year starting from March 1 1990 until it is phased out altogether.

- The existing tax concession on paid-up fixed-term shares will apply for the full five-year phasing-out period but new shares of this sort issued after February 28 next year will not enjoy any tax concession.

Treasury bonds

- Bonus conversion bonds are due to expire on February 28 1990. After that no further interest will accrue on unredeemed bonds and investors should apply for redemption by that date at any post office conducting money order business. The bond should accompany the application.

- The present series of indefinite-period Treasury Bonds will close on December 15 and will be redeemed on February 28 1990. After that no further interest will accrue on unredeemed bonds.

To replace this series a second series with partial tax concessions will be offered. Existing investments that expired on February 28 1990 can be converted at face value to the new series.

This could either be done in full or in multiples of R100. More details will be provided in due course.

The tax concessions on the second series will be as follows:

- From March 1 1990, 80 percent of the interest will be tax free. The tax free portion will reduce by 20 percentage points each year until it is phased out.

The Minister of Finance will fix the interest rate according to market conditions and to allow for the higher taxability of a portion of the income as in building society and Post Office Savings Bank investments.

The Treasury will continue to issue these bonds under the conditions which will apply during phasing out.

Post Office savings

- From March 1 1990, only 80 percent of the interest on Savings Bank certificates will be tax-free; from March 1 1991 only 60 percent — until the interest is fully taxable.

The rate of interest will be fixed by the Minister of Finance each year in the same way as for Treasury and building society investments. Any new certificates issued will be subject to the phasing out arrangements.

- The relevant tax concessions on Post Office Savings Bank accounts, savings books and Telebank will be reduced by 20 percentage points each year starting on March 1 1990, until the income is fully taxable.

The rate of interest will not be adjusted annually to keep the taxable portion of interest market-related.

New investments will be offered according to the arragements applying during the phasing-in period.

PROs have main say in press club

Star 5/12/89

By Brendan Templeton

Fewer than 50 percent of the members of the Johannesburg Press Club (JPC) — which last week voted President de Klerk as Newsmaker of the Year — are journalists.

JPC chairman Mr Hans Lombard said yesterday that more than 55 percent of members were public relations officers and 44 percent journalists. All public relations officers who became members had to be actively involved in writing for the media.

"Most press clubs ... have found the need for PR support. It is the PR divisions of the breweries and wine companies who provide us with the free wine and beer for various functions and other forms of sponsorship."

Mr Lombard, a PR consultant, said the PR profession could not manipulate the JPC. There were consitutional safeguards which prevented any of the major media bodies — Argus Company, Times Media Limited, SABC, Perskor and Nationale Pers from dominating the club.

Each of the bodies was allowed one member on the club's council, and two to three were allowed from the PR profession.

The club is completely nonracial — there is one black member, he said.

The club's function was to invite prominent people to address meetings every six weeks, and to create a meeting place for people in the communications profession.

Previous Newsmakers of the Year were: the Rev Allan Hendrikse, Dr Danie Craven, Zola Budd, president of the New Zealand Rugby Board Mr Cez Blazey, and Professor Robert Lipschitz, who separated the Mathibela Siamese twins.

"We also elected Mrs Margaret Thatcher three years ago, but were advised it was not convenient for her to come and receive our award."

Taxman is still waiting ...

Star 5/12/89 320

By Kaizer Nyatsumba

At least 25 percent of all personal tax return forms in the Johannesburg area had still not reached the Receiver of Revenue's office yesterday afternoon, according to the Receiver, Mr Kobus Stone.

Mr Stone said 244 119 salary or personal tax return forms were sent out this year and only 199 273 of these had been returned.

The number of forms still to reach the Receiver of Revenue's office was 44 846, which was about 25 percent of the total number of forms sent out.

The date on which all tax return forms were supposed to have reached his office, he said, was June 7.

Mr Stone said a number of the people whose tax forms were still outstanding had applied for a time extension to submit their tax returns. Many others, however, had simply not responded.

Paton book deal 'not new'

By Jacqueline Myburgh

Mrs Anne Paton, wife of world famous Natal author Alan Paton who died in April last year, has been negotiating for almost a year to sell her husband's original works.

In reaction to a report in a Sunday newspaper, Mrs Paton said "it was nothing new" and the impression had been created that buyers "were beating her door down".

She said a third person was negotiating the sale of the original manuscript of "Cry the Beloved Country" and other works on her behalf. She would not reveal the identity of any potential buyers.

For purposes of research, Mrs Paton would like the entire collection to be sold to one buyer.

Three trunks full of original hand-written manuscripts, the author's correspondence and papers relating to his writing are currently being kept in a bank vault.

Cape Times 5/12/89 320

Tax concessions to be phased out

JOHANNESBURG. — Tax concessions on certain investments with building societies, the Post Office and Treasury are to be phased out over five years as from March next year, Finance Minister Barend du Plessis announced yesterday.

The proposed gradual withdrawal of these tax benefits on building society investments has allayed fears that the move would drive up mortgage rates. Tax-free deposits, which pay a lower rate than taxable deposits have previously served to subsidise mortgage lending.

The abolition of all tax concessions attached to these investments was envisaged in this year's Budget and is in line with the committment towards levelling the playing field in the financial services industry.

In a statement issued yesterday, Du Plessis said all dividends accruing to subscription shares and special indefinite-period shares, which are at present fully tax free, will from March 1, 1990 be only 80% tax free and 60% tax-free from March 1991.

The tax-free portion will then reduce by 20% each year until the dividend is fully taxable.

The dividend rate will continue to be fixed by the Minister of Finance in light of the general interest rate pattern and to ensure the taxable portion reflects a market-related rate of interest.

Further, building society paid-up indefinite period shares which are currently tax-free to the extent of 33⅓, will have this concession reduced by 20% each year from March next year until they are fully taxable.

Such shares issued after March 1991 will be subject to the conditions then applying in terms of the phasing out programme.

The existing tax concessions of paid-up fixed term shares will apply for the full five-year phasing out period, but new shares issued after February 1990 will not enjoy any tax benefit.

Building society spokesmen said the conditions were in line with expectations.

As the concessions are to be phased out, they will not significantly increase the cost of money for building societies and will therefore soften the impact on mortgage rates in the short-term, NBS GM Brian Short said.

He added it was important that investors realised it was the tax concessions that were being withdrawn and not the investments themselves.

Further, they should appreciate that there would be adjustments to the rate of interest, to ensure the taxable portion of the investment would pay market-related rates. This would prevent any panic or a run on the societies.

Allied Group MD Kevin de Villiers said the phased withdrawal was a move in the right direction towards levelling the playing field.

However, given the authorities' desire to encourage savings, he said he felt the tax-free limit on interest for fixed deposits might be raised.

He said tax-free deposits had subsidised the home-owner and it could be expected that home loan rates would in the longer term move more in line with the prime rate. Historically bond rates have been below prime.

UBS Mike Deblanche agreed the withdrawal of the tax benefits would gradually increase the cost of money to building societies, but given fierce competition home loan rates might not rise significanly, he said.

e breathalyser test reveals you are whole lot easier not to drink and drive.

Tax-free savings needed — DP (320)

By Peter Fabricius, Star 6/12/89
Political Correspondent

The government's decision to phase out tax-free building society investments would increase the cost of housing, particularly to the middle class, Democratic Party finance spokesman Mr Harry Schwarz said.

There was a need for tax-free savings investments and the decision to phase them out was regretted. He appealed to the Government to introduce indexed savings bonds and other savings instruments.

He was reacting to Finance Minister Mr Barend du Plessis's announcement this week that tax concessions on certain building society Treasury and Post Office investments would be phased out over five years, starting in March.

Mr Schwarz said the announcement had been expected for some time. This was another step which would increase the cost of housing by pushing up the cost of money from building societies.

"At the time of the orginal announcement of the intention to abolish tax-free building society investments, it was stated that other methods to assist with housing would be introduced.

"Those introduced so far are quite inadequate. Once tax-free investments for building societies are abolished, one can pose the question whether there is really any need for the distinction between banks and building societies to continue.

"New legislation in regard to these institutions is pending and the Finance Committee of Parliament should give careful consideration to the need, if any, for different treatment of the institutions," Mr Schwarz said.

Mr Schwarz said there was a need for tax-free investments for savers. This had been demonstrated in many countries. Indexed savings bonds and other instruments would be a protection against inflation and could be structured to prevent abuse.

If the Government was confident that its plans to fight inflation would succeed, this would be a good time to introduce such bonds based on examples worldwide.

for Business Start-Ups

Workers overtaxed 'when boss is faulty'

Star 6/12/89

320

By Brendan Templeton

People were being overtaxed because employers were often uncertain how payrolls should be filled in under the new Site tax scheme, a leading accounting firm said yesterday.

Employees who were over-taxed under Site (Standard Income Tax for Employers) had "virtually no chance" of being compensated, partner of accounting firm Aitken and Peat, Mr Pat McGurk, said.

Hardest hit are part-time workers and married women.

"In most cases there are over-deductions and, as Site is final tax, it is tough luck on the employee if there is any over-deduction."

Site tax was introduced last year as an easy-to-administer final deduction system, but merely placed the onus for ensuring that the correct payroll deduction was made firmly on the employer's shoulders.

Married women who earned more than R40 000 annually had their tax problems increased by Site because it was no longer clear when it became more profitable for a couple to separate the wife's income from her husband's.

Previously under Site, married women paying retirement annuities faced an additional problem where their employers could not take their annuities into account when determining their payroll deductions without a tax directive from the Receiver.

This ruling was changed during the past fiscal year along with many others as the Receiver attempted to streamline Site to resolve difficulties arising from it, he said.

320

Tax cuts inevitable if major recession is to be avoided

By Derek Tommey

Suggestions that South Africans can expect substantial tax cuts in the next Budget have been greeted with doubt by some economists.

They claim a major reason why there can be no cuts is that the economy is in a downturn and consequently the Government will not have the money to reduce taxes.

But talk of the economy sliding raises the question: If the ec onomic outlook is poor, surely the Government has no choice but to reduce tax levels?

Most people accept that the current business downturn is the result of Reserve Bank-imposed high interest rates and Government-imposed high taxes.

Both these measures are aimed at curbing domestic demand so as to reduce inflation and improve the balance of payments.

However, the Reserve Bank has made it clear that from now on it is determined to maintain "real" interest rates, which in South African conditions means continuing high interest rates.

Therefore, any move by the Government to reduce the downward pressure on the economy — which it eventually will have to if it does not want a major depression — will have to come in the form of lower tax rates.

If there are to be no tax cuts next year — unless the Government holds a special Budget session — they will have to come in the March 1991 Budget.

This means that because it takes two to three months to prepare tax tables, the new rates are unlikely to be introduced until June or July 1991.

Then it takes some time for changes in tax rates to affect the economy.

So the March 1991 tax cuts would probably be felt by business only around December 1991.

This means there would be no real relief for the economy for another two years.

Some sectors of the economy are already hurting. Just think how much worse they will hurt if they have to live with the current restraints for another two years.

It seems pretty obvious that if the Government does not want to plunge the economy into a serious recession in 1991, it will have to start cutting taxes in the Budget next March.

This does not mean that 1990 will be an easy year, for here again any tax changes are unlikely to have much effect on economic activity until the last few months of the year.

Meanwhile, the contention that the Government cannot afford to cut taxes because the economy is in a downturn is in itself pretty fallacious.

There can be no question of the Government not being able to afford to cut taxes if the state of the economy requires such a cut.

The Government's first duty is to ensure a healthy economy, and if this means that it has to cut its own spending, then it has to do so.

Happily, there are signs that the Government is well aware of the need to curb its spending.

There can be few more dramatic examples of this than last week's announcement that to prevent the prison budget being exceeded, the department is giving a number of prisoners an early release.

Fmail

:ube

functions ... but to avoid confusion, as a general rule, further references to the Treasury will be limited."

The announcement follows earlier news that Japie Jacobs, now senior deputy governor of the Reserve Bank, will take over as special economic adviser to the minister of finance from February 1. He was due to retire at the end of next year, but has been granted early retirement to enable him to take up his new post, held by Chris Stals between May and August.

Jan Lombard will take over as senior deputy governor from March 1, until the end of 1991. His term as deputy should have ended in August 1990.

Chris de Swardt, who holds the key post of

Burton

Van Wyk

registrar of banks & building societies within the Bank, has been appointed deputy governor from March. No decision regarding his replacement will be made until early in the new year.

Jacobs's role as chairman of the Financial Markets Advisory Board is not likely to be affected by these decisions. ■

TAX CONCESSIONS 320

Phased

Tax concessions on certain building society, Post Office and Treasury investments are to be phased out from March 1. Some compensation will be offered in that interest rates, as fixed by the minister of finance, will be in line with market rates. Exceptions are Post Office savings and Telebank investments, where the taxable portion of interest will not be market-related.

Orginally, the elimination of the concessions was to coincide with lower tax rates but as yet there is no clear indication that these will be in place when the phasing out is completed.

Institutions which have had a competitive advantage in the retail market will presumably be compensated by expected changes in umbrella legislation governing all deposit-taking institutions. ■

320 Fmail 8/12/89.

GILTS ~~350~~ 350 Fmail

Taking stock 8/12/89

The nominal value of Eskom stock sold to foreigners this year is estimated at R1,5bn, or R1bn in cash, because stock sells below par. Total nominal sales of gilts and semi-gilts to overseas buyers this year are said to exceed R4bn.

The growing scarcity of bonds on international markets has caused buyers to look further afield for attractive investments. In West Germany and Japan, for example, shrinking budget deficits make the raising of funds on capital markets less of a priority.

In Britain, Merrill Lynch forecasts the gilts market will disappear by 2003 if government keeps its budget surpluses and public-sector debt repayments at 1% of GDP.

This shortage of bond supply has been compounded by a corresponding fall in both nominal and real yields on government bonds around the world — nominal yields in the US are around 7,8% (about 3% real); in Britain about 9% (1%); and in Japan 5% (2,5%). So the present 24,07% yield on SA gilts is difficult to resist.

The recent rise in the gold price and improved political perceptions are adding impetus to buying of SA gilts. Foreign interest last week triggered a series of local orders and sent Eskom 168 plummeting to a one-year low. It dropped nearly 30 points in one day from 16,65% last Wednesday to close at 16,39% the following day.

But it will take up to six months before Eskom can establish how much of last week's gilt buying spree came from foreigners.

First National Bank group treasurer Ken Russell confirms a foreign order of R200m-R250m but says "none of it was done through us." It is rumoured to have been shared between brokers and banks.

It will be two months before the stock is registered. When purchases are made through nominee companies, many months may pass before a twice-yearly Eskom survey reveals whether the funds were foreign or local, says treasury manager Willem Kok.

An anomaly is that known net JSE foreign gilts transactions last week amounted to only R71m, about the same as the week before.

There are two possible explanations. Says Kok: "A lot of overseas investors use nominee companies to register stock so purchases may not be made in their name."

320 Finmail 8/12/89.

INCOME TAX — 1 320

Time bomb

Rapid worldwide growth in derivative instruments has outstripped the development of income tax law. This lag could soon cause serious problems for capital market operators who find it advantageous to deploy derivatives, as long as tax authorities do not haphazardly and unpredictably take away much of the benefit.

The crucial issue — strongly expressed by KPMG Aitken & Peat partner Glynn Herbert — is whether trading in financial futures will be regarded by Revenue as speculative income-producing activity or as generating capital gains.

A survey by international tax consultant KPMG of the basis for taxing the nine most commonly used derivatives in 22 major trading countries — including SA — was published at an international bank tax conference in Brussels on November 30. The countries investigated included most major industrial nations plus important financial centres such as Hong Kong and Singapore.

The instruments were currency options and swaps; financial futures; forward foreign exchange contracts; forward rate agreements; interest rate caps, options and swaps; and zero coupon bonds.

The survey, says Herbert, vindicates the anxiety he expressed a year ago at an SA

320 Fm

Futures Industry Association conference in Johannesburg. Nor do the results come as a surprise, he adds, as he urged government and Revenue last year to incorporate specific amendments "or even totally new rules" into the legislation to keep pace with the development of the markets.

When tax authorities have come under pressure from capital markets for guidance on this issue, notes the survey, "the difficulties are often answered with an assortment of concessional relief — sometimes unpublished, piecemeal legislation or regulations."

Investigating markets

Herbert recalls the Stals Committee investigating markets in financial instruments felt that the distinction between capital gains and income was of great importance because SA has no capital gains tax, while both corporate and individual tax rates are relatively high.

This all-or-nothing type of outcome is undesirable over a far wider range of fiscal circumstances than operations in derivatives. Herbert argues further that the Income Tax Act contains no rules for determining automatically whether a profit or loss is of a capital or revenue nature.

When a taxpayer realises a capital asset there can be elaborate legal argument about his intention in acquiring and realising the asset. It is significant, says Herbert, that the Commissioner for Taxes in Australia has ruled that futures contracts do not represent trading stock and, therefore, are not subject to tax assessment. But Revenue here regards options and futures contracts still open at the end of a financial year as stock in trade.

The survey observes that a single transaction can give rise to a mixture of capital and revenue payments and receipts. For example, a currency swap may involve realising a capital gain or loss on the underlying currency together with payments or receipts of a revenue nature during the life of the swap.

Another important issue considered by the survey is timing, in particular the valuation of open positions and the matching of gains or losses on hedging transactions with future gains or income. Other tax problems relate to the source of the income and indirect taxes, especially the value added tax as used in the EEC.

Herbert understands the Commissioner for Inland Revenue has instituted "preliminary research." But much more is needed. An in-depth study by the Standing Committee on Taxation is becoming imperative. ■

mail 8/12/89 FM.

(320)

INCOME TAX — 2

Taxpayers un-Sited

Employees may be overtaxed as a result of incorrect procedures used by employers to deduct Site (Standard Income Tax for Employees).

Reviews by accountant KPMG Aitken & Peat show payrolls are frequently incorrect. More seriously, the errors in most cases reflect overdeductions.

The onus for ensuring the accuracy of the payroll deduction is now firmly on the employer instead of Revenue. As Site deductions reflect final tax paid, an employee has virtually no chance of recovering an overdeduction from Revenue.

Aitken & Peat partner Pat McGurk explains Site, introduced last year, was meant to be an easy-to-administer final deduction system. It has proved anything but that.

He cites a case where a bonus was paid to employees and Site deducted — after which the trade union questioned the correctness of the deduction.

In a subsequent review, Aitken & Peat chose 10 cases at random, of which eight showed overdeductions and two underdeductions. The errors in some cases amounted to hundreds of rands, a material proportion of the bonus payments.

During the 1988/1989 fiscal year, Aitken & Peat identified a number of problems and weaknesses in Site, centring largely on the definition of part-time remuneration and retirement annuity (RA) deductions.

During the past fiscal year several amendments to the Income Tax Act tried to resolve these difficulties. Thus, a new definition of standard employment was introduced to deal

(320) 8/12/89. Fmail 8/12/89

with problems caused by part-time work, previously undefined. The illustrative examples provided by Revenue to employers were frequently difficult to apply.

"Standard employment," which brings part-time workers under the Site system, now applies where people work for at least 22 hours a week. Alternatively, they may work fewer hours, but for only one employer.

In some cases the Receiver may rule any remuneration part of standard employment. This could apply where the employer often employs people at irregular intervals and would mean that liability for Site will be established only on that income.

It was mainly married women who hit problems with RA deductions. Those who contributed to RA funds could not previously get the employer to take the contribution into account in determining Site without a directive from the Receiver.

In the 1988 Budget, explains McGurk, provisions of Site were set out "in fairly reasonable detail." A number of Revenue offices, presumably acting on what was contained in the Budget, issued directives. But when the Income Tax Amendment Act was published, it was different and they had to retract many of them.

This caused uncertainty and confusion and frequently Receivers would not issue directives when requested by married women. Revenue offices also became totally overburdened. "As for the RA deduction itself, last year's amendment was confusing and administratively unworkable," he said.

Now, the requirement for a directive has been removed. Employers are entitled to deduct married women's RA contributions in determining their liability to Site.

Another anomaly affects the tax on fringe benefits, such as a car, if an employee works for only part of the tax year.

McGurk also draws attention to the entirely separate tax table for married women. This hits a threshold at R40 000, after which tax is at a marginal rate of 38%.

On the face of it, this is attractive, but one must take account of the wife's earnings deduction. If the wife's income is outside Site, and so must be combined with the husband's, one has to allow for the 22,5% deduction for the wife's earnings as well as for the "joint assessment allowance" (calculated according to a complex formula) introduced in 1988 to deal with certain anomalies introduced by the Site system.

Even ignoring the joint assessment formula, the top marginal rate on the wife's earnings would be only 34,875%. Previously, it would have been beneficial in most cases — had it been possible — to separate the wife's income from the husband's. This need not hold any more, though it is difficult to work out where the threshold lies.

McGurk says a stage has been reached where the average taxpayer cannot calculate his tax liabilities when his wife works, because of complexities of the joint assessment allowance, the wife's allowance, and complexities of the Site system. ■

320

Cape Times, Monday, December 11, 1989 3

Millions still stolen from taxpayers

Own Correspondent

JOHANNESBURG. — Millions of rands are still being stolen from taxpayers who fail to receive income tax rebate cheques.

Hundreds of these cheques are still being fraudulently intercepted and cashed, despite steps taken by Inland Revenue earlier this year to end the problem.

Mr Desmond Goosen, director of operational development in Inland Revenue, acknowledged the problem was continuing and attributed it to "teething problems" in an electronic system and to the fact that some people refused to furnish the taxman with their bank account numbers.

The decision was made at the end of November 1988 to deposit rebates directly into recipients' bank accounts via an electronic system that was implemented in April this year.

"A large proportion of rebates are dealt with electronically, and we are nearly fully electronic," said Mr Goosen.

Statistics from the Receiver's office indicate the problem has already been greatly alleviated: 6 906 rebate cheques went missing between April and June this year, as opposed to only 3 354 from July to November.

Mr G C Barkhuysen, director of fiscal processing in Inland Revenue, is heading an investigation into the ongoing fraud.

He said: "We are taking certain steps to combat the problem, including sending by registered mail in certain areas those amounts that cannot be deposited straight into bank accounts.

"We believe the cheques are being intercepted at residence post boxes, particularly where mail is delivered to flats," he said.

This contradicts press speculation earlier this year that the problem lay within the post office.

All the cheques are crossed and marked "non-negotiable", but certain retailers "seem to be accepting and exchanging the cheques for goods and then laundering them over a period", according to Mr Goosen.

Members of the public whose cheques go missing can take some consolation from the fact that they will be able to claim their money from the Receiver within four weeks of signing the required forms and affidavits.

5-year plan to overhaul tax structure

320

CAPE TIMES 8/12/89

Own Correspondent

JOHANNESBURG. — Major tax reforms which could unlock billions of rands in the financial and mining sectors were foreshadowed yesterday.

In an interview yesterday, Deputy Finance Minister Org Marais said a number of Margo Commission recommendations, held on ice since the commission reported in 1984, would be implemented in the 1990/1991 Budget next March.

This would be the first step in a government five-year plan to overhaul the tax structure.

He said the primary objective of proposed reforms was to "level the playing fields, as the incidence of tax is very uneven".

After strong pressure from the business community, one of the main areas under scrutiny was to provide certainty on the vexed question of what constituted a non-taxable capital gain and what would be deemed to be taxable revenue.

According to an analysis by gold specialist Tom Dale of Ed Hern, Rudolph Inc, mining houses alone have about R13bn locked up in the JSE because of the absence of tax certainty.

Marais said the other main areas of tax reform linked to the securities industry were: marketable securities tax (MST), stamp duties, and double taxation of dividends in the hands of personal shareholders.

He said that the five-year plan would include changes in line with Finance Minister Barend du Plessis' recent disclosure that government was working on a plan to reduce tax on savings.

The reforms were not necessarily aimed at raising or lowering the government's tax haul but to restructure the system to comply with the taxation ideals of equity, simplicity, certainty and ease of collection.

Marais said the five-year plan would reflect the change of emphasis from direct taxes (such as income tax) to indirect taxes, such as VAT.

Another important Margo focus was the reform of corporate finance.

The first would stimulate increased trading in shares. The second would encourage corporate finance deals that were based on economic efficiencies rather than on saving tax.

Arguably the most important change requested by the business world, he said, was the introduction of a rule to prescribe when a gain on a share would constitute a capital gain and not revenue.

The capital/revenue controversy was the single most contentious debate in tax law, making up about 80% of cases going before the Special Income Tax Court.

Marais said an in-depth investigation on the subject had not yet been completed.

Analysts have shown that lack of certainty on the rule has meant that investors are reluctant to sell shares.

S/Times 17/12/89 (320)

Eight out of 10 lose on Site deductions

By Robyn Chalmers

A RANDOM survey by an accountancy firm confirms that hundreds of thousands of people are losing millions of rands through incorrect Site deducations.

Aiken & Peat tax consultants selected 10 cases. Eight showed overdeductions and two underdeductions by employers.

Aiken & Peat partner Pat McGurk says there were big differences in some of the cases. The amounts involved came to hundreds of rands — a material figure affecting certain bonus payments.

Final

Mr McGurk says: "Site, which was introduced last year, was meant to be an easy-to-administer final deduction system. It is anything but that. Reviews of the tax showed that in a large number of cases the employee payroll systems were incorrect.

"In most cases there were overdeductions and as Site is final tax, it is tough luck on the employee. The employee has virtually no chance to get that additional Site contribution back from the Receiver of Revenue."

Mr McGurk says that on the 1988-89 fiscal year several problems and weaknesses were identified in the Site system. The areas of concern centred largely on retirement annuity deductions and what was understood to be part-time remuneration.

"In some areas, Revenue officials clearly didn't get to grips with the problems. A lot of employers didn't either."

Several tax amendments have been made in an attempt to resolve the difficulties. A new definition of standard employment was introduced this year to steer clear of the problems caused by part-time employment.

Mr McGurk says standard employment applies where people work for at least 22 hours a week. Alternatively, they may work fewer hours, but they are not allowed to work for anyone else.

Another problem last year related to a married woman who had a retirement annuity contribution which she wanted to be taken into account in determining her payroll deduction. Mr McGurk says her employer was not allowed to do this without a tax directive from the Receiver.

"This created a lot of confusion and the Receiver's office became administratively overburdened. The requirement has been removed and a married woman who has a retirement annuity can now have it taken into account by her employer.

"The deduction allowed to a married women is limited to the greatest of R1 750 less any amount deducted for pension fund contributions, R875 or 15% of non-retirement funding net remuneration, before the deduction of retirement annuity contributions."

A current problem with Site is that employers must establish the income of employees for a particular time, work out an annual equivalent, look up the table, get the tax figure and then "unannualise" it again, says Mr McGurk.

Anomalies

"This can cause anomalies. For example, a married woman working for 12 months and earning R40 000 will pay R10 325 in tax. If she works for only four months and earns R40 000 she will pay R13 575 — an extra R3 250. The only reason for this arises from the annualisation.

"We have reached the stage where I don't believe the average taxpayer can calculate his own tax liabilities when his wife is working, because of the joint assessment allowance, the wife's allowance and the complications of the Site system."

How tax reforms could unlock billions on the JSE

320

BDay 20/12/89

BARRY SERGEANT

AFTER years of lobbying for unshackling JSE transactions from tax and duty restrictions, JSE executive president Tony Norton may finally see action in the 1990 Budget. It is believed that the Finance Department, along with the Standing Advisory Committee on Taxation, has produced a blueprint for investment tax reform that could set the JSE alight.

Pressure for changes in securities industry tax has also come from Assocom, the Federated Chamber of Industries, the life offices industry and hard-pressed businessmen.

Though the tax reform plan is unofficial, and the research incomplete, the objective is to address four imposts. The first, in order of value, is clarity in the capital vs revenue debate; the question of whether or not proceeds from share sales are taxable (revenue) or not (capital gain). The others are double taxation of dividends in the hands of personal shareholders; marketable securities tax (MST); and stamp duty.

There have also been indications that the company tax rate may be cut from 50% to 45% (equal to the top personal marginal rate). And there have been unconfirmed indications that the phasing-in of a more enlightened regime for the mining industry, following the Marais Committee, may proceed.

Clarity in the capital vs income debate is by far the most important, involving billions of rands that have been locked into the JSE by simple stalemate: shares are not traded because the holders are unsure whether or not the proceeds will be taxed. The reason is that there is no definition in SA tax law of either capital or income.

But the two terms are constantly used in the legislation, and in a considerable body of tax law. In practice, the authorities hope they recognise revenue when they see it, and then tax it. They are empowered to tax it by up to 50% in the hands of a company and 45% in the hands of an individual. A capital gain is tax free.

Some types of "gain" fall into a grey area, and if Inland Revenue tries to tax them, the matter often goes to the Special Income Tax Court. The court is an interesting forum where precedent is not binding and matters are held in camera.

It is here that titanic and learned debates have taken place about hundreds of millions of rands of share sale proceeds. Without legal definitions of capital and revenue, there are simply no hard rules.

Moreover, Inland Revenue will not issue rulings on a hypothetical share sale transaction. "Come and see us after the sale," they say. The results have been startling.

In the most helpful quantification so far, stockbroker Tom Dale of Ed Hern, Rudolph Inc has calculated that the six major mining houses hold about R31bn worth of gold mining shares. Of this, he says that about R13bn worth, if sold, could be subject to tax.

With that kind of money involved, the mining houses err on the side of conservatism; they will sell these shares, raising much-needed capital, only if they know in advance the tax consequences of the transaction.

Apart from the mining houses, it is anyone's guess how many more billions of rands are locked into the JSE because of tax uncertainty. But the current environment produces endless anecdotes on the vicious results the lack of clarity can exact.

Recently a wealthy private investor, whose equity holdings on the JSE were an *average* five years old, disposed of R800 000 worth of shares to put into a new, grassroots venture. This was disclosed in the investor's tax return. Inland Revenue, whose job it is to apply the law as known, wants to tax the R800 000. The matter will no doubt go to the Special Income Tax Court, where a final result could be delayed for up to five years if the taxpayer is feeling mean enough. His legal expenses will not be deductible.

This case is interesting if only because one of the tests used in determining the capital or revenue nature of a gain — apart from the taxpayer's intention — is the length of time the underlying asset has been held. Here, it seems that an average of five years, which would ipso facto indicate an investment rather than a speculative intention, is not good enough for Inland Revenue.

The proposal — still unofficial, it must be stressed — to solve the stalemate is to introduce a time rule for the holding of shares — say, 12 months. A gain after this would be non-taxable capital; before that, revenue and fully taxable.

The point is that such a rule — made to introduce certainty at some sacrifice to equity — would lead to millions of rands worth of shares being traded because the exact tax consequence would be known. Shareholders could plan what capital is to be unlocked tax free, and when.

As Dale argues: "SA needs to start several new deep level mines before the end of the century." His firm estimates that the capital cost of a 180 000 tons a month deep level mine in mid-1990 terms is about R2,45bn. If a rule is introduced, more than five heavyweight mines could be financed.

But beyond that massive consequence, government would benefit by an expanded tax base. The new mines would create employment with people that pay new tax, and eventually the mines would pay tax too. This is to say nothing of the other imposts the mines would pay, including RSC levies and GST/VAT.

The same logic can be applied to the further billions locked into the JSE. With the enormous effort and cost that government put into the privatisation of Iscor — most particularly popularising private share ownership — trading in all shares will be limited until the income vs capital debate is resolved.

The bid to increase private share ownership encompasses reform calling for abolition of double taxation of dividends. Two-thirds of each dividend received by an individual is taxable at his maximum marginal rate — as high as 45%.

As these dividends come from the company's after-tax earnings, the result is that the money is taxed once in the hands of the company and again in the hands of the individual shareholder.

If the individual is paying the maximum marginal rate, about 65c of each taxable rand of income earned by the company can go to the taxman. For each R1 the company earns in taxable income, the company pays up to 50c and the individual up to a further 15c.

Such high combined rates are a disincentive to private share ownership and to equity funding.

The double tax on dividends helps explain why the funding of enterprises has shown a massive switch out of equity into debt — particularly now, when interest rates are high. The interest payable on debt funding is fully tax deductible by an enterprise.

It is more tax efficient for the debtor to pay funding with tax-deductible interest than by way of dividends that come after tax.

The result, so far, is that the entire structure of SA corporate funding is dictated far more by artificial bids at tax efficiency than simple reality. Add the ravages of inflation and shareholders' funds are inevitably too low in proportional terms.

Tax reforms in securities law would be incomplete without the abolition of the securities tax that affects most financial transactions. MST raises the cost of selling one share to buy another and can take the transaction cost to between 3% and 4%. It is an irritating impost; national budget papers show that "trade securities" taxes are budgeted to raise R120m in 1989-1990, 0,2% of the total. MST has already been waived for the fledgling futures market.

Finally, the pressure to abolish stamp duties is reaching breaking point. The budgeted amount from stamp duties and fees of R521m for 1989-1990, at 0,9% of the total, is not insignificant. Stamp duties are payable on a wide range of contracts; the amount to be paid is generally dependent on how much money is in the contract.

One major point is that the recent tax moratorium, a tax holiday which allowed companies to restructure, saw an explosion in such activity. There remain, however, a great number of convoluted corporate structures, as seen in the recent Tradegro restructuring.

But that restructuring would have been much more meaningful to the investment community, and the private shareholder in particular, if it had been motivated by all the hoped-for securities industry tax reforms.

How tax reforms could unlock billions on the JSE

320

B/Day 20/12/89

BARRY SERGEANT

AFTER years of lobbying for unshackling JSE transactions from tax and duty restrictions, JSE executive president Tony Norton may finally see action in the 1990 Budget. It is believed that the Finance Department, along with the Standing Advisory Committee on Taxation, has produced a blueprint for investment tax reform that could set the JSE alight.

Pressure for changes in securities industry tax has also come from Assocom, the Federated Chamber of Industries, the life offices industry and hard-pressed businessmen.

Though the tax reform plan is unofficial, and the research incomplete, the objective is to address four imposts. The first, in order of value, is clarity in the capital vs revenue debate; the question of whether or not proceeds from share sales are taxable (revenue) or not (capital gain). The others are double taxation of dividends in the hands of personal shareholders; marketable securities tax (MST); and stamp duty.

There have also been indications that the company tax rate may be cut from 50% to 45% (equal to the top personal marginal rate). And there have been unconfirmed indications that the phasing-in of a more enlightened regime for the mining industry, following the Marais Committee, may proceed.

Clarity in the capital vs income debate is by far the most important, involving billions of rands that have been locked into the JSE by simple stalemate: shares are not traded because the holders are unsure whether or not the proceeds will be taxed. The reason is that there is no definition in SA tax law of either capital or income.

But the two terms are constantly used in the legislation, and in a considerable body of tax law. In practice, the authorities hope they recognise revenue when they see it, and then tax it. They are empowered to tax it by up to 50% in the hands of a company and 45% in the hands of an individual. A capital gain is tax free.

Some types of "gain" fall into a grey area, and if Inland Revenue tries to tax them, the matter often goes to the Special Income Tax Court. The court is an interesting forum where precedent is not binding and matters are held in camera.

It is here that titanic and learned debates have taken place about hundreds of millions of rands of share sale proceeds. Without legal definitions of capital and revenue, there are simply no hard rules.

Moreover, Inland Revenue will not issue rulings on a hypothetical share sale transaction. "Come and see us after the sale," they say. The results have been startling.

In the most helpful quantification so far, stockbroker Tom Dale of Ed Hern, Rudolph Inc has calculated that the six major mining houses hold about R31bn worth of gold mining shares. Of this, he says that about R13bn worth, if sold, could be subject to tax.

With that kind of money involved, the mining houses err on the side of conservatism; they will sell these shares, raising much-needed capital, only if they know in advance the tax consequences of the transaction.

Apart from the mining houses, it is anyone's guess how many more billions of rands are locked into the JSE because of tax uncertainty. But the current environment produces endless anecdotes on the vicious results the lack of clarity can exact.

Recently a wealthy private investor, whose equity holdings on the JSE were an *average* five years old, disposed of R800 000 worth of shares to put into a new, grassroots venture.

This was disclosed in the investor's tax return. Inland Revenue, whose job it is to apply the law as known, wants to tax the R800 000. The matter will no doubt go to the Special Income Tax Court, where a final result could be delayed for up to five years if the taxpayer is feeling mean enough. His legal expenses will not be deductible.

This case is interesting if only because one of the tests used in determining the capital or revenue nature of a gain — apart from the taxpayer's intention — is the length of time the underlying asset has been held. Here, it seems that an average of five years, which would ipso facto indicate an investment rather than a speculative intention, is not good enough for Inland Revenue.

The proposal — still unofficial, it must be stressed — to solve the stalemate is to introduce a time rule for the holding of shares — say, 12 months. A gain after this would be non-taxable capital; before that, revenue and fully taxable.

The point is that such a rule — made to introduce certainty at some sacrifice to equity — would lead to millions of rands worth of shares being traded because the exact tax consequence would be known. Shareholders could plan what capital is to be unlocked tax free, and when.

As Dale argues: "SA needs to start several new deep level mines before the end of the century." His firm estimates that the capital cost of a 180 000 tons a month deep level mine in mid-1990 terms is about R2,45bn. If a rule is introduced, more than five heavyweight mines could be financed.

But beyond that massive consequence, government would benefit by an expanded tax base. The new mines would create employment with people that pay new tax, and eventually the mines would pay tax too. This is to say nothing of the other imposts the mines would pay, including RSC levies and GST/VAT.

The same logic can be applied to the further billions locked into the JSE. With the enormous effort and cost that government put into the privatisation of Iscor — most particularly popularising private share ownership — trading in all shares will be limited until the income vs capital debate is resolved.

The bid to increase private share ownership encompasses reform calling for abolition of double taxation of dividends. Two-thirds of each dividend received by an individual is taxable at his maximum marginal rate — as high as 45%.

As these dividends come from the company's after-tax earnings, the result is that the money is taxed once in the hands of the company and again in the hands of the individual shareholder.

If the individual is paying the maximum marginal rate, about 65c of each taxable rand of income earned by the company can go to the taxman. For each R1 the company earns in taxable income, the company pays up to 50c and the individual up to a further 15c.

Such high combined rates are a disincentive to private share ownership and to equity funding.

The double tax on dividends helps explain why the funding of enterprises has shown a massive switch out of equity into debt — particularly now, when interest rates are high. The interest payable on debt funding is fully tax deductible by an enterprise.

It is more tax efficient for the debtor to pay funding with tax-deductible interest than by way of dividends that come after tax.

The result, so far, is that the entire structure of SA corporate funding is dictated far more by artificial bids at tax efficiency than simple reality. Add the ravages of inflation and shareholders' funds are inevitably too low in proportional terms.

Tax reforms in securities law would be incomplete without the abolition of the securities tax that affects most financial transactions. MST raises the cost of selling one share to buy another and can take the transaction cost to between 3% and 4%. It is an irritating impost; national budget papers show that "trade securities" taxes are budgeted to raise R120m in 1989-1990, 0,2% of the total. MST has already been waived for the fledgling futures market.

Finally, the pressure to abolish stamp duties is reaching breaking point. The budgeted amount from stamp duties and fees of R521m for 1989-1990, at 0,9% of the total, is not insignificant. Stamp duties are payable on a wide range of contracts; the amount to be paid is generally dependent on how much money is in the contract.

One major point is that the recent tax moratorium, a tax holiday which allowed companies to restructure, saw an explosion in such activity. There remain, however, a great number of convoluted corporate structures, as seen in the recent Tradegro restructuring.

But that restructuring would have been much more meaningful to the investment community, and the private shareholder in particular, if it had been motivated by all the hoped-for securities industry tax reforms.

B/Day 22/12/89 320

Call for a tax overhaul

SA's tax structure does not need minor tinkering and running adjustments to keep the fiscal machine on the road but a thorough overhaul, an article in the latest Assocom Review says.

The article refers to the 500-page report of the Margo Commission of Inquiry into the tax structure that was submitted to the President on November 20 1986.

"Except for the decision to replace GST with VAT, the labours of Margo and his fellow commissioners appear to have been forgotten, overlooked and disregarded."

It says next year's Budget speech will provide Finance Minister Barend du Plessis with a chance to assure the country that the Margo Commission did not labour in vain.

The article says the present tax burden is inequitable. "It must be reduced and it must take cognisance of inflation, particularly its influence on fiscal drag which penalises the wage-earner and stifles initiative.

"Both the income tax threshold and the ceiling on the top marginal rate must be raised."

"Company tax must be reduced and allowances clearly defined and equitable.

"Impulsive taxes such as the import surcharges, imposed without thought or consultation, must be done away with."

It says there must be more clarity in the definition of what is a capital gain and what is income.

"Cutting direct taxes and replacing them with indirect taxes is fiscal sleight of hand which fools nobody."

The review also says productivity levels in SA have been declining.

Different groups — workers and employers, producers and consumers, government and taxpayers — point fingers at one another, it says.

If this continues, it says living standards will continue to decline and SA will sink into degeneration.

"Stopping the process is not easy unless management at all levels of every operation is prepared to accept responsibility and take remedial action."

The article says it is the combination of utilisation and efficiency which determines the productivity level of an enterprise.

"When wages rise faster than the growth in the productivity level, prices must inevitably rise, even though the cost of labour is only one of the input resources.

"To measure a company's real productivity performance, all resources must be included."

It says the business sector must use its influence to urge the authorities to raise education standards, particularly among the black population, if SA is to compete on equal terms with the more advanced countries. — Sapa.

Thorough overhaul of tax system needed — Assocom

STAR 23/12/89 (320)

THE tax structure does not need minor tinkering with and running adjustments to keep the fiscal machine on the road, but rather a thorough overhaul, says an article in the latest *Assocom Review.*

The article refers to the 500-page report of the Margo Commission of Inquiry into the tax structure that was submitted to the State President in 1986.

"Except for the decision to replace GST with VAT, the labours of Margo and his fellow commissioners appear to have been forgotten, overlooked and disregarded — which is a pity because there was much in the report of merit.

"South Africa's tax structure needs not minor tinkering with and running adjustments to keep the fiscal machine on the road, but a thorough overhaul.

"Next year's Budget speech will provide the Minister of Finance, Barend du Plessis, with the opportunity to assure the country that the Margo Commission did not labour in vain, and that the report is not gathering dust in the archives."

Assocom maintains that the present tax burden is inequitable.

"It must be reduced and it must take cognisance of inflation, particularly its influence on fiscal drag, which penalises the wage-earner and stifles initiative.

"Both the income tax threshold and the ceiling on the top marginal rate must be raised and the gradients smoothed.

"Company tax must be reduced and allowances clearly defined and equitable.

"Impulsive taxes such as the import surcharges, imposed without thought or consultation, must be relegated to the ashcan; they destroy sound business planning.

"The undesirable tendency — so marked last year — of introducing retroactive taxes, must be stopped."

Assocom goes on: "We don't need a capital gains tax, but what is necessary is more clarity in the definition of what is a capital gain and what is income.

"This cannot be left to the whims of local receivers of revenue because it often leads to inconsistancy.

"It is unfair on them and on taxpayers, and leads to uncertainty.

"Cuting direct taxes and replacing them with indirect taxes is fiscal sleight of hand.

"It fools nobody and only earns disrespect for the fiscus."

Assocom concludes that the spirit of reform is a growing force in South Africa.

Mr du Plessis should follow the State President's lead and introduce constructive reforms into the tax system, it says. — Sapa.

Depreciation blunder cost R2-bn in taxes

Star 28/12/89. (320)

By Derek Tommey

The surprise change in the formula for assessing depreciation allowances in the manufacturing industry, announced earlier this month by the Deputy Minister of Finance, Dr Org Marais, should sharply boost the Government's tax revenues.

Figures issued by Central Statistical Services indicate that the 50-30-20 percent depreciation formula — which was introduced in January 1 this year and has now been terminated — cost the Government about R2,0 billion in lost tax revenues.

On the other side of the coin, the tax savings boosted manufacturing company profits on average by about 20 percent and went a long way to help sustain the boom on the Johannesburg Stock Exchange in industrial shares.

But now manufacturers will have to depreciate new capital equipment over five years on a straight-line basis, reversing this situation.

On the assumption that the level of capital investment by manufacturing is maintained in 1990, the fiscus can expect to receive an additional R1,8 billion from manufacturing companies in the form of extratax.

Central Statistical Services figures show that capital expenditure by the manufacturing sector in the first half of this year totalled R3,25 billion.

On the 50-30-20 formula companies in this sector were able to write off about R1,6 billion of this expenditure against tax instead of R650 million under the five-year formula.

Therefore the introduction of the 50-30-20 percent formula saved manufacturing companies some R1 billion in tax in the first six months and cost the Treasury a similar amount.

R2-bn swing

For the full year it seems that the tax savings to manufacturing and the tax loss to the Treasury will be about R2 billion. The effect of the 50-30-20 percent tax formula on profits was significant. Pre-tax profits for the manufacturing sector for the six months ended June were R8,72 billion while tax payments were R3,0 billion leaving taxed profits of R5,71 billion.

However, if the 20 percent five-year depreciation formula had been in operation, tax payments would have been R1 billion higher and taxed profits would have been only R4,71 billion.

The introduction of the 50-30-20 formula on average, therefore, helped to boost taxed profits by more than 20 percent.

There can be no doubt that next year the profits of capital intensive companies such as Iscor are likely to suffer from the new depreciation formula.

The Government has been sharply criticised by commerce and industry for its bumbling approach to depreciation allowances and for the great uncertainty it has created with these changes.

Although the Government has attempted to defend the ending of the 50-30-20 percent formula with a claim that it was being greatly abused, there seems no doubt that the introduction of this formula was probably a great mistake.

It was a most costly concession and an unnecessary one, says tax expert Costa Divaris. No one had asked for it.

He had been greatly surprised at the Government's generosity, he said. "It was the most extraordinary concession it has ever made."

Mr Chris Frame of Price Waterhouse said the decision to change the depreciation formula was not a good one in the present circumstances.

Changing the depreciation rates simply because the Treasury was unable to counter particular systems was like using a hammer to shell a peanut, he said. It would increase the cost of capital for companies making new investments and also reduce their cash flows. It most certainly would lead to reduced capital expenditure, he said.

However, while many company officials are mostly unhappy about the changes, they may have a silver lining in the next Budget. The Government has made it known on a number of occasions that it wants to lower company tax.

It may be that the Government is considering using the savings arising from the new depreciation formula to reduce tax rates generally.

Government finances in the new fiscal year

OUTLOOK 90

Star 29/12/89

320

By Mike Daly, economist, Southern Life

As the last quarter of the fiscal year is reached, private sector pencils are being sharpened in the annual exercise of trying to second guess the government's major statement on economic management and tax policy in the forthcoming Budget.

At this early stage not much is known about government's specific intentions, frustrating as this is for some sections of the community who will, inevitably, gain or loss after Budget day.

All that can be attempted is to outline the major issues that concern the fiscal planners as they try to frame a budget they judge to be appropriate for the economy at this juncture.

The issues could be arranged in the following stylised way:

Firstly, how large a rise in overall, expenditure should be aimed for?

With the ongoing private sector's concern (and increasingly the Cabinet's) with the high absolute level of government expenditure and the need to keep it from growing in real, inflation-adjusted terms, the past few Budgets have proposed a spending increase in line with the expected inflation rate.

The forthcoming Budget will be no exception. Inflation will be estimated at around 13,5 percent and the Minister's proposed spending increase will be no higher, with assurances that this time even more strenuous efforts will be made to keep spending from growing at above that rate.

This would put budgeted expenditure at some R74 500 m after this year's expected R65 000 m. In practice however, spending inevitably grows at more than the rate of inflation, as the accompanying graph indicates.

This year, spending will have grown at some 17 percent, above both the budgeted 15 percent and the expected inflation rate of the same amount.

Of concern is the fact that the budgeted increase could be restricted only by allowing a minimal rise in capital expenditure, implying a sizeable real decline, which involves a running down of the public sector capital stock.

Secondly, the size of the deficit before borrowing must be decided upon. Official policy has for some years been to bring it down to 3 percent of gross domestic product (GDP), the last time it was that low being 1982-83.

The current fiscal year should see significant progress in this regard, the deficit falling to around 3,2 percent of GDP compared with the previous year's 4,4 percent, due to a massive revenue overrun.

Next year's deficit will probably be pitched at the 3 percent level, or in money terms some R8 300 million, with the need for austerity in a year of heavy foreign capital outflows being cited.

Thirdly, assuming the budgeted spending increase is 13,5 percent, it follows that revenue must be R66 200 million, which is 15 percent up on this year's probable outturn. The issue then becomes what tax cuts are possible or tax increases necessary to achieve this total revenue growth?

Many socio-political considerations come in at this point. In this regard the Minister's comment in the last Budget that the tax burden on the individual is already too high, and but for economic stabilisation considerations he would have granted tax relief, is important.

The graph shows that in inflation-adjusted terms the burden on individual taxpayers has risen inexorably this decade. The exception was fiscal 1985-86 when recessionary conditions hammered personal income growth and therefore the income tax take.

The Minister is almost certain to adjust the tax tables to offset at least some of the effect of fiscal drag. Without this, the increase in direct tax on individuals would be in the order of 30 percent — another exorbitant increase and one not necessary for the required 15 percent total revenue growth.

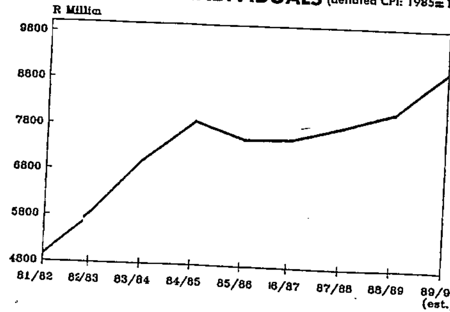
However, there will be little room for other tax cuts. The important surcharge, which has been responsible for most of the revenue overrun this year, will bring in less next year as import volumes decline and a partial lifting of the surcharge occurs.

GST, now as large a contributor to total revenue as direct individual tax, will increase only at around the inflation rate, given that consumer expenditure will show minimal real growth.

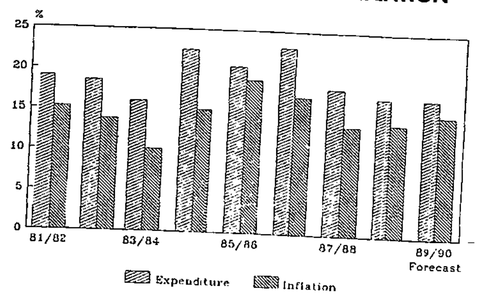
In addition company tax (non-mining) will not match the 17,3 percent estimated this year, due to the business cycle downturn.

Only the historic achievement of a real fall in spending growth will allow tax cuts of any significance to be announced.

DIRECT TAX ON INDIVIDUALS (deflated CPI: 1985=100)



GOVERNMENT SPENDING VS INFLATION



New formula to boost tax coffers

W/Argus 30/12/89 320

From DEREK TOMMEY

JOHANNESBURG. — The surprise change in the formula for assessing depreciation allowances in the manufacturing industry, announced earlier this month by the Deputy Minister of Finance, Dr Org Marais, should sharply boost the government's tax revenues.

Figures issued by Central Statistical Services indicate that the 50-30-20 percent depreciation formula — which was introduced in January 1 this year and has now been terminated — cost the government about R2 billion in lost tax revenues.

Capital equipment

On the other side of the coin, the tax savings boosted manufacturing company profits on average by about 20 percent and went a long way to help sustain the boom on the Johannesburg Stock Exchange in industrial shares.

But now manufacturers will have to depreciate new capital equipment over five years on a straight-line basis, reversing this situation.

On the assumption that the level of capital investment by manufacturing is maintained in 1990, the fiscus can expect to receive an additional R1,8 billion from manufacturing companies in the form of extra tax.

Central Statistical Services figures show that capital expenditure by the manufacturing sector in the first half of this year totalled R3,25 billion.

On the 50-30-20 formula companies in this sector were able to write off about R1,6 billion of this expenditure against tax instead of R650 million under the five-year formula.

Therefore the introduction of the 50-30-20 percent formula saved manufacturing companies about R1 billion in tax in the first six months and cost the Treasury a similar amount.

For the full year it seems that the tax savings to manufacturing and the tax loss to the Treasury will be about R2 billion.

The effect of the 50-30-20 percent tax formula on profits was significant.

Pre-tax profits for the manufacturing sector for the six months ended June were R8,72 billion while tax payments were R3,0billion leaving taxed profits of R5,71 billion.

However, if the 20 percent five-year depreciation formula had been in operation, tax payments would have been R1 billion higher and taxed profits would have been only R4,71 billion.

The introduction of the 50-30-20 formula on average, therefore, helped to boost taxed profits by more than 20 percent.

There can be no doubt that next year the profits of capital intensive companies such as Iscor are likely to suffer from the new depreciation formula.

The government has been sharply criticised by commerce and industry for its bumbling approach to depreciation allowances and for the great uncertainty it has created with these changes.

Although the government has attempted to defend the ending of the 50-30-20 percent formula with a claim that it was being greatly abused, there seems no doubt that the introduction of this formula was probably a great mistake.

It was a most costly concession and an unnecessary one, says tax expert Costa Divaris. No one had asked for it.

He had been greatly surprised at the Government's generosity, he said.

"It was the most extraordinary concession it has ever made."

Mr Chris Frame of Price Waterhouse said the decision to change the depreciation formula was not a good one in the present circumstances.

Changing the depreciation rates simply because the Treasury was unable to counter particular systems was like using a hammer to shell a peanut, he said.

It would increase the cost of capital for companies making new investments and also reduce their cash flows. It most certainly would lead to reduced capital expenditure, he said.

However, while many company officials are mostly unhappy about the changes, they may have a silver lining in the next Budget.

The government has made it known on a number of occasions that it wants to lower company tax.

It may be that the government is considering using the savings arising from the new depreciation formula to reduce tax rates generally.

Tax burden among the w

Star 30/12/89 (320)

DEREK TOMMEY

MORE and more individuals are rebelling against the heavy levies imposed on them by the State — particularly income tax which is now at levels previously considered the burden of the super-rich.

With average salaries now around the R3000 to R4000 a month level taxpayers are forking out more than a quarter of their income in tax.

Above that figure the Government takes more than 40 percent of any additional income.

The fact is that South Africa's income tax rates today are among the highest in the world, and when one considers how little benefit is received back in the form of welfare, South Africans can probably claim the dubious title of being the world's heaviest taxed people.

Just how heavily we are taxed was brought home this week in a discussion with a South African now living in the United States.

"It's almost a pleasure to pay income tax there," he said. There were only three marginal rates of Federal income tax in the US; 18 percent on income up to $50 000, 28 percent on the next $20 000 and 33 percent on anything above $70 000.

In South Africa married taxpayers cough up 29 percent on earnings up to R24 000, between 31 percent and 39 percent up to R40 000, and 41 percent to 45 percent on earnings between R40 000 and R80 000 and 45 percent on anything above this.

If one compares tax rates in the United States and those in South Africa on income calculated at the official exchange rate of R2,50 to the dollar the results are startling.

Someone earning R3000 a month in this country would be paying 62 percent more tax than his equivalent in the United States. The difference rises to 100 percent at R5000 a month and to 150 percent at R10 000 a month.

However, the dollar-rand exchange rate has been distored by political factors and this also distorts these comparisons.

A more realistic exchange rate to use when comparing earnings and costs and tax, say people who know both countries, is to equate one rand to the dollar. But even on this basis of comparison South Africans still come out extremely badly in the tax stakes.

orld's heaviest

A South African earning R4000 a month has to pay some 28 percent of his income in tax. This is 88 percent more than someone in the United States earning $4000 a month would have to pay.

A man earning R5000 a month pays almost 90 percent more in tax than his US counterpart.

Many South Africans have complained about how little of their Christmas bonuses was left after tax.

There is a difference of opinion among economists about whether high taxes such as those in this country become a disincentive to hard work.

But there is considerable unanimity that high taxes are harmful in many ways. For example, when people pay high taxes they cannot save and the country they live in is deprived of essential investment capital.

High taxes also cause people to ask why should they save the little money they have left when almost half the interest they receive also goes to the Government?

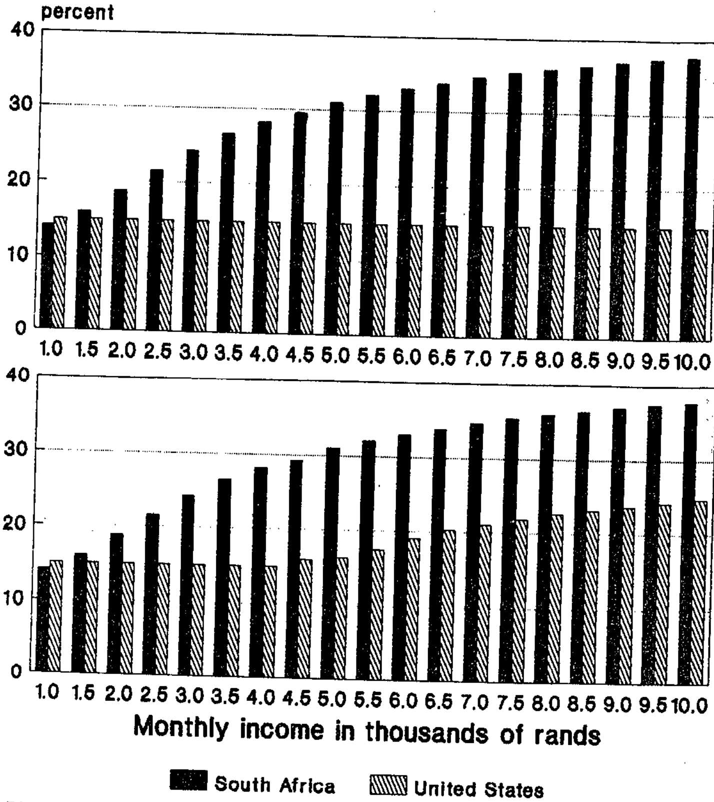
And continued high taxes causes considerable resentment of authority and ultimately to an increasing unwillingness of people to pay their taxes.

South Africa got stuck with high income taxes following the collapse of the gold price in 1981. The Government, suddenly finding itself rich following a $800 an ounce gold price, had many ambitious spending plans. When the gold price collapsed it had to turn to the ordinary taxpayer to bail it out.

PAYE, which it makes it rela tively painless to extract money from the public, and the fiscal drag that resulted from the continuous inflation, have helped to conceal the steep increase in tax rates.

The result is that lower and middle income South Africans are now finding themselves in what used to be "supertax" brackets and not liking it.

Some significant reduction in income tax in the next Budget is necessary if South Africans are to be encouraged to save and not make more significant efforts than they are already doing to dodge their tax responsibilities.



TAXING: The top graph shows income tax averaged out for both the US and South Africa at current exchange rates. The lower graph shows the difference in tax rates if the buying power of the rand (in SA) is considered equal to that of the dollar in the US.

Inside Out

ANN CROTTY

ANN Crotty is spending the festive holidays in Ireland with her mum and promises to return next week in time to resume her column.