TAXATION - 1991

JAN. —— February

BOOKS

TAX IS TAX

FM 11/1/91 320 General

THE TRIAL OF CHAKA DLAMINI *by Stephen Meintjes & M Jacques (164pp, R29,95).*

A convenient summary of the real basis of this book may be found in a recent leader-page article in *Business Day* by senior author Stephen Meintjes. There he distinguishes capitalism as it now is from private enterprise as it would be if land and capital gains from land ownership were made subject to what he calls "user charges." In the first instance, a register of site values, based on current prices, would be compiled.

Meintjes assumes that initially a user charge of, say, 5% levied on these site values would produce an equivalent of the yield from existing taxation.

In *The Trial*, Meintjes's scheme is linked with the resettlement of Africans on the land; this is also a concern of the ANC and the Development Bank of Southern Africa. The main issues between the ANC and the bank are stated in an article by Kevin Davie ("The ANC's Slow March to a Marketable Land Programme," *Business Day*, December 7), in the following terms:

□ The Development Bank argues that a large-scale confiscation of land from whites may not necessarily produce sufficient blacks who want to farm. Land is already available, so let's first see who wants it; and

□ The ANC would implement a programme of government-assisted transfers of land to blacks through a Land Commission which, presumably, would be charged with identifying the whites who are to be forced to sell their farms to blacks, and the blacks who would be entitled to buy these. Significantly, the ANC appears to have rejected, at least provisionally, the programme of land nationalisation recommended by one of its workshops: this wanted land to be held as a national resource, not a commodity to be bought and sold.

The Trial is in basic agreement with the ANC workshop recommendation: land, it says, should belong to the community, and should be subject to a user charge which is said to be not a tax. As has been explained in the *FM* by others before me, a user charge is in economic terms indistinguishable from the "single tax" devised by Henry George (1839-1897) to deprive a landowner of the true rental value of his land, regardless of how far this flows from his own efforts.

In his article, Meintjes mentions land taxes that have been imposed at various times in Japan, China and Denmark but does not say whether these were based on Henry George's ideas. In his *Study of Public Finance*, A C Pigou deals with land taxes in Australia and New Zealand. He shows how value added to land by the work and outlay of the owner may be kept out of the tax net. As long as the tax rate is not so high as to involve gross discrimination against holders of other assets, Pigou, while lending no countenance to Henry George, concludes that "in any tax system which relies on a number of imposts, there is a strong case for including among the rest a moderate tax assessed at a moderate percentage upon the (annual) value of land."

From the point of view of the authors of *The Trial* this does not help, because what they want is to provide a disincentive to hold agricultural land sufficient to facilitate its acquisition by black farmers. For advocates of a single quasi-tax, a further difficulty arises: there is a trade-off between the policy objectives at which a tax is primarily aimed and the revenue derived from it. If, for example, the primary aim of an import duty imposed on a commodity is to check its importation, the duty will fail to produce revenue to the extent that it achieves this aim. This dilemma applies to all taxes.

In SA there may be a case for disregarding Pigou's caution on the subjection of what elsewhere might seem gross fiscal discrimination between landowners and holders of assets other than land. It is not only against blacks that white farmers in the past have enjoyed the benefit of prolonged discriminatory treatment. Simon Fiske has dealt in *Business Day* with the way in which farmers have been encouraged to borrow money from the Land Bank on terms easier than those available to other asset-holders. The proceeds of many of these loans have been used, notoriously, for purposes of tax avoidance. In other cases, loans have been made which at least have been genuinely productive and have enabled white farmers to produce crops for export that are internationally competitive. This will remain of importance to our economy.

It is suggested that a once-over land tax be devised which would:

□ Be made expressly deductible for purposes of income tax, and capable of being spread over a number of years, so that its incidence would be reduced or even nullified in the case of farmers who have at least made productive use of their loans from the Land Bank and thereby incurred tax liabilities; and

□ Bring about the forced sale of farms by owners whose loans from the Land Bank have not been spent, so as to generate taxable income against which the new tax can be set off.

Radford Jordan

VAT FM 18/1/91 (320)

STILL ON COURSE

Deputy Finance Minister Org Marais has issued a press release reaffirming that VAT will be implemented on October 1. The statement countered rumours that government has decided not to proceed but has not dispelled scepticism in the business community about whether companies can really have their VAT systems up and running by October 1.

Marais says a committee he chairs (Vatcom) has considered written and oral evidence from many organisations. Vatcom has already submitted some recommendations to Cabinet and intends to publish a complete report this month, to be followed by early enactment of final legislation.

Ian MacKenzie, a tax partner at Ernst & Young, welcomes the recommitment, but wonders whether there is time to complete preparations by October 1, especially as Cabinet must still consider the Vatcom report. Then the Bill must be redrafted in time for enactment by parliament by end-March.

Don't forget, says MacKenzie, government is firmly committed to allow six months between legislation and implementation.

Geraldine Connell, a consultant in Deloitte Pim Goldby's VAT division, says it was natural for the public to speculate about the feasibility of the October deadline because government once before (in 1988) made a commitment to implement VAT to which it did not adhere. Recent retraction of GST on exports to TBVC countries harmed confidence in the administration of fiscal policy.

The VAT system has now been carefully thought through by government and business will have to gear itself up this year to manage the documentation. Nevertheless, it is important to realise government is committed to working in conjunction with vendors rather than bulldozing them.

It should be appreciated, says Connell, that government collects large amounts of indirect taxes from GST, so revenue demands will not dictate the implementation date for VAT. Most businesses will benefit from VAT, through being able to claim input tax credits (ITCs). (320)

Bronwyn Allan, a tax partner at Coopers, Theron, Du Toit, fears taxpayers may not be ready to implement VAT on deadline. Some may have been living in hope of a postponement, so have not addressed urgently enough the implementation of VAT and its effects on their accounting systems.

One important issue on which Vatcom will have to pronounce is whether to raise the R50 000 turnover threshold. Sacob, among other bodies, has urged that business with turnover below R500 000 should have discretion to register to assist those small concerns that might find the paperwork difficult. It is believed Vatcom will recommend an increase in threshold to R250 000, though experience abroad indicates many small businesses are keen to register and so be able to claim ITCs. But a big rise in turnover threshold could ease many problems and make it easier to meet the October 1 deadline. ■

INCOME TAX

FM 18/1/91

MEETING OF THE MINDS

(320)

THE TAX ADVISORY COMMITTEE CAN CONTRIBUTE TO RATIONAL POLICY

1990 was a year of momentous developments in tax law. Further important changes are likely this year. Many of the changes have been applauded by free-market thinkers, but the policy-making machine has not always functioned in an orderly fashion. On occasion, Inland Revenue has announced hasty amendments to tax laws without adequate consultation with the private sector, an approach which often causes embarrassment. Revenue acting alone frequently can't foresee all the implications of a proposed change.

To make policy-making more effective and enhance co-operation between government and the private sector, the Margo Commission proposed the establishment of a Tax Advisory Committee — a recommendation implemented by Minister of Finance Barend du Plessis on June 16 1988. The first chairman, Reserve Bank Governor Chris Stals, was succeeded by Michael Katz, who has now been in office for a year.

Katz calls the committee "a permanent body with the duty of making ongoing recommendations on tax reform." Many of 1990's changes in tax law originated in the committee, including the scrapping of tax on dividends (which, though proposed by Margo as part of a larger package, was not then implemented) and the 10-year safe haven for gains on sales of shares.

The greatest value in assembling a group of independent experts, including businessmen and private-sector tax practitioners, is the assistance the committee can give in maintaining continuity in policy.

Serving on the committee, says Katz, has brought Revenue into contact with a body of experts engaged in structuring a cohesive tax system. They want the new system to stand on the basis of well-recognised fiscal principles such as certainty, consistency, simplicity and equity. In particular, the committee wants a system in which the temptations of ad hoc legislation are rejected.

There is self-evident value in having an independent body with no loyalty to Revenue, interposed between government and the private sector, with the aim of achieving "a fair balance between the two in the overall national interest." That independence is total; the committee is neither an agent of Revenue, nor a law enforcement agency or inspectorate. It is strictly an advisory body, with no power to make laws. It must be seen to be independent. But, ultimately, "government decides what it wants to do."

The value of the committee as intermediator, says Katz, is particularly high at times — such as now — when Revenue and taxpayers are strongly polarised. Taxpayers feel they have not had a fair deal, so embarked upon various schemes to limit their liability. Revenue, in its turn, feels that taxpayers are not playing the game and frequently takes measures to nullify the tax implications of schemes. This vicious circle of move and countermove is in no one's real interest and undermines the formulation and administration of a healthy tax system.

The committee has another important function — to advise specialist bodies in the public and private sectors about the tax dimension of other areas of policy. Thus, the Mouton Committee — appointed to investigate pensions — got help from the committee on the tax consequences of its proposals.

The committee meets monthly to discuss schedules and "extensive agendas" established at the beginning of the year. Papers for discussion are circulated well in advance, so members are fully prepared.

Katz says he will do all in his power to ensure that the committee "remains relevant. We are relevant if we debate and recommend on vital issues of the day." But it can only fulfil this if businessmen draw its attention to issues, including administrative difficulties, which trouble them.

Tax issues, explains Katz, may be brought before the committee in three ways: first, through referrals by the minister of finance; secondly, through other referrals, as with the Mouton Committee, but equally originating in the private sector; and lastly, it can raise matters on its own initiative.

Research is essential to the functioning of the committee. It has its own research facilities and personnel. The research facilities at the commissioner's own offices have also been made available and outsiders such as accountants and lawyers are appointed for specific research tasks as needed. The director-general of finance is reorganising the research facilities.

What is the committee's philosophical approach? Katz argues that: "It is important that we should all see tax reform as a national objective and a national activity," so the committee should not monopolise this function. Everyone should be involved, with a strong input from the financial press.

Katz welcomes closeness to the media. He wants to make committee workings as visible as possible to stimulate public interest in the debate over tax reform. This will enable the committee to extend debate. It should act as a facilitator, to inspire and facilitate debate "and assemble everyone's viewpoint."

But there have to be limits to publicity. If government, considering a new tax, seeks the committee's advice, advance publicity could lead to defensive steps by affected taxpayers which could render the measure nugatory.

The committee needs to announce its programme "and from time to time it will." It has already made certain announcements, so that universities, business and the professions know what it is evaluating. Why, asks Katz, should researchers study esoteric matters rather than topics the committee has identified as important to tax reform? The business community in particular is invited to come forward with problems and concerns, "as the committee does not want to recommend proposals that are unworkable or even just burdensome in compliance."

Items on its agenda include a withholding tax on interest, a minimum tax, share incentive schemes, the timing for recognition of income and expenditure, and trading in assessed losses. Not to mention retirement provisions, tax aspects of federalism, group tax, taxing the informal sector, procedures for objections and appeals in income tax courts, fringe benefits, VAT, interactions between savings and tax and between tax and infla-

THE WRITE ECONOMIC STUFF

Entries are still invited to the Gerhard de Kock memorial essay competition, launched jointly by the *FM* and the International Students' Committee of the University of St Gallen, Switzerland. It is open to students born in or after 1960, and enrolled at university in 1991.

The SA winner will be able to attend, at the *FM's* expense, the 1991 annual International Management Symposium at St Gallen, from May 27-29. The three best papers submitted from around the world will be awarded prizes of SwFr8 000 (first), SwFr5 000 (second) and SwFr3 000 (third), to be used for educational purposes.

The essay may cover one of two broad topics:

☐ Leadership and corporate learning amid new realities; or

☐ Opportunities and risks of national economic policies amid new international realities.

Further details and entry forms are available from the *FM*, Box 9959, Johannesburg 2000, or telephone (011) 497-2400 or fax (011) 497-2474. The deadline for SA is February 28.

"We now run a mine by treating each shaft as a profit centre," says Sunter. "We have not laid down an ultimatum like Genmin, but it is virtually certain we would close a shaft if it did not cover direct operating costs for three months. The exception is, if we believe we are developing towards strength in the form of better grade ore."

That in itself is a major change to normal mine management techniques which are now much tighter.

Sunter concedes that: "When profit margins were running at 50%, area contribution accounting was looked on as a clever analytical tool but not really relevant because just about everything mined was pay. Now it is vital."

Legislation requires gold producers to mine at the average grade of their orebody, subject to their paylimits, to extend as far as possible the life of the mine. One of the long-term costs of the present crisis is that rising costs push paylimits up, meaning mines are forced to raise their grade. That shortens the life of the mine and leaves gold in the ground which may never be recovered.

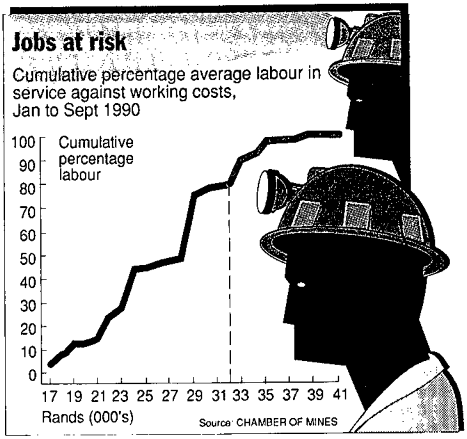
Gold Fields of SA may have to go a step further if two of its marginals, Venterspost (Venters) and Doornfontein (Doorns), are to survive. The long-term future of each mine depends on the completion of projects moving into new areas — the No 4 shaft at Venters and the No 3 shaft at Doorns.

"If we can keep the old workings at Venters breaking even while we bring in the new section then we'll be OK, but Venters is losing money," says GFSA executive director Alan Munro. "The new section has priority and if we have to sacrifice the mother to save the child by highgrading the old mine then we will do so. The same scenario applies at Doorns."

It is not just on the marginals that tough decisions are being taken. Industry blue chips like Driefontein and Hartebeestfontein (Harties) are affected too. Gold mine managements loathe closing shafts because of the uncertain nature of their business, where unpay ore reserves can become pay overnight when the gold price jumps.

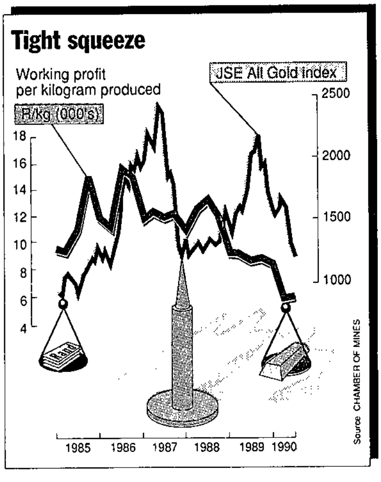
"A big gold mine is like a supertanker, you can't just suddenly change course," says Sunter. "My two rules are to be as flexible as possible and to close as few options as possible."

But the bottom line in cost-cutting terms is it pays to take out an entire shaft system because this eliminates virtually all the overheads associated with that shaft. That is why the No 2 shaft at GFSA's West Driefontein is now being closed, while Anglovaal's Crowe says proposed closure of the shafts serving the eastern side of Harties is being closely studied as management considers concentrating operations in the west of the lease area.



Pressure is also being applied right at the top of the industry's cost structure — and the Chamber of Mines has taken it on the chin. In 1990, the chamber budget was cut by 10% in nominal terms and this year by another 10%. In the past 18 months, some 870 people have been retrenched from the total staff of 6 000.

That raises the issue of what's happening at the various mining head offices. Responses on this are wary. Sunter says management consultants are assessing the gold division's head office and regional office structures. Munro says GFSA is not replacing people who leave, while Rand Mines executive director Clive Knobbs says cuts in head office costs are being considered. Crowe says Anglovaal head office is cutting costs "to a degree."



Black labour accounts for 30% of total mine working costs. Despite this, the mines last year still granted wage increases above the inflation rate, with the exception of basket cases like ERPM.

What happens at the wage negotiations this year will be crucial. Maude says Genmin is looking to hold the increase in rand/kg production costs to 8%, but that assumes an increase in the total wage bill of only 6%-8%. Sunter says there will have to be great restraint in this year's wage settlements.

Munro says he had hoped GFSA's mines would hold increases in cost a ton milled to 10% for the financial year to June, but they won't achieve that because of the level of the 1990 pay awards.

All mining house executives draw a direct link between the level of pay awards and the size of the work force that mines can afford. But Maude warns that retrenchments can only be taken so far.

Industry executives to a man are optimistic on the longer-term future for gold, pointing out a leaner industry will benefit greatly in about three years from a rising dollar gold price. Jewellery demand, particularly from the East, is vast and growing at an annual rate of about 15%, while supply should drop as overseas producers run out of shallow, cheap-to-mine deposits.

However, while accepting that it is in their long-term interest to bring inflation under control, some executives would still like to see their mines bailed out of the present trauma through softer government policies on State assistance and the rand.

In contrast, Maude is adamant a shake-out is necessary. He reckons it would pay to close down the loss-making production, while the amount of forward selling of gold taking place here and overseas has put a cap on the gold price for the next few months.

"Our research shows a direct correlation between the level of SA gold output and the gold price," he says. "If we cut out uneconomic gold production, the price would go up. We are working against our own interests by selling gold at a loss and compounding that by selling it forward," he says.

In the *FM*'s view, the tough measures being taken to cut costs on mines and the general clamp on inflation are the best ways to save the goose that lays the golden eggs for SA — even if the consequences include mine closures.

Twenty years of good times have built up considerable fat in sectors of the gold industry. This simply must be sweated off and that is happening now — a process long overdue. Latest quarterly results are already showing what can be achieved when mine managements realise their futures are on the line. However, it will be a painful process with economic and social effects that SA will not find easy to absorb.

Brendan Ryan

FM 18/1/91 320

tion and non-resident tax on interest.

In what circumstances should Revenue or government be obliged to consult the committee? Katz acknowledges that it's the prerogative of government and Revenue to consult or not. He considers in matters of policy the committee should be consulted but not in a matter of "ongoing administration." There are grey areas, but it would be advisable to consult the committee whenever there is uncertainty.

Katz says the committee recognises that tax reform involves both policy and technical aspects. Policy must be relevant to society. So the committee recognises that the levels and types of tax will be of great importance in the change to a new SA, particularly in relation to income distribution.

Ernst & Young partner Ian MacKenzie regrets the ad hoc "sledgehammer" approach Revenue has frequently adopted in recent years in changing tax law. For this reason, he welcomed Margo's recommendation to establish the committee. Unfortunately, before 1990, the committee did not seem to make much difference. But with the appointment of a private-sector chairman, Katz, "a number of 1990 amendments reflected the influence of the committee."

MacKenzie hopes the committee's positive influence will persist, though he concedes that its involvement inevitably lengthens the process of amendment. But this is a small price to pay for legislation which is properly researched and carefully worded to meet the objectives of certainty and equity. ("The principle of simplicity is unlikely ever to be achieved.")

All this said, MacKenzie complains that consultation with the private sector was still insufficient on issues such as VAT and "the disastrous attempt to change the GST rules for exports to TBVC countries and changes to income tax rules on work in progress."

Kevin Wiles, managing partner, taxes, Arthur Andersen, feels the committee has not adjusted enough to reflect changed political realities. The new situation, for example, should have occasioned a downgrading of the priority accorded privatisation.

On the same reasoning, Wiles feels the committee is not broadly enough constituted to reflect all major shades of opinion, including radicals. To remedy this may require trade union representation.

Wiles also urges the committee to give attention to the neglected task of educating the public on the need to pay taxes to generate revenue for major social and other programmes, rather than concentrating on academic and technical debate.

Willem Cronje, a partner at Deloitte, Pim Goldby, says the work of tax reform is necessarily continuous, so a permanent monitoring body such as the committee should have a beneficial influence. He feels the core of the committee (its permanent membership) is small enough to be an effective working group. To the contrary, another tax specialist feels that the committee is too large to function effectively.

Concern with, and effective management of, the technical aspects of tax is not sufficient in the present fraught political atmosphere. (Even though much still needs to be done to get the process of technical tax change on to a sound footing.) If theoretically correct and beneficial reforms are to survive the process of change, their logic must be debated with radicals.

The committee is a forum where a sound debate could be carried on out of the glare of publicity, if it's made more representative. Tax policy is no longer a two-handed game between the business community and government, but a set of triangular relationships involving radicals too. ■

Cape Times 22/1/91

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VAT to cost city-dwellers R13 to R30 extra

By PETER DENNEHY

EACH household in Cape Town will have to pay, on average, an extra R13 to R30 a month on rates, electricity, telephone and water bills when value added tax (VAT) replaces general sales tax (GST) in October this year.

Mr Des Kruger, an expert on VAT from the firm Deloitte Haskins and Sells, confirmed yesterday that according to the latest draft of VAT legislation, the new tax would be payable on rates, water and lights bills, telephone bills, sewage and refuse removal charges, and even dog licences.

Other new items on which the tax would be payable, outside of the municipal sphere, include car licences and domestic air fares. Even massage parlours would have to pay VAT, he said.

Mr Kruger is due to give an explanatory lecture on VAT to city councillors, management committee members and senior council officials in the Civic Centre on Friday.

He said yesterday that the government was committeed to introducing VAT at below 13%, the current GST level. It would probably be introduced at between 10% and 12%, Mr Kruger said. If, for example, it were 10%, it would not necessarily push up everyone's rates by the full amount of 10% of their current rates bill.

"It will be 10%, but on a lower rate," he explained. This was partly because the council would save money by not having to pay sales tax on its purchases of goods.

Another reason was that the entire cost structure of the council's operations would be reduced, because it would get a tax credit for the VAT it paid for goods and services.

For example, if the council sold municipal services worth R100, it charged R10 VAT on these; yet on the other had it had paid R80 for various input costs (like vehicles and cleansing materials), and this R80 included R8 VAT which it got back as a tax credit from the government.

Cape Town City Council public relations officer Mr Ted Doman said yesterday that the council had told the government that VAT would amount to "a tax on tax", as rates were a form of tax.

However, the government had taken the view that rates were a lump sum payment for various municipal services rendered.

- According to the draft legislation promulgated in the Government Gazette of June 18, VAT will be payable on rates, but not on rentals.

Cape Times, Tuesd

Doctors may lose under VAT system

Bday 22/1/91

MARIETTE DU PLESSIS

DOCTORS would suffer considerable losses in their net incomes if the exempted system — one of three options available under the value added tax (VAT) system — was introduced, a chartered accountant said recently. (320)

The exempted rating system would have the most "detrimental effect" on the profession and the affordability of health services, resulting in a rise in doctors' tariffs to recoup losses.

He said, under this category VAT would not be charged on services, but tax would be levied on all input purchases, such as rental, electricity, water, and other consumables.

Patients would therefore not have to pay additional costs, but doctors could be in a worse position than under the present GST system, he said.

He added that proposed legislation suggested VAT returns would have to be completed at least every two months, resulting in higher doctors' accounting and administrative costs.

Acceptable

When the Medical Association of SA (Masa) met the VAT commission (Vatcom) in October last year, Masa requested that medical services be taxed at the so-called zero rate, the SA Medical Journal reported.

However, Masa also opted for standard rating rather than the exempted category, if the zero rating was not acceptable to the authorities.

After a Private Practice Committee meeting early last November, the committee informed Masa that private practitioners preferred an exempt rating, since the added administration costs involved in the standard rating would be higher than the amount of VAT reclaimed from the Receiver, the journal said.

However, pathologists and radiologists advised Masa they would, owing to their capital intensive practices, suffer greatly under an exempt rating and would prefer a standard rating. Chances of a zero rating were minimal.

Objections overruled on PAYE for directors

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13 Day 23/11/91

GILLIAN HAYNE

THE introduction of PAYE on directors' salaries, which is scheduled to be implemented on March 1, is to go ahead despite extensive criticism from the business sector.

In a meeting with KPMG Aiken & Peat's tax partner Hennie Coetzee, a spokesman of the Commissioner for Inland Revenue outlined details of how directors should calculate their PAYE exposure and the administrative procedures they should follow.

Directors with a pay package for year one, which includes a fixed monthly salary and a share in the company's profits, will pay PAYE on the monthly amount in year one and PAYE on the profits when received in year two.

At the end of year one a director should receive an IRP5 for the fixed monthly salary and, in year two he should be issued with another which should reflect the period of employment as year one but which would be reconciled at the end of year two.

In the example quoted the company may deduct the whole package, both the monthly salary and the profit share, in establishing its taxable income for year one.

The director's income for year one will also include the two components and PAYE deductions must be taken into account when making provisional tax payments, Coetzee notes.

Where the director receives his remuneration in the form of various payments that the company makes on his behalf during the year, the monthly amounts must be established for the purpose of PAYE deductions.

Should the director earn less than R40 000 and also have a loss from any other taxable activity, Coetzee notes that the commissioner should consider changing the tax legislation so that the loss may be carried forward in full to year two.

If the director overpays his PAYE deductions in year one, the credit will be repaid to him when he has been assessed for year one.

In this instance, the IRP5 certificate detailing the PAYE paid must be kept and when lodging his income tax return for year one, the director must get a certificate from the company certifying his actual remuneration compared with the original projected remuneration.

Withholding tax may miss deadline

GILLIAN HAYNE

B/Day 24/1/91

(320)

THERE was little possibility that the withholding tax on interest would be introduced by the March 1 deadline, a spokesman at the office of the Commissioner of Inland Revenue said yesterday.

"However, no one can foresee whether Parliament will decide otherwise during February 1991."

KMPG Aiken & Peat tax partner Hennie Coetzee said although considered by many a *fait accompli*, there was no proposed legislation in place yet.

This made it unlikely that the tax would be introduced in the next Budget.

The introduction of a final withholding tax on interest, mooted at 10% to 12%, is the crux of government's plan to encourage savings.

Deputy Finance Minister Org Marais confirmed that the discussions were "still on the road".

He said they had been handed over to special adviser Japie Jacobs to include in his investigation of the levelling of playing fields of banks and building societies and life offices.

Jacobs, Marais and Receiver of Revenue Hannes Hattingh are scheduled to meet at the end of January to discuss proposals to overcome the "round-tripping" potential of the withholding tax and to finalise suggestions on how to limit the tax burden for low-income groups and pensioners.

Current legislation provides that the first R2 000 interest is tax free, after which interest ~~is taxed~~ on a sliding scale.

Price Waterhouse ~~national~~ tax manager Martin McAusland said although government had insisted the move was not prompted by fiscal considerations, government could only benefit by a collection at source, as most taxpayers did not disclose interest in their tax returns.

"Individuals, especially those not accustomed to declaring their interest income, should be aware of the effect a withholding tax will have on their financial position."

Consolidated Fund Managers MD Clive Fox noted that a withholding tax would pull black investors into the tax net, which would benefit the fiscus.

ACCOUNTING COUNTDOWN

FM 25|1|91 (320)

Government's announcement that it is sticking to the October 1 deadline for introducing VAT should focus businessmen's minds on the accounting systems needed.

Bronwyn Allan, a tax partner at Coopers Theron Du Toit, explains the requirements:

□ Firstly, the systems will have to furnish information with which to complete the VAT return and secondly, they will have to set up an "audit trail" to supply documentary evidence to comply with new requirements;

□ The general ledger system will need a VAT account to identify the deductible input tax and output tax payable at the end of each VAT period — monthly or bi-monthly, depending on certain criteria. It will facilitate completion of the VAT return and summarise and report the VAT surplus or deficit;

□ In the purchasers/creditors system each purchase will have to be analysed to identify whether a tax invoice has been received. No input tax is claimable without a tax invoice;

□ In cases of settlement discounts, returns of goods or other adjustments to the sale, the vendor must request a debit or credit note which refers to the original tax invoice, so the VAT calculation can be made correctly;

□ If an enterprise makes both taxable and exempt supplies, input tax paid on purchases, expenses and capital acquisitions attributable to exempt supplies will not be claimable. The system will have to highlight such purchases;

□ The sales/debtors system will have to identify VAT charged on sales and account for sales excluding VAT so that the correct output tax is allocated to the VAT account;

□ Where a vendor makes both taxable supplies at the standard rate and export (zero-rated) or exempt supplies (no VAT chargeable), sales must be analysed to ensure total values of taxable supplies, zero-rated supplies and exempt supplies are available;

□ Settlement discounts, returns, bad debts and deemed supplies must be adjusted for; and

□ The payroll system will have to identify VAT payable on fringe benefits and record staff cost inclusive of VAT on fringe benefits. Fringe benefits must carry the same value as for income tax purposes.

These requirements will strain human resources. Staff will have an additional workload to ensure the changeover takes place in time and as efficiently as possible. This may require training extra staff.

It is vital for people involved to understand the legislation and its effect on their function. Allan says management must appoint a VAT manager, who will prepare an implementation plan setting out how and when various departments will be affected.

Preparation for VAT is now a priority. Not only must staff get to know new requirements and systems, the systems themselves must be amended in good time. Insufficiently tested systems may result in incorrect claims of input taxes or failure to charge output taxes.

Late payment of VAT will incur heavy penalties, which become effective immediately it's introduced.

Inland revenue cracks down on film schemes

GILLIAN HAYNE

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INLAND Revenue has refused deductions for marketing and distribution expenditure in 16 recent film scheme assessments, indicating its new hardline approach.

Inland Revenue chief director Hennie Smit said Revenue was not satisfied that the costs, claimed as deductions, were genuine.

This follows evidence given at a recent inquiry into the affairs of Trinity Asset Management (in liquidation), which is believed to have given Revenue the key to assessing film schemes. Four Revenue employees sat in on the final day of the inquiry. Many of the vouchers for marketing and distribution expenditure requested by auditors from Trinity Asset Management — which acted on behalf of various management companies — were found to be false.

The onus is now on the taxpayers to provide vouchers proving the validity of the expenses incurred.

Smit said Revenue was likely to reopen old assessments and if the allowances were seen to have been obtained fraudulently, they would be reassessed. B|Day 28|1|91

It is believed the backlog in film scheme assessments arose from Revenue's inability to formulate an investigation strategy to test whether the schemes were genuine and whether they warranted the double deduction allowance.

The loss to the fiscus through double deductions and allowances on questionable film schemes is estimated to run into billions of rand.

Revenue's new approach to assessments stems from the use of fixed expenditure contracts between SA management companies, on behalf of investors in en commandite partnerships, and overseas distributors, where it was argued the management companies were not obliged to support the expenditure with vouchers, claiming they had been contractually incurred.

Informed sources suggested that, by making the film schemes with fixed expenditure contracts the starting point of investigations, Revenue would be more likely to distinguish bona fide cases from those implemented solely for tax benefits.

However, Revenue's new hardline stance indicates that it may disallow all deductions until vouchers are provided validating the expenses.

Tax dodgers caught for R1,5bn

GERALD REILLY

PRETORIA — Inland Revenue recovered a record R1,5bn in tax on undeclared income last year.

Although this is possibly a relatively small percentage of the tax slipping through the department's net every year, tax authorities predict the significantly strengthened inspectorate will ensure another successful swoop on tax dodgers this year. B|Day 29|1|91

According to an Inland Revenue spokesman, the amount of tax paid on undeclared company and individual income discovered by special investigators amounted to R1,105bn.

Unpaid GST accounted for a further R228m, and penalties totalled R150m. (320)

The Finance Department is recruiting personnel to bolster the inspectorate staff still further.

It is aiming at increasing the total number of special investigators and sales tax audit staff to nearly 1 200.

Audit staff are being given intensive training in preparation for the introduction of VAT in October.

The department says experience over the past decade has shown that one inspector recovers unpaid tax many times his salary.

More tax reforms on the way — Org

(320) BDay 30/1/91

GRETA STEYN

GOVERNMENT would introduce further tax reform in the Budget, Deputy Finance Minister Org Marais said in an interview yesterday.

Although Marais would not discuss specifics, it is believed that changes to the import surcharge system, a lower company tax rate and mild relief for individuals are on the cards.

Marais hinted at changes to life offices' taxation and acknowledged that problems were being experienced with the implementation of the withholding tax, designed to encourage savings by replacing income tax on interest.

He could not confirm or deny speculation that the long-awaited withholding tax would not be implemented.

Although emphatic that government would continue with tax reform in the next Budget, Marais indicated that scope for tax relief was limited as the fiscus was squeezed by a recession when the need for greater social spending was critical.

"Tax reform in this Budget will depend on total revenue and expenditure estimates for the coming financial year. Revenue is expected to be lower due to poor economic groth. Social spending will continue to be an important expenditure item," he said.

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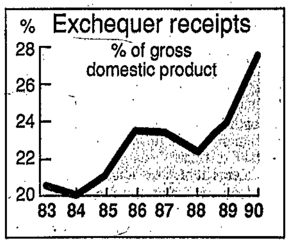

Graphic: LEE EMERTON Source: RESERVE BANK

Tax reforms

BDay 30/1/91 (320)

☐ From Page 1

He indicated that tax reform suggestions by Economic Co-Ordination Minister Wim de Villiers, architect of an overall economic restructuring plan, would feature in the March Budget.

Marais did not discuss specifics relating to De Villiers's suggestions, but sources said De Villiers's ideas were for company tax changes aimed at increasing international competitiveness, improving productivity and doing away with unnecessary protection against foreign competition.

As a result, expectations are that the present system of import surcharges is in for an overhaul — surcharges on inputs (capital and intermediate goods) will be abolished or lowered drastically while those on consumer goods, especially luxuries, will be retained at a high rate.

At the same time, the company tax rate, at present 50%, is expected to be cut.

De Villiers is also known to want to encourage more discretionary savings as individual saving tends to be overwhelmingly contractual. A report by Finance special adviser Japie Jacobs on the reasons for the imbalance in savings is being studied by government.

It is expected that he will recommend the taxation at the company tax rate of the life assurers' previously untaxed, "free" reserves — the surplus of their assets over their liabilities to policyholders.

Economists say the expected overrun of a few billion rands in revenue in the current fiscal year indicates more can be done to reduce fiscal drag.

Govt to introduce tax reform

CAPE TIMES 30/1/91

320

Own Correspondent

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Taxpayers 'to bear brunt of reforms'

SEAN VAN ZYL

TAXATION would have to play a major role in any "redistribution of income" in the new SA, tax expert Chris Frame said at a seminar on fiscal policy yesterday. B[Day 31]1]91

Frame, national tax director of accounting and business advisory firm Price Waterhouse, which presented the seminar, said social upliftment of blacks would have to be financed largely through taxation.

In addition, the greater part of this tax burden would probably be carried by the individual taxpayer.

"Despite recent indications that personal tax levels are easing off, I feel that over the next five years they will increase considerably," he said. 320

Additional taxes on capital gains, dividends and estate duty levies could also be expected to be phased in. VAT would also play an important role, through a policy of indirect taxation, in financing redistribution and black social upliftment.

However, income tax was still the best way for a government to achieve these aims.

Dividend tax may be reintroduced

• BDay 5/2/91 (320)

GRETA STEYN

GOVERNMENT is considering bringing back tax on dividends in the hands of individual shareholders — a move which would be a dramatic about-turn from last year's approach to tax reform.

In the March 1990 Budget, government exempted from normal tax the dividend income of individuals and close corporations, resulting in a loss of revenue of just over R400m.

Rumours are rife on the JSE and among tax experts that the tax will be brought back. Deputy Finance Minister Org Marais yesterday declined to confirm or deny the speculation, saying he was unable to comment as the Budget was being prepared. He denied, however, that the issue had been discussed with the ANC as some rumours suggested.

The JSE is understood to be concerned about the rumours, although no official comment could be obtained. In JSE circles the dividend tax is seen as double taxation, as company earnings that are already taxed in the hands of the company will be taxed for a second time when they reach the shareholder in the form of a dividend.

JSE sources said the tax created a bias against equity finance and one in favour of debt finance.

Last year's Budget emphasised the need to promote discretionary savings as part of a "supply-side approach" to fiscal policy. The exemption of tax on dividends was an essential part of this strategy. A return to the old system would mean government was ditching supply-side economics.

However, left-wing economists opposing the tax exemption say it violates a fundamental principle of taxation — the ability-to-pay principle. Their argument is that those who are rich enough to invest on the JSE have the ability to pay taxes and should do so.

It is speculated that government might be moved to reintroduce the tax to prove that its tax system is not designed to favour the rich at the expense of the poor.

The focus on redistribution of wealth is believed to be one of the reasons government is considering the move, as is the fact that VAT, to be introduced this year, is regarded as a regressive tax.

While the introduction of the tax would be a blow to the JSE, there could be some relief for the stock exchange if Marketable Securities Tax (MST) is abolished.

The JSE is hopeful it will be and is also lobbying for the reduction of the 10-year safe-haven period for capital gains tax to two years.

Clampdown on leave claims

GILLIAN HAYNE

INLAND Revenue is clamping down on companies claiming deductions on employees' unused leave, and tax experts say employers, already strained by the current economic climate, could flounder under the added tax burden.

KPMG Aiken & Peat tax partner Hennie Coetzee said assuming that each wage earner got two weeks' paid leave a year, Revenue could have lost billions of rands in incorrectly permitted tax deductions.

Companies are allowed to claim a tax deduction on their employees' unused leave — either taken as days or cash — on the grounds that they have a legal obligation to grant the leave at some future date.

Under those circumstances, the leave pay can be interpreted as an unconditional liability for the employer and can be claimed as a tax deduction.

Inland Revenue chief director Hennie Smit said yesterday in many cases the employers did not have an unconditional liability to pay their employees for leave not taken.

"The rules have not changed, but in the past many employers did not disclose all the information, and were incorrectly allowed the deductions," he said.

In the 1990/91 tax forms, however, more stringent questions have been included to ensure full disclosure. If the employee stands to forfeit leave not taken or can take the leave in a future year, the leave pay is not unconditional.

Smit said companies should examine their employees' employment contracts to determine the extent of their liability.

Coetzee said: "Up to now almost all employers have successfully claimed provisions for leave pay as deductions in the determination of their taxable income. The Special Income Tax Court case (which was held last year and disallowed the deductions) may have major implications for some employers.

"We have approached the Commissioner with a request to grant employers relief which would allow the add-back to be spread over a number of tax years."

(320)

Bday 6/2/91

VAT problems 'hopefully cleared up'

GERALD REILLY

PRETORIA — After months of intensive investigation, Vatcom, the committee given the task of sorting out problems associated with the introduction of VAT in October, has completed its work.

A spokesman said yesterday the Vatcom report would be submitted to Finance Minister Barend du Plessis within the next few weeks and "certainly before Budget day in March".

Vatcom member and Inland Revenue chief director Trevor van Heerden said: "We believe and hope we have eliminated all possible difficulties and complications which could arise with the system's introduction."

In all, he said, more than 1 000 submissions were made to the committee from a variety of interest groups, including all major business and industrial organisations such as Sacob and the AHI.

Two of the major issues dealt with, Van Heerden said, were the tax as it would affect basic foods and housing construction.

Strong representation came from consumer and social welfare organisations pleading for basic foods to be exempted from the tax or to be given special treatment.

Appeals for special treatment for home building came from the industry and other interested organisations.

Currently building materials are subject to GST and construction services are not. (320)

Other sources said Du Plessis would deal at length with the introduction of VAT in his Budget speech next month, especially with goverment's attitude to exemptions.

Vatcom chairman was Deputy Finance Minister Org Marais and other members included the Finance Department's E Calitz and Commissioner for Inland Revenue J W Hattingh. Politicians, including the CP's finance spokesman Casper Uys, were a majority among the 14 members.

Inland Revenue chief director Schalk Albertyn said yesterday the machinery and organisation was ready for the introduction of the new system.

8/2/91

'Declare dividends to beat risk'

MARC HASENFUSS

COMPANIES should declare dividends now to eliminate the risk of shareholders being subject to additional taxes, accounting firm Coopers, Theron, Du Toit said yesterday.

The blunt message follows in the wake of recent speculation that the taxation on dividends will be reintroduced during the course of this year's Budget speech. BI Day 7/2/91

Last year's Budget saw government exempt the dividend income of individuals and close corporations from normal tax.

Coopers Theron Du Toit corporate services director Peter Goldhawk said if dividend tax was reintroduced, the measure would be backdated to March 1 to coincide with individual tax assessments. "For companies listed on the JSE there is no time to lose if they subscribe to this view." The JSE requires the last day to register for dividends can fall only on a Friday, and that dividends must be declared at least two weeks prior to this. The last Friday this month is February 22, and two weeks before that is tomorrow. (320)

For unlisted companies, Goldhawk said, time was somewhat less pressing.

"Unlisted companies only need to ensure, if they are worried about the potential additional taxes, that dividends are declared prior to February 28."

He warned that private companies should have such declarations endorsed by a commissioner of oaths.

JSE president Tony Norton said yesterday that he hoped market speculation regarding the reintroduction of dividend tax was only a rumour.

Some analysts believe the dividend tax is effectively a form of double taxation, as company earnings are already taxed and will be taxed again when they reach the shareholder in dividend form. Others said government would reintroduce the tax to show it did not favour the rich at the expense of the poor.

Sheena Duncan of the Johannesburg Advice Office of the Black Sash comments on employers' obligations

Why many employees are paying far too much tax

(320)

Star 7/2/91

MOST large employers in South Africa retain tax consultants to help them to minimise the tax they have to pay.

Tax avoidance is regarded as an obligation and much time and money is spent to ensure the maximum tax advantage.

Yet these same employers are deducting from their worker's wages amounts of tax under the SITE (Standard Income Tax on Employees) system which are often grossly in excess of what an individual person should pay.

The SITE system is at fault but, while it exists in its present form, employers have a moral obligation to devote the same care to the taxation of their employees as they do to their own taxation.

The State has made the employer the tax collector vis-a-vis his workers.

Employers did not make any loud protest and now they are landed with an impossible responsibility to ensure that the less well-paid workers in the country do not pay unjust and disproportionate amounts in tax.

As the end of the current tax year approaches, it is a matter of urgency that all employers make sure their employes are not paying more than they should.

The law does not make it an obligation on the employer to ensure that a worker is placed in the correct tax category.

It is the responsibility of the worker to obtain an IRP2 form and to fill it in, correctly describing her/his marital status and dependants.

He is supposed to do this each time his status changes in a tax year and again in the new tax year.

How is she or he supposed to know this? Our experience in the Black Sash advice office does not give us confidence that employers spend any time explaining this to employees, nor in helping them to fill in the form correctly.

How many employers know that a worker is classified as a "married person" if she/he is unmarried but has minor children — whether or not those children live with the taxpayer?

How many employers know that a married woman can be classified as a "married person" if she is the sole breadwinner of the family because her husband has become unemployed or disabled, or has earned less than R10 000 in the tax year?

How many employers are familiar with the definition of a "qualifying child" when that child is over the age of 18?

How many employers know that if the tax status of a worker changes during the course of the tax year, for example by marriage or the birth of a child, his tax must be re-assessed for the whole year on the scales for her/his new status?

How many of the employers who do know these things bother to explain to a worker how to approach the Receiver of Revenue to ask for a tax directive?

How many employers know or care that if they deduct too much tax from a worker's wages under the SITE system, that worker cannot claim a refund after the end of the tax year?

Taxpayers with the lowest incomes (under R40 000 a year), who pay only SITE and who are therefore not registered as taxpayers by the Receiver of Revenue, are subject to unjust and unfair treatment compared with the higher-income taxpayers, due to the defects in the design and administration of the SITE tax system.

The principal defect is that the very important duties which the Receiver has to carry out for registered taxpayers have been delegated in full to the employers of SITE taxpayers.

Many of these employers have not bothered to learn properly how to carry out these duties and so do them very badly.

They do not seem to care that the tax avoidance which they regard as their right and obligation is also a right and obligation for their workers.

Employers should make sure before the end of February that each employee's IRP2 reflects the correct particulars and that a directive is obtained from the Receiver where this is required.

This will enable the employer to recalculate the worker's tax liability at the end of the tax year and to refund to the worker any excess of tax deducted in the tax period.

This is a matter of simple justice. □

PAYE 320 FM 8/2/91

ON THE BRINK

Barring last-minute surprises, PAYE on directors' emoluments will be part of tax law on March 1. Advances paid to directors of private companies will be deemed to be salary payments for these purposes but with provision for the commissioner to issue rulings exempting individual advances.

However, Ian Meiklejohn, a director in the office of the Commissioner of Inland Revenue, advises that directives exempting a director from the deduction of PAYE will be issued only in exceptional circumstances, for example where a director serves on the board of one company merely as nominee of another company. A practice note in this regard will be issued shortly.

According to Willem Cronje, tax partner at Deloitte Pim Goldby, the essential reason for the impending change in the law is twofold. Some extremely large private companies were taking advantage of the loophole by paying advances to directors and so deferring the payment of tax. The advantage was of course subjected to a significant limitation since imposition of the third provisional tax payment. (All tax must be paid within six months of the close of the financial year, otherwise interest is payable at 18%.)

Secondly, some public companies were registering wholly owned private companies to which fees were paid for management activities. The public company directors then received advances from the private company.

Cronje regrets that the new provisions are widely drawn: they also hit what one might call *entrepreneurial private companies.* These, in the past, have paid advances to directors (who generally are also major shareholders), settling the amount of remuneration only when the accounts are made up after the close of the financial year.

The new obligation multiplies paperwork and costs for small concerns already overloaded in complying with official requirements. It is also a financial disincentive to

Continue →

small businessmen who often need the cash flow boost of having to pay tax only at the time of the third provisional payment.

Cronje's remedy for the hardships created by the new PAYE requirement is relatively simple. There should be a further amendment exempting from the requirement "closely held" private companies, that is those controlled by the shareholders. (To prevent abuse, the amendment should provide that the private company's income should not be derived substantially from management fees.)

Ernst & Young tax partner Ian MacKenzie says clarification is also required on what should be done when a director receives an advance on which PAYE is paid and is then awarded a bonus which is set off against the advance. As the Act stands, further PAYE will have to be paid on the bonus, resulting in a double deduction from what is only one amount of income. Presumably this is not Revenue's intention, so the Act should be amended.

MacKenzie queries recent statements by Revenue about profit-share bonuses awarded after the year-end. Apparently, the company must then issue the normal IRP5 in respect of the director's emolument to February 28 and then a separate IRP5 for the bonus.

The director must then include both IRP5s in his personal tax return for the year to February 28. Is Revenue considering that — though the right to the bonus accrues to the director on February 28 — there is no determinable amount until after the year-end, when the profits and amount of the bonus are determined? There can be no gross income (or taxable income) for the director until then.

FM 8/2/91 320

Meiklejohn disagrees with MacKenzie on the issue of the timing of the accrual to the director, and incurral by the company, of amounts determined after the year-end. He says that — in terms of tax law — such amounts could relate to year one or year two, depending upon the conditions ~~under~~ which they are determined.

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It is nevertheless, he believes, "the almost invariable practice of accountants" to include the amounts in the year one returns of both director and company. The contention that the expense is incurred by the company in year one, while the accrual to the director takes place only in year two, is "at variance with both tax law and generally accepted accounting practice."

The company, on the other hand, is entitled to deduct the bonus from its taxable income for the year to February 28, because at that date it has an unconditional liability to pay the bonus, even though the amount can be quantified only after the year-end.

While there may be no explicit provision, Meiklejohn believes it is implicit in the new legislation that PAYE will not be deductible for a second time from a director's emolument, already received in the form of an advance, which was itself subject to PAYE.

The new provision will in any event be applied in this way, with the result that additional PAYE will be payable only to the extent that the emolument as finally determined exceeds the advances taken during the year. ■

TOP TRADER?

Pit your wits against the futures markets! In association with the *FM*, SA Futures Industry Association (Safia) has launched a competition to find the top futures trader. The winner will carry off R50 000, donated by Rand Merchant Bank, and a trophy. The company whose employees have the best overall performance will be awarded the *Financial Mail* Top Trading Desk Trophy plus a 12-month subscription, worth R30 000, to MBM's Genisys information system.

The competition is open to anyone involved in the financial markets. Entries close on March 1. Forms are available from Safia, tel: (011) 834-5963.

Directors' tax clarified

MARCIA KLEIN (320)

INLAND Revenue this week cleared up the confusion over the introduction of PAYE on directors' salaries.

The new system requires that private company directors be subject to both PAYE and the provisional tax system. B/Day 8/2/91

A tax directive said the final bonus remuneration of directors, which was normally determined after the year-end of the first year and credited to the loan account of the director, would be subject to PAYE at the time of determination in year two. However, it could be taken into account in determining the company's tax liability in the first year.

Coopers Theron du Toit tax partner Koos van Wyk said yesterday the directive did not clarify the problem of double taxation. This might occur when an advance through a loan account was taken out. The director would then pay PAYE on final remuneration, a portion of which he would already have paid provisional tax on.

In the final analysis the double taxation, from a tax viewpoint, would not prove too much of a problem as the director would be able to claim it back on assessment.

As collections for Revenue would not be substantially earlier and the administrative burden on business would be increased, Van Wyk said he hoped Revenue "would give serious consideration to amending the existing legislation in the near future".

Harsher taxes seen for 'new' South Africa

W/ARGUS 9/2/91 320

From CLARE GEBHARDT

JOHANNESBURG. — Stand by for much higher taxes in a future South Africa.

Tax reforms undertaken by the present government will simply be reversed by any new government, says Price Waterhouse national tax director Chris Frame.

And it won't be for ideological reasons but out of simple economic necessity.

Economics will also dictate the impossibility of redistributing income any faster, given deteriorating terms of trade, capital scarcity, unemployment and inflation.

Mr Frame says the danger is that there will be enormous pressures on a black government to readjust things very quickly. This reaises the spectre of nationalisation, Africanisation or confiscation.

'Massive emigration'

"But this will only turn off the capital investment tap, lead to massive unemployment, restricted growth, a collapse of the rand and massive emigration."

Advocating the tax mechanism as a peaceful means of redistribution, Mr Frame told a seminar in Johannesburg this week that taxes would become increasingly harsh.

He warned that though tax rates might drop in the next two years, "forget that this is the trend".

African systems normally imposed taxes at a high progressive rate for individuals and this would certainly be the case here, he cautioned.

"Most have a capital gains tax and we can expect the same. It is socially necessary, an almost inevitable progression through a tax system and will come no matter which government is in power.

"At the end of the day you cannot have a high rate of income tax on the individual and not have a capital gains tax."

The compromise to be sought was to confine capital gains tax to the share market rather than business and property, and keep it as low as possible.

"Above all we must avoid retrospection."

Mr Frame said a homeowner, selling a house he had bought for R15 000 about 20 years ago and which was now worth R150 000, could be taxed at 50 percent on his gain, making it impossible for him to replace his asset.

This amounted to sheer confiscation, and if a capital gains tax were implemented retrospectively the taxpayer would be destroyed.

More bad news was that the present exemption of tax on dividends and interest income would not last more than two years.

"Government has made a decision in principle to withdraw estate duty, but this will not be the case in the years ahead."

VAT, he said was another contentious area.

"Most black politicians are not enamoured by it because they regard it as regressive. Nevertheless, whoever is in power needs to introduce an indirect tax and this is the best in our situation.

Export industries

He added that it was not possible to pursue particular government economic objectives in a fair way.

"If you need to encourage export industries you have to discriminate against someone else and the tax system does this in a discreet way."

Lamenting the demise of the mobile white in African countries, he said South Africa too would suffer the loss of a big sector of the white population.

"Young professionals will say this is not a country I care to live in any longer and we will have a desperate need to for contract workers."

Dividend tax is path to economic suicide

Star 9/2/91.

320

JOHN SPIRA

SOUTH African stock market investors are awaiting the March 20 Budget with some trepidation as the debate surrounding the possible reimposition of tax on dividends received by individuals rages on.

Last year's Budget scrapped all tax on dividends received by individual, as opposed to corporate shareholders.

In the process, the net return for large and small shareholders, as well as the bottom-line incomes of hundreds of thousands of the nation's unit trust investors, were (in some instances) significantly boosted.

But if the tax is reintroduced — less than a year after it was dropped — the situation will probably be reversed.

It could mean that two-thirds of dividend receipts will have to be included in the taxpayer's taxable income.

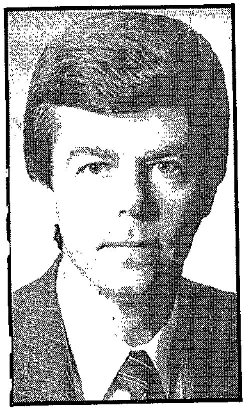
At stake is some R400 million — a miniscule 0,6 percent of the national budget.

Yet it isn't the amount involved that has sparked off the heated arguments. Rather, the debate has dredged up age-old arguments about the desirability of impoverishing the wealthy to enrich the poor.

Because taxpayers receiving dividend income tend to come from the higher income groups, they're clearly fair game for politicians with certain leanings for whom the revival of the tax on dividends would be a feather in their caps.

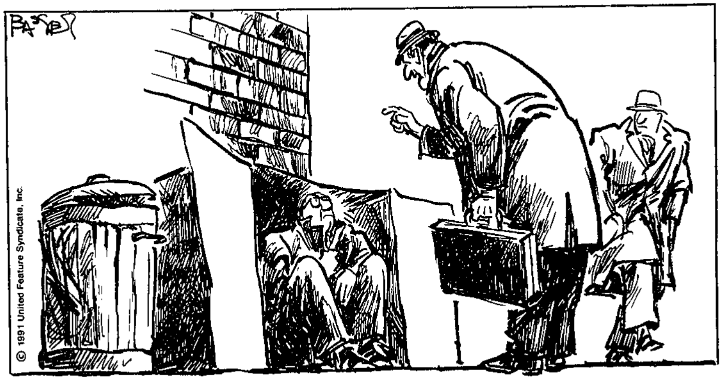
An amount of R400 million might not go far, but it would be a foot in a door for lobbies (among them the SACP) aiming to push for heavier direct taxation on those who earn incomes in excess of the national average.

The momentum propelling the South African economy along the route followed by the Soviet Union and Eastern Europe would thereby be set in motion — with, no doubt, the same disastrous consequences.



DAVE HUDSON: A retrogressive step.

BUSINESS CARD by Gene and Ann Basset



"You can come out now, Harry. Dividend tax is only a rumour".

Opponents of the dividend tax readily accept the need to spend more on social upliftment programmes but argue that the requisite finance should not be obtained at the expense of those generating the bulk of the country's wealth.

GST, initially 4 percent, is now 13 percent. Clearly, therefore, Pretoria has opted for the indirect tax route as a means of funding the growing needs of black education, housing and medical services.

VAT, scheduled to come onto the statute books in October, is merely another way of levying indirect taxes.

Hopefully it will be done in a manner more efficient than GST. If it is, the Treasury's coffers would be swelled to accommodate a greater segment of social spending needs.

On no account, urge those beating the private enterprise drum, must the higher income earners be so crippled by taxes that they have no incentive to earn more and accordingly leave our shores for better tax climes.

Expropriating money from the rich to give to the indigent makes everyone poorer.

The dividend tax in particular would be an invitation to economic suicide.

Even those with the most rudimentary knowledge of financial affairs are aware of the extreme paucity of the capital so desperately needed to expand South Africa's productive capacity.

Such capital emanates from those seeking to earn a return in the form of dividends on their investment — a return commensurate with the risk they are taking.

If the income from the investment is reduced because part of the return is taxed, quite clearly less investment will be forthcoming, a lower level of national wealth will be generated and fewer jobs will be at the disposal of a growing army of unemployed.

Such is the evil of a dividend tax which was scrapped precisely because South Africa's economic prosperity was crying out for regeneration.

The ultimate aim of any private enterprise economic strategy must obviously be to create wealth for all and not just a few.

But that objective will not be achieved by over-taxing wealthier citizens and allocating the funds thereby raised to poorer citizens.

American Arthur Laffer has achieved widespread credibility with his view that lower, rather than higher tax rates work to the benefit of all, since a dimished tax burden encourages initiative and entrepreneurship, in the process creating more and better paid jobs for everyone.

The huge successes achieved by the Pacific Rim countries demonstrate just how successfully the philosophy can work in practice.

Dave Hudson, Old Mutual's assistant general manager (marketing), is adamant that tax on dividends will not be reimposed.

"It would be a retrogressive step at a time when we have to get the economy on the right road prior to full democratisation.

"In the interim, the accent must be on lower direct taxation in order to convince the prospective new government of the enormous benefits of a free enterprise society in which hard work, initiative and talent is encouraged — for the ultimate benefit of the poor as well as the rich.

"That's the redistribution route we have to take. I believe it's the route the present government will take."

What would the reimposition of the tax mean to you, the shareholder, and/or the investor in a unit trust?

If you earn R80 000 a year, of which R6 000 comprises dividend income, you would pay additional tax of R1 760 — 44 percent (your marginal tax rate) of R4 000 (two-thirds of R6 000).

The extra burden would be especially onerous for retired people who rely heavily on dividend income for their survival.

And entrepreneurs like Raymond Ackerman, Bill Venter, Fred Keeley and Bert Wessels (who own substantial stakes in the equity of their public companies and hence derive large incomes in the form of dividends) would be worse off (on an annual basis) by sums ranging from R265 000 to R2,7 million.

Bonanza payouts to stymie taxman

S Times 10/2/91.

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FEARS that tax on company dividends will be reimposed have provoked a rush by companies to advance their payments to this fiscal year and so beat the taxman.

Some companies have also declared special dividends, giving thousands of shareholders more than they could have expected under normal circumstances. Among the quoted companies which have paid early are Liberty, EL Bateman, Waltons and Trans-Natal.

By CURT VON KEYSERLINGK

Many companies were advised by their auditors to pay early.

Business Day carried at least 15 announcements this week of early or special dividends.

They were just in time to provide the 14 days' notice for the deadline of 22 February on which a shareholder must be registered in a company's books if his dividends are to be deemed paid in the current tax year, which closes at the end of this month.

Silly

Also on advice from auditors, some have made conditional dividend declarations where, if the tax is not imposed in the coming year, the cash allocated for payouts can be kept in the company through mechanisms such as shareholders' loan accounts.

The chances of the tax being reimposed are slight, says Price Waterhouse tax consultant Chris Frame. Nonetheless, he believes it is only a matter of time before it returns.

"The Government would look silly if it revived dividend tax after having abolished it only a year ago," says Mr Frame.

"But it was obviously not anticipating opposition from the ANC which regards so-called passive earnings of this sort as unacceptable in the new South Africa."

The possibility of a dividend-tax revival has angered businessmen.

"The inconsistency in government policy and the uncertainty make planning a nightmare," says a source in the SA Chamber of Business.

"It smacks of irresponsibility and it seriously compromises the viability of many projects.

"Business planning has also been made more difficult by two changes in the investment allowances in the past few years and conflicting reports about the date of the introduction of VAT.

"When some businesses heard that it would not come until 1992 they deferred spending on new systems designed to handle VAT.

"But now talk is that it will start in October this year and these businesses will be caught short.

"The sudden introduction of the minimum tax on dividends a few years ago was another nasty surprise."

Executive director of the Afrikaanse Handelsinstituut Martin van der Berg says: "From now on we can expect the unexpected in each Budget with new taxes and new exemptions.

"Everything is up for grabs because in our present state of transition no government can give any assurance of how long the measures it introduces will remain in place."

Costa Divaris of Divaris Stein Publishers agrees, saying: "The sorry truth is that there is nobody left in the business community who makes decisions on the basis tax law.

"I believe the Government never intended to abolish dividend tax permanently. It was merely a scheme to allow their friends to empty their companies of cash without paying tax on it.

"The clever businessmen have already taken advantage of the opportunity."

Mr Frame says if dividend tax returns it could be in the form of a withholding tax, such as the one proposed for interest on deposits with financial institutions at a far lower rate than the current marginal rate of 44%.

It has been suggested that the rate would be between 10% and 15%.

Reason

Withholding tax simple to apply and the taxman gets his money up front instead of in arrears as is the case with personal tax.

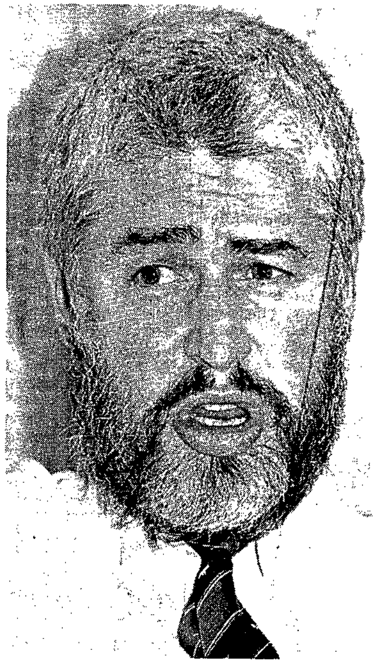
Dr Van der Berg says a reason for abolishing dividend tax is to eliminate what was in effect double tax on company profits which arises, first, from company tax and second, from tax on dividends paid out of a company's taxed earnings.

"This was done to increase disposable income which, in turn, would stimulate investment and saving," he says.

"There may be resentment in some quarters about passive earnings, but they are the inevitable consequence of savings and investment.

"Savings and investment are essential if our economy is to grow.

"We sympathise with the frustrations of blacks regarding the disparities in income in our country, but we must not let this sympathy destroy the power in our economy to create wealth."



Kane-Berman ... remarks defended. Picture: ROBERT BOTHA

Withholding tax plan faces several obstacles

LESLEY LAMBERT (320)

CAPE TOWN — Moves to introduce a low-rated fixed withholding tax on bank and building society deposits appear to be losing momentum as problems related to a two-tier tax system mount. B Day 11/2/91

The withholding tax proposal submitted to the Jacobs Committee last year has received wide support as a measure to encourage savings and level out the playing fields of financial institutions — provided the life offices are placed on an equal footing.

But tax experts suggest that the Department of Inland Revenue is becoming increasingly disenchanted with the system as potential obstacles come to light.

Department of Inland Revenue director Ian Meiklejohn confirmed yesterday the tax authorities were concerned about certain administrative problems related to withholding tax, particularly the opportunities it would open up for tax arbitrage.

But, he said, no decision had been taken and the matter was still in the hands of the Jacobs Committee, which is investigating the levelling of financial institutions' tax and regulatory playing fields.

The life assurance industry has expressed concern over the competitive edge withholding tax could give banks and building societies in the savings market,and has lobbied to be placed on an equal footing if the tax is introduced. Old Mutual, in particular, has lobbied against the introduction of the tax, using the potential administrative obstacles as the basis of its argument.

Old Mutual legal services manager Abri Meiring said yesterday he believed the proposal would be scrapped.

"Withholding tax would open up a politically unacceptable tax shelter for the wealthy, it would remove the R2 000 tax exemption from the not-so-wealthy and it would open up the door to tax arbitrage," he said.

Bill aims to extend councillors' terms of office

BILLY PADDOCK

CAPE TOWN — Government was making provision for local councils to extend their councillors' terms of office without elections, Planning and Provincial Affairs Minister Hernus Kriel said at the weekend.

The interim Local Authority Bill, which was about to go to the Joint Committee on Home Affairs, Planning and Provincial Affairs and was likely to be tabled in Parliament in March, was predominantly enabling legislation, he said.

Provision would be made in the Bill for councillors to extend their terms of office by two to three years, by which time legislation providing for a new local government system would hopefully be in place after negotiations on a new constitution.

Government envisaged a system of integrated local councils.

Kriel said these joint structures were voluntary and the legislation would provide legal backing for those councils that wanted to do so.

Deputy Planning and Provincial Affairs Minister Tertius Delport said the process of having common voters rolls for third-tier government elections would require a full-scale delimitations commission which could take some years.

He said the legislation would retain present boundaries for local authorities. The Black Local Authorities Act, which allowed councils to administer townships and their boundaries, would stay in place.

Kriel and Delport said white ratepayers and residents would not have to carry the debt burden of black areas if these refused to pay rent and service bills. Services to these areas could be cut.

Government was prepared to offer financial support for those local authorities which opted for integration.

Councils which were in capital debt arrearswould have to get assistance from central government so that these arrears could be cancelled, Kriel said. The same would have to apply to socio-economic backlogs in education, health and housing.

B Day 11/2/91

No return to dividend tax — Barend

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By Sven Lünsche SAW 13/2/91

Finance Minister Barend du Plessis said yesterday that the Government would not re-introduce a tax on dividends in the forthcoming Budget.

Replying to a question at the Frankel Max Pollak Vinderine investment conference in Johannesburg, Mr du Plessis said he was not convinced that a tax on dividends would "level the economic playing field".

The Government was determined to remain consistent in its tax policy.

"We would look foolish if we now reversed a decision announced in the Budget only a year ago."

There has been strong speculation in the financial press and among stockbrokers that a tax on dividends would be brought back in the March Budget.

Department

However, the Tax Adivsory Committee and his department were looking at all the options to bring about a level playing field, Mr du Plessis said.

In his keynote address to the conference, he said discussions on a future economy with various extra-parliamentary groupings would begin only when the negotiations between the government and those groupings on a future constitution were under way.

"However, unless we address the question of poverty immediately, no future government will be able to achieve political and economic stability in this country.

"This responsibility rests on everybody's shoulders, not only the government's," he said, alluding to recent remarks by ANC leaders that the party would attempt to destabilise South Africa if economic sanctions were lifted prematurely.

Irresponsible

Mr du Plessis said it was irresponsible to blame the violence in the townships on poverty, on the one hand, while, on the other hand, advocating continued economic sanctions.

"Sanctions will not survive as a political tool because access to international financial markets is essential to achieve the economic growth rates necessary to meet the socio-economic needs of the country," Mr du Plessis said.

"I don't think sanctions will be an issue at the negotiating table," he added.

The new growth phase in the South African economy would have to be accompanied by a shift to sustained manufacturing and export policies.

On the other hand, domestic events such as the uncertainty caused by violence, the disruption of production through strike action, absenteeism and intimidation would perpetuate the sluggish performance of the economy.

No investor could keep production going in the face of such disruptive actions, Mr du Plessis said.

BUSINESS DAY, Wednesday, February 13 1991

Tax on natural wine may be reintroduced

(320)

LESLEY LAMBERT

CAPE TOWN — Financial authorities, under pressure to exploit all available revenue sources, are understood to be considering the reintroduction of tax on natural wine in this year's Budget.

Excise duty on natural wine was abolished in 1982 and has stayed that way as a result of the strength of the wine industry's protection lobby. But speculation is that pressure for additional revenue may have diminished the effect of the lobby this year.

Industry sources believe that natural wine is one of the potential revenue sources currently under the Finance Department's magnifying glass. SFW MD Frans Stroebel said yesterday he had heard similar rumours. But government spokesmen declined to comment on the speculation ahead of the Budget.

KWV, the powerful and influential producer organisation, has warned that reintroduction of the tax would compound the problems of a struggling industry. It would lead to a decline in natural wine sales which had been stagnant for the past five years, and a reduction in wine farmers' incomes.

"The negative impact that the reintroduction of excise duties could have on sales in turn would result in a decrease in farmer's income, which would be a setback to the many upliftment programmes for farmworkers," said KWV chief communications executive Theo Pegel.

When a 14% excise duty was placed on brandy in 1976, the price of spirits increased from 623,3c a litre of absolute alcohol to 701,4c in 1977, while brandy sales declined by 1-million litres. Further increases in excise duty on the spirit resulted in further declines in sales and it was only last year that the industry recovered to 1976 volume levels.

"Government thought it was getting more revenue but because of the decline in volumes it was not. The administration involved in taxing natural wine will not make it worthwhile," said Stroebel.

KWV and SFW executives argue the wine industry is already making its contribution to revenues through GST (1989: R300m) and excise duties on other wine products like brandy, wine spirits sparkling wine and fortified wine (1989: R218m).

Stroebel argues that if natural wine is to be taxed, then government should also consider taxing the giant sorghum beer industry.

Tax on dividends is unlikely 320 Barend

ANDREW GILL

FINANCE Minister Barend du Plessis yesterday gave a strong indication the tax on dividends would not be reintroduced in the March Budget.

He said he was not convinced it would "level the playing fields" if the tax was reinstated.

"We would look foolish if the whole strategy changed from last year to this year.

"It would be wise to suspect consistency" in the next Budget, he said. This was also true for witholding tax on interest. "But there is no point in speculating about this matter. The only security you have in knowing about a new tax is when it is announced."

He also indicated fiscal policy for the upcoming Budget would be little changed and fiscal discipline would prevail. The deficit before borrowing should continue to be contained.

Du Plessis said the tax burden would have to be lowered and kept at a level conducive to economic growth.

□ To Page 2

Bday 13/2/91

Dividends

B/Day 13/2/91

Public expenditure should be controlled and public investment expenditure should be justified in terms of returns.

Reserve Bank Governor Chris Stals continued to hold out some hope of an interest rate cut saying most of the underlying factors of demand and supply were moving strongly towards a situation in which lower interest rates would become sustainable without any undue increase in the money supply.

This was, however, qualified by saying the fight against inflation could not be won without cost and the Bank remained against a policy of deliberately pushing

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□ From Page 1

down interest rates by the creation of more money.

He also disclosed the Bank's forward cover book, registering losses since the debt standstill was introduced, had shown an R800m surplus in the period between April 1990 and the end of January this year.

Stals crushed any hope of abolishing the financial rand at the moment saying it was necessary that the commercial and financial rands merge in value before the finrand could be scrapped.

● See Page 7
● Comment: Page 8

R2bn overrun in revenue on cards

B|Day 13|2|91 (320)

GREATA STEYN

GOVERNMENT is likely to announce a R2bn revenue overrun for the 1989/90 fiscal year next week when the Additional Appropriation is tabled in Parliament, finance officials have indicated.

The revenue overrun is the result mainly of fiscal drag and improved income tax collections through the SITE system. Government attempted to eliminate the effects of fiscal drag in the 1989/90 Budget, but underestimated salary and wage increases. Higher personal income tax collections offset the less buoyant company tax revenues.

This will be the second year in succession that government's revenue exceeds the Budget, but it is not expected that the overrun will finance any major transfers, as occurred last year. Along with the revenue overrun, finance officials indicate a spending overrun of about R1,5bn can be expected.

The net result will be a slightly smaller deficit than the budgeted R8bn and only a few hundred million rands in the kitty.

Various options are being considered on what to do with these surplus funds, including transferring the amount to the next fiscal year, reducing the pension fund deficits or the Treasury's forward cover debt. Given the pressure for social spending, officials have indicated that a transfer to the next fiscal year seemed the best way to use the funds.

The spending overrun consists of an additional R500m spent from a special R1bn allocated to urbanisation after last year's Budget, as well as a R1bn contingency also added on after the Budget. It implies a real increase in government expenditure of 1% for the fiscal year instead of the budgeted real decline. Since GDP fell by a real 1%, this implies that government's stake in the economy grew — contrary to stated policy.

Economists said the extra social pressures on government had made the spending overrun understandable, but called on government to avoid extra-budgetary expenditures. Spending of the off-budget R2bn transfer to the Independent Development Trust will only come through in this fiscal year but will not be reflected in the books. This made judging the impact of fiscal policy on the economy more difficult, they said.

Taxpayers default

GERALD REILLY 320

PRETORIA — While the office of the Commissioner of Inland Revenue is preparing to send out about 1,5-million tax return forms for the 1990/91 financial year, more than 180 000 taxpayers have so far failed to submit returns for the previous tax year.

Johannesburg has the largest number of defaulters — 37 000. 13/2/91

The deadline for 1990/91 returns has been fixed at June 6. B/Day

An Inland Revenue spokesman said summonses were being issued at rate of about 3 000 a week to salary and wage earners who had failed to render 1989/90 returns.

TAX ON DIVIDENDS F/M 15/2/91 320

SHADES OF INTENT

POLITICS MAY BE COMPOUNDING THE PROBLEM OF SOUND TAX PLANNING

Businessmen are taking very seriously rumours that the imminent Budget will bring with it the reintroduction of tax on dividends. Hence the spate of rapidly declared dividends in recent weeks. The general expectation is that it will be part of a placatory package that will include a lower marginal rate or easier gradation.

The assumed reason for the reintroduction is pressure from the ANC which was vexed by its surprise removal last year. The ANC interpreted the removal as a trend away from its desire to soak the rich to pay for all manner of depredation committed by past Nat governments.

If this be true, the F W de Klerk administration is not only setting a bad precedent, it is allowing political convenience to interfere with sound tax principles; and this could have detrimental economic consequences.

The rumour draws credence from government's disregarding sound tax principles, especially by introducing retrospective taxes and constantly moving the parameters of tax shelters, so often in recent years. Consistency has not been its virtue.

Indeed, in tax matters the Nats have in recent times had a record of vacillation that is not too far off rivalling that of France's Louis XVI, who appointed and dismissed 67 governments in 18 years.

Not a few observers felt the timing of last year's move was impolitic, in view of the initiation of a period of negotiation for black political participation, a process which surely would involve challenge to and intense debate about the very future of the free-market system — let alone one of its aspects such as a low tax regime. Simply put, it may have been tactless.

These observations are not intended to challenge in the least the intrinsic merits of reducing tax on dividends, which formed a coherent part of the recent policy trend towards supply-side economics. That trend, in turn, gives recognition to the international post-socialist consensus that soak-the-rich taxes are punitive and detract from economic performance.

Tax Advisory Committee chairman Michael Katz says it was mostly considerations of efficiency which led to the Margo Commission's recommendation on the removal of tax on dividends. These included the major element of double taxation (because the trading profits out of which dividends are declared have already been taxed

Continue →

tional rethinking that has taken place about traditional socialist shibboleths, notably soak-the-rich taxes which historically the rich seem to have avoided quite easily.

There is now *en train* a painful and slow process of economic re-education behind the scenes, with the purpose of persuading the radicals that their best hope for rapidly improving mass living standards is not to persecute the entrepreneurial class but to enlist it through the mechanism of enlightened self-interest.

The line of argument employed by free-market adherents is that amelioration can come only through rapid growth, not through punitive redistribution with all its adverse economic implications.

As Anglo American director Michael O'Dowd has said, do socialists want to help the poor or to hurt the rich? JCI group economic consultant Ronnie Bethlehem strongly opposes the reintroduction of the tax.

That said, there is a widespread suspicion, founded or unfounded, that the ANC even now has a veto on many important areas of policy-making (though Finance Minister Barend du Plessis has just said the ANC has the dividend tax. And any further changes (which the *FM* strongly feels should not reinstate the dividend tax) must take account of important issues of technical tax law and equity overlooked in last year's rushed abolition.

For example, Arthur Andersen partner Pierre du Toit agrees that the immunity of dividends should continue to be respected. But this policy should be given the political credibility of more effective prevention of some abuses made possible by the current position. The field for converting various kinds of income into non-taxable dividends is simply too broad as things stand to survive for long.

Deloitte Pim Goldby partner Willem Cronje says — if there is to be a U-turn at all — it would be simplest to introduce a withholding tax on dividends at a flat rate, but one considerably below the top marginal rate for individual incomes.

It would avoid the enormous administrative difficulties of an imputational system (that is one which gives shareholders credit for tax already paid by the company on the profits out of which the dividends are declared).

While in theory an imputational system would be more equitable for small shareholders with no other sources of income (because they would get a refund for company tax paid) this apparent weakness, says Cronje, can be made up through a package for the elderly which would include, for example, improved pension benefits. ■

RECORDING NEW REALITIES

The Gerhard de Kock memorial essay competition, launched jointly by the *FM* and the International Students' Committee of the University of St Gallen, Switzerland, is open for entries until February 28. Students who were born in or after 1960 and enrolled at university in 1991, are eligible.

The SA winner will be able to attend, at the *FM*'s expense, the 1991 annual International Management Symposium at St Gallen, on May 27-29. The three best papers submitted from around the world will be awarded prizes of SwFr8 000 (first), SwFr5 000 (second) and SwFr3 000 (third), to be used for educational purposes.

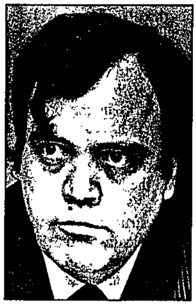
The essay may cover one of two broad topics:

□ Leadership and corporate learning amid new realities; or

□ Opportunities and risks of national economic policies amid new international realities.

Further details and entry forms are available from the *FM*, Box 9959, Johannesburg 2000, or telephone (011) 497-2400 or fax (011) 497-2474.


Bethlehem


Du Toit


Katz


O'Dowd


Van Rensburg

once in the hands of the company); the distortion to corporate balance sheets because debt is cheaper than equity when dividends are taxed; the related ease of creating rational corporate structures; and simplification of the SITE system.

Recent swingeing changes to capital allowances and depreciation procedures have disposed effectively of the counterargument that industrial companies themselves were paying too little tax.

The international trend towards lower taxes, most significantly, has also been acknowledged widely in Africa, according to Anglo American group tax consultant Marius van Blerck. He notes that, since 1980, Tanzania has cut its maximum marginal rate of tax on personal incomes from 95% to 40%; Kenya from 65% to 50%; and Botswana from 75% to 40%.

Van Blerck goes further, arguing that we can easily make too much of supposed pressure from the Left on tax matters. He says it is unduly patronising towards the SA Left to take for granted that they are insensitive to the international rethinking that has taken place about traditional socialist shibboleths, notably soak-the-rich taxes which historically the rich seem to have avoided quite easily.

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That said, there is a widespread suspicion, founded or unfounded, that the ANC even now has a veto on many important areas of policy-making (though Finance Minister Barend du Plessis has just said the ANC has not been consulted on the Budget).

To reinstate the dividend tax so soon after its abolition can only strengthen this suspicion and reinforce the belief that the ANC is a government in the making, regardless of the claims of other black political groupings rather more sympathetic to free-market economics.

Turning to the technical fiscal issues, there are two highly relevant generic matters. The first is the effect on business confidence of the Louis XVI syndrome of vacillation and inconsistency. This is a point that can hardly be overestimated.

Sacob economic consultant Ben van Rensburg says the degree of uncertainty in the tax system generated over the dividend issue "creates distortions." He strongly condemns the current ad hoc method of changing tax law on major issues.

The conclusion is clear: government should not compound last year's arguable mistake of timing by making a further mistake in hastily reinstating the dividend tax. And any further changes (which the *FM* strongly feels should not reinstate the dividend tax) must take account of important issues of technical tax law and equity overlooked in last year's rushed abolition.

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INCOME TAX FM 15/2/91 (320)

SHOCK ON FILM SCHEMES

The day of reckoning has come for many participants in movie-making schemes who had expected to benefit from certain tax write-offs. It comes in the form of assessments, long delayed, for schemes predating the enactment of the important section 24F, which substituted specific and restrictive provisions for the general rules for deducting the expenses for film schemes.

Kessel Feinstein's Ernest Mazansky says he has yet to hear of a case where the losses have been allowed (except in error). It is generally accepted that Revenue is tending to disallow the losses in full, even though it is closely examining all movie schemes.

Mazansky explains that, pre-section 24F, schemes were structured in accordance with general income tax principles, that is on one or more of the following bases:

□ The "general deduction formula" which covers expenses incurred in SA in the production of income, not of a capital nature (section 11(a));
□ Comparable expenses incurred outside SA (section 11(b)), but allowable only at the discretion of the commissioner;
□ Wear and tear claimed on the film (section 11(e));
□ An allowance granted under section 11(gA) for creating or producing a copyright; and
□ The exporter's marketing allowance — the so-called "double deduction" under section 11bis for expenditure to market the film abroad.

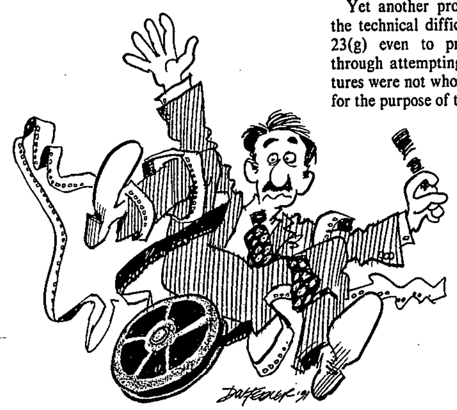
The most important issues concerning assessments of pre-section 24F movies are three: whether the expenditure (particularly the marketing expenditure) was actually and validly incurred; to what extent was the expenditure incurred outside SA and, if so, whether to allow it in Revenue's discretion; and to what extent the provisions of section 23(g) should apply.

This section provides that no deduction shall be allowed for expenditure not wholly or exclusively laid out for the purposes of trade. If expenditure was incurred, for example, to obtain a tax deduction, then Revenue could disallow the deduction.

What is astonishing, says Mazansky, is that many pre-section 24F schemes were implemented only when favourable rulings had been obtained from the commissioner's office. After a while, the commissioner stopped giving rulings on film schemes as a matter of policy, but the later schemes were still structured on the same bases as those for which favourable rulings had been given.

Ian MacKenzie, a partner at Ernst & Young, asks further why it has taken so long for Revenue to put out assessments involving film schemes. The majority of projects were concluded during 1987-1989. Had the normal Revenue practice been followed of issuing assessments on an annual basis, many would by now have become final and binding on Revenue under section 79(1), which precludes reopening assessments after three years in the absence of fraud.

And some participants in schemes have



already been assessed on a favourable basis, so the possibility exists of different partners in the same venture being assessed on different bases — which challenges the principles of neutrality and equity.

MacKenzie says Revenue's decision to disallow all losses is made pending the outcome of one or two test cases. Why is Revenue so certain that those decisions will resolve the position with all film projects? This assumption ignores the fact that, though many of the projects had certain common features, they were not the same in all aspects.

Apart from variations in contractual relationships, there were also differences, for example, between projects involving so-called "rough cuts," and those involving films fully produced locally. And, irrespective of the test cases, many other cases will have to be heard by the courts, which will take years up to appeal stage.

Mazansky also complains about the treatment of subpartnerships. In the plantation case, the court found the partnership arrangements to be abnormal and, therefore, open to attack under section 103. To apply section 103 to film schemes would be grossly inequitable. As he understands, Revenue was at all times aware that these structures were being used and had in fact accepted them in principle.

Then, says Mazansky, SA common law recognises that a partner may, without the consent of his co-partners, enter into a further partnership agreement with an outsider governing his own share in the main partnership. As the subpartnership technique was widely used for film schemes, it may distinguish them from the different structure in the plantation case.

Yet another problem, say Mazansky, is the technical difficulty of applying section 23(g) even to pre-section 24F projects, through attempting to argue that expenditures were not wholly or exclusively laid out for the purpose of trade, but were motivated by tax saving. Now section 23(g) establishes a subjective test — examining each investor's reasons for making the investment. (This is a negative test, limiting the operation of the "general deduction formula" under section 11(a)).

If Revenue is to apply section 23(g) to each and every assessment involving a film scheme, it will be necessary to ascertain each investor's subjective and individual purpose in making the investment before invoking section 23(g). It would be more sensible for Revenue to deal with each film investment as a single unit and apply the findings to the individual investors. Otherwise, the task will involve several thousand individual assessments, instead of several hundred films.

MacKenzie argues that Revenue appears to be ignoring basic tax principles, notably what comprises expenditure actually incurred and qualifying for deduction. In the absence of fraud, Revenue cannot deny the deduction of a contractually incurred expense but, nevertheless, seems to be implying that one or two bad apples (projects not totally *bona fide*) are enough to justify throwing out all other projects.

In the case of assessments already issued or about to be issued on what Mazansky and others might consider an unfair basis, it is of course open to the taxpayer to object and, if necessary, appeal. It is then open for Revenue to reconsider each assessment individually, with a view to conceding, in whole or in part, the issues raised. In other cases, it is open to Revenue to reconsider these points before raising the assessment.

Mazansky says "no one wishes to challenge Revenue's obvious right and, indeed, obligation to disallow fictitious expenses. But to renege on rulings on which taxpayers relied, relating to application of the tax law, is nothing short of a breach of faith."

The current hard line on movie schemes should be re-evaluated at the highest levels before further harm is done to relationships between Revenue and taxpayers. ■

FM 15/2/91 320

WITHHOLDING TAX FM 15/2/91

NO TAX BREAK

320

Withholding tax will not be introduced this year. While Pretoria sources remain tight-lipped about the fate of the proposed tax on bank/building society interest, in life assurance circles it is now taken for granted the tax is unworkable.

The withholding tax issue is cardinal to the savings debate. It was mooted last year that if bank/building society interest were taxed at source at a low standard rate, perhaps 10% or 12%, this would redirect some personal savings from the life assurance industry back to banks and building societies.

A report from the Jacobs Committee, charged with reviewing the relative tax positions of players in the financial services sector, has been prepared for Finance Minister Barend du Plessis. It is unlikely these findings will be made public before the Budget.

Meanwhile, sources in the life assurance industry, who were previously bewildered by the implications of withholding tax, now believe the issue is dead. The feeling is the fiscus must continue to raise proportionately the same volumes of tax from the life industry, at the same time encouraging short-term savings through the conventional medium of the banks/building societies. But the mechanics will not include a withholding tax.

At a media briefing last week, Old Mutual's manager, legal services, Abri Meiring, was careful to explain he had no inside knowledge of the Jacobs Committee findings. Then he emphasised some of the problems that withholding tax would produce. Mainly, these concern the prospects of round-tripping by wealthy private investors, who would quite legally exploit the opportunities presented by a low withholding tax on bank interest. In a simplistic scenario, such an investor would use a close corporation to borrow from a bank, deduct the cost against income and reinvest to earn interest at the withholding tax rate.

Such arbitrage would, says Meiring, be difficult for the Receiver of Revenue to attack, because the deal could not be considered abnormal.

That scenario would enable the rich to exploit a system intended to encourage the relatively poor to save. It could be inflammatory in the present climate of political negotiation. Other sources in the life industry agree that a "them-and-us" attitude has effectively killed withholding tax as a method of simplifying the fiscal system.

The trouble with withholding tax is that it is *too* simple. Any tax planner would drive a bus through it. Meiring noted that in some other countries where the system has been introduced, it has quickly been withdrawn. Yet it has worked, where the rate of withholding tax and marginal rates of tax are roughly similar.

Life offices do not expect to escape unscathed from this year's Budget. Tactically, they have occupied the moral high ground by emphasising the degree to which contractual savings have been protected and grown. While acknowledging that short-term savings have disappeared, they have argued that this is the result of inflation rather than any fiscal advantages enjoyed by life assurers. In anticipation of Jacobs' recommendations, they have also laboured their trustee status. In this argument, they are merely holding and growing funds for contractual savers and should, therefore, be taxed in the same way as individuals.

Also according to this argument, the tax rate on policyholders' incomes should be down to an average individual rate — perhaps 30% — instead of the current 45%. It would also follow that life offices should offset *all* the expenses of generating income. They offset 55% now. Obviously, too, they would enjoy other benefits available to individuals, such as paying no tax on dividend income.

To take the trustee argument even further, if withholding tax *were* to be introduced, life offices would theoretically pay that level of tax on their policyholders' investment income.

The life offices have countered the threat to level the playing fields, or redirect savings, with what appear to be sound arguments. Privately, however, they acknowledge that Jacobs was given a job to do. When Du Plessis presents his Budget, the life offices will have to pay up in one way or another. ■

ANC 'unlikely' to take stand against VAT

BDay 15/2/91

TIM COHEN

THE ANC was unlikely to oppose the introduction of VAT if poor people were adaquately compensated, the organisation's tax adviser said yesterday.

University of the Western Cape economics professor Lieb Loots said although the ANC had not formulated a specific policy on VAT, members of its economic team were primarily concerned about the new tax's effect on the price of basic foodstuffs.

If the introduction of VAT in October did not detrimentally affect the poor's cost of living, the ANC would not oppose its introduction, Loots said.

(320)

ANC members were also ~~not~~ conviced that the current GST system was well targeted, as rich people also gained from the current exemption system, Loots said.

Income generated from the taxation of basic foodstuffs could be spent on school feeding schemes, an increase in pension payouts and the subsidisation of maternal care at clinics.

In addition, monies generated from the taxation of basic commodities could be used to increase the subsidisation of existing welfare organisations, thereby utilising existing infrastructure.

Stand by for a tax reduction

3201

STW 16/2/91

DEREK TOMMEY

TAX experts say it is a certainty that Minister of Finance Barend du Plessis will cut income tax rates in the Budget on March 20.

They say it is essential for the health of the economy.

One reason they are expecting a cut is that the effect of inflation-induced "fiscal drag" has made South Africans one of the highest-taxed people in the world.

If rates are not adjusted, South Africans could face a record tax burden this year and probably become the highest-taxed people in West.

The second reason is the introduction of value-added-tax (VAT) on October 1.

This should produce enough extra cash for the Treasury to offset any serious loss of revenue from a reduction in income tax.

Cabinet Ministers have spoken widely and openly of the need to reduce the tax burden on ordinary citizens. It is hoped the Government will use the introduction of VAT to do this.

Tax experts believe that if the experience of other countries which switched to VAT is anything to go by, the Government will take in far more money than it ever expected.

There are suspicions that a significant portion of GST collected by retailers does not reach the Treasury.

VAT casts a wider net and has a smaller mesh, so it is much more difficult to evade.

South Africans have tended to accept fairly cheerfully the necessity of paying income tax.

But the failure of the Government last year to reduce tax rates enough to offset inflation seems to have triggered a minor rebellion.

While the Treasury may have an extra R2 million in the kitty, the authorities are having great difficulty getting taxpayers to submit their returns on time.

Almost a year after the 1989-90 buff forms had to be in, the fact that some 100 000 in Johannesburg are still outstanding, is an indication of growing opposition to paying the tax rates.

There is little question that South Africa has one of the highest rates of income tax in the world.

A married couple has to pay 33c to the Treasury on every rand earned when income exceeds R35 000 a year.

And as they earn more, the additional sum going to the Treasury steadily increases — to 36c in every rand at R40 000, 39c at R45 000 and so on up to 44c at R80 000 and above.

In contrast, the maximum rate paid by a resident of the US is 31c in the dollar, and then only if the income exceeds $82 000 a year.

Whether you take the official exchange rate of R2,52 to the dollar, which means Americans reach their maximum tax rate at around R200 000, or you regard the "true" worth of the dollar as being equal to R1 and their maximum tax rate comes in at R82 000, it is plain that Americans pay far less tax than South Africans.

Foreign taxpayers also have benefits South Africans do not. One of the more important is allowing taxpayers to offset interest on mortgage bonds against taxable income.

Some South Africans may query the need for such comparisons. But employment agencies say this country is part of the global village. If the economy is to prosper, it will have to retain its most skilled people and recruit similar ones from overseas.

To do this, its remuneration and tax packages have to match those obtainable elsewhere in the West.

Hopes that the Government will give savers a break by introducing a 10 percent withholding tax on bank and building society interest payments seen likely to be dashed for this year.

Tax experts say there are still problems to be ironed out. One is to find ways of preventing companies from taking advantage of what is a concession meant for the public.

Another is to ensure that pensioners with a limited income are not penalised by a general withholding tax.

But the Budget is not likely to be too generous. It is strongly expected that the excise duty on wines will be reimposed. Existing excise duties are expected to be increased in line with inflation.

The mining industry will be looking for an end to "ring fencing", which prevents a profitable mine helping to finance a new mine and at the same time reduce its tax liability.

A senior mining official says that with major new gold mines now costing R8 billion to develop, South Africa is unlikely to get any new ones mines while ring fencing remains.

Barend expected to cut personal income taxes

Star 16/2/91

320

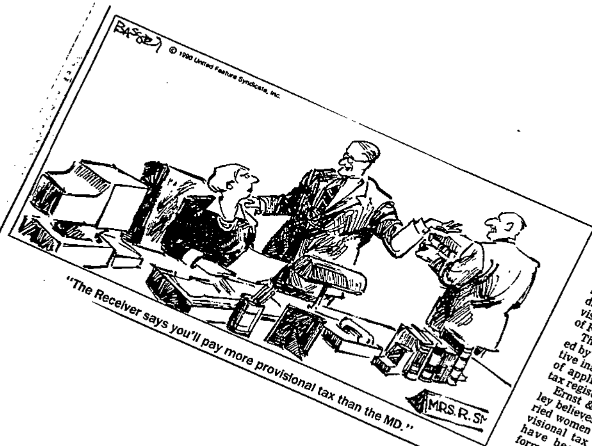
Finance Minister Barend du Plessis will reduce income taxes in the next budget. Not to do so would make South Africa one of the most heavily taxed countries in the Western world.

Tax experts interviewed by Saturday Star said the Government's failure in the last Budget to cut tax rates sufficiently to offset inflation and fiscal drag has already imposed a heavy tax burden on taxpayers against which some are starting to rebel.

This time, however, Mr du Plessis will have more room to manoeuvre, they say. The Government has made it clear that South Africa will switch to value-added-tax on October 1. This should lead to a big jump in tax revenues and enable Mr du Plessis to lower other taxes — especially personal income tax.

However, savers who have been hoping for lower tax rates on their investment income will be disappointed. The proposed replacement of normal income tax rates on savings income by a 10 percent withholding tax has run into snags and will be introduced only next year.

● Full report on PAGE 12.



"The Receiver says you'll pay more provisional tax than the MD."

Women in quandary over provisional payments

JOHN SPIRA 320

Star 16/2/91

MANY thousands of working married women are in a quandary over the submission of provisional tax returns by the end of February.

Their confusion is compounded by the Receiver's administrative inability to handle the flood of applications for provisional tax registration.

Ernst & Young's Justin Cowley believes most working married women obliged to pay provisional tax for the first time have been inadequately informed of what is required.

Even those who are on top of the situation do not know quite where they stand in cases where they have applied for a provisional tax number but have not been allocated the number they need in order to submit their provisional tax return and the payment that must accompany it.

Mr Cowley warns against sending a cheque for the relevant amount to the Receiver unless a provisional tax number has been allocated.

"Women who do so run the risk of their cheques being misallocated. They should write to their local revenue office explaining that their return has been prepared and that it will be submitted as soon as the relevant number has been allocated."

Not all working married women are required to pay provisional tax. The criteria applying to those who must register as comprise one or more of the following:

- Receipt of income from sources other than remuneration on which the wife is taxed separately from her husband.
- A director of a private company.
- A member of a close corporation.

How much should be paid in provisional tax by the end of the month?

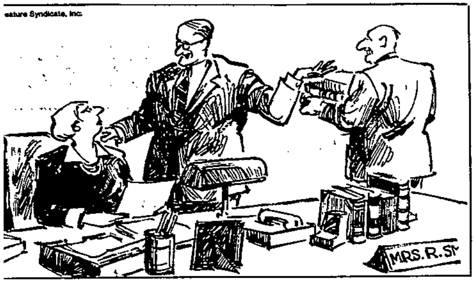
Provisional taxpayers normally arrive at the sum in question by basing their calculation on their most recent assessment.

But married women haven't yet been assessed in their own right, so they have no previous assessment on which to base their calculation for purposes of their first provisional payment.

The solution is to base the provisional payment on the most recent joint assessment, taking care that in estimating taxable income, account must be taken only of the portion of the wife's joint income with her husband, as shown in their most recent joint assessment.

This position will apply until the wife has received her own assessment for the 1991 tax year, at which time her future provisional payments will derive from that assessment.

The taxable income relating to her second provisional tax payment (at the end of August) should not be less than 90 percent of the amount determined from that portion of her taxable income previously included in her husband's latest assessment.



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No alternatives to withholding tax

B Day 19/2/91 (320)

GILLIAN HAYNE

THE possible death of the proposal for a withholding tax on interest would represent the end, for now, of any formal incentives to encourage discretionary savings.

Banking institutions admit they have no alternatives to encourage voluntary savings, despite their belief that the withholding tax on interest will not be promulgated.

First National Bank head of communications Brent Chalmers suggests individuals should put their money into their housing bonds as this is an effective method of saving.

Deputy Finance Minister Org Marais said the withholding tax on interest had not been scrapped but merely delayed until later in the year.

The withholding tax was intended to be used primarily as a means of encouraging individuals to save, by taxing interest at a flat rate of about 10% rather than on a sliding scale.

Rand Merchant Bank economist Rudolf Gouws did not believe specific fiscal measures would influence savings to any significant extent.

Voluntary savings would be fostered only if positive real interest rates were maintained; if government proceeeded with its gradual reduction of the tax burden on individuals; and if confidence was restored in the political and economic future of SA.

"To encourage people to put off current comsumption in favour of future consumption can only be achieved if they have confidence in the future," he added.

In the third quarter of 1990 South Africans had a negative personal savings ratio, while some SA trading partners achieved a 12% savings ratio.

The tax was also seen as a means of "levelling the playing fields" between banks, building societies and life offices by redirecting saving flows towards the banks and building societies.

Current opinion at the Life Offices Association (LOA) is that if the withholding tax on interest is delayed, the Jacobs Committee should concentrate on bringing deviations to the trustee principle into line.

Despite government's acceptance of the trustee principle, life offices are still taxed on dividends, unlike individuals, and are taxed at a top marginal rate of 45%, compared with 44% for individuals.

POLITICS

Withholding tax plan abandoned — Barend

320

BIPay 20/2/91.

BILLY PADDOCK

CAPE TOWN — Government had for the time being abandoned plans to impose withholding tax on interest and there was no question of such a tax on dividends, Finance Minister Barend du Plessis said during the mini-Budget yesterday.

He also said measures to level the playing field between banks and building societies and life offices could not be ready in time for the 1991/92 Budget.

However, the search to change the savings pattern would continue.

Because government was not imposing the withholding tax (10%) on interest, individuals would continue paying the marginal tax rate of 44%.

Du Plessis said the Jacobs Committee on the Promotion of Equal Competition for Funds in Financial Markets had given serious attention to a uniform low withholding tax on individuals interest income with a view to boosting savings of this kind.

"Two potential gaps have emerged, however, with adverse implications for the personal tax base: the reclassification as interest income of other income (such as rent), and so-called arbitrage practices," he said.

To counter this would mean serious intervention in existing financial practices — for instance, if interest expenditure by companies were no longer to be tax-deductible as an operating cost.

Another means of countering arbitrage as a consequence of different tax rates on normal income, interest and dividends for individuals in the wake of a low-rate tax on interest, would be to introduce a withholding tax on individuals' dividend income too, he said.

But this would be jettisoning a tax principle — to eliminate double taxation — adopted in the last Budget, Du Plessis said.

Du Plessis said it was imperative positive real rates of interest and tax dispensations for the several returns on individual investments be maintained, while the framework of financial requirements in which different financial intermediaries competed for savings, should not distort the flow and application of savings among those institutions.

● DU PLESSIS

Introducing the Part Appropriation Bill providing for interim expenditure for the period April 1 to July, Du Plessis said it was estimated that R24,7bn was needed.

Central government and the Administrations for Own Affairs required R20,6bn and the provinces R4,1bn.

'Top 100 increased staff by just 0,1%'

BIPay 20/2/91

Political Staff

(180)

CAPE TOWN — The Top 100 Johannesburg Stock Exchange-listed companies increased dividends last year by 21,3% but only increased employment by 0,1% during 1990, the Labour Research Service (LRS) has found.

Some of the largest Top 100 not only chose to grant shareholders significantly larger dividend payments but also cut employment during 1990.

"Employment creation should be a major concern for South African companies," the Cape-based LRS said.

"Instead of expanding employment opportunities and making economic growth a priority, these companies and directors preferred to keep shareholders happy with large dividend payments."

Profits of the Top 100 companies increased by 15,8%, just above the average 1990 inflation rate of 14,3%.

Despite the recession, the Top 100 companies managed to increase sales by 18,3% during 1990.

"Sales per worker rose by 17,3%. This suggests that workers' productivity has improved at the Top 100 companies."

LRS said the average increase in profits of the 245 companies surveyed in the 16 industrial sectors on the JSE was 25% and those listed in the engineering sector recorded, on average, a 45% increase in profits, the largest in the 16 sectors, during 1990.

"Profits increases for some of the big five conglomerates might have been poor in 1990, but they still earned large returns on their shareholders' investment.

"Anglo American earned the largest return in 1990 of 24%.

"Barlow Rand's profit attributable to shareholders fell in 1990 by 14,2%, but it still managed to earn a very respectable return on shareholders' investment of 22,4%."

"Cutbacks, retrenchments and rationalisation helped manufacturing firms to make their large profit increases," LRS said.

Withholding tax not on cards yet

Star 20/2/91

320

CAPE TOWN — The Government will not be introducing a withholding tax on dividends this year, says Minister of Finance Barend du Plessis.

He told told Parliament yesterday, when introducing the Part Appropriation Bill, or Mini Budget, that the search for a more level playing field between deposit-taking and contractual-savings institutions would continue.

But at this stage, measures to that end could not be ready in time for inclusion in the 1991-92 Budget, he said.

Not only was the level of savings important, but its composition, its flow through the financial sector and its productive utilisation.

The Jacobs Committee, appointed in April last year, had given serious attention to the possibility of a final tax at a uniform and relatively low rate on the interest income of individuals, with a view to boosting saving.

But in view of the difficulties, the Jacobs Committee had abandoned the idea of a low uniform tax on personal interest income, he said. — Sapa.

Unit trusts' chief warns off taxman

Star 20/2/91

320

By Derek Tommey

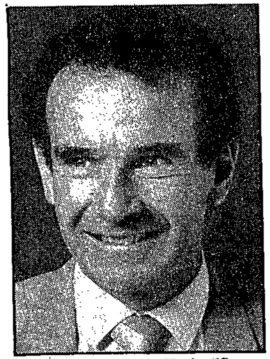
The taxman, edged on by the savings institutions, is looking to the unit trusts and the life assurers to increase his tax revenues.

Mr Roy McAlpine, chairman of the Association of Unit Trusts, says that certain institutions in the savings field have been making strong representations to the authorities to tax the capital surpluses of the life assurers — and the unit trusts have been caught in the cross-fire.

He says the savings institutions were unhappy about the tax-free nature of life assurers' capital surpluses which are passed on to their policy holders as bonuses.

This is seen as treating life assurers differently from other institutions. It has now been proposed that to achieve a level playing field for the financial institutions these capital surpluses should be taxed.

While not wishing to become involved in an issue which should not concern it, the Association had been obliged to make the strongest possible representations to the authorities not to implement any such legislation on unit trusts, he said.



Roy McAlpine . . . No justification.

"Our case is very strong. The total assets of the unit trust industry amount to a comparatively low R7,6 billion while those of the banks, building societies, life assurers and pension funds comfortably exceed R300 billion."

"This illustrates clearly that there is no justification for believing that unit trusts are distorting the savings pattern of the general public," says Mr McAlpine.

The unit trusts represent the savings of more than 700 000 members of the South African public, being drawn in the main from the smaller investors.

He said it would be nothing short of a tragedy if fiscal measures were introduced which would penalise the savings of that sector of the community which could least afford it.

On a more positive note, Mr McAlpine said legislative changes were in the pipeline which will enable unit trust investment managers to enhance the performance of their unit trusts.

The Registrar of Financial Institutions has supported the Association in proposals to make certain provisions of the Unit Trust Control Act less rigid and it is hoped these will be on the statute book early this year.

Last year was one of continued strong growth for the unit trust industry. The number of trusts rose by six to 37, the total assets of the industry grew from R6,6 billion to R7,6 billion, while the number of accounts rose from 568 000 to 736 000.

Sales of units rose to R2,1 billion from R1,4 billion in 1989, comfortably exceeding the previous record figure of R1,6 billion set up in 1987.

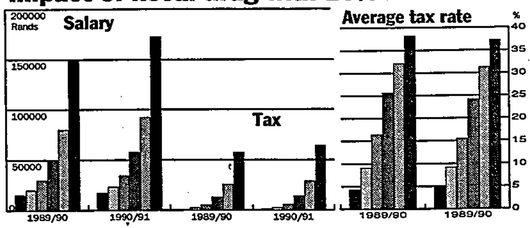
Although repurchases rose to R985 million, the net inflow of R1,12 billion was still a record.

Mr McAlpine says the uncertain political and economic environment coupled with the depressed equity markets was an ideal time for members of the general public to invest in unit trusts.

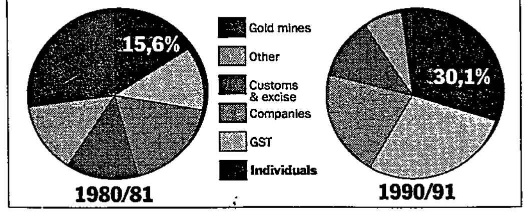
Hold thumbs as Barend ponders

Star 20/2/91 (320

Impact of fiscal drag with 15% inflation



Sources of Government revenue



MARK SUZMAN takes a look at income tax in South Africa, compares our burden to that in other countries and hints at future trends.

IN A TRUISM that can be confirmed by most South Africans, Benjamin Franklin said: "In this world, nothing can be said to be certain except death and taxes."

In fact, ever since the invention of the income tax in the mid-19th century, individuals have watched their tax burdens increase inexorably to keep pace with rises in government spending.

Until the early 1980s, the prevalent world-wide system was a progressive, graduated income tax which took more money from those who earned more and less from those who earned less. Such a method, infused with egalitarian spirit, was designed to keep the rich from becoming too rich while maximising government revenue.

Risen

It is this system, underpinned by the existence of various income "brackets" which define the average and marginal tax rates for wage-earners, that has long been favoured by the South African Government.

But while the system works fairly efficiently and equitably in general, over the past decade, individual tax has risen from 15,6 percent of Government income in 1980/81 to 30,1 percent in 1990/91.

This has come about largely through the invidious fiscal diseases of "bracket creep" and "fiscal drag".

Simply put, these bits of jargon mean that even if the taxpayer's salary rises at a rate equal to that of inflation, his real income will be reduced as a result of having been pushed into a higher tax bracket.

For example, according to calculations by Econometrix, an economics think-tank, (see table) someone with an income of R15 000 in 1989/1990 would have paid R640, or 4,3 percent, of his income in tax. With a salary increase of 15 percent, however, his income is raised to R17 250 and he is now forced to pay R850 in tax as a result of being pushed into a higher tax bracket.

This amounts to 4,9 percent of income — an increase of 0,7 percent — leaving the taxpayer with less disposable income than he had in 1989.

Such fiscal drag continues to take place despite the fact that in last year's Budget, for the first time in more than a decade, Finance Minister Barend du Plessis set out a system that allowed for a real reduction in income tax rates.

However, as the Econometrix calculations show, when the inflation rate and fiscal drag are factored in, the tax reduction remains incremental, and in the case of lower-income groups was actually an increase. Overall, the decrease amounted to a mere 1,3 percent of disposable income.

Such a high, graduated tax rate, moreover, tends to limit saving, and thus reduce the amount of investment capital available to stimulate growth.

It also acts as a disincentive to work for higher income earners, who are unable to enjoy the benefits of any extra work they might put in.

In the light of these arguments, over the past decade many countries, especially in the developed world, have lowered their tax rates.

In Britain, for example, the rate is 25 percent on incomes up to £72 000 and 40 percent on incomes above that level.

Similarly, in the US, federal tax rates are 14 percent for those earning up to $50 000, 28 percent for the next $20 000 and 33 percent for anything above $70 000.

There are several hidden taxes which increase the overall American tax burden, including state taxes and social security, but even so the rate remains significantly lower than its South African counterpart.

At present exchange rates, moreover, the highest tax rate in these countries kicks in at a far higher income level than in South Africa — at R175 000 rather than R80 000.

At the same time, the experience of various governments who have experimented in this way is that government income tends to rise rather than fall, and the extra money can be used to finance government deficits and extra spending.

In the light of these trends, the South African Government has committed itself to reducing tax rates and has announced that it intends to reduce the top marginal tax rate (and thus all other rates as well) from 44 to 40 percent within four years.

However, when compared with international rates, this remains a modest goal which keeps the top rate at a far lower level than is prevalent around the world.

Nevertheless, according to Tony Twine, a director at Econometrix, because of circumstances peculiar to South Africa, there is little likelihood of a restructuring of the present system, and the most we can hope for at the moment is tax levels that remain steady in the face of inflation and bracket creep.

This is especially so as lower tax rates tend to favour the rich. And in a country with an income distribution as skewed as South Africa's, such a situation is obviously undesirable.

Spending

Moreover, the Government's commitment to increased spending on social infrastructure for blacks means that revenue-needs will remain high, further dampening possibilities for a tax cut in this year's Budget.

Nevertheless, especially given the Government's tendency to rely more on indirect taxes (such as GST), and given the possibility of further defence-spending reductions combined with increased revenue from the new VAT system, it is probable that the new Budget will not add to the average South African's fiscal woes — just maintain them. □

Life offices look at funds

SEAN VAN ZYL

THE creation by life offices of corporate funds, in which their taxable surpluses would be deposited, is being considered. (320)

The fund would be subject to the 50% company tax rate.

Financial Institutions Office representative Piet Badenhorst said the matter was "under investigation".

He said it would be "too premature" to comment on whether a corporate fund requirement would be worked into legislation.

The investigation forms part of a wider review of SA's savings market being undertaken by Japie Jacobs, advisor to Finance Minister Barend du Plessis. His brief is to find a way of "levelling the playing field" between life offices, banks and building societies. B|Day 21|2|91.

Life offices currently pay a tax rate of 45%, after 55% of expenses are deducted, on their taxable life income.

They do not pay tax on pension and retirement business except in the hands of the member.

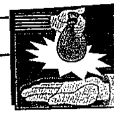
As a result, assurers currently maintain two seperate member funds (life and pension) of which only life business is taxed.

The corporate fund would result in a third fund coming into existence, and would dispel any perceptions in the savings market that assurers have an unfair advantage in the existing tax structure.

DU TOIT ON TAX

ON TRUST

(320)
FM 22|2|91



Pierre du Toit is senior tax partner at Arthur Andersen and an advocate of the Supreme Court.

Witwatersrand Division of the Supreme Court late last year handed down a judgment which made a simple statement: under current legislation a trust can never be subject to income tax (Trustees of Philip Frame Will Trust vs CIR 1990 WLD.)

The argument is as follows: A trust does not have legal personality (nothing new), a trustee cannot be the "representative taxpayer" for a person which does not exist, and therefore the trust cannot be taxed. The current practice whereby a trust is taxed on income which it has not distributed to beneficiaries during the year of receipt of accrual, is therefore contradicted by this decision.

When a judgment turns conventional wisdom on its head, the first question is whom will it affect.

In this case, whether by precedent or persuasion, it could affect a vast number of individuals and families who have arranged their affairs contrary to this notion. It could affect many an emigrant; and it could even affect the dead in so far as many have moved on to greener pastures, wrongly trusting that they have left behind a neat, orderly financial regime. It could also, of course, affect a growing section of corporate SA where the trust phenomenon has grown in use.

The immediate need is clarity.

The decision involves a complex area and is not beyond challenge on technical grounds. Indeed, it is understood that the Directorate is considering an appeal. That, however, will take too long. Serious consideration should be given to clarifying legislation, which should take care not to go inadvertently beyond clear reinstatement of certainty as to the hitherto presumed state of the law. Furthermore, the potentially chaotic effect of a decision like this, retroactively declaring a very generally held practice to be invalid, is frightening. This is therefore one of the few instances where retroactive legislation would bring, rather than sabotage, certainty; it must be considered.

Meanwhile taxpayers should keep the champagne corks on. If this decision is to stand, a trust may not be taxed, but the ramifications for those whose interests are bound up with that trust are far from clear. Will the income remain untaxed, or may it end up merely being taxed in different hands? Does this decision have any impact on the tax status of distributions from trusts, especially those out of accumulated funds? What is the impact on foreign beneficiaries as to normal or dividend withholding tax?

The system can also learn from this experience. Firstly, in a judicial environment where the courts have shown an unhealthy tendency to "fix" legislation towards an intended effect, the judgment contains a welcome reaffirmation of the principle that, regardless of the consequences, it is not their prerogative to "fill the gap".

More fundamentally, the judgment illustrates that in this era of growing sophistication in tax law and administration, there is no substitute for penetrating legal analysis in planning. In the past decade of "schemes," too many may have forgotten this.

IMF experts fly in to advise govt on VAT

(320) KEVIN DAVIE (4880)

AN IMF team of experts has flown in to help advise government on how to implement VAT, including the rate at which to set the new tax.

The experts will also offer advice on the final drafting of VAT legislation, which will take effect in October.

The IMF team will meet more than 20 groups across the political spectrum before making its report in about two weeks' time. It has been handed a copy of recommendations by the government-appointed Vatcom, whose report is due for release next week. B|Day 22|2|91.

The three-man IMF team led by Ved Ghandi, arrived on Sunday on a separate flight to that of MD Michel Camdessus, who was on a stopover visit.

The IMF's input may affect this year's Budget since VAT will be a revenue earner for the fiscus from October.

Government will also introduce schemes to alleviate poverty, and if VAT is included on foodstuffs, additional provision will have to be made to aid the poor.

An interim report on poverty alleviation has been completed which envisages a nutrition intervention programme on "life net", but the financing of the programme could depend on the final recommendations by Vatcom and the IMF.

Food may still get a zero rating or a reduced rate. If VAT is charged at the full rate then substantial food subsidies are likely to be introduced.

Asked yesterday if the team's presence suggested links between SA and the IMF were improving, Deputy Finance Minister and Vatcom chairman Org Marais said he hoped it would strengthen the relationship.

The visit follows an invitation by Finance Minister Barend du Plessis to the IMF at the annual meeting in September.

Marais said IMF principles had been closely followed, but Africanised. "We've taken their principles and married them to SA conditions," he said.

● See Page 3

New tax move puts squeeze on credit

(320)

BlDay 22/2/91

GILLIAN HAYNE

IN AN attempt to dampen credit spending and collect more tax, Inland Revenue is phasing out allowances on instalment credit agreements — a move which will cost the banking, furniture and motor industries more than R1,5bn in repayment of deferred tax.

Commissioner for Inland Revenue Hannes Hattingh said last night a clarifying note detailing the new approach would be issued before the end of the month. He would not comment further.

The move is expected to encounter vociferous opposition.

The plan is to phase out the allowances from March 1, 1991. New deals negotiated then will be subject immediately to the new rules; allowances on existing arrangements will be phased out according to a formula.

In a circular to members of the Association of General Banks it was disclosed that the allowances — awarded under Section 24 of the Income Tax Act — on "ordinary deals" such as furniture and motor cars, would be phased out over four years in equal amounts of 25%.

"Project finance" deals — for example long-term deals usually between banks and large corporations undertaking expansion projects — would be given a 12-month moratorium in which to be restructured and thereafter be phased out over three years in equal amounts.

In the past, Section 24 allowed companies to pay tax when they received the money from customers. Under the new ruling companies will have to pay tax on finance charges accrued over the full period of the credit agreement, despite not having received the money.

Ernst & Young tax partner David Clegg said the introduction of Section 24 was an attempt to equate taxable income with accounting income.

However, there were various problems with the approach:

- it encouraged credit financing on which South Africans were already over-dependent;
- it gave companies which chose to do

☐ To Page 2

Tax move

BlDay 22/2/91 (320)

☐ From Page 1

business this way, presumably for commercial reasons, an unfair advantage over their cash competitors; and

- many banking institutions, through the use of Section 24, were able to offer customers "aggressively low rates of finance". One view questions why companies which could afford to pay more tax should get such benefits.

Clegg said profit margins would be severely squeezed and borrowing rates would go up as a result of the new practice.

Association of General Banks president Ron Rundle said: "Project-type transactions will be structured in future at far higher rates of interest than previously because of the removal of Section 24."

Wesbank MD Peter Thompson said his customers would not be affected as their agreements did not contain a tax clause. However he admitted new customers would be affected by a gradual increase in credit rates in the future.

Rundle added the association was not happy with the new system and was discussing it with the Commissioner.

VAT likely to be levied on medical services

320

IT now seems likely that the services of doctors, dentists and other medical practitioners will be subject to value-added tax (VAT). STAR 23/2/91

Following the publication last year of the draft legislation, VAT is expected to be implemented on September 30 this year.

The Deputy Minister of Finance has indicated that the rate of VAT will in all probability be lower than the current rate of GST and to achieve this there will have to be as few exemptions as possible.

In the draft Bill, one of the exemptions is in respect of services by registered medical practitioners. The effect of this is that a doctor would not charge a patient VAT on his consultation fee.

However, after various representations from the medical profession this position may be reconsidered. Many doctors dispense drugs and medicines and it has always been contemplated that these will be subject to tax.

The concern of doctors was that their administration, particularly relating to the input tax credit, would be unnecessarily complicated by doctors having taxable sales in respect of the medicines dispensed, but exempt consulting fees. Accordingly, it would be far easier to levy VAT on all items charged by a doctor, including his fee. This is now likely to be the position.

VAT proposals due out next week

(320)

Star 23/2/91

DEREK TOMMEY

AFTER several years delay while numerous problems were ironed out, the Deputy Minister of Finance, Dr Org Marais, will announcement on Wednesday that VAT (value-added tax) is to replace GST on September 30.

For the ordinary South African this means that he will no longer have to pay an additional 13 percent on everything he buys. Instead the tax will be built into the price of his purchase — which means he can expect a general increase in prices on that date.

The introduction of VAT is also expected to encompass a much wider range of goods and services.

It means that VAT will be levied on virtually everything that costs money.

Among the new items to be taxed will be the purchase of a new house, the payment of rates and taxes, electricity and water, short-term insurance premiums, nursery school fees, day-care centre fees, club subscriptions and even green fees on the golf course, as well as transport.

About the only expected exemptions will be educational services, the letting of dwellings and the purchase of a second hand car from another private individual.

The Government's aim is to have a broad base by taxing everything so that the tax rate can be kept low.

Considerable attention will be centred on Dr Marais's proposals for taxing food. Unprocessed food is exempt from GST and there has been considerable political pressure on the Government to exempt food from VAT as well, as the poor could have difficulty in paying the new tax.

But tax consultant, Ian MacKenzie of Ernst and Young, says that exempting food from VAT should be avoided at all costs. Exempting food from VAT was a totally uneconomic way of subsidising poorer people because it gave even bigger benefits to the wealthier, he said.

A survey by Unisa's Bureau for Market Research confirms Mr MacKenzie's view. It found that food exempt from GST cost Treasury R2,4 billion last year. But the 12 million poorest people benefited only to the amount of R60 million from this exemption. The poor needed to be helped in some other way, said Mr MacKenzie.

The Treasury's attitude is believed to be that this assistance should not be its responsibility but that of the social welfare departments.

Subsidies

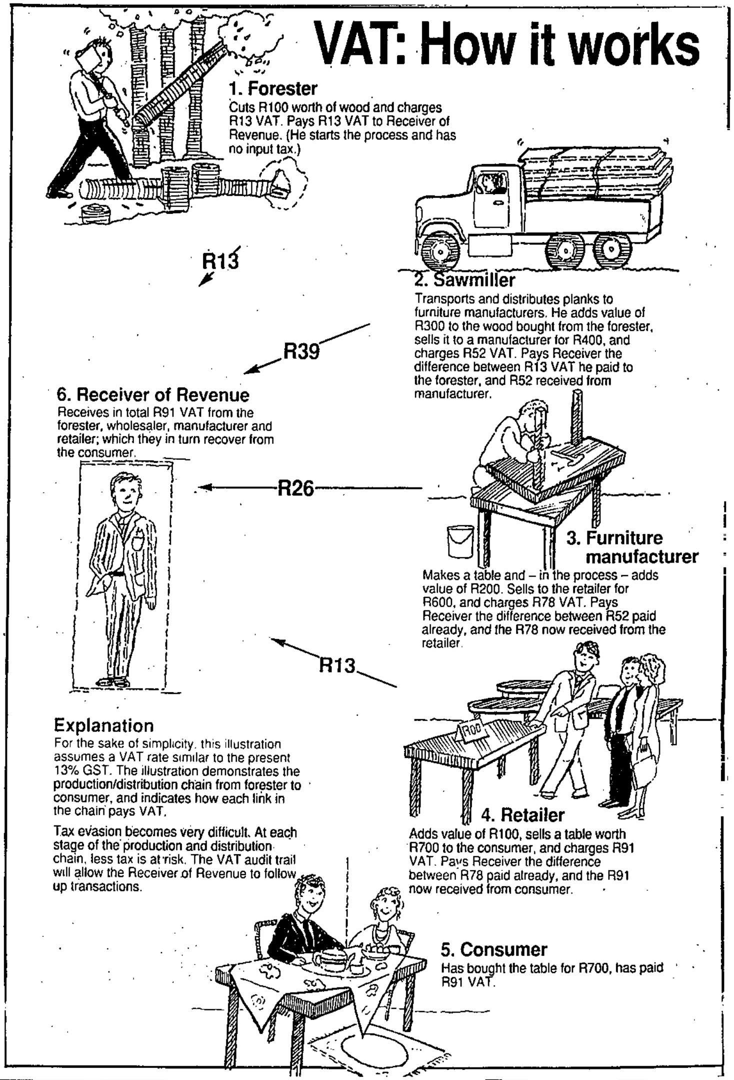
However, Mr MacKenzie urges that whatever system is decided upon must be seen by its beneficiaries to be compensatory in relation to their food purchase and it must be publicised well in advance of the implementation of VAT.

He points out that food is not the only item that could create a political problem. Transport will be another sensitive area as under the draft bill all forms of travel in taxis, trains, buses, ships and aircraft is taxable.

At present GST generates about R16,5 billion a year in revenue. However, the feeling in Government circles is that VAT could easily produce an additional R4 billion to R6 billion.

Economist Mike Brown, of stockbrokers Frankels, says VAT casts a wider net with a smaller mesh than GST. Countries which have introduced VAT have been amazed at the increase in revenue.

The IMF concurs and says that 60 percent of the tax lost under the GST system through evasion will be collected by a VAT system.



VAT turmoil could raise insurance premiums

320

Star 24/4/91

Duma Gqubule

VAT threatens to throw the insurance industry into turmoil, leading to substantial increases in premiums.

And this prospect is being exacerbated because the insurance industry is failing to address the problems, says Bob Arnold, technical director at insurance broking firm First Bowring.

The main issue facing the short-term insurance industry is whether or not premiums will have to be increased.

Some believe VAT should be paid by the insurers while maintaining premiums at current levels. Others say insurers' bottomline profits would be severely affected if they had to carry the cost, and the strain would therefore have to be taken in premiums.

Two problems

Mr Arnold says there are two potential problems relating to claims:

- Claims under personal accident policies will require VAT to be paid by the recipient in some cases but not in others.

The questions are: Will insurers pay VAT in addition to the sum insured? Should the sum insured be increased? If so, which parts of the sum insured?

- Many claims take months or years to settle. If part of a claim is outstanding after October 1, VAT will be payable.

The questions are: Will insurers pay this in addition? If the sum insured including VAT is then exhausted, will they apply the average to the whole claim?

Mr Arnold points to two anomalies:

- Performance guarantees on contracts and Supreme Court bonds will seemingly attract VAT if signed by an insurer but apparently not if signed by a bank.
- Credit Guarantee Insurance Corp issues insurance policies covering money owed. It is not clear whether both claims and premiums will involve VAT.

"The answer," suggests Mr Arnold, "is that VAT should be paid by the insurer on whatever claim or part of a claim the law requires but no additional premium will be charged."

But a tax partner of a leading audit firm says these issues do not deal with the real problem.

Guidelines

"What is needed is for the industry to produce a set of agreed guidelines. This need not neccessarily mean regulation — it could be in the form of an agreement in principle.

"Otherwise, you will have the situation where each insurer does his own thing. Although the market would eventually iron out these problems, in the meantime widely differing practices would develop which would create confusion for everyone."

FINANCE

More bulge to government pockets

Bonanza for the exchequer in 'mild downturn'

Star 24/2/91 320

Claire Gebhardt

GOVERNMENT is set to rake in considerably more than the R64,938 million it budgeted for in the 1990/91 financial year. Star 24/2/91

Sanlam estimates that total exchequer receipts of R67,5 billion are about 10 percent more than the total revised tax receipts in the previous financial year, and compare favourably with the 5,8 percent rise envisaged by the Minister of Finance.

It attributes the bonanza to a "comparatively mild downturn in the economy" and generous adjustments in labour remuneration which helped to maintain private consumer spending at a relatively high level.

As in previous years, government appears to have underestimated personal income-tax receipts.

Sanlam's preliminary figures show:

- Revenue from personal income tax at R22 500 million is approximately R2 000 million more than budgeted for.
- GST however will bring in about R400 million less than the R18 500 million allowed for.
- Company tax will contribute nearly R180 million less than the budgeted amount of R13 180.
- Mining tax (excluding gold mines) will yield about R300 million more than the R1 300 million target.
- The tax on gold mines (including gold-mine leases) will amount to about R940 million — nearly R320 million less than budgeted for in the current year, and R400 million less than the figure in the previous financial year.
- Customs and excise duties will romp in R450 million above the budgeted R11 300 million.

On the other hand, total government expenditure in the current financial year will be approximately R74 732 mllion — R1 800 million more than budgeted for and an increase of 14,7 percent against the 11,9 percent envisaged.

Sanlam predicts that the deficit before borrowing for the 1990/91 financial year will amount to about R7 230 million, 2,7 percent of gross domestic product (GDP), as opposed to the R7 994 million or 2,8 percent of GDP projected.

Cash-strapped Barend in personal-tax corner

320

S Times 24/2/91

JOHAN LOUW: Only R1,6-billion available for concessions.

By IAN SMITH

THERE is little chance of a significant drop in taxation in next month's Budget despite a good financial year for the Government and an economy which has cooled significantly.

Finance Minister Barend du Plessis has little room to manoeuvre to his goal of lower personal taxes, says Sanlam chief economist Johan Louw in the group's Economic Survey.

"We believe the Minister will budget for a deficit of not much more than R9,3-billion, or 3% of gross domestic product. This will leave him with only about R1,6-billion for tax concessions."

Mr Louw says there could be some relief for individual taxpayers by a move to counter bracket-creep.

A reduction in the maximum marginal income tax rate from 44% to 43%, and the accompanying fall in rates at lower income levels will result in a revenue loss of about R2-billion.

"Such a step seems unlikely in the next Budget," says Mr Louw.

There could also be a reduction in the import surcharge. This was introduced initially to curb imports, but it has had little effect and has merely become another source of income for the Government.

"It is estimated that the surcharge will contribute about R2,1-billion this year. In some circles it is felt that this tax should be abolished — particularly on capital goods — as it increases the input costs of manufacturers and has an adverse effect on the competitive ability of SA companies."

Preliminary figures show that this year GST will bring in about R400-million less than the expected total of R18,5-billion. But revenue from personal tax at R22,5-billion will be about R2-billion ahead of expected receipts.

Company tax will be about R180-million short of the expected R13,18-billion.

No change is expected in the company tax rate. But amendments to some rebates and write-offs could result in an increase in the effective tax rate.

Prime

Although the Budget is not expected to stimulate the economy significantly, the authorities should be able to follow a less restrictive monetary policy.

"We foresee that the prime lending rate will be two or three percentage points lower by the end of 1991."

The survey says inflation should drop to between 11% and 12% by December, with an average for the year of about 13%. This compares with 14,4% last year and 14,7% in 1989.

Life assurers see slim chance of surplus tax

(6) (320)

Star 25/2/91

By Derek Tommey

Life assurers do not expect any tax to be imposed on their capital surpluses in the next Budget.

And should the tax come in the 1992 Budget, they believe it will only be a small one, says a senior official of the Life Offices Association, Jurie Wessels.

So it would seem that for the time being life assurance policyholders need not fear any reduction in their bonuses.

Last week, Roy McAlpine, retiring chairman of the Association of Unit Trusts, reported some savings institutions were pressing the Government to impose a tax on the capital surpluses of life assurers in order to "level the playing field" for the two groups.

Life assurers use their capital surpluses to pay out bonuses to their policyholders.

Life assurance industry experts say that any proposal to tax their capital surpluses would be fraught with problems.

The move would also be tantamount to introducing a capital gains tax, which the Government for its own reasons seems to want to avoid.

Capital surpluses arise when the life companies sell shares or gilt-edged stock at prices higher than they paid for them.

At present, no tax is levied on these surpluses.

The Receiver could also have considerable difficulty determining whether a capital surplus was a genuine one or merely the result of inflation, said Mr Wessels.

This could be overcome by allowing insurers to link the value of their assets to an inflation index and only regard anything in excess of the index as a real gain.

But if the Receiver allowed indexation here, the Government would then be under heavy pressure to allow indexation in several other areas.

This could lead to such items as public service salaries and benefits being indexed, as well as personal tax deductions and tax allowances.

Overall indexation could cost the Government a large sum of money — and far more than it could hope to recover from the insurance industry.

Taxing an insurer's capital profits could also inhibit its investment decisions and lead to a lower level of performance.

Investment managers could become more concerned with avoiding tax than with making the best investment decisions.

A tax on insurers' capital surpluses could also affect their trading in gilt-edged stock.

When interest rates fall, the value of such stock rises. The result would be real capital profits caused by a change in economic conditions, said Mr Wessels.

(2) yes, (a) the only formal request for notifiability has come from the community health group of the Medical Association of South Africa and (b) this group is of the opinion that AIDS should be made notifiable.

Hansard 26/2/91

†Dr W J SNYMAN: Mr Speaker, arising out of the hon the Minister's reply, I wish to ask him whether the Government, owing to the seriousness of this threat, intends making a negative HIV-test a prerequisite for any immigrant or person who applies for permanent citizenship.

†The MINISTER: Mr Speaker, once again I do not want to venture into my colleague's field who, owing to circumstances relating to Parliament, has not been able to attend.

†Mr J H VAN DER MERWE: You do not know!

†The MINISTER: I do not know and therefore I request that this matter again be placed on the Question Paper so that the hon members can be furnished with a reply.

SADF: alternative service

*3. Mr L FUCHS asked the Minister of Defence:

Whether some form of alternative service (a) exists and/or (b) is envisaged for persons refusing to serve in the South African Defence Force; if so, what is the nature of such alternative service?

Hansard 26/2/91 B147E

The DEPUTY MINISTER OF DEFENCE:

(a) Yes. A member can do community service after having been classified as a Religious Objector by the Board for Religious Objection.

(b) No other form of alternative service is envisaged.

†Mr J H VAN DER MERWE: Mr Speaker, arising from the hon the Deputy Minister's reply, I would like to know whether any legislation is envisaged to amend the existing legislation regarding the evasion of national service.

†The DEPUTY MINISTER: Mr Speaker, the reply to that is an unequivocal no.

†Mr J H VAN DER MERWE: That is a good reply.

†Dr W J SNYMAN: Mr Speaker, further arising from the hon the Deputy Minister's reply, may we ask him whether the Government will leave the national service system unchanged in the future? Hansard 26/2/91

†The DEPUTY MINISTER: Mr Speaker, several statements in this connection have recently and in the past week been made by the hon the Minister, and the reply to that is again no.

Mr R V CARLISLE: Mr Speaker, further arising out of the hon the Deputy Minister's reply, does he not accept that there will be inevitable changes with the scrapping of the Population Registration Act? Secondly, does he intend to deracialise compulsory military service?

†The DEPUTY MINISTER: Mr Speaker, I want to say to the hon member that national service, as it presently exists for the specific race group, is of course irreconcilable with a new constitutional dispensation, and it is the Government's full intention that the national service system will remain as it is at present, because in this transitional period, in this period in which we will discuss and negotiate the formation of a new South Africa, we will also address these matters and all matters resulting from the scrapping of the Population Registration Act will naturally also be addressed when the time comes.

Business interrupted in accordance with Rule 180C (3) of the Standing Rules of Parliament.

Trade unions: legislation

*4. Mr L FUCHS asked the Minister of Manpower:

(1) Whether it is envisaged to introduce legislation to make trade unions, vicariously liable for the acts of their members; if not, why not; if so, when;

(2) whether it is envisaged that the rules of the Industrial Court will be amended so as to allow costs orders to be given in certain circumstances; if not, why not; if so, when? Hansard 26/2/91 B148E

The MINISTER OF MANPOWER:

(1) The Labour Relations Act, 1956, as part of the consolidation process, is at present being investigated in its entirety which

Hansard 26/2/91 specifically includes trade unions, employers' organisations, strikes and lockouts. Future amendments to the Act will be considered on the grounds of the investigation and recommendations.

(2) The Labour Relations Act, 1956, at present provides in section 17(12)(a) for the granting of costs orders according to "the requirements of the law and fairness" in the case of urgent interim applications for legal aid as well as in the case of section 46(9) determinations. The Act also provides in section 43(4)(c) for the granting of a costs order in the case of a section 43 (status quo) application, but it may only be granted by the Court "on the ground of unreasonableness or frivolity on the part of a party". In terms of section 17(22)(c)(vi) of the Act the Rules Board may make rules "as to the taxation of bills of costs" only.

Withholding tax on interest

*5. Mr J J WALSH asked the Minister of Finance: Hansard 26/2/91

(1) Whether he is considering the introduction of a withholding tax on interest; if so, (a) how will such a tax be applied and (b) when is it to be introduced;

(2) whether he will make a statement on the matter? 320 B161E

The MINISTER OF FINANCE:

(1) (a) and (b)

As mentioned in the Budget Review of last year, the real return on interest-bearing investments is very low or even negative, and the existing taxation of interest discourages saving. It was considered that a withholding tax, imposed on interest received by individuals, would have made a positive contribution to the encouragement of savings, but that the implementation of such a system could only be accomplished after several obstacles had been investigated and eliminated. It was envisaged that the tax would be a final tax, at a low rate, deductible at source and payable to Inland Revenue.

(2) As mentioned during the introduction, on 19 February, of the Part Appropriation Bill, 1991, the Committee regarding the Advancement of Equal Competition for Funds in Financial Markets (the Jacobs Committee) gave serious consideration to this matter. Their investigation brought to light numerous problem areas, of which the most crucial is the reclassification of other income and the practice of so-called arbitrage, for which solutions have not yet been found. It has, therefore, been decided not to proceed with the implementation of such a tax at this stage. 320

Hansard 26/2/91

Leprosy

*6. Dr F H PAUW asked the Minister of National Health:†

(1) What is the latest information on the incidence of the various forms of leprosy among the population groups in the Republic; Hansard 26/2/91

(2) whether her Department regards leprosy as a highly contagious or deadly disease;

(3) (a) what is her Department's standpoint on the (i) notifiability and (ii) isolation of cases of this disease and (b) what is the motivation for the removal of lepers from their social environment?

B172E

The MINISTER OF NATIONAL HEALTH:

(1) Notified cases of leprosy in the Republic of South Africa by population group, 1990 (as on 11 February 1991) are as follows:

Asian	0
Black	31
Coloured	1
White	0

No information regarding the various *forms* of leprosy is available;

(2) no;

(3) (a) (i) leprosy is a notifiable disease and

(ii) patients are not isolated and

(b) leprosy patients' are referred to Westfort Hospital in Pretoria for confirmation of the diagnosis and stabilising of the treatment. As a rule patients are then referred back to their place of origin for continuation

Provisional tax payments for married women

(320)
Star 26/2/91

A new turn has materialised in the married women provisional tax saga.

In a recent article in the Saturday Star, Ernst & Young's Justin Cowley urged married women obliged to pay provisional tax not to do so until they had been allocated a registration number by their local Revenue office.

Mr Cowley now advises that, following his subsequent discussions with the Receiver, Revenue offices throughout the country are issuing new numbers manually in order to cope with the backlog.

Accordingly, married women paying provisional tax for the first time should visit their Revenue offices and obtain the registration number which they require to complete their return.

Mr Cowley advises further that a provisional taxpayer not in possession of a registration number by the end of February should nevertheless sumbit her return, along with her cheque for the relevant amount, stapling her name and address to the cheque to ensure that the payment is not misallocated.

Hansard

Pupils in Standards 8-10

73. Mr R M BURROWS asked the Minister of Education and Training: [redacted]

(1) What total number of pupils attending schools falling under his Department were in Standards 8 to 10 in 1990; Hansard 27/2/91

(2) how many such pupils in each standard were taking (a) Mathematics, (b) Physical Science and (c) Biology in that year?

B208E

The MINISTER OF EDUCATION AND TRAINING:

	Std 8	Std 9	Std 10	Total
(1) Total number of pupils	110 903	86 313	58 986	256 202
(2) Enrolment for —				
(a) Mathematics	93 015	28 000	18 644	139 659
Functional Mathematics	5 149	—	—	5 149
Total Mathematics	98 164	28 000	18 644	144 808
(b) Physical Science	24 269	17 238	12 740	54 247
(c) Biology	89 675	67 944	45 310	202 929

Educational purposes: deductibility of moneys

74. Mr R M BURROWS asked the Minister of Finance: [redacted] (320) Hansard 27/2/91

(1) Whether he or his Department has initiated further investigations into the deductibility of moneys paid by individual taxpayers for educational purposes at school or college level; if not, why not; if so, (a) what matters are being investigated and (b) by what body;

(2) what is the current tax policy regarding individuals and/or companies making donations to (a) tertiary institutions, (b) pre-primary schools, (c) primary schools and (d) secondary schools;

(3) whether there have been any changes in the above policy during the past five years; if not, why not; if so, what changes?

B209E

The MINISTER OF FINANCE:

(1), (2) and (3)

The answers to these questions are the same as those given in reply to questions nos 24 of 14 March 1989 and 26 of 19 March 1990.

Although extensive discussions have been held with the Department of National Education, no solution has, as yet, been found. Since then input has been received from the Urban Foundation and the Tax Advisory Committee has also been consulted. Everything possible is, therefore, being done in order that an acceptable solution is found as soon as possible. Hansard 27/2/91

Own Affairs:

Secondary/primary school teachers: made redundant [redacted]

4. Mr R M BURROWS asked the Minister of Education and Culture: Hansard 27/2/91

(1) Whether any (a) secondary and (b) primary school teachers employed by (i) his Department and (ii) each of the provincial education departments were made redundant in 1990; if so, how many in each case in (aa) his Department and (bb) each province;

(2) whether any of these teachers were subsequently employed in another capacity within his Department; if so, (a) how many and (b) in what capacity was each of these teachers employed in (i) his Department and (ii) each province?

B37E

The MINISTER OF EDUCATION AND CULTURE:

(1) (a) (b), (i) and (ii) Yes,

		(a)	(b)
(aa)	Total	167	122
(bb)	Cape	76	66
	Natal	9	12
	OFS	60	23
	Transvaal	22	21

Hansard -

(2) Cape, Natal and Transvaal: no, Hansard 27/2/91

(a) and (b) fall away.

	(a)	(b)
OFS: yes, [redacted]	1	clerical

Private school subsidies

[redacted] 5. Mr R M BURROWS asked the Minister of Education and Culture: Hansard 27/2/91

(1) Whether private school subsidies for 1991 have been decided upon; if not, (a) why not and (b) when is it anticipated that they will be decided upon; if so, how many private schools have been granted subsidies of (i) 45 and (ii) 15 per cent;

(2) whether any private schools (a) have not applied for and (b) have been refused subsidies in 1991; if so, how many in each case;

(3) in respect of what date is this information furnished?

B55E

The MINISTER OF EDUCATION AND CULTURE:

(1) Yes, per capita amounts for the 1991/92 book year have already been determined,

(i) and (ii) applications from private schools will be received not later than 31 July 1991 only at which point the number of schools applying for financial assistance can be determined. As an interim measure, however, existing private schools whose registration with the Department is still current are provisionally subsidised at the same percentage level as in the previous financial year;

(2) (a) and (b) fall away;

(3) see (1).

Teachers made redundant [redacted]

9. Mr K M ANDREW asked the Minister of Education and Culture: Hansard 27/2/91

(1) How many qualified teachers were made redundant, retrenched or retired early because of a surplus of teachers during or at the end of 1990;

(2) how many teachers who qualified at the end of 1990 were unable to obtain posts from the beginning of 1991; [redacted]

(3) (a) how many White student teachers have bursaries from the State at present and (b) (i) what is the annual cost to the State of such bursaries and (ii) in respect of what year is this information furnished? Hansard 27/2/91

B45E

The MINISTER OF EDUCATION AND CULTURE:

(1) 344;

(2) *28;

(3) (a) 9 368,

(b) (i) R31 575 500

(ii) 1990.

*Information in respect of the Cape not available.

White teacher-training colleges

17. Mr R M BURROWS asked the Minister of Education and Culture: [redacted]

(1) Whether any qualified applicants were not admitted to White teacher-training colleges in 1990 because of (a) lack of facilities and (b) other specified factors; if so, how many such prospective students were (i) admitted, and (ii) refused admission, to these colleges in 1990;

(2) (a) what is the combined capacity of these colleges and (b) what total number of students is enrolled at present?

Hansard 27/2/91 B201E

The MINISTER OF EDUCATION AND CULTURE:

(1) (a) No,

(b) yes, a quota system which applies to teacher training;

(i) 1 500

(ii) 1 273;

(2) (a) 10 250

(b) 6 546.

Income tax collections ahead of budget

GERALD REILLY

PRETORIA — Income tax collections are running well ahead of printed budget estimates for the first 10 months of the year, Inland Revenue statistics indicate. BIPOM 27/2/91

However, GST collections for the full financial year may fail to reach the budget expectation of R18,532bn.

Economists say this is a reflection of the economic downturn and the shrinking of disposable incomes in the face of high inflation. (320)

In the April-January period, income tax collections totalled R31bn compared with R26,8bn in 1989-90.

This represents 86% of expected total collections — 4% up on the figure for the previous tax year. Budget income tax revenue expectation for the year amounted to R35,865bn.

Income tax collections will be boosted further during this month when the second provisional tax payments are taken into account.

GST collections for the 10 months amounted to R15,183bn compared with R14,043bn. Budget expectation is R18,532bn.

SITE loophole could cost taxman millions

Star 27/2/91 (320)

By Michelle Maliepaard

DURBAN — The newly introduced Standard Income Tax on Employees (Site) could cost the taxman millions of rands if employees furnish false personal particulars on their IRP2 forms.

Tax experts this week warned that the loophole in the Site system could be exploited by employees and it was only a matter of time before this happened on a large scale.

The introduction of Site shifted the responsibility for tax collection on to the employer's shoulders but it appears that it is "not their problem" if the government is being short-changed.

The employer bases Site deductions on the information supplied by the employee on an IRP2 form. This is filled out upon joining a firm, or when circumstances such as marriage, birth, divorce or separation occur.

There is no legal requirement that the company verify this information and only the employee can be prosecuted for "incorrectly" filling it in. The fine is R400 and/or six months in jail.

A spokesperson for the Receiver of Revenue's office in Durban said that the department could not expect the company to check up on employees. However, an employee would be assessed if any suspicion was aroused.

No checks

Although a recent amendment to the act made provision for the employer to request the Receiver to verify suspected false personal details, no such requests have been received to date in Durban.

Both Tongaat-Hulett and Toyota spokesmen said they did not check the information in their employee's IRP2 forms as this was not required of them.

"We assume that our employees are honest and although we collect copies of certificates from new employees, changes in marital status and numbers of children are difficult to check," said Ron Phillips, Group PR of Tongaat-Hulett.

It was up to employees to ensure they were being taxed according to the correct category — and most did if it was to their benefit. For example, a woman who separates from her husband and has children to support pays far less tax than she would if she still lived with her husband — even though they are not legally divorced.

The difference between the tax paid by a woman classified as a "married woman" compared to that of a "married person" with three dependents is quite substantial.

The married woman earning R24 500 a year would pay R4 864,96 in tax while she was living with her husband — but if she left she would be liable for only R2 485,88 — a difference of R2 379,08.

Furthermore, both the husband and the wife are also entitled to child rebates for each child.

According to some salary administrators who attended a tax seminar held by Deloitte Pim Goldby recently, there is very little to stop somebody from furnishing the company with false information — such as having six children to support when, in fact, he had none that were legally his.

"We don't have the facilities to check whether he has one or six children in the Transkei. They bring in any number of birth certificates with all sorts of tribal and family names on them," said one woman.

VAT: Will it be 12%?

Cape Times 28/2/91

320

By ANTHONY JOHNSON
Political Correspondent

VAT could be pegged as high as 12% when the new tax system replaces GST at the end of September.

The report of the government's Vatcom study published yesterday notes that evidence submitted to the committee was that a rate of 10% would be "acceptable" to the public.

However, the Vatcom chairman, Dr Org Marais, disclosed yesterday that there was a battle royal raging between different schools of thought within government about what rate should be announced on March 20 — budget day.

"The fight is between the hawks and the doves, the conservatives and the risk-takers — this is precisely what is going on," he told a media briefing yesterday.

Dr Marais said the thorny question of where to peg the new VAT rate was one of the most difficult to answer.

"We cannot say today and nobody can say what the tax base will be at the beginning because we don't know how much we are going to get — it's a totally new system."

Dr Marais said a decision might be taken at a think-tank of the government's financial planners this weekend but that inputs from team of IMF tax experts currently visiting the country could also affect a final determination.

Dr Marais said that if full credit was given at the outset for capital and intermediate goods and services, statistical computations indicated that a VAT rate of between 13,2-13,3% would be needed to compensate the treasury for a loss of about R7,5 billion.

To Page 5

VAT a handicap for some

CASH-STRAPPED golfers are in for a rude shock when VAT is introduced later this year. Green fees and subs — even with non-profit country clubs — will be subject to the new tax.

However, payments to caddies earning less than R150 000 a year will not be subject to VAT.

● More reports on VAT — Page 5

From page 1

However, phasing in these credits would allow VAT to be set at a significantly lower rate.

Although the Vatcom report recommends that the rate be kept "as low as possible" to ensure public acceptance, it goes on to say that the fixing of the rate was a "budgetary consideration".

The more conservative camp would prefer to see the rate pegged at above 13% and use any additional revenues that might accrue for social expenditure on disadvantaged groups to remove socio-economic backlogs.

However, it is generally acknowledged that the government would have a huge problem in selling this to the public because VAT has been touted as a more efficient system than GST given its broader base and limited scope for tax evasion.

The risk-taking camp would like to see VAT pegged as low as possible despite the uncertainty about how much revenue the tax will bring in at this stage.

Dr Marais said: "VAT is today ranked as the most effective and productive tax in the armour of a minister of finance."

However, the problems arose once an attempt was made "to tinker an d play around" with the system by introducing a number of exemptions, exclusiions and "zero ratings".

The problems of the poor could not be addressed through VAT but should be dealt with procedures like targeted subsidies which fell outside the tax structure.

Dr Marais said that "an amount" would be included in next month's budget to deal with the question of poverty.

Dr Marais estimated that the move to VAT would bring a 0,6% rise in SA gross domestic product over three years and the creation of 50 000 additional jobs.

Business gives thumbs-up to VAT proposals

ARGUS 28/2/91

320

By DENNIS CRUYWAGEN and DALE KNEEN
Staff Reporters

THE SA Chamber of Business has welcomed most of the new VAT proposals, but other organisations have argued they were insensitive to the needs of the poor.

Sacob said it believed the best form of VAT was one which levied tax on the broadest possible base at the lowest possible rate.

It therefore urged Vatcom to allow a minimum number of exemptions and to assist those in need outside the tax system.

"While Sacob is mindful of the plight of the poor, it is concerned by the recommendation of Vatcom that certain basic foodstuffs be zero-rated under a VAT system.

"Sacob believes that, if adopted, such zero-rating will lead to abuse and also that it opens the door to increased calls from interest groups for the zero-rating of other products."

Regarding the other recommendations of Vatcom, Sacob was pleased to note that:

- Land will fall into the VAT net while transfer duties will fall away;
- Cars will be treated in the same way as capital goods;
- Valuation of imports for VAT purposes will be the same as for customs purposes;
- Medical services will be standard-rated; and
- The temptation to grant exemption to special interest groups had generally been resisted.

Sacob said the introductory date of September 30, 1991, would mean that there would be great pressure on businesses to get their systems in place before then.

But the resolve of the authorities to meet the deadline removed a further source of uncertainty and was to be welcomed, said Sacob.

Mrs Eulalie Stott, the Cape Town city councillor who has been conducting a campaign against VAT on basic foods, water, rates and housing, said she noted "with some pleasure" that bread and some maize products may escape the tax.

But, said Mrs Stott, she was shocked by the Vatcom finding that 16,3 million South Africans — 44,5 percent of the population — lived below minimum living standards and that 2,3 million were in "dire need".

'SHOCKING'

Mr Stott said this made it shocking that Vatcom, despite these figures, wanted to tax milk, fruit and vegetables which were essential for healthy living.

National PAC spokesman Mr Barney Desai said the recommended 10 percent rate of Value-Added tax on fruit, eggs, meat and fresh milk spelt disaster for the poor.

Mr Bulelani Ngcuka, chairman of the United Democratic Front (Western Cape), said "it is not for this regime to impose taxation on our people after they have mismanaged the economy".

Welfare groups, agents condemn tax proposals

Star 28/2/91

320

By Shirley Woodgate

Representatives from the book industry to the horse racing fraternity, from welfare organisations to estate agents, have condemned the levying of Value Added Tax (VAT) on their specific activities.

Reacting to Goverment plans to impose VAT of between 10 and 13,5 percent from September 30, spokesmen warned the effect would be to compound the financial problems already being experienced.

All homeowners and tenants would be hard hit by increases of up to 25 percent this year if VAT was imposed on rates and taxes, said councillor and estate agent Clive Gilbert.

Landlords would pass increases on to tenants at a time when rented accommodation was virtually unobtainable.

Johannesburg Child Welfare Society director Dr Adele Thomas was shocked that food and clothing, representing a massive slice of the organisation's R8 million annual expenditure and which is currently untaxed, would be included at a time when Government help to welfare organisations was dwindling.

"There is talk that welfare organisations will be assisted by a system of State refunds but the infrastructure which will have to be created to work out the details will be a nightmare and require more staff."

"Any tax on knowledge is unacceptable," said Exclusive Books spokesman Stephen Johnson, commenting on the proposed tax on books, magazines and newspapers.

Drive for efficient taxation

Star 28/2/91 (32.0)

South Africa's new consumer tax system, VAT, is due to replace GST at the end of September. DEREK TOMMEY discussed with Vatcom ways and means by which VAT could spread the tax burden more evenly.

VALUE-ADDED tax (VAT), so long talked about, will become a fact of life for all South Africans from September 30. And general sales tax (GST), which began life modestly in 1978 with a now almost unbelievable 4 percent tax rate will be quietly interred.

According to the report released in Cape Town yesterday by the Government's VAT Committee (Vatcom), the intention was that the tax should be collected more efficiently. This would be fairer, as the burden would be spread evenly over all economic activities.

Goods and services not now subject to GST would be subject to VAT, and the tax burden on others would be reduced. The price elasticity of goods and services would determine what impact VAT would have.

This was of great concern to the Government, and monetary policy and control of money supply would be carefully monitored during the change-over.

How much more the Treasury will receive from VAT than it did from GST is not easy to calculate at this stage. But countries overseas which have converted from GST to VAT are reported to have been amazed at the extra tax revenues they have received.

Under the VAT system, tax is collected from the start of the production chain and, because much of the value is added by larger businesses, a greater proportion of the tax will be paid by the big businesses.

When VAT is introduced it will differ from GST in that it is to be imposed on virtually everything the consumer buys — including food, which means one cannot exempt anything else, says Vatcom.

This is in line with the aim to have a broad-based tax with as few concessions as possible so that the rate of tax can be kept low.

It is partly because GST was an inefficient tax that the rate of GST has eventually reached 13 percent.

The proposal to impose VAT on all foodstuffs has aroused considerable opposition. It has been claimed that the food tax will fall heaviest on the poorest who are least able to afford it.

Vatcom recognises that there is a great deal of poverty in South Africa which needs serious attention, but says its job is not to engage in social welfare but to ensure the country has an efficient tax system.

Helping the poor by lowering taxes is also an extremely inefficient way of doing this, it says.

Instead, Vatcom contends that the poor should be assisted more directly with targeted financial help and that this is the task of other Government departments.

The Government goes along with this view and and has appointed a committee headed by a senior Treasury official, Dr E Calitz, to investigate the problem of poverty and to report as soon as possible.

However, in the event that direct assistance is not available to the poor by the time VAT is introduced, Vatcom has recommended that a limited number of goods which are presently exempted from GST, such as maize products, rice, bread and milk-powder be zero-rated.

Zero-rating these foods means they will bear no tax at all.

VAT works by imposing a standard tax on the value added at every stage in the production chain. However, at each stage the producer is given a tax credit for tax paid earlier in the chain.

When goods are exempt from VAT it means that no tax is levied in the final stage. But it also means that no tax credit is granted for the tax paid in earlier stages. Consequently, exempted goods still contain a considerable amount of value-added tax.

This makes it easier to understand why Vatcom is prepared to recommend that all transport services except air-flights should be exempt. In this way it avoids the problems of collecting VAT from private taxis and bus companies without sacrificing much revenue.

Educational services, including approved pre-primary schools are also exempt from VAT, as are domestic rentals and sales between individuals of second-hand goods, including cars. Financial services are to be exempt from VAT but could face other taxes later.

Concern has been expressed that VAT will be inflationary as the price of many goods which are exempt from GST will now include VAT.

But Vatcom makes the point that there is a considerable amount of GST paid at earlier stages in the production process in the prices of many of these goods and services. This cost will fall away with the disappearance of GST and help to ameliorate the impact of VAT. It also expects the consumer will pay less in total for some goods on which GST is currently levied.

Overseas studies have shown inflation should not be a problem. In 22 countries where VAT was introduced there was no increase in inflation.

The Government will be watching closely to ensure that the last two of these three developments do not happen here, says Vatcom. □

No exemption in health care field

Star 28/2/91. (320)

Vatcom, with one of its members dissenting, recommends that medicines and medical services be subject to VAT.

VATCOM has rejected a proposal that medical services be exempt from VAT, and has recommended they and medicine be subject to the new tax at the standard rate.

The proposal was contained in the draft VAT Bill circulated last year.

In Vatcom's report released here yesterday, it was recorded that one of its members, the CP's Parliamentary spokesman on Finance, Casper Uys, did not support the committee's recommendation.

Vatcom has also recommended — this time with no dissent — that medical aid schemes be exempt from providing other taxable goods or services such as medicine or medical services.

The report said that in terms of the draft Bill, services provided by registered medical practitioners, dentists and certain other professions would be exempt and that medicines, except those used during the consultation, and items such as spectacles, be taxed.

However, exemption of certain medical services would create administrative problems and inequities.

To illustrate, an optometrist's fees would be exempt and the sale of spectacles taxable.

Input tax not directly attributable to either activity would have to be apportioned using one of the methods commonly used such as turnover, floor space, hours or staff employed.

visit doctors for economic and not medical reasons.

Vatcom said: "The conclusion of the majority of those who made representations was the exemption for medical services should be deleted and all medical services should be taxed."

The treatment preferred by tax experts throughout the world was that medical services and medicine should be taxed, and relief should be provided through direct assistance to the needy.

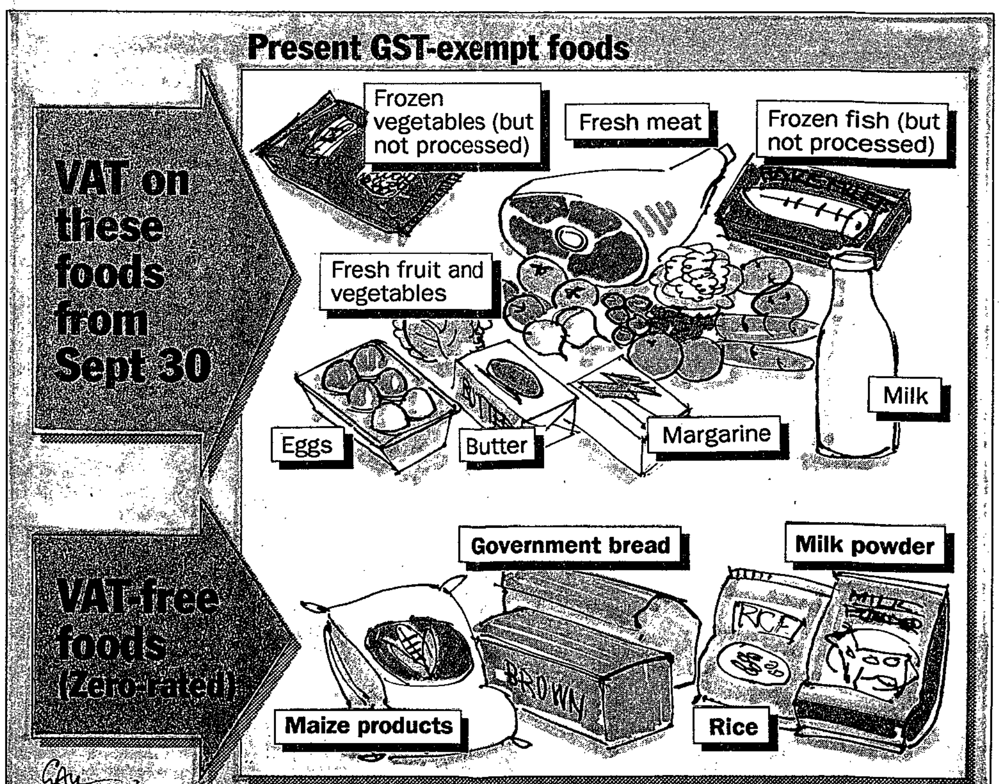
"The blanket exemption, or zero-rating of medical services or medicines, is not an efficient or effective means of assisting persons who require the assistance of the State.

"Most people have some outlay on medical expenses, and these normally account for a modest portion of their income.

"At modest levels, this type of expense is not something that the State should have to bear or subsidise."

The poor and the aged were already eligible for aid by reduced rates at State hospitals, or tax rebates.

Applying standard VAT to all medical services would level



Can the poor stomach tax on food?

Low cost housing subsidy mooted

Star 28/2/91 (320)

ALL HOUSING should be subject to VAT at a standard rate, but new housing costing R35 000 or less should be subsidised by the State to compensate for this, the VAT Committee has recommended.

It has also proposed that land be subject to VAT at the standard rate, but that transfer duty not be imposed on such land.

It said in its report published yesterday that the proposed VAT-linked housing subsidy should be integrated into the new subsidy scheme recently announced by the Government.

The part of the subsidy that compensated for VAT should not be subject to budgetary constraints or priorities, but become a legal liability of the State.

The present GST concession on construction was a blunt instrument that provided relief to the poor, the wealthy and vendors on the same basis.

It was clear that imposition of VAT at a standard rate equivalent to the present GST rate would increase the cost of housing by 4 to 7 percent, depending on whether the land was supplied by the contractor or not.

"The (Vatcom) subcomittee, with the assistance of the SA Housing Trust and the Urban Foundation, identified that the area where the greatest need arose and the greatest number of people could be assisted, was where the total cost excluding transfer costs, did not exceed R35 000.

Vatcom also said it could see no reason why construction services should not be subject to VAT at a standard rate, and recommended that this be implemented. □

Farmers to pay standard tax rate

Star 28/2/91 (320)

The Vatcom report released yesterday has recommended that farmer should be subject to VAT at the standard rate using the same system as any other vendor.

An exception should, however, be made for those farmers whose taxable value of supplies did not exceed R1 million a year and they should be entitled to submit six-monthly returns.

Draft Bill, which could permit small sugar farmers to operate on a flat rate system.

Having examined agriculture's representations, Vatcom contended that the most important disadvantage of VAT seen by the industry was the administrative burden it would place on farmers.

However, many of the objec- [illegible]

crease the cost of compliance for practitioners.

It had also been said that, if they were exempted, practitioners would not be able to claim credit for input tax paid on services such as rents, rates, electricity and water.

Pharmacists had protested that zero-rating of all prescribed medicine would lead to the over-use and abuse of medical schemes, which was already a matter of grave concern.

Patients would be tempted to ... ferent types of medicines and between the different suppliers of medicine.

It would also substantially reduce the administrative cost which the proposed exemption would have caused.

The committee had been told that if medical services and medicines were taxed, medical schemes should also be taxed.

This would mean that contributions to the scheme would be subject to VAT. — Sapa. □

... proposa... that a... ...stuffs be taxed was a sensitive and emotional issue and the Vatcom report has recommended that a limited number of goods now exempt from GST should be zero-rated.

These foodstuffs include maize products, rice, bread and milk powder.

Vatcom also recommended that direct budgetary aid be provided to the needy outside the tax system, which would compensate for the increase of costs as a result of VAT.

A study recommends that when the cost of food increases under VAT, the subsequent burden on the poor could be offset by subsidies outside the taxation system. 320

This could best be achieved by increasing social pensions, grants and subsidies.

The use of a tax system to achieve social objectives, such as providing relief to the needy by exemption of basic foodstuffs, was an inefficient means, unless the exemption was restricted to foodstuffs which were used predominantly or exclusively by the needy.

Studies indicated that in South Africa the GST exemption on basic foodstuffs was inefficient as about 18 percent in value of these foods was consumed by the needy and the balance by those who could afford to pay tax.

The study also showed that 2,3 million of the 16,3 million, mainly pre-primary and primary children and lactating mothers, were in dire need of nutritional support to combat malnutrition.

The question of addressing the problem of poverty in South Africa was outside the scope of Vatcom's mandate and its investigation had been confined to finding the most efficient ways of ensuring that VAT did not adversely affect the needy. Sapa. □

used only by farmers should be zero-rated to improve their cash flow.

The report also recommended that pools operated on behalf of farmers by boards and bodies could, on application, be deemed to be part of the enterprise of the board provided that the board or body elected to register the pool or individual pools separately.

The problems of small farmers foreseen by the Sugar Industry could be dealt with in terms of the proposed Clause 71 of the vendor exemption be increased to R150 000 a year and the payments basis level be increased to R1 million per annum.

VAT would, in many cases, require alterations or improvements to records kept.

If this did occur, it would be seen as an advantage as farmers' records often left much to be desired.

Experience in other countries had also shown that improved record-keeping provided better management information to vendors. — Sapa. □

VAT BRIEFS

The Vatcom report has recommended that the supply of reading material and television services be subject to tax at the standard rate. Representations had been made to Vatcom that the supply of books, audio books, newspapers, magazines and the services of the electronic media be zero-rated or exempt. The basis of these representations was that these goods and services were educational and that it would be a tax on knowledge. While Vatcom did not deny their importance, it found it difficult to accept that they were entirely educational and deserved special treatment.

□ □ □

Educational services, including approved pre-primary schooling, should be exempted from VAT, Vatcom recommended. It also said that subsidies or direct aid be paid to pre-primary educational services which met the requirements of education authorities to compensate for the effect of VAT.

□ □ □

Motor cars should be treated in the same way as other capital assets under the VAT system, and the special provision for cars in the draft VAT Bill should be deleted, Vatcom has recommended. It said that this should be subject to possible transitional measures. Vatcom said it had been argued that denial of input credit for cars would seriously affect the growth of the motor industry.

□ □ □

The VAT Commission has supported a proposal that income tax for disabled people be revised to compensate for the loss of the GST benefit they receive on equipment and aiding devices. The Vatcom report said it had referred representations to the correct authorities concerning the rebates claimed under the Customs and Excise Act for the import of special vehicles, as this fell outside the scope of Vatcom's mandate.

□ □ □

Fuel subject to the Fuel Levy should be zero-rated for VAT purposes, the report recommended. Crude oil for processing would be exempt from VAT on importation. The report said the zero rating would mean petrol companies would receive refunds of input tax "to the extent that the tax on all their inputs exceeds the output tax on other products which are standard rated".

□ □ □

Exempt businesses could avoid VAT on labour, profit and financing if they provided the goods themselves. The report said the VAT draft Bill did not contain self-supply rules and it recommended that these be included in the legislation. The goods and services to which the self-supply rules applied should be set out in regulations which could be changed by the Minister of Finance.

□ □ □

If the level for entry for the payment of VAT was too low and many small traders had to register, the time spent by tax officials on these people could nullify the effect of the revenue generated, Vatcom said. "Experience in other countries indicates that 60 to 70 percent of VAT revenue is collected from 10 to 15 percent of the vendors."

□ □ □

Exemption from VAT should be granted only where practical difficulties were experienced in imposing the tax or where the net effect of imposing the tax would result in little, if any, gain to the State, Vatcom said. It said this had been its approach in deciding on requests for exemptions. "In addition, if the State is of the opinion that certain services such as legal aid merit special treatment, the assistance should be provided through direct budgetary aid." The committee made the remarks in its discussion of requests that the legal profession be exempted from VAT to keep legal costs as low as possible and make them more accessible to all.

□ □ □

A court should be established to hear cases where small amounts were involved and no principles rested on judgment. Vatcom said it accepted there was a need for an informal forum for hearing small cases. The proposal was that where the tax involved was R30 000 or less, the small claims court could be used.

□ □ □

Goods exported or removed from South Africa for consumption outside the Republic should not be subject to VAT, and a scheme whereby tourists could reclaim the tax after the goods had left the country should be introduced, Vatcom has recommended.

□ □ □

Welfare organisations raised funds by making and selling things in competition with businesses and the regular supply of goods or services should not receive special treatment, the Vatcom report said. It pointed out that welfare organisations were issued with GST exemption certificates allowing them to buy tax free. If a welfare organisation supplied taxable goods or services which exceeded R150 000, it should register and charge VAT.

□ □ □

Imports from the TBVC countries by vendors for the purposes of their enterprises would not be subject to VAT, but no input tax would be allowed for these goods, Vatcom said.

□ □ □

Penalty interest for the non-payment of VAT would be charged at 10 percent for the first month and 2,5 percent a month thereafter, the report said. A number of representations to the Vatcom board appeared to have arisen as there was no distinction between penalty for non-payment and interest.

□ □ □

Horse racing and betting should be subject to VAT, but the provincial administrations should reconsider the total take-out from the industry with a view to reducing betting taxes, Vatcom has recommended. Takeout is the amount not returned to punters in the form of winnings.

□ □ □

Vatcom has recommended that the supply of accommodation of a dwelling be exempt from VAT. "The owner-occupier of a dwelling would have to pay VAT on the acquisition of the dwelling, rates, insurance and repairs, but not on interest."

□ □ □

Vatcom also recomended that municipal rates and regional service council levies should be subject to VAT. Vatcom said although rates were often referred to as a tax, they were in fact a payment for services rendered such as roads and traffic control.

Travel, except flying, slips net

(320)

Star 28/2/91

ONE of the most sensitive issues Vatcom had to consider was how supplies of transport services were treated, the report on VAT said yesterday.

Transport was an important part of the budget of low-income households and was sensitive to any price increase.

Due to the widening of the tax base the cost of transport concerns would increase.

Vatcom was concerned how fare increases could be justified if they were exempted.

Vatcom recommended that passenger transport in buses, trains and taxis be exempted including luxury forms of these conveyances.

It was recommended that air travel not be exempt.

Representations were made for the zero-rating of bus and rail fares.

It would be hard to ensure that taxis, which received mainly cash, paid over the correct amount of VAT.

The bus transport industry was heavily subsidised through various schemes as was rail traffic, which could lead to forms of double taxation.

Double taxation already occurred in South Africa through transportation being taxed but this problem is soon to be removed from the system.

Vatcom also recommended that additional subsidies be paid to compensate for the additional costs expected to be incurred by the system.

"Exemption would ensure that the system is less regressive and would be targeted as the main users are the low income consumers." — Sapa. □

VAT relief for short-term reinsurers

CAPE TOWN — Reinsurance of short-term insurance would contribute to the fiscus and would not be liable to VAT, Vatcom said in its report released yesterday. Bday 28/2/91

A request from short-term insurers that their services be exempt from tax, led Vatcom to recommend a premium tax of 1,85%. On an assumed VAT of 10% this would generate about the same amount of revenue as would be gained from taxing services.

"The imposition of VAT on short-term insurance will not require any increase in premiums, although the sums insured will have to be increased to take account of those goods and services not previously subject to GST.

"This is due to the input tax credit granted to insurers on claims paid."

Vatcom also recommended that stamp duties on short-term insurance contracts be abolished as they would be inappropriate if VAT was to be imposed on this form of insurance. (88) (320)

There were difficulties in the taxing of marine insurance due to the zero rating of cargo. Claims would have to be split between zero-rated and standard-rated portions.

The services of brokers formed part of the cost of short-term insurance and added value to the economy and it was recommended that the services of brokers not be exempt from VAT. — Sapa.

B/Day 28/2/91

320

New tax will mean rise in building costs

LESLEY LAMBERT

CAPE TOWN — The construction industry has welcomed proposals for the subsidisation of low-cost homes to offset the inflationary effect of VAT on house prices.

Apart from this and the chance of suitable phasing-in for capital goods and services, the industry has received little comfort.

Under GST, the industry attracted tax on about 50% of the contract price of construction. But Vatcom has supported a recommendation in the draft Bill that the industry be taxed at a standard VAT rate, which will result in a 50% rise in the tax element of the cost of construction.

This increase should be offset by the proposed credit for tax paid on intermediate and capital goods which will reduce the cost of commercial construction services. The industry is concerned that the state's demand for civil construction will decline because government is exempted from VAT and thus does not benefit from the input credit.

The industry argues that government should be subject either to VAT or to self-supply rules.

The report said concern was expressed about the inflationary effect of VAT on the price of low-cost homes. Calculations showed that VAT would raise house prices by between 4% and 7%.

The subcommittee, with the assistance of the SA Housing Trust and the Urban Foundation, identified homes costing R35 000 and less as the area of greatest need.

It recommended that new housing in this price range be compensated for the increase in costs and that the subsidy be free of budgetary constraints.

Medicines and services will not escape

Political Staff

320

CAPE TOWN — Medical services, currently exempt from GST, are to fall into the tax net with the introduction of VAT — if a proposal by Vatcom is accepted.

All medicines will also be subject to VAT at the standard rate.

This amounts to a reversal of the position spelt out in the Draft Bill on VAT, which stated that services provided by medical practitioners and other members of the medical fraternity should be exempt from tax.

The Vatcom report states that the conclusion of the majority who made representations was that all medical services and medicine should be subject to tax.

The motivation for this was:

- The "playing field" for all parties supplying medicine would be level;
- Prescription medicines and other products used by the public for self-medication would be treated equally;
- There would be no discrimination irrespective of the place or circumstances of supply and
- Socio-economic patients did not pay anything or only a nominal amount for medical services and medicines received from the state. VAT would not affect them.

Vatcom says that the preferred treatment throughout the world is that medical services and medicine should be taxed, and relief should be given to the needy through direct assistance.

Further it adds, experience in other countries had shown the exemption of prescribed medicines led to pressure being put on medicial practitioners to prescribe medicine which would be bought over the counter.

The report states that the poor are to a very large extent assisted by provincial hospitals, state institutions and clinics where their financial position is taken into account when payment is determined.

Forming of groups for advantage frowned upon

BDay 28/2/91

CAPE TOWN — Companies should not be entitled to form groups with other companies to obtain advantages under the VAT system, Vatcom has recommended.

It said the draft VAT Bill provided for two or more companies to apply to be treated as a group for VAT purposes, and render only one common return. A company could derive certain limited advantages from group treatment, such as the saving on administrative costs.

Group treatment did, however, tend to undermine the objectives of establishing reliable audit trails and effective monitoring.

Since group treatment had the effect of ignoring taxable supplies between members of a group the advantages of an invoice-based VAT system were lost in many cases.

Group treatment should not open the doors to tax evasion.

A way of dealing with some of these problems was to set restrictive admission requirements to groups, but this would make so few cases of group treatment possible it would appear meaningless to provide for this treatment at all.

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The scales clearly swung against group treatments when weighed against the potential problems in control which Inland Revenue could experience, as well as maintenance of statistics problems. — Sapa.

Govt will have to find good reasons to justify VAT

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GRETA STEYN B/Day 28/2/91

AMONG the thousand written submissions to government's value added tax committee (Vatcom) were suggestions that SA could not afford the introduction of the new tax at this time. Reasons given were politics, the state of the economy and high compliance costs. Government remains steadfast in its belief that VAT will be worth the trouble. But will it?

Deputy Finance Minister Org Marais is the first to admit that selling VAT to a sceptical, tax-exhausted public will be a difficult task. Changing over to VAT is a costly exercise for businesses. Consumers face the prospect of paying tax on previously untaxed goods. Politically, VAT is difficult to motivate because it is seen as a tax that hits the poor harder than the rich. Can government provide good enough reasons for implementing such a regressive tax at a time when redistribution of wealth is a major issue?

The case for VAT rests mainly on the case against GST. Government criticises the present sales tax system because it excludes a big slice of consumption spending on basic foodstuffs and services. The exemption erodes the base and creates a bias towards a higher rate.

Vatcom's report says the exclusion of many consumption goods and services from GST creates distortions that result in a misallocation of resources.

But the main criticism of the present GST system is probably double taxation. This "cascading effect" of tax-on-tax comes about as a result of GST on business inputs — capital goods and intermediate goods consumed in production. Estimates noted in the Vatcom report put the effective rate of a cascading tax at a staggering two and a half times the nominal rate. In other words, the effective tax paid on final goods could be more than 30% with GST at a nominal 13%.

Under VAT, the double tax will be eliminated as businesses will get tax credits for capital goods and intermediate goods and services ("intermediate" in this instance are those goods consumed in the production process).

The Vatcom report says: "The elimination of double taxation on capital and intermediate goods will eliminate distortions in the economy and reduce the cost structure of businesses."

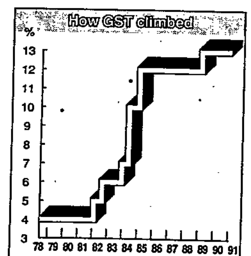
Government expects major economic benefits to flow from the elimination of double taxation. Economic efficiency will get a boost and this could flow through into increased economic growth. The report cites "conservative" estimates that there could be an increase of 0,6% in gross domestic product over a three-year period — and 50 000 additional jobs could be created. (The committee unfortunately omits the VAT rate on which these estimates are based.)

But there is a catch. Government cannot afford to grant the full tax credit on capital goods and intermediate "consumable" goods and services. Immediate tax credits on these goods would result in a loss to the fiscus of about R7,5bn, or about 37% of the GST base. The loss will not be offset to any great extent by extra income from taxing food (a net inflow of about R2bn is expected after direct food aid to the poor) or from previously untaxed services.

The Vatcom report says the tax base "will not increase by a large amount" as a result of the inclusion of additional services. Additional tax will only be collected when these services are rendered to consumers — and not to businesses.

Full credit on capital and intermediate goods and services will only be possible at a VAT rate of 13,4% — an option not even being considered by Vatcom. The committee's approach was that the rate had to be kept below 13%. As a result, full implementation is impossible and full credit for capital goods will be phased in over a period of time that could take years.

SA will have to wait for the economic efficiency benefits of changing over to VAT.



Graphic: FIONA KRISCH Source: ARTHUR ANDERSEN

Says Vatcom: "The importance of a low rate of VAT cannot be overemphasised, and ... in the interests of a lower rate, Vatcom would support the phasing in of the input credit for capital goods and services."

Does that mean a low rate now, say 11%, only to be increased later when the full system is implemented? Much has been made of the fact that VAT will be a broad-based tax with a low rate. But government faces a major obstacle in that the Exchequer has little to gain by broadening the base to include services and much to lose by excluding capital goods.

Other countries that implemented VAT experienced similar problems. A number introduced new taxes on capital to cope with the reduction in the tax base — a move Vatcom does not favour. Germany took five years to phase out all tax on capital, Austria and Belgium took seven years and the Netherlands four years.

The crucial question is — how many years will SA have to wait for the system to work? How long will it be before the benefits of economic efficiency flow through into economic growth? To delay abolishing tax on business inputs would be to contradict the very reason why VAT is needed to replace GST — to free the economy from double taxation and to reduce the cost of capital.

Vatcom wants to achieve the ideal position "as soon as possible" and will draw on IMF expertise to develop a strategy to phase out tax on capital goods. Marais declines to speculate on the length of the phasing-out period.

The key to overcoming the problem lies in the extra tax that will be collected because of less evasion under VAT. The tax leaves a clearer audit trail and evasion is easier to spot than under GST. Government hopes its calculations are too conservative, that the extra tax it gets because of more efficient collection and less evasion will make full implementation possible at a rate of less than 13%.

An IMF study says the change to VAT should catch 60% of the GST currently avoided or evaded. But how much is that? Hundreds of millions? Billions? Government has been careful not to quantify, but is openly optimistic that the boost from this source will speed up phasing out tax on capital goods.

SA tax expert Ben van Rensburg maintains the improved collection benefits of VAT are overstated. He notes the Margo Commission recognised this and cites empirical evidence in Europe and Britain that substantial evasion continues. Any gains are also to some extent offset from the increase in Inland Revenue staff numbers needed to administer VAT. Factors like the refunding of tax credits granted to businesses create the need for extra manpower.

But Marais notes that New Zealand underestimated the yield from VAT by about 20%. A similarly dramatic reduction in tax evasion in SA could see the VAT rate remain low once the full system is implemented.

In the meantime, government has to defend a new tax that will be unpopular for a host of reasons. These include an estimated 4%-7% rise in the cost of residential buildings, higher food prices, a rise in the cost of legal and other professional services, and tax on municipal rates. The pain will come first, the full economic benefits lie in the future — if government's gamble on improved collection pays off. Marais might need more than the budgeted R10m for VAT publicity to convince SA that VAT is worth the trouble.

Good news on cars, bad news on entertainment

GILLIAN HAYNE

IN a complete turnabout from the draft legislation, Vatcom suggested that cars should be treated like any other capital goods — a move which tax experts describe as indicating Vatcom "has come to its senses".

It has been determined that capital goods should be treated in the same manner as other supplies. However, the problems of immediate implementation are twofold:

- Allowing immediate full input credits could distort capital expenditure; and
- Revenue collects an estimated R4bn in GST from capital expenditure. This would be lost to the fiscus through input tax credits.

Ernst & Young tax partner Ian MacKenzie said Revenue had probably decided to compromise between bringing in a low tax rate and moving away from a pure VAT system. The phasing-in period will be about five years.

Deloitte Pim Goldby tax manager Rob Collins also said it was good news that cars were put on a level playing field with other goods in terms of VAT.

"It would appear as though motor cars supplied under a financial lease or full maintenance lease which the vendor does not capitalise for income tax purposes would then qualify for an input tax credit," he said.

Bus Day 28/2/91

It should be noted, however, that lessors are denied an input tax credit in that they capitalise the motor vehicle.

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Businesses have been denied input tax credits on entertainment despite numerous representations, ostensibly because of the difficulty in determining the personal enjoyment derived from business entertainment.

The Vatcom report said entertainment expenses claimed often had only a very tenuous link with business activities and held an element of personal enjoyment. This led the committee to stick with its original ruling that entertainment would be exempt from VAT.

MacKenzie said the exception went against the general principle of VAT being a conduit tax and would also cause administrative problems.

Practically, in cases where meals form part of a composite fee such as on an airline or seminar — where the main issue is not the meal — an input tax credit has been allowed.

Meals and refreshments provided for employees also gave rise to confusion because it was argued that this was a fringe benefit, which in the Income Tax Act would have been awarded nil value. Vatcom recommended that it be defined as entertainment and not be given input tax credit.

Help poor through direct assistance

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BDay 28/2/91

LESLEY LAMBERT

CAPE TOWN — If state assistance compensates for the inflationary effect of drawing all currently exempted foods into the VAT net, recommendations for the zero-rating of basic foods may not be implemented.

Vatcom recommends in its report, released yesterday, that a limited number of goods now exempted from GST, such as maize products, rice, bread and milk powder be zero-rated. In addition, it recommends that the needy be provided with direct budgetary assistance in the form of higher social pensions, grants and subsidies to compensate for VAT on other basic foods which are GST-free.

The committee indicates that it would have preferred a system free of any exemptions and zero-ratings, with compensation for the needy in the form of a lower tax rate and state subsidisation outside the tax system. But, because of the acute political implications of generally inflated food prices, the recommendation to exempt a limited number of basic foods is one of the few exceptions in the report.

The Finance Department has commissioned a working group under the chairmanship of deputy director-general Estian Calitz to investigate the implications of VAT for the poor. It is understood that if the group comes up with a proposal for direct state assistance which compensates for the effect of drawing all foods into the VAT net, the recommended exemptions may not be applied.

Deputy Finance Minister Org Marais was non-committal at a Press briefing yesterday, saying a final decision on food exemptions would depend on, among other factors, the findings of the poverty working group and the rate at which VAT was introduced.

Vatcom stresses in its report than if all foods are to be taxed, effective and targeted assistance must be in place on or before the date on which VAT is introduced.

An independent study by Unisa has shown that if all foods were VAT-taxed at a rate of 10%, white South Africans would be subject to a 1,8% increase in food prices and blacks to a 2,3% increase.

Direct aid

The architects of VAT argue that a system free of exemptions and zero-ratings will be more administratively efficient and freer of tax evasion and other problems related to GST exemption. Billions of rands of additional revenue collected by taxing all foods and closing off evasion conduits could be spent on direct aid for poor people disadvantaged by the increase in prices, they argue.

Marais says estimates of the revenue not collected as a result of the exemption of certain foods from GST are well over R3bn. An additional R2bn in potential revenue is lost because the benefit of the existing exemption is directed towards people who do not need it.

Billions in tax credit likely

B/Day. 28/2/91

LESLEY LAMBERT

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CAPE TOWN — Industry is likely to receive an immediate multi-billion-rand credit for tax on intermediate goods used in the production process, and a phased-in credit for capital goods, once VAT is introduced.

In its report, Vatcom said it supported the payment of credit for tax paid on all business inputs currently subject to GST, including intermediate and capital goods, and services.

It said government also supported the proposal but was concerned that full and immediate relief for both categories of goods would cost too much — an estimated R7,5bn — and have the effect of deferring purchase of the goods.

As a result, Vatcom recommended full and immediate credit for tax paid on intermediate goods — consumables used in the production process — and a phasing in of credit for capital goods and services.

No mention was made of the manner in which the credits would be phased in, but government spokesmen said it would be based on the rate at which VAT was introduced. They added that the lower the rate, the longer the phasing-in period was likely to be.

Vatcom recommended special conditions for credits on capital goods in the construction industry, which currently attracts GST on only 50% of its costs. However, it added that this would be necessary only if the phasing-in percentage resulted in a greater degree of double taxation.

Statistics provided by Vatcom showed capital and intermediate goods and services, which are taxed in the hands of vendors, accounted for about 37% of the total GST base. Of this amount, about 60% was on intermediate goods, which meant total credit paid to industry for these goods could amount to about R4bn.

An important effect of the payment of a tax credit on business inputs would be elimination of double taxation from the production/sales chain.

The potential for deferment of expenditure on capital goods was a matter of concern to industry and Vatcom received a number of proposals on measures to avoid it.

These included:

- A reduction in the GST payable on capital goods prior to the implementation date;
- An accelerated write-off of the cost of capital goods purchased during the transitional period for income tax purposes;
- A reduction in the rate at which the cost of capital goods could be written off for income tax purposes if the goods were acquired after VAT's commencement date;
- A tax imposed on imported capital goods; and
- A phasing in of the deduction of credit for input tax paid on capital goods and services acquired after the implementation date.

According to Vatcom, the proposals had one common problem: the need to define capital and distinguish it from revenue. It was likely the definition used for income tax purpose would apply.

FINE MESHED TAX NET DESIGNED TO CATCH ALL EVADERS

HAROLD FRIDJHON

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VAT is a fine-meshed tax net designed to catch all the minnows, and some big fish, too, who have been successfully evading the general sales tax (GST) at great cost to the Fiscus.

Some sharks will undoubtedly gnaw their way out of the tax encirclement, and the Receiver of Revenue might be deprived of his full entitlement, but at least he will get part of it as the tax-paying net is trawled across every step of the sales process from primary producer to the ultimate point of sale.

The basic principle of VAT is that people in business — and in the professions too — pay tax on the difference between the debits on their purchases invoices and the amounts on their sales invoices, less the VAT which has already been paid down the line.

The difference between cost of goods and service and the sales price, or fees paid, is the so-called added value. B/Day 28/2/91.

The Department of Finance published a pictogramme to illustrate the VAT process on the assumption that VAT is levied at 13%. It starts with a forester who sells timber for R100 and pays the Receiver R13. The logs go to the sawmiller who cuts the timber into planks and delivers and sells the timber, having added R300 value, to a furniture manufacturer for R400 who was charged R52 Vat. But the Receiver has collected R13 from the forester so the miller actually pays only R39 VAT.

The furniture manufacturer uses the R400 worth of wood to make a table. Adding value of R200 he sells the table for R600, and charges the retailer R78 VAT. The manufacturer reduced his liability of R78 to the taxman by the R52 which has already been paid by the forester and the sawmiller.

And so we reach the end of the tax trail. The shopkeeper sells the table — for which he paid R600 — to his customber for R700, plus VAT, at 13% amounting to R91. But as R78 has been collected by the Receiver the shopkeeper sends a cheque for only R13 to his local taxman.

No VAT liability accrues at any stage until the goods are sold. Until the goods are sold the person sitting with them is out of pocket to the extent of his down-the-line VAT credits.

VAT

The add-in price you see will be the price you pay

(320)

Bday 28/2/91

CAPE TOWN — The add-in system of VAT, with certain adjustments, has been recommended by Vatcom in its report released yesterday.

Much comment had been received on the question of whether the price of goods and services advertised or quoted should include VAT. Last year's draft Bill provided that the price of goods and services advertised or quoted should include tax. Alternatively, the price exclusive of tax, the tax and the price inclusive of tax could be advertised or quoted.

Vatcom said it was proposing an inclusive system because a large proportion of the less sophisticated consumers found the present exclusive GST system confusing. For many others the addition of GST at the till was a constant source of irritation.

Research done in SA indicated that a large percentage of consumers saw the inclusive system as one of the main advantages of VAT. This was supported by representations to Vatcom by leading consumer and business organisations.

Opposition to the inclusive system came from those who did so as a result of the real fear that the change-over from the exclusive system to an inclusive system would create additional administrative work and costs.

Other matters raised were that the commencement of VAT should be on a Monday to allow vendors time to make the necessary changes to their systems; flexibility was needed to allow vendors to ease into the system and all price tickets would have to include a statement that VAT was included.

Confusion

A representation raised the matter of the inclusive system being inflationary as vendors would round off inclusive prices of small items to the next cent. Vatcom felt this was a valid argument but, on the other hand, vendors could absorb some of the tax, eg R9,99 instead of R10,00, to make the price more attractive.

One business organisation felt that tax should be visible. Vatcom said this did not accord with the views of the majority of consumers or consumer bodies and had to be weighed up against the irritation and confusion the exclusive system caused.

In addition, there were many other taxes that were, or could be, included in the price of goods e.g. import duties and surcharges. There did not seem a logical reason, however, why VAT or GST should be singled out for special treatment and made visible if other taxes borne by consumers were not.

Vatcom has recommended that the implementation date be on a Monday and that Clause 64 of the draft Bill be changed so that vendors were not required to state on each price ticket that VAT was included. A sign in the shop to this effect would be sufficient.

A further recommendation was that legislation be introduced which would allow the Commissioner to approve methods of pricing goods and services prior to and after implementation of VAT to reduce the cost of the change-over to the vendor. Similar concessions should be made when there was any change in the rate of VAT. — Sapa.

What's taxed and what's not

BILLY PADDOCK

CAPE TOWN — Vatcom has recommended that VAT be applied to all goods and services, bar the following:

- Limited foodstuffs such as maize products, milk powder, bread and rice;
- Goods and services exported from SA by tourists and others;
- Educational institutions and registered pre-primary schools;
- Bus, train and taxi transport;
- Financial services (conditionally);
- Farming inputs such as fertilisers, feed and fuel (but farmers cannot claim input credit on these);
- Supplies by government departments and parastatals;
- Medical aid schemes;
- Fuel subject to fuel levy;
- Crude oil for processing into fuel, subject to fuel levy exempted on import; and
- Rentals.

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Goods and services recommended for inclusion in the VAT net are:

- Small businesses with an annual turnover of more than R150 000;
- Farmers with an annual turnover of more than R1m;
- Agents, labour brokers, etc;
- Foodstuffs apart from those above;
- Books, newspapers, magazines and the electronic media;
- Construction and construction services;
- Entertainment and motorcars;
- Fringe benefits;
- Horse racing and betting;
- Imports;
- Krugerrands;
- Land;
- Legal services;
- Municipal rates and regional service council levies;
- Second-hand goods;
- Short-term insurance and reinsurance (but stamp duties are abolished);
- Medical services and medicines;
- Veterinary services; and
- Welfare organisations, with special concessions outside the tax system.

Final figure may be less than 13%

Battle raging in govt over rate for VAT

BDay 28/2/91

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BILLY PADDOCK

CAPE TOWN — A battle is raging in government over the rate at which to peg VAT, which starts in September.

Deputy Finance Minister Org Marais yesterday called it "a fight between the hawks and the doves" — conservatives and risk-takers.

The final rate is likely to be less than the 13% of GST, but a strong argument has been put forward to fix it at up to three percentage points lower than GST.

At a briefing on the release of the final Vatcom report, Marais said no decision had yet been taken and government was wrestling with the problem.

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● Will VAT be worth the trouble? Page 10
● Comment: Page 10

Conservatives wanted to ensure the Treasury got the requisite revenue, while the risk-takers were prepared to come in at a low rate for politically motivated considerations.

He said government did not want to introduce VAT at a low rate and then be forced to change it in a year's time.

A rate of 13,2% or 13,3% would be ideal to avoid a phasing-in period for capital goods. It would also bring in extra revenue to fund social spending, Marais said.

But if the Cabinet pegged it between 13% and 13,5%, it ran political risks, he said. He stressed that there was a desire to keep the rate as low as possible and many representations to Vatcom had suggested that 10% would be acceptable to the public.

The large Third World component in SA militated against a very high rate.

The committee's brief was to raise the same amount of revenue as GST (R18bn) and, despite VAT widening the tax base substantially to include services, the Treasury would probably not get a proportionately greater amount of tax from a lower rate, largely because of the effects of GST's double taxation. Suggestions in government circles are that VAT is unlikely to be a lot lower than GST.

Marais said when VAT was implemented on September 30 it would cost R4bn for applying input credit for intermediaries. If they wanted to give credit for capital goods, it would cost a further R3,5bn.

The problem was not knowing what SA's tax base was. He said government was still waiting for the IMF team to report back on the best combination of pegging the rate and the phase-in period. The rate would be announced in the Budget.

Because the committee had representatives from widely divergent interests and support for the report is unanimous, apart

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VAT battle

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from a couple of stated divergences, an easy passage into law is expected.

The Bill would be tabled and Marais expected it to be passed before the end of March, giving the private sector the promised six months' preparation time.

He said VAT was a very powerful and efficient system of indirect tax and ideally there should be no exemptions or applications of zero rating.

Most lobbies for exclusions were rejected by the committee but those that did succeed were based on practicality and administrative convenience. An exception to this was farmers, to whom the committee grants concessions to protect their fluctuating cash flows.

Marais said VAT was a neutral tax which did not discriminate between goods and services and which did not try to reallocate resources or redistribute income.

He said research indicated that services constitute a larger precentage of the expenditure of higher income households, than of those in the lower income groups. Under GST people were paying about 25% because of cascading.

The committee recommended that discretionary powers be given Finance Minister Barend du Plessis to waive tax on certain basic foodstuffs; to exempt passenger transport but not air transport; to assist the small business sector and the farming community; and to create a package of relief measures to the poor and needy, outside the taxation system.

The committee had found that using tax to achieve social goals was ineffective.

Most of the exemptions were granted because the state already had in place various forms of subsidies in the areas of transport, education and housing.

He said financial services would escape the VAT net but further investigation was being conducted.

Of particular importance to SA's small business contingent, Vatcom recommended that businesses with an annual turnover of less than R150 000 need not register for VAT. In the draft Bill the threshold was R50 000. Thus while they pay VAT on their purchases, they need not charge VAT on their sales and would not have to submit VAT returns to the Receiver.

Vatcom also recommended that farmers with a turnover of less than R1m a year submit VAT returns only on a six-monthly basis.

Marais said the committee recommended that a flat rate VAT be introduced on a Monday to afford businesses a weekend to prepare for the change.

Tough report calls for VAT to cast its net wide

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By Peter Fabricius Star
Political Correspondent 28/2/91

Value Added Tax (VAT) will be imposed on the sale of virtually all goods and services if a tough report yesterday by the Government's VAT Committee (Vatcom) is accepted.

However, Vatcom has recommended that basic foods such as maize products, rice, bread and milk powder should not be taxed or that the Government should provide direct assistance to the poor to compensate.

However, many other goods and services which are presently exempt from GST should be subject to VAT, the report recommends. These include welfare organisations and medical services.

The committee has tried to broaden the tax base by including as many goods and services as possible.

Vatcom, chaired by Deputy Finance Minister Dr Org Marais, yesterday produced its report, which is likely to be introduced on September 30.

Dr Marais said yesterday that the Government was debating whether to introduce VAT at 10 percent or at 13 to 13,5 percent.

Vatcom has recommended:

- That VAT exemptions and zero-rating be kept to a minimum. Exempt goods and services carry no tax on the final processing stage. Zero-rated goods and services bear no tax.
- That VAT should be inclusive rather than exclusive.
- Horse-racing and betting should be taxed — but provinces should consider reducing the betting tax to compensate the horse-racing industry for loss of revenue.
- Exports will not be taxed but imports will.
- Passenger transport in buses, trains and taxis, but not aircraft, should be VAT-exempt.
- Welfare organisations should pay VAT but relief should be introduced. The Government should also consider increasing direct aid.
- Books, magazines, newspapers and TV services should be taxed at standard rate.
- All housing should be taxed at standard rate but houses of R35 000 or less should be compensated for increased costs.
- Rent should be VAT-exempt.
- Educational services, including authorised pre-primary services, should be exempt.
- Land should be taxed at the standard rate but then transfer duty should not be paid.
- All medicines and medical services should be taxed.
- Fuel subject to the fuel levy should be zero-rated.
- The proposed penalty-interest of 10 percent for not paying VAT should become a pure penalty — and further interest should be imposed at an initial 2,5 percent a month.
- Small businesses with a turnover of R150 000 or less should not pay VAT.
- VAT should be paid every two months — but farmers whose turnover does not exceed R1 million a year need only pay tax every six months.
- For small businessmen who may be confused over VAT, The Star has produced, on tape, an easy to follow guide to the new tax.

Selling for R29,95 (excluding GST), the tapes are available from The Star Promotions Department, Box 1014, Johannesburg 2 000, telephone 633-9111.

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Date set for start of new tax system

Sowetan 28/2/91

(320)

By ISMAIL LAGARDIEN
Political Correspondent

VALUE Added Tax (VAT) will be introduced in South Africa on Monday, September 30.

Announcing this is Cape Town yesterday, the deputy Minister of Finance, Dr Org Marais said the rate was still under discussion, but would be announced on March 20, when the Budget is tabled in Parliament by the Minister of Finance, Mr Barend du Plessis.

VAT is a broad-based consumption tax imposed on supplies, services and goods.

A buyer of goods or services is required to pay VAT to the supplier. The supplier in turn is required to remit the tax to the Receiver of Revenue.

VAT is designed that the tax is ultimately borne by the consumer of goods and services.

VAT differs from sales tax in that GST is collected at the point of sale, whereas VAT obliges every vendor in the production chain to charge, collect and remit to the receiver a portion of the total VAT - which is ultimately paid and borne by the consumer.

VAT will replace GST and exemptions should be limited to an absloute minimum, Marais said.

He also said that the administrative structure of VAT had to be simple to enable in particular smaller business "to contain implementation costs".

Assistance to "the needy and other groups" in respect of their purchase of goods and services "should, where possible, be implemented outside the tax system," he said.

According to the VAT study group, Vatcom, using tax systems to achieved social goals, such as rendering assistance to the needy "was extremely difficult".

"This has been proved by the GST exemption on basic food, a measure inteded to assist the needy.

"In fact, this benefit is being enjoyed by a large extent to those who do not really need support," Marais said.

He said that the problem with GST was that people found ways to evade paying tax.

With regard to assisting the needy (consumers) it has been recommended that:

* Certain foodstuffs, those currently exempted from GST, be exempted from VAT.

* Assistance in the form of increased social pensions grants and subsidies could be introduced to aid certain people for possible higher expenses incurred with the introduction of Vat.

Public transport and education are exempted, too.

"The exemption (of transport) would, therefore, constitute a form of relief targetted specifically at the needy in a way that would not be abused significantly by higher income consumers," Marais said.

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Interest rates may drop

Sowetan 28/2/91 (320)

THERE will be no significant drop in taxes though government had a favourable financial year and the economy has already cooled down significantly, according to Sanlam's prediction for next month's budget.

The Minister of Finance, Mr Barend du Plessis, will have little room to manoeuvre towards his goal of lower personal taxes, Sanlam's chief economist, Mr Johan Louw, says in his latest economic survey.

Louw is more optimistic about interest rates. He expects the prime rate to drop by two or three percentage points between now and the end of the year.

On inflation too, the survey has good news: It is expected to drop during the course of the year, to between 11 and 12 percent by December. The average for 1991 should be about 13 percent. In 1989 it was 14,7 percent and last year 14,4 percent.

The budget is to be presented in an "economy that has already cooled off considerably". Foreign reserves are not yet high enough, however, to accommodate a significant upswing. And the still high inflation rate is indicative of a strong cost push.

In these circumstances the budget is expected not to be expansionist.

Regarding state income in the current financial year, it seems that the budgeted figure of R64 938 million will be surpassed. Receipts of R67 500 million are estimated, 10 percent more than in the previous financial year.

The comparatively mild economic downturn and generous increases in wages and salaries during the past year helped to maintain relatively high spending by private consumers.

Considerably more personal income tax was paid - the state will have received an estimated R22 500 million from this source, about R2 000 million more than the budgeted amount.

BAREND DU PLESSIS

Expectations are that customs and excise duties as well as mining tax (excluding gold mines) will also yield more than the budgeted totals, while tax on gold mines, general sales tax and company tax will yield less.

Government expenditure in the present financial year will be about R1 800 million more than the budgeted R72 932 million.

Possible tax proposals include:

* Relief to individuals to partly counter the effects of inflation (bracket creep).

* Further concessions on tax paid on income from interest, to encourage saving.

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TAXATION — 1991

MARCH.

Most goods could be slightly cheaper

Argus 1/3/91 (320)

By DALE KNEEN, Staff Reporter

MOST goods could be marginally cheaper if VAT (value added tax) is pegged at 10 percent when it is introduced later this year.

Consumers will pay tax on goods purchased in the same way that they do under GST (General Sales Tax).

The difference is that most of the VAT handed to the seller by the consumer would have already been collected by the Receiver.

The system is not as complicated as it would appear. VAT is merely collected by the Receiver at each point in the manufacturing and distribution chain, according to the value that has been added.

This is the major difference from GST where all tax is collected when a product is bought by the end user or consumer.

A person or company will pay VAT to the Receiver on goods and services introduced, bought or used in the course of a production or distribution transaction.

The big advantage with this system, experts say, is that it extends the tax-gathering base more widely and is less susceptible to evasion than GST.

Apparently sellers are tempted to evade payment increases under GST when the amount paid to them exceeds 10 percent of the cost of the goods.

VAT is collected in smaller amounts as the goods increase in value while being produced. The Receiver is therefore more likely to have the entire amount when the product is finally completed and sold.

The system of paying in tax at each stage in the chain of production is also self-policing because there is a better audit trail.

Because offenders can be caught more easily, tax experts believe VAT will put an end to the up to 30 percent of GST currently being evaded.

The second major difference between GST and VAT is that, theoretically, VAT ought to make goods cheaper for the consumer.

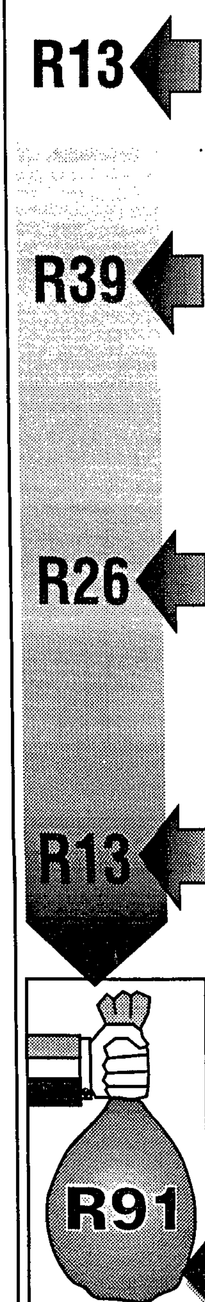
Double taxation often occurs in a GST system as sales tax is hidden in the cost of all goods and services.

A huge range of components is put into many products and all of these are taxed separately.

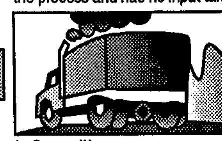
But the problem with the VAT system proposed this week is that goods previously exempted from GST will probably be taxed under the new system.

Although the Department of Finance said they would find other ways to help the poor, people battling to survive are unlikely to be im-

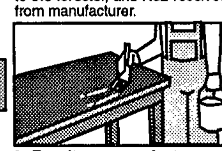
VAT: How it works



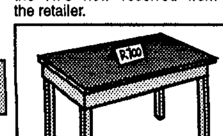
1. Forester
Cuts R100 worth of wood and charges R13 VAT. Pays R13 to Receiver of Revenue. (He starts the process and has no input tax)



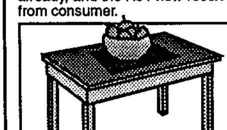
2. Sawmiller
Transports and distributes planks to furniture manufacturers. He adds value of R300 to the wood bought from the forester, sells it to a manufacturer for R400, and charges R52 VAT. Pays the Receiver of Revenue the difference between R13 VAT he paid to the forester, and R52 received from manufacturer.



3. Furniture manufacturer
Makes a table - and in the process adds value of R200. Sells to the retailer for R600, and charges R78 VAT. Pays the Receiver the difference between R52 paid already, and the R78 now received from the retailer.



4. Retailer
Adds value of R100, sells a table worth R700 to the consumer, and charges R91 VAT. Pays Receiver the difference between R78 paid already, and the R91 now received from consumer.



5. Consumer
He bought a table for R700, and has paid R91 VAT.

6. Receiver of Revenue
Receives in total R91 VAT from the forester, wholesaler, manufacturer and retailer; which they in return recover from the consumer.

Explanation
For the sake of simplicity, this illustration assumes a VAT rate similar to the present 13% GST. The illustration demonstrates the production/distribution chain from forester to consumer, and indicates how each link in the chain pays VAT.

Tax evasion becomes very difficult. At each stage of the production and distribution chain, less tax is at risk. The VAT audit trail will allow the Receiver of Revenue to follow up transactions.

VAT: How it works . . .

* From Page 9

Sowetan 1/3/91

Q: Will VAT be able to beat the tax dodgers?

A: In most cases, yes. The VAT collection structure is so designed that its's going to be difficult to keep transactions secret from the Receiver.

It reduces the amount of tax at risk at each stage of the business cycle and creates an audit trail which makes the detection of fraud easier than under GST.

The International Monetary Fund is of the opinion that 60 percent of the tax lost under the GST system through evasion will be collected by a VAT system.

Q: How many other countries have already successfully introduced VAT?

A: Worldwide nearly 50 both developed and developing countries. In fact, 22 developing countries have introduced VAT.

It works very well in all countries that have introduced it. Both economists and tax administrators agree that it is the best indirect tax in operation in the world.

Q: What will the VAT rate be - how much higher than GST?

A: In all probability, nothing more. The objective with VAT is to broaden the tax base to ensure that we have a fairer and more neutral system and not to collect more revenue.

Q: Why is it important to broaden the tax base?

A: A broad tax base means virtually everyone is taxed, which ensures neutrality between all goods and services. The more exemptions, the more you have to increase tax on those goods which are not exempted.

A broad tax base means you can keep the tax rate relatively low.

Q: Will there be any exemptions or will everything be taxed under VAT?

A: Not everything will be taxed. A limited number of exemptions has been proposed, for instance on medical and educational services and the letting of dwellings.

Q: Will VAT affect the prices of goods?

A: VAT will first and foremost eliminate taxes on taxes; this, combined with a lower rate than GST, should slow down price increases on consumer goods, which are already subject to GST.

In the case of goods and services which are presently not subject to GST, there will be a once-off increase in prices but this need not necessarily be the full rate of VAT, as there is already tax hidden in the price of these goods and services.

Measures taken to assist the poor, the lower rate of tax on other goods and the elimination of double taxation in the system should compensate for the once-off price increase in goods and services presently exempted from GST.

Q: With food no longer exempt from VAT, surely consumers will be hard hit?

A: There is already hidden tax built into the price of so-called exempt food and the introduction of VAT should not hike food prices by the full tax rate of, say 13 percent.

Anyway, research has shown that the greatest portion of the benefit of the present exemptions are enjoyed by persons other than the needy.

Assistance outside the tax system which is targeted at the poor will be more efficient than an exemption.

The lowering of the rate on all other goods presently subject to tax sill also compensate the consumer for the increase in the cost of goods presently exempt.

Q: How will small businesses be affected by VAT?

A: Small businesses whose turnovers for a year do not exceed a certain limit, will not be required to register for VAT or to keep VAT records or submit VAT returns.

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The turnover limit proposed in the VAT Bill is R50 000, but Vatcom has already indicated that it will be recommended that this limit be increased to ensure that more small businesses are not required to submit VAT returns.

Other measures to ensure that the administration for small businesses will be simplified are being considered.

Q: What administrative burdens will the introduction of VAT impose on business?

A: The administration of VAT will be relatively simple. It is important that a business keep an accurate record of its purchases and sales.

At present they have to do this anyway for the purpose of GST and income tax. A business will deduct the VAT paid on its purchases from the VAT charged on its sales. The difference is the amount to be paid to Inland Revenue.

Q: Will all South Africans have to pay VAT?

A: Yes, everybody will to pay - including the tax dodgers who got away under GST.

Q: Will personal transactions, such as purchasing your neigh- both [illegible] subject to VAT?

A: No, be[illegible] VAT only trans[illegible] vendor are taxed.

Q: Have all South Africans had the chance of commenting on the pending introduction of VAT?

A: Yes, everybody was invited to participate by submitting comments to a special committee consisting of all population groups, which will report back to the Government.

[redacted]

WHEN the new tax system, Value Added Tax (VAT), comes into operation later this year there are bound to be many questions posed.

Today *Sowetan* will endeavour to assist readers by answering some of the queries that are likely to be raised:

Question: Who pays VAT? Sowetan 1/3/91

Answer: VAT is a broadly based tax on consumption. It is, therefore, a tax paid by consumers on all purchases of goods or services.

Payment, however, is already made in advance to the Receiver of Revenue, on behalf of the consumer.

It works like this throughout the production and distribution chain (participants are, say, a manufacturer and a retailer), every participant pays an amount of VAT to the Receiver, based on the value he adds to the goods or services.

The manufacturer pays VAT on his selling price to his purchaser of raw materials and pays the balance to the Receiver of Revenue.

Similarly, the retailer charges VAT on his selling price to the consumer, thereby recovering the tax he has paid on his purchases and pays the balance to the Receiver of Revenue.

Thus, as with GST - the whole team of participants in the production\distribution process carries the responsibility of paying the tax over to the Receiver.

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Q: Does this mean that every business forming part of a production\distribution chain, will pay VAT?

A: Yes, and this is a principal difference between VAT and GST.

At present, all the tax payable is collected at the point of final sale to the consumer. The final vendor in the chain (mostly a retailer) has the responsibility for paying the consumer's GST over to the Receiver.

Under VAT, this responsibility is spread over the commercial chain, from manufacturer to retailer. This practice will make tax evasion very difficult, and will facilitate auditing and cross checking by Inland Revenue.

Q: With all participants in the production\distribution chain being responsible for charging, collecting and paying VAT, won't this lead to double taxation?

A: No! Although businesses pay VAT on all their purchases of goods and services, they are subsequently entitled to a full credit for the input tax they have paid. This eliminates any risk of double taxation.

VAT is designed to be a tax only on the value added to goods and services by each business in the production\distribution chain.

Q: What exactly is "input" and "output" tax?

A: Input tax is a term used to describe the VAT paid by a business on its purchases. When a business adds value to the items bought, and sells them again, the VAT it charges to customers is called "output" tax.

Output tax minus input tax is the VAT which the business pays to the Receiver of Revenue.

Q: Why has it been decided to change from GST to VAT?

A: Primarily to get rid of the shortcomings of GST, namely tax evasion and double taxation.

Presently tax evasion is taking place in three areas. Certain vendors are misusing their GST exemption certificates to purchase tax-free goods they are not entitled to.

Certain vendors collect tax from consumers and are not paying it over to the Receiver of Revenue. Others are classifying taxable sales as exempt sales.

These abuses will be curtailed by the VAT system.

Under GST businesses are paying sales tax on capital goods such as plant, machinery furniture and office equipment and consumable goods not incorporated in the final product.

This additional cost is built into the price of the goods. GST is payable on the final price of the goods when sold to the consumer and therefore double taxation or tax on tax occurs. This will be eliminated under VAT.

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VAT: How it works . . .

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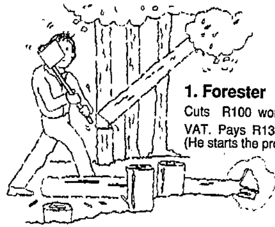

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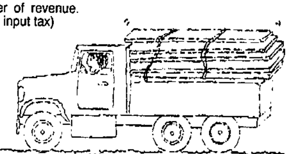

R13

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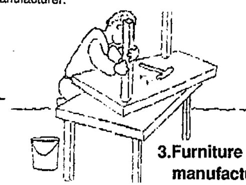
R39

6. Receiver of Revenue
Receiver in total R91 VAT from the forester, wholesaler, manufacturer and retailer; which they in turn recover from the consumer.

R26



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R13

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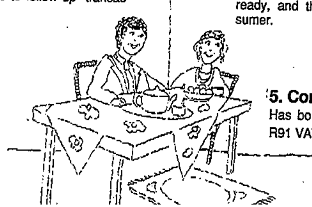


5. Consumer
Has bought the table for R700, and has paid R91 VAT.

VALUE-ADDED TAX

A FINE-WOVEN NET

FM 1/3/91

VATCOM HAS DETAILED THE NUTS AND BOLTS OF THE NEW SYSTEM

(320)

Prepared by Ian MacKenzie of Ernst & Young.

Now we know the probable shape of VAT. In a voluminous but well-presented document of some 300 pages, Vatcom has covered matters raised in no less than 1 094 written representations and verbal evidence from 37 leading organisations and individuals.

The committee was appointed by Minister of Finance Barend du Plessis to consider comments and representations on the draft Bill, published last June. Chaired by Deputy Finance Minister Org Marais, it represents both public and private sector. Members include tax consultant John Morris, MP Francois Jacobsz, Peter Whitfield, former chairman of Nissan, Trevor van Heerden, director of Inland Revenue (in charge of VAT implementation), businesswoman Marina Maponya and businessman George Negota.

Maponya

Van Heerden

Vatcom has adhered to the basic principles of the broadest possible tax base with a minimum of special dispensations through zero-rating and exemptions.

Representations have been given careful consideration. All the advantages and disadvantages of each issue have been evaluated before a conclusion has been drawn and a recommendation made.

So, though some may feel aggrieved that their special requests have not been accepted, they were not rejected outright.

From a socio-political viewpoint a case can be made (and was) for the special treatment of certain products, services and industries. However, from an economic point of view, it is vital to avoid the erosion of the tax base and problems of definition which might lead to evasion of tax and misplaced subsidies that have little real relevance for the needy.

Accordingly, Vatcom avoided special treatment for these products and services, supplies of which will be subject to VAT at the standard rate:

- ☐ Books, magazines, newspapers and television services;
- ☐ Construction services for commercial, industrial and residential buildings;
- ☐ Krugerrands and other precious coins;
- ☐ Land;
- ☐ Legal services;
- ☐ Municipal and regional council services;
- ☐ Short-term insurance services;
- ☐ Veterinary services; and
- ☐ Sales to the TBVC states.

Vatcom felt, however, that a deviation was justified in the case of certain foods and passenger transport services. Maize products, rice, bread and milk powder are to be zero-rated. The danger of this approach (as acknowledged by the committee) is that once the principle that all goods be taxed is breached, it is difficult to resist other special pleas.

Passenger transport in buses, trains and taxis is exempt. This means forgoing tax on the value added by the transport operator who will have to bear the cost of VAT on all his inputs — making the tax cost invisible to the consumer. Luxury transport in these forms will also be exempt, because of the impracticality of separately identifying it, but transport by air will remain standard rated.

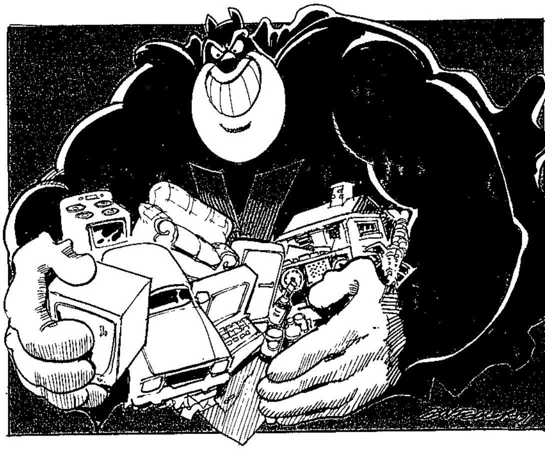
As a transitional measure to discourage delays in capital goods, acquisitions and services and to ensure a low VAT rate, input credits for capital goods and services subject to VAT will be phased in. No specific recommendation is made as to the period of phase-in which, based on previous government statements, is likely to be five years. There are to be special rules for the phasing in of output credits on construction services because only about 50% of the cost of construction (being the material input) is currently subject to GST. They will be required only if the general phasing-in rules result in greater double taxation.

For the phasing in of the input credits, "capital goods and services" are to be those which are regarded as capital for income tax purposes — *provided* they are presently subject to GST. Thus the importation, purchase, lease or rental of plant or machinery and other movable property — falling into the general category of "fixed assets" in the accounting sense — will be subject to the input credit phase-in. The purchase of land, however, is not subject to GST so its purchase is subject to VAT at the normal input credit rules.

Though this appears to be a satisfactory definition of capital goods and services it is possible problems of definition could still apply.

Education and related boarding services provided by tertiary educational institutions and government and private primary and secondary schools are exempt, as provided for in the draft Bill. This is also to apply to primary educational institutions, subject to undefined educational requirements.

The agricultural



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sector will face the following:

☐ Farm outputs are to fall within the normal standard rate (and zero-rate for exports) system;

☐ Farmers will be allowed to submit six-monthly returns if the taxable value of their supplies is not more than R1m a year;

☐ Certain farm inputs, such as seeds, feeds, fertilisers and herbicides, will be zero-rated (and livestock could conceivably be added to this list);

☐ "Pools" operated by boards on behalf of farmers will be deemed to be part of the board's enterprise, with separate registration if elected; and

☐ A "flat rate system" will be initiated for sugar cane farmers to assist special socio-economic projects.

Negota

Whitfield

Financial services remain exempted as in the draft Bill. But other indirect taxes, equivalent to what would have been collected from private investors and policyholders had they been subject to the new tax, is recommended to be collected from financial institutions.

Horse racing and betting will be subject to VAT on the normal basis — but with special rules to exclude the effect of existing betting taxes.

The draft Bill provides for the taxable value of imported goods to be effectively a CIF value, including the value of many related services. To overcome practical problems this is to be changed to the existing valuation rules for GST — that is, value for customs duty purposes, plus 10% of such value, plus customs duty and import surcharge.

All medical services by practitioners and hospitals and the supply of all medicines will be subject to VAT at the standard rate.

The draft Bill denies an input tax credit in respect of the acquisition of motor cars, entertainment expenses and club fees. This is to be retained for club fees and entertainment expenses. But cars get the same treatment for input credit purposes as all other capital assets which will reduce the cost of cars — but may disappoint employees expecting to purchase company cars without paying VAT where the employer had been denied an input credit.

The oil and fuel industry has a number of unique problems in the indirect tax area, largely because of the consolidated fuel levy. To overcome these, the sale of all fuel subject to the fuel levy is to be zero-rated. But registered vendors are to be allowed a tax fraction deemed input credit on the purchase price of fuel. Crude oil imports for processing into fuel are exempt from VAT, which will relieve the oil industry of a potential cash flow burden.

The commencement date for VAT is September 30 1991 (the closest Monday to the originally proposed October 1), with the proviso of a six-month period promised between final legislation and the implementation date.

The threshold below which small business will not be required to register for VAT purposes is to be increased to R150 000 taxable supplies a year. In addition:

☐ The annual turnover limit below which a business may elect to follow the payments basis, as opposed to the normal invoice basis of accounting, is to be increased from R500 000 to R1m;

☐ The annual turnover limit above which a business is obliged to submit a monthly tax return without the option of the alternative two-monthly return is to be increased from R18m to R30m;

☐ The provisions allowing for a "group registration" for VAT purposes to be deleted;

☐ Self-supply rules covering specific goods and services to be set out in regulations;

☐ The time of supply rules for instalment credit agreements to be changed from the date of conclusion of the agreement to the earlier of the date of delivery of the goods, or of any payment being made. In the case of fixed property, the supply will be deemed to be made on the earliest of six months after the transaction, or the date of registration of the transfer, or of any payment being made; and

☐ A flexible approach is to be adopted on the apportionment of input taxes between acquisition of goods and services for taxable and non-taxable or exempt purposes. This is because of administrative problems for any business involved in both types of activities. Businesses will be able to negotiate different bases with Revenue, on condition they are published in Revenue practice notes.

The change from GST to VAT will cause a number of transitional problems. Therefore, in the transitional period:

☐ No relief to be given on GST paid on capital goods purchased prior to VAT, even though use of the goods will continue after the implementation of VAT;

☐ Vendors currently registered for GST purposes are entitled to purchase trading stock free of GST. If they do not register for VAT purposes, in view of the R150 000 threshold, they will be required to pay VAT on the value of their trading stock on hand on the commencement date. A period of three months will be allowed for payment;

☐ Bad debts and recoveries for transactions under the GST system are to be brought to account as part of the VAT system;

☐ Services over the transition period could fall into either the GST system or the VAT system or both. Progress payments, retentions and escalations which relate to work completed before the commencement date are not to be subject to VAT, nor are similar payments for construction services and materials incorporated prior to the commencement date.

This will require a valuation of the work done up to the day prior to the implementation of VAT. Continuous payments for other services, such as electricity, water and telephones, will be apportioned on a time basis when the services span the commencement date;

☐ Credit to be allowed for the GST paid on building materials and intermediate goods as and when the goods are drawn from stock. Alternatively, if detailed records are not maintained, the credit will be allowed in equal instalments over a period of two years, or such lesser period as the commissioner may agree; and

☐ Where agreements exist for the purchase of registerable goods (for example, motor vehicles, guns and so on) prior to the introduction of VAT and registration only takes place after the commencement date, GST should still be paid on registration. ■

VAT PROPOSALS IN BRIEF

☐ Commencement date: September 30 1991;

☐ Registration threshold: R150 000 a year;

☐ Maize products, rice, bread and milk powder: zero-rate;

☐ Bus, train and taxi fares: exempt;

☐ Medical services: standard rate;

☐ Financial services: exempt pending further review;

☐ Fuel subject to levy: zero-rate, but vendor can claim deemed input credit;

☐ Crude oil imported for processing: exempt;

☐ Construction work in progress: valuation required at commencement date;

☐ Capital goods: input credit to be phased in;

☐ Cars: same treatment as other capital goods; and

☐ Horse racing and betting: standard rate, subject to special rules.

INTRODUCING VAT FM 1/3/91 (320)

FOOD FOR THOUGHT

This weekend the Cabinet will decide at what rate the new Value-Added Tax (VAT) will be levied on most goods and services. Once that has been done, the phasing-in period for its application to capital goods will be announced.

According to Deputy Finance Minister Org Marais the cost of the immediate application of the new tax to these goods could be as high as R7,5bn — so the higher the tax the longer the phased introduction needs to be, to soften the impact.

Final details of the new tax and the method of its application are contained in the report of the Value-Added Tax Committee (Vatcom) which was released on Wednesday. As this committee had represented on it some widely divergent interests, the fact that its report is unanimous (apart from one or two stated divergencies) suggests that it will pass smoothly into law without significant amendment. A detailed summary appears on page 35.

The final draft of the enacting Bill will be published later this month and the commencement date of the tax has been confirmed as September 30, whereupon the country will have an efficient and equitable direct tax on consumption that measures up well to similar taxes abroad. The convenience of its audit trial should assist, too, in the compilation of income tax.

To a large extent the principle that the tax be broadly based with few if any exclusions has been applied. Special pleadings for exclusion were quite rightly almost all rejected. The few exclusions there are were based on practicability and administrative convenience, except perhaps for farmers who have concessions to protect their cash flows which are subject to extreme fluctuations.

The exception to this principle is the zero-rating of a few items of basic foodstuffs over which the minister will have some discretionary powers. The rationale is, of course, that VAT is regressive — the poor pay proportionately more than the rich — so there were perceptions that a balance needed to be redressed.

Trouble is that extensive experience abroad has shown that zero-rating (which is less inflationary than exclusion) very seldom does help the poor. The most effective way of doing so is through direct grants or targeted government spending.

This is a principle that has now been acknowledged and a separate committee — the Calitz Committee — has been established to study specific ways of overcoming poverty. Very wisely the revenue-raising tax system will not be used to do so, as it has in the past. It led to misallocations and dislocations that reduced the potential for economic growth.

There is some progressivity in the tax, nonetheless, for services are included in the tax ambit. And services tend to be used more by higher than lower income groups. However, regressivity, which is in fact an indirect tax's merit, is a sensitive matter in political circles and Marais stresses that government will help the poor in many other ways.

Probably the most disappointing thing is that, despite what appears to be a substantial widening of the tax base, the Exchequer appears to be unlikely to receive a proportionately greater amount of tax from a lower rate. This is largely because of the quite substantial amount of double taxation under GST which will now be removed.

So it seems unlikely, especially in view of the declining corporate profits trend, that the VAT rate will be fixed substantially below the current GST rate. No doubt this will focus the minds of those consumers who had undue high expectations of the reduction in this type of tax.

Nor is it necessarily a good thing for the VAT rate to be lowered. It is, like GST, a consumption tax that penalises spenders rather than savers, who are in turn penalised by direct income taxes. It is also a neutral tax as it does not attempt to reallocate resources or redistribute income. It allows the market to allocate resources with minimum interference — and its potential for encouraging economic growth is high.

Moreover, it will draw a greater proportion of informal economic activity which easily evades income tax and which is being stimulated by deregulation into the tax net. This could be quite significant in time as even over the last 10 years black incomes have grown at a much faster rate in real terms than white incomes. Income redistribution must not be at the expense of the fiscus.

What those hopeful of tax relief should be pressing for now is a less progressive income tax, with lower thresholds, in this month's Budget.

The main advantage of changing to VAT from GST is that it is less easy to evade for it is collected at every stage of value being added — not left to the retailer at the end of the production and distribution line. It will now be less compelling for the local café owner to keep two sets of books, one for a potential buyer of his business and the other for the tax inspector.

It is a foregone conclusion that VAT will shortly be introduced into the TBVC states, otherwise business there will be at a disadvantage for it will not be able to claim credit against VAT already paid in SA. Apparently, the decisions have been taken in principle, only the manner and time of implementation have to be considered.

Both the Department of Finance and Vatcom have done their work very thoroughly. The reasons for their decision have been well argued and they have not given in to the type of special pleading that could turn out to be pervasive. They are now turning to the practical problems of implementation and various guides for different categories of business and professionals will be provided soon.

It is a pity that Vatcom felt the need to acknowledge what must have been political pressures to zero-rate some foodstuffs. Experience suggests that far from helping the poor, they will more likely be providing cheaper animal feed for the farmers. ■

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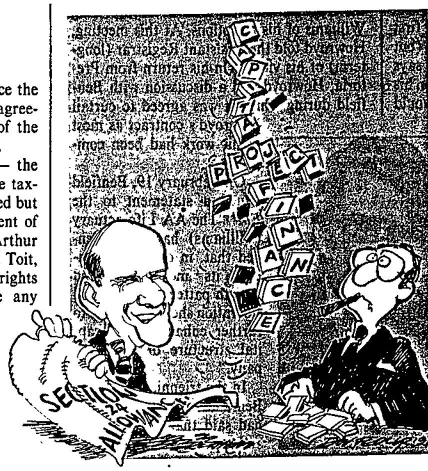
TAXATION

TIME AND MONEY

A decision by Inland Revenue to reduce the tax allowance on instalment credit agreements — granted under Section 24 of the Income Tax Act — raises two issues.

One is the time value of money — the allowance was intended to compensate taxpayers who are taxed on income accrued but not yet paid. The second is the element of retroactivity: "The change," says Arthur Andersen senior tax partner Pierre du Toit, "may affect the tax consequence of rights and obligations created long before any change was mooted."



The allowance, he points out, involves the principle raised in the case of CIR vs People's Stores (*Economy* June 1.) An amendment of the definition of gross income in the Act followed "after our courts, at the highest level, forced Revenue to grant relief for the fact that one may be taxed long before one is actually entitled to the cash."

He points further to the inconsistency of granting tax relief on credit sales where only the passing of ownership is suspended. This, he says, has nothing to do with the time value of money. "What is needed is a comprehensive rethink on how the tax system is to deal with the reality of tomorrow's money just not being worth the same today."

Phasing out the allowance, from March 1, has implications for the furniture industry, for banks financing the purchase of motor cars and, ultimately, for the consumer. But the hardest hit, now that concessions allowed under Section 24 of the Income Tax Act are being phased out, will be companies involved in capital projects. Unlike instalment agreements relating to consumer finance, which carry interest rates that are either fixed or linked to prime, contracts on capital projects are usually linked to short-term variable rates. They have been reduced by tax benefits arising under Section 24 and, if the tax benefits are phased out over a period that is less than the funding period, costs will rise substantially.

The client, not the bank, will bear the brunt of the change. Because of the size of the sums involved, and because financing is needed over periods of five to 10 years, there will be a substantial increase to their cost of funding as allowances on existing contracts are phased out over three years. (This will follow a 12-month moratorium to cushion the impact.)

"We estimate the value of transactions already entered into at about R5bn-R8bn," says FNB GM Johan Meiring. "The Section 24 benefits have enabled the banking sector to reduce the interest cost to their prime customers from 21% to about 13% (depending on the period of funding)."

320 FM 1/3/91 320

The retroactive effect of this legislation could generate additional interest costs of as much as R400m a year — which will completely throw out feasibility projections on capital projects.

Meiring points out that nearly all the companies affected will be in the manufacturing sector and "many are exporters." This has consequences for SA's competitiveness in export markets, he argues. "As international competitiveness centres around capital-intensive industries the main factor is the cost of capital equipment and the cost of funding."

The immediate effect on car and furniture finance will be absorbed by the banks and retailers as they cannot adjust the rate of interest charged.

"In future contracts we will compensate by writing higher rates on business," says Wesbank GM Philip du Plessis.

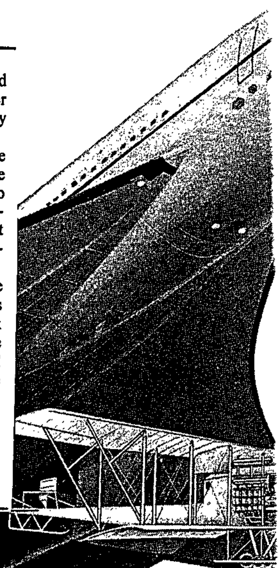
The allowance was introduced to assist businesses selling on HP agreements which would otherwise have found themselves liable to tax payments on income accrued but not yet received. Banks selling on HP were also eligible.

In practice this has allowed companies to avoid tax in certain circumstances. "Though the payment of tax was merely deferred in respect of one transaction, an increasing level of sales effectively rolled over payments on an ongoing basis," says Ernst & Young's Roger Bramwell. "New allowances granted in the current year were, in that case, bigger than the prior year's allowances — which by that time were reversing."

So if new business written exceeded the existing book, the Section 24 allowance would frequently reduce taxable income to zero in the current financial year. (Conversely, shrinking business would give rise to a net reversal of Section 24 allowances with consequent increases in tax payable.)

The decision to water down the allowance is not unexpected. "We have had discussions with the commissioner for about six months," says Ron Rundle, president of the Association of General Bankers. "Removal of the Section 24 allowance is not negotiable by Revenue. The only thing that may be negotiable would be repayments for transactions already on the books."

There will be more clarity on this when a practice note is circulated by Inland Revenue towards the end of this week. ■



BOARD OF EXECUTORS BORDEN FOODS

Vatcom plans for changeover 'good and bad'

BDay 1/3/91. (320)

GILLIAN HAYNE

VATCOM's recommendations this week on transitional measures for the implementation of VAT are a mixture of good and bad news, say tax experts.

Deloitte Pim Goldby tax partner Ken Boggis said adequate arrangements were proposed for the building industry in that work done prior to VAT's introduction would not be liable for VAT.

Similarly, progress payments, retention money and escalations that relate to the pre-VAT era would not be taxed even if they were invoiced after VAT came into effect.

Building materials which were unused at the changeover, and on which GST had been paid, would qualify for an input tax credit, as if it were VAT, at the time the materials were used, he added.

Arthur Andersen tax manager Shane Ferguson said it appeared Vatcom's proposals were not comprehensive enough.

The level at which it becomes compulsory to register for VAT purposes had been raised to R150 000.

Ferguson noted that certain small vendors in this category would have been registered under GST and entitled to purchase goods free of GST.

"If these vendors did not register under VAT, no VAT would need to be paid on the sale of these goods.

Vatcom had therefore recommended that GST be paid on stock at hand for three months after the implementation of VAT.

"If the VAT rate is introduced at less than the current GST rate, would it not be more equitable to pay VAT on the stocks at hand?"

Under VAT, businesses would obtain an input tax credit on certain intermediate goods, like stationery and consumables.

To ensure that purchases of these goods were not delayed close to the implementation of VAT, certain measures were recommended which would have the effect of granting a credit in respect of stocks on hand immediately before VAT was introduced in recognition of the GST paid.

While Vatcom had proposed input tax credits on stocks of intermediate goods, it was considered unfortunate that Vatcom had not made any recommendations in relation to services such as maintenance contracts and advertising, which were often paid in advance. No provision was made to grant a credit for a portion of the GST paid in advance where the services contracts continued a few months into VAT.

Project Tax Management consultant Richard Ruben said a fundamental difficulty in the transition period was that the scope of VAT was far wider than GST. For example, professional services, exempt from GST, would be subject to VAT.

"Where a party will be denied a VAT input tax credit it would obviously benefit that party to ensure that charges for professional services are incurred before VAT is introduced.

"Vatcom relates the payment of VAT to whether these services are rendered before transition.

"While this makes good sense, it also poses a substantial challenge to the legal draftsmen formulating the legislation.

"It remains to be seen whether a distinction can be drawn between charges for work performed before and after transition."

Boggis added that where a charge was made for a period spanning the introduction date — such as telephone accounts — the charge would be apportioned on a time basis between periods before and after VAT.

An instance where GST would be treated as if it were VAT was where a bad debt was written off during the VAT era.

The portion of the debt written off that referred to GST was claimable as input tax.

LETTERS

Cash flows of businesses will vary under VAT

(320)

BDay 1/3/91

LESLEY LAMBERT

CAPE TOWN — Value added tax will improve the cash flow of supermarkets and other cash businesses, but retailers which sell on extended credit will be worse off once the new tax is introduced.

The effect of VAT on companies' cash flows will depend largely on the length of debtor and creditor payment periods.

But new measures proposed for the tax system will allow some companies to hold the tax revenue for a longer period of time before handing it over to the fiscus.

A supermarket, for example, will sell goods bought at the beginning of the month for cash but will only be expected to pay its suppliers for the goods after 30 days or more.

Those with an annual turnover exceeding R30m will have to pay the Receiver of Revenue the difference between the output tax received from the consumer of the goods and the input tax to be paid to the supplier after one month.

Vatcom has recommended that those with turnover of less than R30m be entitled to a two-month tax period. GST, on the other hand, has to be handed over in 21 days.

Most of the goods bought at the beginning of the month are likely to be sold to consumers during the month, given the relatively fast turnover of supermarket goods.

The retailers will then be able to earn interest on the revenue paid by the consumer until the VAT has to be paid over to the Receiver. Depending on their credit terms, the retailers may pay for the goods even later.

Because the companies will be entitled to an input tax credit when they receive a tax invoice — before payment is made — they will have the benefit of only having to account for tax collected at a later date.

But retailers, like furniture stores which sell on extended credit, are likely to have to hand over the tax to the Receiver before the customers have paid for the goods. This means they are likely to be worse off than they are under the GST system.

As the tax must be accounted for when an invoice is issued for the supply of goods, and not when payment is received, this category of retailers will be required to account for VAT before they have been paid for goods.

While this is similar to the GST system, the retailers will have the additional burden of accounting for tax on their purchases.

VAT will cut consumer prices, say confident retailers

By GWEN GILL S|Times

3|3|91

THE price you see is the price you pay when Value Added Tax replaces General Sales Tax on September 30.

But consumers will have to wait — probably until Budget Day, March 20 — to find out whether prices including VAT will be higher than cost plus 13 percent GST when the new tax is introduced.

Retailers say that, whatever the rate, prices of virtually every consumer item could come down because VAT will eliminate GST's cascade effect, which taxes goods and their components at every sale between the original producer and the final consumer.

The government has said it does not intend collecting more in VAT than the R18-billion a year it collects from GST.

Experts are predicting a VAT rate of between 10 and 13 percent. Some suggest 12 or 12,5 percent, though others say 13 percent or more is possible to avoid an increase in the near future.

When the VAT Commission published its recommendations this week, it became clear consumers would pay VAT on everything from parking meters to postage stamps, and even on fresh basic foodstuffs which are now exempt from GST.

According to VAT expert Anne Bennett, of accountants Deloitte Haskins & Sells, other items and services which are now exempt but could fall within the VAT net include:

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- Doctors' and vets' bills, as well as those of lawyers and accountants;
- The entire cost of buying a house from a property developer (previously only material costs attracted GST, but now land, labour and profit will be taxed). This could send the cost of property, both new and old, soaring;
- Municipal rates, electricity and water accounts and short-term insurance premiums;
- Cinema and theatre tickets and M-Net subscriptions;
- Telephone accounts.

But the VAT man won't get his hands on everything. Still untaxed could be one or more of four basic foodstuffs (bread, maize products, milk powder and rice), house rentals, education, passenger transport, medical aid and life insurance.

A second-hand car bought privately could be exempt from VAT, but not one bought from a dealer.

The exact list of taxable and non-taxable items will not be known until legislation is finalised within the next few weeks, as the government has promised that legislation will be in place six months before VAT takes effect.

The good news is that the VAT collection system could bring the cost of many goods down.

"I don't believe it will happen in the first few months," said Checkers managing director Sergio Martinengo, whose gut feeling is that VAT will be levied at 11 percent.

"But in the long run, prices of everything from TV sets and fridges to a packet of chips should drop, because of the cascade effect of GST.

"VAT is a purer system and it will eliminate double taxation.

"By how much these items will go down, no one will know until the VAT rate is announced. But even if tax comes in at the present GST level of 13 percent, there should eventually be some relief for consumers on virtually everything."

However, Housewives' League president Lyn Morris said her organisation's calculations showed VAT would have to be levied at five percent if food budgets were to stay the same over a wide range of income groups.

"Admittedly, we did this calculation before realising there was a possibility of a few basic foods being exempted from VAT," she said.

"But we found that a couple of pensioners on an income of R1 000 a month, are now spending about R11,57 on GST on food, cleaning materials and toiletries.

"If VAT comes in at 12 percent, their tax payout a month will be R31,20 if prices don't come down. That is an increase of almost R20 a month, which most just can't afford.

"It will be a black day for South African consumers on September 30."

Ina Perlman, director of Operation Hunger, was "delighted that the government has shown understanding and awareness of the plight of their poorest constituency" by suggesting the exemption of one or more basic foods from VAT.

"Our informal surveys show that, had this not happened, about 25 percent of the people who've just escaped being fed by us would be back on our books."

HOW THE NEW TAX WILL BE LEVIED

WHAT is Value Added Tax and how does it differ from General Sales Tax?

VAT will be paid at all stages of manufacture, when value has been added to a product or service.

But at every stage only the extra VAT that the item attracts with its added value will be levied.

To illustrate the way the tax will work, the Department of Finance has given the following example at a VAT rate of 13 percent.

A forester sells timber to a sawmiller for R100, and pays the Receiver of Revenue R13 VAT.

The sawmiller cuts the timber into planks which he sells to a furniture manufacturer for R400 plus R52 VAT. But since the Receiver has already collected R13 from the forester, the miller only pays R39.

The furniture manufacturer makes a table out of the wood and adds value worth R200. So he charges the retailer R600 plus R78 VAT. But as the Receiver has already been paid R52, only R26 goes to the taxman.

Finally the retailer sells it to the consumer for R700 plus VAT at R91. The Receiver has already collected R78, so the retailer only pays R13.

Count-down to VAT and how to get ready for it

S/Times 3/3/91 (320)

By IAN MacKENZIE, tax partner at Ernst & Young

THE INTRODUCTION of VAT in place of GST on September 30 leaves businesses only seven months to set up appropriate accounting systems and other procedures to deal with the onerous new administrative requirements.

In terms of making systems changes, especially where computerised systems are involved, this is not a long time. Any business which does not start work now will find it difficult to fulfil the requirements on September 30.

The prudent businessman will strive to ensure that his new or revised systems are up and running well before that date so as to avoid costly mistakes and inefficiencies brought about by last-minute changes.

He will also seek to avoid repeating the mistakes made with the introduction of GST. A general sense of apathy was disturbed only five or six years down the line when a higher rate of tax and more detailed Revenue inspections led to many businesses having to pay high penalties.

Senior

A planned and logical approach to the implementation of VAT in business will require time and money.

But it will pay dividends when properly designed systems with good internal controls and audit trails minimise the time taken to prepare VAT returns, deal with Receiver inspections, and avoid exposure to penalties and interest for late and incorrect payments.

An implementation programme should start now with the assignment of responsibility to a senior person who in turn should appoint a project team. It should consist of appropriate financial accounting, systems and internal audit personnel as well as specialist VAT consultants.

The project team should then work through these steps of the implementation programme:

● Find out the most appropriate form of registration for each separate company or other legal entity involved in the business. This could either be a single registration for the entire entity, or separate registrations for different divisions, branches or groupings of such divisions.

The decision will be influenced by the extent of centralisation or decentralisation of accounting systems, the number of inter-divisional transactions and the impact of zero-rated and exempt outputs. Complete registration forms when issued by Revenue.

● Subject to the constraints in the VAT Act, decide for each entity to be registered whether a monthly or two-monthly return will be more appropriate.

● For each entity analyse all the input and output transactions in these categories:

INPUTS, category 1 standard rated; sub-categories 1.1 creditable, 1.2 non-creditable. Category 2 exempt. Category 3 zero-rated. Category 4 non-supply. Category 5 non-taxable. Sub category 5.1 deemed input credit. Category 6 imports; sub-categories 6.1 taxable, 6.2 non-taxable. Category 7 applications for taxable purposes.

OUTPUTS, 1 Standard rated; sub-categories 1.1 deemed supply, 1.2 fringe benefits. Category 2 exempt. Category 3 zero-rated. Category 4 non-supply. Category 5 applications for exempt purpose.

● Remember to cover all possible transactions — not only the normal purchases and sales of trading items, but sales of fixed assets, lease and rental agreements, royalties, administration fees, commissions, subsidies, insurance premiums and claims, bad debts and bad debt recoveries. Remember also to differentiate between agency and principal transactions.

● Ascertain the systems requirements for each category of transaction, bearing in mind the need for the system to correctly identify and capture. Collate all the information required to record the correct income and expense items, debtors' and creditors' accounts and VAT control accounts, and to produce the required reports.

Ledger

● Evaluate the ability of your present systems to cope with these requirements.

● Find out the changes required for these systems: general ledger, invoicing/debtors, purchases/creditors, Sunday payments and receipts, inventory, fixed assets, payroll and job costing.

● Discuss a planned approach to making these changes with data-processing personnel and/or a software house.

Run test checks on the revised systems and if necessary conduct a post-conversion audit.

● Review the impact of VAT on your costing and pricing and make strategic decisions about retaining or passing on to customers the benefit of input tax credits.

● Ensure that suppliers will be able to issue tax invoices timeously.

● Review stationery requirements in regard to tax invoices, debit and credit notes.

● Ensure that all personnel receive the appropriate training in VAT matters.

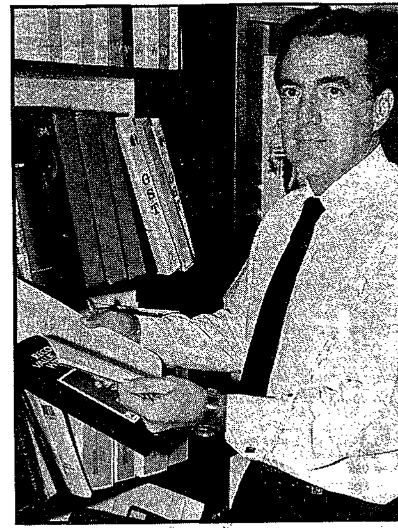
IN A NUTSHELL

ALL GOODS and services will be subject to VAT with the exception of:

● Maize products, milk powder, bread and rice.
● Products exported from SA by tourists.
● Educational institutions.
● Bus, train and taxi transport.
● Financial services.
● Fertilisers, fuel and feed for farming. Fuel and crude oil subject to the fuel levy.
● Medical-aid schemes.
● Rents.
● Supplies by Government departments and parastatals.

Subject to VAT are:

● Businesses with an annual turnover of R150 000 or more and farmers with one of more than R1-million.
● All food apart from those above.
● Books, newspapers, magazines and the electronic media.
● Construction and similar services.
● Entertainment.
● Vehicles.
● Fringe benefits, horse racing, betting and Krugerrands.
● Land, legal services, municipal rates and regional service levies.
● Short-term insurance.
● Medical and veterinary services and medicines.



IAN MacKENZIE: Preparing for the switch Picture: GARTH LUMLEY

VAT on way but rate still a mystery

CP Correspondent Cpress 3/3/91 (320)

THE introduction of Value Added Tax (VAT) will bring about a complete change in South Africa's tax structure.

It will probably come into effect on October 1 and will have to be paid on items like Kruger Rands and "GST-free" foodstuffs. There are also welcome exceptions.

The government has already indicated that the introduction of VAT forms part of a tax reform process in South Africa which could bring about a reduction in personal tax.

Finance Minister Barend du Plessis will probably announce the VAT rate in his budget speech in Parliament on March 20. Representations have been made that VAT should be limited to 10 percent, compared to the present 13 percent GST.

Deputy Minister of Finance and chairman of the VAT Committee Org Marais said this week that three members of the International Monetary Fund had been investigating the proposed VAT system in the country during past weeks and would submit recommendations to Du Plessis on the rate at which VAT should initially be levied.

Some of the recommendations are that:

- New houses should be taxed at the standard rate, but people who buy new homes for R35 000 or less must be subsidised by the State;
- Motorists should not be taxed on fuel;
- Farmers must pay VAT, but certain exemptions have been proposed;
- More foodstuffs must be taxed and only a limited number of foodstuffs presently exempt from GST must be made subject to the so-called nil rate;
- Short-term insurance must be subject to the standard rate of VAT;
- VAT must be added to sales of land, but transfer duties need not be paid when VAT is payable;
- Educational services must be exempted, including educational services provided by private schools;
- VAT should not be levied on money payable for the transport of passengers by bus, train or taxi;
- Welfare organisations which collect money and which sell products which compete with ordinary businesses must not be exempt;
- All medical services and medicine must be subject to the standard rate of VAT, but medical fund schemes must be exempt if they don't provide other taxable goods or services.

Parity may ease effects of VAT

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Govt looks at equal pension for all races

BDay 4/3/91

KEVIN DAVIE

GOVERNMENT is considering scrapping racially discriminatory social pensions in the Budget later this month — a move that will eliminate the huge disparity between black and white pensions.

Government has been handed the Mouton committee's interim report which recommends parity for all races in social pensions.

The move would probably be implemented partly to ward off the effects of higher food prices when VAT is introduced at the end of September.

Pension parity would also have an important effect on the rate at which VAT is set, as an estimated R3bn extra would have to be raised by the fiscus.

It is calculated that parity could increase the pensions bill from R2,2bn to R5,2bn, equivalent to a 2% increase in GST or VAT.

Vatcom chairman and Deputy Finance Minister Org Marais said on Friday he could not comment on what might or might not be contained in the Budget.

Marais said 82% of tax exemptions were used by higher income people: "It's better to adjust social security than to exempt food."

He said Vatcom reasoned it was better to tax food — because this would include people who could afford to pay — and then subsidise the poor from the Budget.

Vatcom estimated in its report released last week that R2,44bn was lost in revenue each year because unprocessed foods were exempt from GST. Because many high-income people benefited from this exemption, "the amount not efficiently used could be as high as R2bn".

The Vatcom report, which has been accepted in principle by government, recommends that the needy would best be assisted by increasing social pensions, grants and subsidies.

Pension parity would be a costly way of getting rid of racial discrimination, but an easy one as a pensions payment system was already in place.

The Mouton interim recommendations fit government's commitment to increase social spending and to get rid of racial discrimination.

A draft "situation analysis" of the Mouton committee last year recommended pension parity. Estimates are that the cost of social pensions would increase by R3bn to R5,2bn.

This assumes that whites get a 9% increase from R276 a month to R300, and that Indians and coloureds (R215) and blacks (R176) are brought in line. It has been estimated the increase in a black person's pension would be about R80 a month after taking into account higher food costs.

While Vatcom recommended that a limited number of foods such as maize, rice, bread and milk powder be zero-rated, Marais indicated that if an efficient way of subsidising the poor could be found, these foods might also be subject to full VAT.

Government has committed itself to increasing social spending in this Budget from about 38% to 42% of total spending.

The Mouton committee was appointed in late 1988 with a brief to investigate retirement provision in SA.

New questions:

[redacted] **Equal social pensions**

*1. Mr E W TRENT asked the Minister of National Health: Hansard 5/3/91

(1) Whether, with effect from the date of repeal of the Population Registration Act, No 30 of 1950, equal social pensions will be paid to all South African citizens, regardless of their current race classification; if not, why not; if so,

(2) whether any contingency plans have been made to give effect to this change in policy; if so, (a) what plans and (b) what is it estimated will it cost in total to implement this policy in the current financial year?

B238E

The MINISTER OF NATIONAL HEALTH:

(1) Social pensions are not payable in terms of the provisions of the Population Registration Act,

(2) falls away.

Certain person: false passport

*2. Mr D J DALLING asked the Minister of Law and Order:

(1) Whether the South African Police have received information and/or complaints to the effect that a certain person, particulars of whom have been furnished to the Police for the purpose of the Minister's reply, is or was in possession of a South African passport allegedly describing him falsely as Chris Alexander; if so, (a) what is the name of this person and (b) what steps have been taken in regard to the matter;

(2) whether the Police conducted and/or are conducting investigations into the alleged illegal activities of this person; if not, why not; if so, what are the relevant particulars;

(3) whether a certain hotel, the name of which has been furnished to the South African Police, has been identified by the Police as an establishment where illegal activities have been taking place; if so, what steps have been taken in this regard;

(4) whether the Commissioner of Police has ordered members of the Police Force to desist from assisting a Johannesburg newspaper in making further enquiries about the person in question; if so, why?

B244E

†The MINISTER OF LAW AND ORDER:

(1) No.

(a) Alexander Kavouras.

(b) Falls away.

(2) Yes, investigation was instituted and he was questioned by the South African Police regarding alleged illegal activities.

(3) Yes, various arrests were effected in respect of prostitution at and in the vicinity of the hotel.

(4) No, an officer of the South African Police was originally approached for assistance after which he granted an interview to the specific newspaper. No information at the disposal of the South African Police was furnished to the newspaper.

After it had become apparent during the Media Council proceedings in progress between the person referred to and the newspaper, that a civil suit could result therefrom and that the South African Police could become involved in such a suit if it furnished any information at its disposal to any of the parties, the officer was instructed not to furnish any such information to either the parties or the Media Council.

†Adv C D DE JAGER: Mr Speaker, arising out of this reply and the arrest for suspected prostitution, can the hon the Minister inform us what Government's policy is in respect of prostitution, that is to say, whether or not it is going to legalise it? [Interjections.]

†The ACTING SPEAKER: Order!

†The MINISTER OF LAW AND ORDER: Mr Speaker, I am surprised that the hon member for Bethal, whom I know very well, should be interested in a matter such as this.

Soweto: taxpayers Hansard 5/3/91

*3. Mr A GERBER asked the Minister of Finance:† ([redacted]) (320) ([redacted])

(1) How many taxpayers in Soweto are registered with his Department;

(2) whether any of these taxpayers are in arrears with the payment of tax; if so, (a) how many and (b) for what average period; ([redacted]) (320)

(3) whether any action has been or is being taken against these persons; if not, why not; if so, what action?

Hansard 5/3/91 B262E

The DEPUTY MINISTER OF FINANCE (Dr G Marais):

The Commissioner for Inland Revenue retains statistics of taxpayers only in magisterial districts, and accordingly separate statistics in respect of Soweto, which forms part of the Johannesburg magisterial district, are not available.

However, I wish to assure the hon member that all taxpayers, irrespective of race, receive impartial treatment from the Department of Finance and that active steps are taken against any taxpayer who is in arrears with the payment of tax.

Diepkloof Prison: prisoners injured

*4. Mr D J DALLING asked the Minister of Correctional Services: ([redacted])

(1) Whether any prisoners were injured by warders at Diepkloof Prison on or about 1 February 1991; if so, (a) how many and (b) what was the nature of their injuries;

(2) whether any action has been taken against the warders involved; if not, why not; if so, what action?

Hansard 5/3/91 B296E

†The DEPUTY MINISTER OF CORRECTIONAL SERVICES:

(1) On 1 February 1991 prisoners who were detained in cell A19 participated in a demonstration upon the unlocking of their cell to allegedly voice their dissatisfaction regarding complaints and requests which had not been dealt with to their satisfaction. In the process a document containing their grievances was handed to the section officer. The prisoners concerned were thereafter again locked up in their cell following which they became riotous. In dealing with the latter situation which, inter alia, necessitated the removal of agitators from the cell, some of the prisoners sustained injuries. Once the ringleaders had been removed from the communal cell, order was restored and attention could be given to individual complaints and where justified, problems were solved. Hansard 5/3/91

(a) Eight (8). ([redacted])

(b) Swellings, bruises, abrasions and lacerations. Injured prisoners received the necessary attention and have since then recovered.

(2) In line with general prevailing policy this incident was immediately investigated by the Head of the Prison and a report was submitted to the Commanding Officer who dealt with it suitably in terms of his powers and authority. Complaints of alleged assault were taken up with the South African Police, Mondeor, for the necessary investigation and for justice to take its usual course (CR numbers 244/02/91 and 245/02/91 refer). Depending on the outcome of this process suitable further steps will be taken, where justified.

SAP: promotion of communism

*5. Adv J J S PRINSLOO asked the Minister of Law and Order:† ([redacted]) ([redacted])

Whether the South African Police are at present investigating any case of contravention of the prohibition on promoting communism in South Africa; if so, (a) against what persons or organisations and (b) what progress has been made with these investigations; if not, why not? Hansard 5/3/91

B299E

The DEPUTY MINISTER OF LAW AND ORDER:

No, because as far as can be ascertained, no complaints of this nature were reported to the South African Police.

†Adv J J S PRINSLOO: Mr Speaker, arising from the reply of the hon the Deputy Minister, is it not public knowledge that the SA Communist Party was openly re-organised in South Africa at a public occasion and that the SA Police were aware of that formation and of the activities of

Medical costs to skyrocket with new VAT

CNL-Tms 6/3/91 (320)

Staff Reporter

VALUE Added Tax (VAT) will add R1 million a day to South Africa's private health care bill, according to the Representative Association of Medical Schemes (RAMS).

This new cost will put private health care out of the reach of a growing number of people, adding a further burden to state health services, RAMS executive director Mr Rob Speedie warned yesterday.

Mr Speedie said the government should think twice about including all health care services in its proposed VAT tax net.

Pleas by RAMS for health care and medicines not to be included in the VAT tax system "have obviously not been heeded," he said.

Mr Speedie said at present, only medicines were subject to GST, which made up 27% of the R6,3 billion spent by RAMS each year, and generated R220m in GST.

He said that if the total expenditure by medical schemes — including consultations with doctors and dentists, medicines and surgery — became subject to VAT, "the state will reap R630m — or R410m more than on it's current GST system."

This increase would have to be passed on to medical scheme members who are "still reeling" from the latest rise in subscription rates. The average members medical scheme fees would rise by about R180 per annum.

Star 6/3/91

'VAT will add to health costs'

(320)

Pretoria Correspondent

The introduction of Value Added Tax (VAT) on health services could add another R400 million a year (more than R1 million a day), to the cost of private health care, the Representative Association of Medical Schemes (RAMS) has said.

Executive director Rob Speedie yesterday urged the Government to think twice before imposing VAT on all health care services.

He warned that VAT would also help to put private health care "out of the reach of a growing number of people, who will become an added burden on the State as they turn to the public sector for alternative health care".

At the moment, only medicines are subject to Tax.

VAT may add R410m to cost of health care

p.10
6/3/91

TANIA LEVY 320

ABOUT R410m a year would be added to the private health care bill if all health care services were subjected to VAT, the medical schemes movement warned government yesterday.

Representative Association of Medical Schemes (Rams) executive director Rob Speedie said government should think twice about including all health care services in the VAT net as recommended in Vatcom's final report.

Only medicines were subject to GST but if the Vatcom report was accepted all medical services would be taxed, including consultations with doctors and dentists, medicines and surgical procedures.

This would increase the fees of the average medical scheme member by about R180 a year, Speedie said.

Medicines accounted for 27% of the R6,3bn which medical schemes would spend this year on private health care.

GST charged at the current rate of 13% on medicines generated about R220m.

But if the entire medical scheme spending of R6,3bn was subject to VAT at a rate of 10%, government would reap R630m a year — an increase of R410m.

Private health care would be put beyond the reach of more people.

Rams had recommended to Vatcom that health care services and medicines be zero-rated for VAT, Speedie said.

Revenue details tax allowance policy

B/Day 6/3/91 (320)

GILLIAN HAYNE

COMPANIES involved in the credit instalment business will still be able to claim tax allowances, but only on the gross profit portion of agreements and not on the finance charges, an Office of the Commissioner of Inland Revenue practice note says.

Retailers and other companies involved in suspensive sale agreements will have to separate the finance charges and the gross profit element on each deal as from March 1, 1991.

The companies will be able to claim an allowance on the gross profit portion under Section 24 of the Income Tax Act but will have to account for the finance charges, for tax purposes, equally over the term of the deal.

Tax experts believe the note is aimed at bringing banking institutions into line as they do not have a true profit element in their instalment agreements but rather rely on the finance charges for their profit.

Market rumours that no allowances would be granted on instalment credit agreements entered into after March 1 appear extreme in the light of the practice note.

The practice note also holds an anti-avoidance provision to prevent companies manipulating their profit element between true profit and finance charges.

No announcement has been made on the treatment of deals entered into before March 1, 1990, and a further practice note can be expected.

KPMG Aiken and Peat tax partner Ed Hoffman said clarification on the reported phasing out of Section 24 allowances on agreements already in progress must be given immediately.

"The affected companies cannot plan their future cash flows with any certainty until the commissioner makes a decision on their treatment. Some companies have Section 24 allowances on their books running into millions — they need to know the phasing out period as soon as possible."

First National Bank group tax manager Godfrey Howes said current agreements should be phased out on their full term.

"The viability of the projects was determined on the specific finance charges agreed upon. By shortening the term, many projects could be jeopardised," he explained.

Barend's Budget to come under rigorous scrutiny

(320)

Sowetan 7/3/91

By JOSHUA RABOROKO

THE chief director of Tax Development, Inland Revenue, will be one of the experts who will address the *Sowetan Business* Nation Building Post Budget tax seminar in Johannesburg next month.

Sowetan Business, in conjunction with leading businesspeople and experts, is organising the seminar to address the implications of the Budget to be announced by Minister of Finance Mr Barend du Plessis on March 20.

It is part of *Sowetan Business* Nation Building campaign and is aimed at informing and educating people about topical issues such as tax and investments.

The seminar will be held at the Carlton Hotel on April 9.

It will be addressed by Mr Trevor van Heerden, chief director of Tax Development in the Department of Inland Revenue.

Other speakers are Mr Matsheru Matsheru, a leading tax expert, Mr Anthony Chait, of Fisher Hoffman & Stride, Mr Allan Denny, chief executive of Andrew Forbes and Company, Mr Stephen Meintjies, managing director of AVF Asset Management, and Matodzi Liphosa, managing director of Liphosa and Associates.

Taxes

It is believed that Du Plessis' 1991/92 Budget speech will be more interesting in the wake of economic and political developments in the past few months.

Already there are indications there will be no significant drop in taxes - even though the Government had a favourable financial year.

According to experts, the Minister will have little room to manoeuvre towards his goal of lowering personal taxes.

The highlight of the seminar will come during a panel discussion chaired by Liphosa.

The seminar will be led by Mr Phil Khumalo, chief executive of Business Challenge.

The *Sowetan Business* Nation Building campaign started about 18 months ago. It has organised many seminars which addressed various issues such as taxation.

Among the speakers was the Deputy Minister of Finance, Dr Org Marais.

For bookings please contact Ivan Scafo at (011) 643-7361 Extension 2222 or Thandi Moloi at (011) 474-0128.

The registration fee is R30 a person. Payment can be posted to Linda Willis, *Sowetan*, PO Box 6663, Johannesburg 2000 or made directly at *Sowetan's* offices, 61 Commando Road, Industria West.

Anglo Alpha worried over tax moves

320

MARCIA KLEIN

SCRAPPING of the wear and tear tax allowance would cost industrialists dearly, Anglo Alpha MD Johan Pretorius said in the group's annual report.

In the year to end-December, the cement producer's tax rose to 35,8% from 33,2% due to the change in the depreciation allowance.

Pretorius appealed to the Minister of Finance to reconsider the "sudden" replacement of the 50:30:20% tax allowance on plant with a 20% a year straight-line wear and tear allowance.

"This is detrimental to SA companies' competitiveness in the export market which the government is trying to encourage," Pretorius said.

Also, it would render companies less able to grow and provide jobs — this in turn would fuel inflation. B/Day 7/3/91

He said that the 50:30:20 formula should have been left as a necessary provision in inflationary times and as an incentive for the manufacturing industry to grow, modernise and create jobs.

A study by the Federated Chamber of Industry in January 1990 showed that SA industrialists paid 214% more in nominal terms for plant and machinery (including finance over 10 years) than their Japanese counterparts, Pretorius pointed out.

In order to permit replacement or extension of plant and machinery, sufficient cash flow needed to be generated, and by removing the allowance, government had reduced the incentive to invest in capital goods.

Companies might have to consider increased selling prices, which would fuel inflation in order to recover the increased cost of investment and to maintain margins, he said.

Pitfalls in PAYE on directors' salaries

BDay 7/3/91

GILLIAN HAYNE

(320)

THE introduction of PAYE on directors' salaries is going ahead despite representations to Inland Revenue detailing the practical difficulties involved.

From March 1 directors of private companies and members of close corporations must pay PAYE on all their remuneration.

In BDO Spencer Steward's latest Tax and Topics publication, tax director Mathew Lester examines possible pitfalls and ways to reduce the effects of the new rule.

Directors with an assessed loss can offset the loss against taxable income but not if they fall within the ambit of "standard employment". SITE is a non-refundable tax and directors faced with this problem must arrange their affairs outside the "standard employment" definition so tax deducted will comprise PAYE.

This can be achieved through structuring the director's remuneration package so that total deductions exceed 1% of taxable income. Before a deduction can be claimed it must have been "actually incurred". A bonus approved and paid after year-end will be deductible in the next assessment year. To overcome this, bonuses must be determined by profit. The company will then have an unconditional liability at year-end and the bonuses will be deductible in that year.

Barend urged to ease up on VAT

(320)
Star 7/3/91

By Michael Chester

Finance Minister Barend du Plessis has been urged by the SA Chamber of Business to cut back the rate of VAT to "well below" the current 13 percent level of general sales tax when the new system is introduced on September 30.

Sacob has also proposed that the lower VAT rate should be accompanied by new cuts in both personal and company income tax.

The proposals were laid out when Sacob met the Minister in Cape Town this week to discuss the 1991 Budget package due to be revealed on March 20.

In a statement issued yesterday, Sacob made no mention of the precise rate it had suggested for VAT, but the chamber is on record with arguments that cuts to as low as 10 percent should be possible if exemptions were held to a minimum.

It stressed that the overall aim of the Budget should be an appropriate mix of tax cuts and social reform programmes to encourage business confidence.

Restructuring the tax system, it argued, was needed not only to strengthen the competitive position of SA business in general but also to restore the willingness of overseas investors to return to SA.

New tax reform measures should aim at:

- Reductions in import surcharges on capital goods and other business inputs.
- Lower personal income tax, with cuts in the top marginal rate, to compensate for the impact of inflation that forced taxpayers into higher brackets.
- Cuts in corporate tax rates.
- Setting the initial rate of VAT "well below the current GST rate of 13 percent".

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TAXATION FM 8|3|91

REDUCED RELIEF (320)

A practice note circulated this week by the commissioner of Inland Revenue spells out the extent to which the tax allowance on future instalment credit agreements under Section 24 of the Income Tax Act will remain in place.

In line with the recommendations of the

FM 8|3|91 (320)

Margo Commission, Inland Revenue has decided to treat the gross profit element and finance charges separately for tax purposes.

The allowance will continue to be granted on the gross profit element which is "deemed to accrue to the seller on the day the agreement was entered into," but not yet received. But relief on the finance charges element has been reduced. The allowance granted will effectively recognise interest accruing on a day-to-day basis.

Previously, the allowance was based on the gross profit percentage, applied to the outstanding debtors' balance. This allowed an increasing book to defer payments indefinitely, as new allowances were bigger than the reversal of prior years' allowances. Now the allowance will be closer to the accounting provision for unearned finance charges.

The allowance may be denied altogether, says the practice note, where "a taxpayer has entered into a transaction which is not related to his normal business activities or where a scheme is entered into to make use of the gross profit element of the allowance."

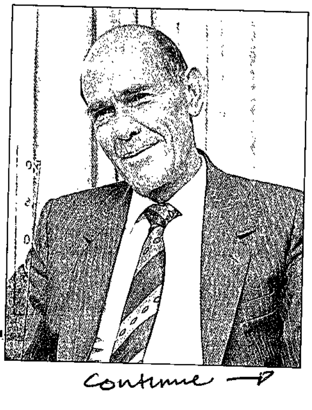
The intention is to reduce possible tax avoidance when a seller is taxed over a period but the purchaser gets immediate relief.

This raises the issue of *unappealability.* Arthur Andersen senior tax partner Pierre du Toit says that extending the possibility of discretionary disallowance to specific cases undermines tax certainty. "There may be legitimate differences between taxpayers and the Directorate as to normality and motive."

He raises also the "difficulties that arise when contracts have not been reduced to writing. It would appear unfair to deny this protection, even where parties can prove by other means that they had contracted before the cut-off date."

The note applies to "all contracts formally

Commissioner Hannes Hattingh



Continue →

 FM 8|3|91

Du Toit

and finally signed by every party to the contract on or after March 1 1991."

The controversial issue of retroactivity will not arise until a second practice note is published, dealing with the phasing-out of the allowance on existing business. This issue has aroused consternation because of its effect on existing business arrangements. (320)

Says First National Bank group taxation manager Godfrey Howes: "Deals on the existing book should be allowed to run their full period.

"If Revenue phases it out over a lesser period, existing project finance transactions, which now use the S24 benefit, will have to be repriced. This could make projects already under way unviable." ■

Minister of Education and of Development Aid, acting on behalf of the Minister of Agriculture and of Development Aid, has appointed, for a period from the date of publication hereof until 30 June 1992, the following persons members and alternate members of the Townships Board:

Member	*Alternate member*
Mr Jasper Johannes Fouché.	
Mr Nicolaas Jooste Nel....	Mr David Barrie Gunston.
	Mr Christiaan Petrus Erasmus Valentine as alternate for Mr Vernon Edward Breetzke, sitting member.

P. G. MARAIS,
Deputy Minister of Education and of Development Aid.

Adjunk-minister van Onderwys en van Ontwikkelingshulp, handelende namens die Minister van Landbou en van Ontwikkelingshulp, die volgende persone as lede en plaasvervangende lede van die Dorperaad aangestel het vir die tydperk vanaf die datum van publikasie hiervan tot 30 Junie 1992.

Lid	*Plaasvervangende lid*
Mnr. Jasper Johannes Fouché.	
Mnr. Nicolaas Jooste Nel.	Mnr. David Barrie Gunston.
	Mnr. Christiaan Petrus Erasmus Valentine as plaasvervanger vir mnr. Vernon Edward Breetzke, sittende lid.

P. G. MARAIS,
Adjunk-minister van Onderwys en van Ontwikkelingshulp.

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DEPARTMENT OF FINANCE

No. 437 **8 March 1991**

Statement of Revenue collected during the period 1 April 1990 to 31 January 1991.

Treasury, Pretoria.

DEPARTEMENT VAN FINANSIES

No. 437 **8 Maart 1991**

Staat van Inkomste ingevorder gedurende die tydperk 1 April 1990 tot 31 Januarie 1991.

Tesourie, Pretoria.

Head of Revenue	Inkomstehoof	Estimate Begroting	Month of January Maand Januarie		Total 1 April to 31 January Totaal 1 April tot 31 Januarie	
		1990-91	1991	1990	1991	1990
		R	R	R	R	R
State Revenue Account	***Staatsinkomsterekening***					
Inland revenue:	Binnelandse inkomste:					
Tax on income	Belasting op inkomste	35 865 000 000	4 027 271 718	4 918 621 594	30 954 851 718	26 767 408 367
Loan Levy 1989–94	Lenningsheffing 1989–94	—	2 158 135	—	2 422 935	693 000 000
Sales tax	Verkoopbelasting	18 532 000 000	2 178 679 099	1 786 239 465	15 183 310 013	14 043 053 956
Other taxes:	Ander belastings:					
Non-resident shareholders' tax	Belasting op buitelandse aandeelhouers	455 000 000	33 347 933	33 827 745	375 776 635	369 754 736
Non-residents' tax on interest	Rentebelasting op buitelanders	—	(1 096 857)	(9 795)	714 239	1 701 436
Undistributed profits	Onuitgekeerde winste	—	1 594 802	78 198	2 252 115	722 418
Donations tax	Geskenkbelasting	3 500 000	721 421	223 622	5 566 790	3 258 254
Estate duty	Boedelbelasting	60 000 000	5 542 838	4 435 845	73 303 077	66 220 798
Trade securities	Handelseffekte	235 000 000	12 457 400	28 405 317	203 304 880	203 446 130
Stamp duties and fees	Seëlregte en gelde	665 000 000	57 324 777	54 081 418	536 464 151	519 208 023
Transfer duties	Hereregte	680 000 000	59 651 007	55 075 074	631 552 191	556 279 668
Miscellaneous	Diverse	—	—	—	—	—
Mining leases and ownership	Mynverhurings- en eiendomsregte	477 000 000	20 239	136 968 071	283 655 243	412 657 316
Interest and dividends	Rente en dividende	176 665 000	3 371 141	3 986 044	52 959 420	337 518 839
Levies	Heffings	8 700 000	708 861	1 291 485	13 175 615	7 953 678
Recoveries of loans and advances	Terugvorderings van lenings en voorskotte	50 565 000	1 955 528	(12 487 843)	63 349 183	18 771 428
Departmental activities	Departementele bedrywighede	771 883 000	54 679 832	61 104 917	1 033 303 339	4 002 961 120
	R	57 980 313 000	6 438 387 874	7 069 841 157	49 415 961 544	48 003 914 165
Less: Payments to self-governing national states	*Min:* Betalings aan selfregerende nasionale state	913 000 000	76 309 257	57 050 000	757 404 257	570 720 000
Total: Inland revenue	Totaal: Binnelandse inkomste R	57 067 313 000	6 362 078 617	7 012 791 157	48 658 557 287	47 433 194 185
Customs and excise duties:	Doeane- en aksynsregte:					
Customs duty	Doeanereg	2 100 000 000	164 218 361	157 344 251	2 099 553 500	1 848 344 558
Excise duty	Aksynsreg	2 858 000 000	334 542 135	293 138 056	2 517 409 353	2 137 556 168
Surcharge	Bobelasting	1 865 000 000	146 271 441	197 884 366	1 752 286 865	2 192 061 259
Miscellaneous	Diverse	195 500 000	26 825 170	33 450 031	174 730 658	194 116 481
Fuel levy	Brandstofheffing	4 200 000 000	309 460 560	344 983 249	3 290 792 577	3 298 207 892
Ordinary levy	Gewone heffing	100 000 000	22 647 539	27 818 094	96 919 145	51 937 259
	R	11 318 500 000	1 003 965 206	1 054 618 047	9 931 692 098	9 722 223 617
Less:	*Min:*					
Amount to the credit of Central Revenue Fund	Bedrag tot krediet van Sentrale Inkomstefonds	447 800 000	—	37 317 000	223 500 000	373 170 000
Payments in terms of Customs Union Agreements	Betalings ingevolge Doeane-unie-ooreenkomste	3 000 000 000	764 967 062	658 306 000	2 951 791 812	2 361 170 000
Total: Customs and excise duties	Totaal: Doeane- en aksynsregte R	7 870 700 000	238 998 144	358 995 047	6 756 400 286	6 987 883 617
	R	64 938 013 000	6 601 076 761	7 371 786 204	55 414 957 573	54 421 077 782
South African Development Trust Fund	Suid-Afrikaanse Ontwikkelingstrustfonds	60 000 000	198 268	5 271 835	57 317 666	35 122 263
Sorghum Beer Research Fund	Fonds vir Sorghumbiernavorsing	1 200 000	—	—	—	—
Allocations from fuel levy:	Toewysings uit brandstofheffing:					
Oil Pollution Fund	Oliebesoedelingsfonds	10 000 000	—	—	—	—
South West Africa	Suidwes-Afrika	138 000 000	—	—	—	—
TBVC Countries	TBVC-lande	145 000 000	—	—	—	—
	R	354 200 000	198 268	5 271 835	57 317 666	35 122 263
	R	65 292 213 000	6 601 275 029	7 377 058 039	55 472 275 239	54 456 200 045

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Head of Revenue	Inkomstehoof	Estimate Begroting 1990-91	Month of January Maand Januarie 1991	Month of January Maand Januarie 1990	Total 1 April to 31 January Totaal 1 April tot 31 Januarie 1991	Total 1 April to 31 January Totaal 1 April tot 31 Januarie 1990
		R	R	R	R	R
Revenue Account: House of Assembly	***Inkomsterekening: Volksraad***					
Inland revenue	Binnelandse inkomste	–	348 247	11 461 156	145 196 904	152 192 317
Revenue Account: House of Representatives	***Inkomsterekening: Raad van Verteenwoordigers***					
Inland revenue	Binnelandse inkomste	–	1 859 228	1 509 494	28 933 585	22 193 308
Revenue Account: House of Delegates	***Inkomsterekening: Raad van Afgevaardigdes***					
Inland revenue	Binnelandse inkomste	–	494 056	358 943	5 381 963	3 876 732
	R	–	2 701 531	13 329 593	179 512 452	178 262 357
Grandtotal	Groottotaal R	–	6 603 976 560	7 390 387 632	55 651 787 691	54 634 462 402
Reconciliation with statement published by Government Notice 280 in *Government Gazette* of 15 February 1991:	Rekonsiliasie met opgaaf gepubliseer by Goewermentskennisgewing 280 in *Staatskoerant* van 15 Februarie 1991:					
In Transit 31 March 1990	In Transito 31 Maart 1990	–	–	–	137 965 625	–
In Transit/Overremitted 31 December 1990	In Transito/Te veel oorgedra 31 Desember 1990	–	(33 326 850)	–	–	–
Collections as above	Invorderings soos hierbo	–	6 603 976 560	–	55 651 787 691	–
	R	–	6 570 649.710	–	55 789 753 316	–
In Transit/Overremitted, 31 January 1991	In Transito/Te veel oorgedra, 31 Januarie 1991	–	104 436 199	–	104 438 199	–
In Transit Revenue Account: Administrations	In Transito Inkomsterekening: Administrasies	–	(48 403 565)	–	(176 810 921)	–
Received into Exchequer Account	In Skatkisrekening ontvang R	–	6 626 682 344	–	55 717 378 594 -	–

No. 469 **8 March 1991**

CHANGED INTEREST RATE APPLICABLE TO INDEFINITE PERIOD EXCHEQUER BONDS

The Department of Finance hereby announces that the Minister of Finance has determined that the interest rate applicable to Indefinite Period Exchequer Bonds will, with effect from 1 March 1991, be 12 per cent per annum. This rate has been determined to adapt to ruling market conditions and to make provision for the phasing out of the income tax benefit on this investment as indicated in the conditions of issue.

Current investors are not required to submit their certificates for amendment, as the rate adjustments will be made automatically in the department's records.

No. 469 **8 Maart 1991**

WYSIGING VAN DIE RENTEKOERS VAN TOEPASSING OP ONBEPAALDE TERMYN SKATKIS-OBLIGASIES

Departement van Finansies maak hierby bekend dat die Minister van Finansies bepaal het dat die rentekoers van toepassing op Onbepaalde Termyn Skatkisobligasies met ingang van 1 Maart 1991 aangepas word na 12 persent per jaar om by heersende marktoestande aan te pas asook om voorsiening te maak vir die verdere uitfasering van belastingvoordele op die belegging soos aangetoon in die uitreikingsvoorwaardes.

Huidige beleggers hoef nie hul sertifikate voor te lê vir wysigings nie, aangesien die koersaanpassings outomaties in die rekords van die departement gemaak sal word.

DEPARTMENT OF JUSTICE

No. 434 **8 March 1991**

ESTABLISHMENT OF A SMALL CLAIMS COURT FOR THE AREA OF MALMESBURY

I, Daniel Pieter Antonie Schutte, Deputy Minister of Justice, acting on behalf of and on assignment by the Minister of Justice —

(a) hereby establish under section 2 of the Small Claims Courts Act, 1984 (Act No. 61 of 1984), for the area of the District of Malmesbury, a court for the adjudication of claims in terms of the said Act;

(b) hereby determine under the said section Malmesbury as the seat of the said court; and

(c) hereby determine under the said section Malmesbury as a place in that area for the holding of sessions of the said court.

D. P. A. SCHUTTE,

Deputy Minister of Justice.

DEPARTEMENT VAN JUSTISIE

No. 434 **8 Maart 1991**

INSTELLING VAN 'N HOF VIR KLEIN EISE VIR DIE GEBIED MALMESBURY

Ek, Daniel Pieter Antonie Schutte, Adjunk-minister van Justisie, handelende namens en in opdrag van die Minister van Justisie —

(a) stel hierby kragtens artikel 2 van die Wet op Howe vir Klein Eise, 1984 (Wet No. 61 van 1984), 'n hof vir die beregting van eise ingevolge genoemde Wet vir die gebied van die distrik Malmesbury in;

(b) bepaal hierby kragtens genoemde artikel Malmesbury as die setel van genoemde hof; en

(c) bepaal hierby kragtens genoemde artikel Malmesbury as 'n plek in daardie gebied vir die hou van sittings van genoemde hof.

D. P. A. SCHUTTE,

Adjunk-minister van Justisie.

How VAT will apply

320 W/C ARGUS 9/3/91

Will VAT still have to be added on to the price reflected on goods purchased?

RETAILERS must show the total price inclusive of VAT and price tags and advertisements must state that the price is inclusive of VAT.

If they wish, retailers can also show the price exclusive of VAT and the VAT separately but either way, the price tag total will reflect the inclusive cost to the consumer.

Will VAT be charged on the rental I pay for my flat?

VAT wil not be levied on rentals charged for residential accommodation.

My employer provides me with a company car. Will I have to pay VAT on this as well as fringe benefits tax?

NO. The VAT payable in respect of the supply of the company car is a cost to your employer and is not charged to employees directly.

Will medical services and prescription medicines also be subject to VAT?

THE supply of all medical, dental and similar services will be subject to VAT. Medicines, including those prescribed at the time of consultation will also be subject to VAT. Medical aid schemes, however, are to be exempt from VAT, which means that medical aid contributions will not attract VAT.

I intend purchasing a house from a developer which will only be completed after the implementation of VAT in October. Will I have to pay VAT on the purchase price?

THE developer, as a registered enterprise, would be required to charge VAT on the full purchase price of your home if it is sold to you after October 1 1991.

If it is sold to you and your bond has been approved (so the sale is not conditional) before October then — on the present proposals — it will escape VAT even if transfer and payment is after October.

VAT HOTLINE

DAVID CLEGG

READERS questions on the new Value-Added Tax are answered in the this new service by The Argus and David Clegg, a tax consultant with Ernst and Young. Readers are invited to send their queries to Vat Hotline, The Argus, PO Box 15399, Vlaeberg 8018.

Immovable property sold by private individuals will not attract VAT at all, but the agent's fees will be VATable.

How will VAT affect my food and clothing bills?

IT is difficult to answer this question adequately without going into a great deal of detail. However, in brief, since only maize products, rice, bread and milk powder will not attract VAT, the overall cost of food, most of which is already subject to GST, will rise slightly.

The cost of clothing, on the other hand, should be reduced since VAT eliminates the tax spiral created by GST and the rate of VAT should be lower than GST.

Must I register my small business, with an annual turnover of R90 000, for VAT?

NO, only enterprises with annual turnovers exceeding R150 000 are required to register for VAT.

The services that escape the VAT net

S/Times 10/3/91

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By IAN MacKENZIE

IN VAT systems throughout the world, financial services are an exception to the general rule that all supplies of goods and services are subject to VAT.

The reasons for this are largely practical and a number of countries such as New Zealand and South Africa are still investigating the matter with a view to bringing financial services into the VAT net.

For the time being however, financial services will remain exempt which means that the supplier of the service will not have to impose Value Added Tax on the fee charged to the purchaser of the service.

This does not necessarily mean that the fee will be materially lower than if had VAT been charged on it, because the supplier will equally not be able to claim input tax credits in respect of VAT paid on his purchases and through higher fees generally.

Financial services are those services provided by banks, building societies and long-term insurance companies, but it is not only these financial institutions which are affected.

Any other business charging, for example, interest on an outstanding debt will equally be providing a financial service.

The following expenses are all costs of financial services which will be exempt from VAT whether otherwise paid by a company or an individual:

- interest on a loan or outstanding debt;
- finance charges on a suspensive sale or financial lease;
- bank charges and ledger fees;
- forward cover premiums;
- brokerage charged by a stockbroker;
- debt collection fees;
- premiums in respect of life insurance and endowment policies;
- contributions to pension, provident, retirement annuity and medical aid funds.

It is also important to note that not all supplies by financial institutions will be exempt from VAT.

For example if a bank sells or leases a car or piece of plant to a company or individual, VAT will be payable on the basic cash price of the asset, although not on the finance charges.

Where use of the asset is acquired through an operating lease or rental agreement, the bank will have to charge VAT on each rental payment without exclusion of a finance charge element.

This is no different to the present position under General Sales Tax and it means that tax consideration will continue to play a part in planning for capital-asset financing.

Short-term insurance is not defined as a financial service. Consequently VAT will be payable on short-term insurance premiums and will be included in certain short-term insurance payouts for claims.

Ian MacKenzie is a tax partner at Ernst & Young.

VAT on basic foods may cause price surge

Star 11/3/91

By George Nicholas
Agricultural Correspondent

The inclusion of basic foods in the value added tax (VAT) system may cause their retail prices to rise by 30 percent in a single year.

This is the conclusion of the farming community following the rejection by the Government's VAT Committee (Vatcom) of its pressing calls for the exclusion of all basic foodstuffs from the tax.

Farmers also believe the poorest will be hardest hit and that the State would benefit by well over R1 billion.

Concerned

Vatcom has recommended that only a few foodstuffs — such as maize products, rice, bread and milk powder — be exempted from the tax. This is of grave concern to farmers.

At present all basic foods are exempted from general sales tax.

Farmers argue that VAT, added to normal input costs, could push up retail prices by as much as 30 percent in a year. They feel that the resultant consumer resistance would cause a further drop in farmers' incomes.

The phasing out of production subsidies — such as that enjoyed by the wheat industry — meant VAT could have a further serious effect.

"There is little doubt that VAT on basic foodstuffs is going to cause the market for farm products to shrink," said SA Agricultural Union senior economist Johan Pienaar.

He warned that agriculture would be exposed to considerable financial losses. This was so because of the economic slump and the fact that more than 50 percent of the market for foodstuffs was targeted at the less privileged sector.

Mr Pienaar said the Bureau of Market Research had calculated that the exclusion of basic foods from the existing GST represented a loss of R2,4 billion a year to the State.

The inclusion of these foods in the VAT system meant the State would now recover about R1 billion of this amount from meat products alone, and vegetables would be responsible for about R407 million.

He also felt many SA farmers would find it difficult to comply with the administrative obligations of VAT.

Of the 47 countries already implementing the system, few were without a specific dispensation for farmers, he added.

Cautious nod for Melamet ideas

BDay 13/3/91

SEAN VAN ZYL

THE Melamet Commission's recommendations regarding offshore insurance captives had been accepted "in principle", Registrar of Insurance Piet Badenhorst said yesterday.

Captive insurance companies are set up offshore by SA corporations to cater for their needs.

He added that developments regarding the captives were at "a very sensitive stage", and were a priority for the Financial Institutions Office and the Reserve Bank.

Negotiations were under way between the Registrar and Reserve Bank, Badenhorst said.

Companies assigning premiums to their own offshore-registered insurance companies as a form of self-insurance had to gain approval from the Reserve Bank.

Badenhorst said the outcome of the discussions should result in legislative action before year-end.

Industry sources suggested the authorities would not ban captives but rather tighten exchange control requirements and impose a withholding tax on premiums.

The Melamet Commission, established to probe possible misuse of offshore captives for tax avoidance and exchange control evasion, last year recommended:

- That offshore captives be brought onshore;
- Funds in offshore captives be returned to SA;
- That premiums, other than reinsurance, not be deducted before tax on income;
- That tighter requirements for registration be introduced;
- That annual returns be submitted to exchange control authorities and Inland Revenue;
- That no more than 50% of reinsurance funds be allocated offshore.

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The Receiver has apparently sent out circulars to companies operating offshore captives, to gain more information.

However, Barlow Rand group risk and insurance manager Des Vernon said he was unaware of such a questionnaire: "We are waiting with bated breath to see how much of the Melamet report will be written into legislation."

Relief plan for burdened farmers

GILLIAN HAYNE

TO EASE the administrative and cash flow burdens of farmers, Vatcom has recommended that those with supplies worth a taxable value of not more than R1m need only submit six monthly returns.

Certain supplies have also been zero-rated.

Ernst & Young tax partner Ian MacKenzie said for the big farmers the zero rating was a major concession as they would receive the regular input tax credits as well as benefiting from the cash flow advantage of zero-rated supplies. Importers and exporters had not been granted such concessions.

A tax consultant argued the six monthly returns amounted to subsidisation for the farmers, as they would have received the tax but would only have to pay it later. The question was whether the farmers would be able to pay the tax after six months.

Arthur Andersen tax manager Shane Ferguson said a further benefit for the small farmer was that he could choose to pay VAT on the payments basis and not the invoice basis.

8 Oct 13/91

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FM 15\3\91 (320)

BUDGET — 2

NUTS AND BOLTS

Though the Budget will focus on sensitive areas of public finance such as social spending and the introduction of VAT (see *Budget — 1*), experts say the technical side of tax policy also requires attention.

Arthur Andersen partner Pierre du Toit argues that the following points should be dealt with:

- A recent court decision (in the Frame case) that trusts are not taxable, has reversed decades of contrary practice by taxpayers and Revenue. The minister of finance should announce that the previous state of affairs will be reinstated by amendment to the Income Tax Act;
- The law about the tax implications of forex gains and losses is confused. The simplest solution would be to make such gains and losses taxable or deductible in the same way as gains or losses on interest payments, without artificial reference to the nature of the "underlying transaction." Deloitte Pim Goldby partner Willem Cronje also pleads for greater clarity on the tax treatment of the cost of forward exchange cover;
- To make some progress towards the goal of self-assessment for companies, says Du Toit, a start should be made in removing discretionary measures from the Act. It would make for orderly change if the minister, for example, could announce the intended codified replacements for the major discretionary allowances (such as the basis for valuing inventories or the setting of depreciation rates for various classes of assets) which have already been earmarked for repeal. A sudden switch to codified allowances would be disruptive.

  In this area, Cronje draws attention to problems with the quantification of the write-off of obsolete inventory, which must be done "to the satisfaction of the commissioner." The commissioner is not happy with the subjective basis on which many companies provide for obsolescence and requires objective guidelines — which may not be easy to achieve. Clarification of this obscure area of tax law is long overdue; and
- The commendable trend towards greater Budget disclosure of intended changes to the Act should be sustained, says Du Toit. ■

BUDGET — 1 (320) FM 15/3/91.

WHAT PRICE VAT?

The big mystery of next week's Budget remains the rate at which VAT will be imposed — a decision of great fiscal and political sensitivity. The rate could be as high as the present GST rate of 13%, though the weight of expert opinion seems to favour a lower range, perhaps even 10% or below.

What makes the decision particularly difficult, says Deloitte Pim Goldby partner Willem Cronje, is that nobody knows how much double tax on intermediate goods is built into the GST system. Revenue will lose this benefit of GST through VAT's system of input tax credits (ITC).

Cronje makes the point that it will be safe for government to announce the rate if it is close to the existing GST rate of 13%. If it is much lower (as he favours) the transitional period will see considerable distortions, as purchasers will hold back to get the benefit of the lower rate.

But it is difficult to see how a Budget speech can refrain from announcing the rate, though it is conceivable that government will escape by estimating a total revenue input from VAT, without a rate. VAT's impact on the Budget will be mitigated by the fact that GST remains in force until end-September, so the change will only be fully felt in 1992-1993. GST will continue to be collected for some time, from audits of previous tax years. The buffer of this additional revenue fortifies the case for a lower VAT rate.

Arthur Andersen partner Pierre du Toit argues — for the sake of "the only remaining chance of a comprehensive indirect tax," — the rate should be below 10%.

Ernst & Young tax partner Sally de Boor says that when New Zealand introduced VAT, it allowed the ITC on capital goods from day one (SA is planning a phasing-in period). Even so, VAT collections, even at a rate of only 10%, far exceeded expectations. It proved possible to bring down the top marginal rate of income tax from 66% to 48% during the initial VAT period.

After the VAT rate was put up to 12,5%, income tax was brought down further, to 33%. De Boor favours introducing VAT at a lower rate than GST, say 11%-11,5%, and favours a five-year phase-in on capital goods.

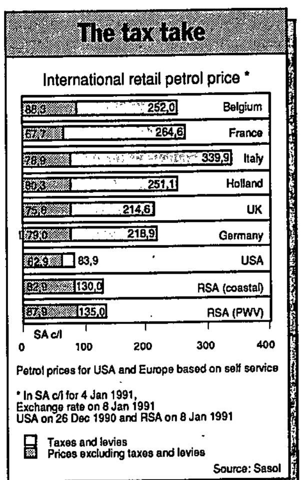
Government is, of course, constrained in other fiscal areas by recent commitments and fiscal changes. There is now a commitment to refrain from imposing tax on dividends, while the prospects for a withholding tax on interest this year seem small.

But the most important constraint is the requirement to keep to the schedule of getting the top marginal rate of personal income tax down to 40% over four years. This implies a reduction in the rate from 44% to 43% this year, says De Boor. Of course, says Cronje, the effects of the adjustment of the progressive personal income tax schedule by 1% across the board will undoubtedly be more than offset by fiscal drag.

Though government will happily scoop in the extra revenue from individuals, the fact remains that middle-class SA is still being compressed between the anvil of the progressive income tax scale and the hammer of double-digit inflation. In plain terms, a salaried man who achieves an increment of 15% is still worse off than in the previous year, because he will pay away a greater *proportion* of his income in tax. The remedy is to stretch out the progressive tax schedule so that the maximum rate is attained only at a much higher income.

Lost revenue would be considerable — the take for 1990-1991 from this source was projected at R23,5bn of total revenue of R69,5bn, or 33,8% (up from 29,8% the previous fiscal year). By comparison, GST was projected to yield R18,5bn, or 26,6%. This is in a context of total expenditure reaching perhaps R84bn and revenue R75bn, throwing up a deficit of some R9bn. This is some 3,4% of GDP, not much above government's self-imposed ceiling of 3%.

The ill effects of fiscal drag are so serious that government should rather make the adjustment to the progressive scale and recover the losses out of indirect taxes, principally VAT. Another area where more indirect tax could be levied is petrol. The retail price is low by international standards (see table).



The real petrol price, according to Sasol, has fallen by about 40% in 10 years.

The objection to higher levies on petrol is political. But the social costs of using motor transport are high and it is sound economics that these "externalities" should be costed into the use of vehicles. Cronje also argues for an additional impost on petrol to be used in reinstating a road levy.

And major factors other than the availability of money will continue to put a ceiling on social outlays, such as the availability of land for housing. Until they are, throwing money at social problems will produce only waste. The difficulty the Independent Development Trust has encountered in trying to spend R2bn is proof enough of this.

Robin Friedland

DEPOSIT TAKING FM 15/3/91

COUNTER POINT

Surprise is an important element in battle. On March 7, First National Bank (FNB) took the market unawares, moving before the central bank, with a one percentage point reduction — to 19,75% — in its bond rate. This aggressive step attracted headlines and scored valuable points for the bank among consumers, for leading the way down. Moreover, it couldn't have been better timed — it was followed the next day by Reserve Bank Governor Chris Stals's announcement that he would reduce the official rediscount rate by one percentage point to 17%.

As usual, when this official rate falls, market rates move in line. So banks cut the prime rate at which they lend to their best borrowers by one percentage point to 20% and, with it, a range of prime linked rates.

But United Bank went one step further. Since inception, it has held its prime 0,25% below the rest of the market. It continues to keep this margin, offering prime of 19,75%.

Piet Badenhorst, CE of holding company UBS, is doing to the banks what they did to him when they entered the home loan market at end-1986. With tiny books, they could afford to compete on price to build market share. Building societies, with their massive mortgage portfolios, were unable to keep ahead on interest rate reductions.

Now United, with a comparatively small loan portfolio priced on prime, is buying its way into this market.

But the other big players will allow United to maintain this edge only until they perceive it as a threat in the overdraft market. "It's unlikely any major competitor will be able to maintain a pricing advantage," says Standard Bank's Manfred Schütte.

continue

VAT key to next week's Budget

(320)

Barend hints at lowering of some taxes

B/Day 15/3/91

CAPE TOWN — Finance Minister Barend du Plessis has hinted that he will keep his promise to the electorate to reduce the top marginal tax rate by one percentage point to 43% in the Budget on March 20.

BILLY PADDOCK

In an interview he said he had a commitment to reduce personal income tax by five percentage points over five years as stated in the NP five-year plan unveiled in June 1989.

The plan said personal income tax would be lowered and the marginal rate reduced to a maximum of 40% at an income level of R100 000 for married persons (R80 000 for unmarried people).

The plan also committed government to reducing company tax. Du Plessis could give some relief in this area as well, despite claims that the Treasury could not absorb this loss of revenue.

However, it is estimated that companies, through exploiting loopholes, have in effect been paying 30%-35% tax. Since government has plugged the last loophole by phasing out tax credits on debtor allowances, the Treasury stands to gain between R1,5bn and R2bn a year.

Du Plessis said preparing this Budget had given him more sleepless nights than the debt standstill Budget of 1985 and had been the most difficult in his seven years as Finance Minister.

He was extremely pleased that Reserve Bank Governor Chris Stals had announced the one percentage point cut in Bank rate last week because it offered some good news. The Budget is expected to be a fairly tight one, giving Du Plessis minimal scope.

To a large extent the Budget will be anchored to VAT; the rate at which the new tax is imposed will be politically as well as economically important.

Expectations of a low rate are likely to be disappointed because, with all the demands on a limited revenue, government will want to play safe, pegging it at about 12% and keeping it there for a number of years.

Revenue will also be lost through the VAT system of input tax credits on intermediate goods which does not apply under GST. Vatcom chairman and Deputy Finance Minister Org Marais said it would cost R4bn to phase in credit on intermediate goods immediately.

Sources said government would have difficulty selling 13% VAT to the public, especially with it being imposed on most basic foodstuffs.

Because of the pressures on this Budget for social spending, Du Plessis is unlikely to be able to make any real tax and other concessions. In reality he will hand back some of the surplus R1,7bn that accrued to the state coffers from fiscal drag.

There is the enormous pressure on government for special spending on education, housing, health, welfare and, especially, pensions and direct relief for the poor.

Planning and Provincial Affairs Minister Hernus Kriel this week indicated that Du Plessis would also make some allocation to implement the proposals of the White Paper on land reform.

There is also pressure on Du Plessis for public sector pay increases. While government wants to lower inflationary expectations in wage negotiations, it does not want

☐ To Page 2

Barend

B/Day 15/3/91 (320)

☐ From Page 1

a demotivated public service. In particular government does not want police pay, brought up to standard last year, to fall behind when a motivated police force is badly needed to stem violence.

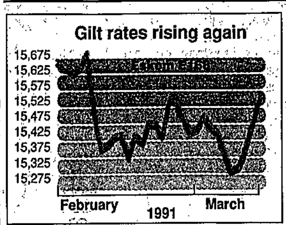
It is widely expected that Du Plessis will project an overall increase in spending of about 12%. With the R1bn contingency fund for unallocated items and R600m for food relief, he will be looking at expenditure of about R85bn.

Revenue could increase to about R76bn. The deficit of some R9bn could result in a mildly expansionary Budget which allows Du Plessis to stay within the 3% ceiling on the deficit before borrowing recommended by the IMF.

In the last Budget Du Plessis cut the import surcharge by 30% and he is expected to do the same this year. The cost of this could be offset by a R1bn cut in defence spending.

He has already announced that tax on dividends would not be reintroduced and no move would be taken at this stage to bring in a withholding tax of 10%.

● Comment: Page 10



Graphic: LEE EMERTON Source: INET

Emigrants face tax on investments

BDay 15/3/91 (320)

GRETA STEYN

FINANCE Minister Barend du Plessis is expected to announce a tax on emigrants' earnings from fixed interest investments in SA in next week's Budget.

Rumours that these earnings would be taxed during the next fiscal year fuelled negative sentiment yesterday in an already bearish capital market. The rate on the key Eskom Loan E168 rose 10 points yesterday to 16,50%, bringing its gains for the week to 30 points.

Government took an initial decision last year to tax emigrants' interest income, but uncertainty grew in the markets over the seriousness of its intention after lengthy delays. It is understood the postponement came about as a result of the possibility that a withholding tax would be introduced on interest earnings.

A spokesman for the Inland Revenue Department said he could not comment on speculation about the Budget, but noted that the tax changes had already been gazetted and that the department was awaiting an implementation date from the Finance Minister. The tax rates applied would be the usual progressive income tax rates.

Investment in gilts has been a popular choice of emigrants whose funds are "blocked" in SA. While JSE investments remain subject to a non-resident's tax, the fixed-interest investments were exempted from tax in 1989.

The changes gazetted apply only to gilts purchases with rands.

Tax experts say emigrants whose funds are not blocked in SA — where they have inherited from a South African — could transfer the funds overseas, convert them into foreign currency and invest in SA capital market stock without fear of the taxman.

BAREND'S BUDGET

R1,8bn masterplan to boost jobs

By MIKE ROBERTSON
Political Correspondent

FINANCE Minister Barend du Plessis is expected to allocate more than R1,8-billion for a Roosevelt-style job creation scheme when he unveils his Budget on Wednesday.

Mr Du Plessis, who has described this year's Budget as the most difficult in his seven years as finance minister, is expected to announce that the unemployed will be given jobs building schools to overcome the black education backlog. Others are expected to be given work servicing land for informal housing schemes.

Because of political developments, the focus of this year's Budget has fallen on social spending and how to address apartheid backlogs.

But, in attempting to meet these expectations, Mr Du Plessis faces triple contraints in the form of a depressed economy, a major change in the system of indirect taxation and an obligation to fulfil election commitments to reduce direct personal and company taxation. The phasing out of import surcharges will also result in a loss of revenue.

However, because of changed political circumstances, the government is in a position to reap a once-off windfall by selling off oil and other stockpiles built up to counter sanctions. These funds, together with huge cuts in the defence and public works budgets, will be used to fund social spending.

The NP promised in 1989 it would gradually reduce the marginal rate of taxation from 45 percent to 40 percent. The first drop of one percent came in last year's Budget — and a similar cut is expected this year.

Company tax is also expected to be cut by more than five percent from 50 percent.

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At the same time, however, a number of loopholes will be removed. This, too, is in line with NP election promises to eventually have a much lower company tax in SA with no exemptions.

S/ Times 17/3/91

The major unknown on the revenue side of this year's Budget is the introduction of Value Added Tax to replace General Sales Tax. Because businesses will be exempted from paying VAT on capital purchases and intermediate production costs, it has been estimated that the Receiver will lose R7,5-billion.

To offset this, even if all exemptions on foodstuffs are removed, VAT would have to be introduced at 13,3 percent.

However, VAT exemptions on capital purchases are to be phased in. Mr Du Plessis will announce the phasing-in period on Wednesday, but indications are that it will be relatively short and that the initial percentage of purchases that can be deducted will be quite high. As a result, it can be expected that VAT will be introduced at 12 percent or even higher.

The retention of tight fiscal and monetary policy is certain and overall government expenditure is expected to increase by less than the rate of inflation, to about R84-billion.

The deficit before borrowing is likely to be higher than last year's, but still in the vicinity of the internationally approved benchmark of three percent of gross domestic product.

Defence Minister Magnus Malan has already indicated that a real cut of about R1,5-billion in his budget can be expected. The public works budget is also said to have been cut by a similar amount.

Despite the clamour for all pensions to be equalised, the government is reluctant to commit itself to major items of recurrent expenditure prior to an economic upswing.

A contribution to equalisation is expected, but this will be a gradual process.

Instead, the government appears to favour projects such as job creation scheme which, while providing employment and training, also begin to address backlogs in shelter and education.

Planning and Provincial Affairs Minister Hernus Kriel has indicated that the government has identified some 107 000 ha of land for informal housing settlements in metropolitan areas. Funds will have to be provided to purchase this land.

Provision will also have to be made for a one-off capital grant scheme which Mr Kriel has said the government will introduce.

To offset the effects of VAT on food prices, the government is also understood to be considering food assistance schemes.

These could take the form of a subsidy for white maize products, or feeding schemes. With regard to the latter, a figure of R600-million has been mentioned.

Bophuthatswana's tax loophole closed by VAT

By TERRY BETTY

THE sales tax loophole through Bophuthatswana will be closed when Value Added Tax comes into effect in South Africa on September 30.

Unlike the other independent homelands there is no General Sales Tax in Bophuthatswana and there are no border controls, allowing goods bought tax-free by South Africans to be repatriated. ST Times 17/3/91

VAT's regulations say that TBVC states are no longer defined as export countries — and they will not be exempt from tax, says an official at the Receiver of Revenue. (320)

But the problem is far more complicated than merely preventing cars bought tax-free in Boputhatswana coming back into SA.

Raw materials for manufacturing in the homeland are mostly imported through SA and unless Bophuthatswana also introduces VAT, SA will not give them credit for VAT paid. This will push up their costs, making them uncompetitive.

A spokesman for the Boputhatswana National Development Corporation says VAT will be introduced at about the same time and at the same rate as in SA.

This will considerably widen Bophuthatswana's tax base and the extra revenue will help cover the cost of social welfare programmes and the tax collection system.

Ken Boggis, an associate director at Deloitte Pim Goldby says VAT will lead to an outcry from Bophuthatswana's informal sector.

"It will be a huge culture shock for them as they will be losing income and get nothing in return."

Nedbank chief economist Edward Osborn predicts VAT will bring about "a one-off rise in inflation" in Bophuthatswana.

VAT will also be costly for Boputhatswana to implement as it does not have an extensive tax-collecting infrastructure. People will need to be trained and the public educated.

Taxation policy stifling job creation

Finance Reporter 320

The present taxation structure in South Africa is a huge stumbling block standing in the way of investors wishing to play a role in expanding the economy, says Bert Wessels, the CFO of Toyota South Africa.

"The anomaly is that these restrictive policies are in force at a time when there is a desperate need to create job opportunities. Star 18/3/11

"Presently the government does not acknowledge that we live in an inflation economy when it comes to giving industry a reasonable break to expand".

He pointed out that provisions had to be made in writing down assets so that they could be replaced at the end of their economic lives.

"In an inflation economy the provisions allowed right now are woefully inadequate", he said. "Sure they allow you to write-off the full purchase price over a period but no allowance is made for inflation.

"The result is that when you come to replace equipment you face increased costs that just five years after the initial purchase can be double the cost of the equipment to be replaced.

He explained that Toyota's financial results for the past year gave a clear indication of what the results of the government's restrictive policies could do.

"Our effective tax rate for the year was 55 percent and because we are involved in a phase of heavy capital investment I see that it could perhaps even creep higher than this in future years.

"The government should not lose sight of the fact that we have to trade and compete with first world countries which do not have to contend with massive inflation. Local industry needs every break it can get and the current taxation system seems inappropriate."

He said many manufacturers were becoming hesitant about making the substantial investments required in the face of economic uncertainty and in what can almost be construed as a punitive tax environment.

The industry ranked third in terms of contribution to the GDP with 5 percent behind the mining sector (12 percent) and agriculture forestry and fishing (6,5 percent).

"It is an industry than can compete aggressively in export markets and it is an essential component of local industry. This needs to be fully recognised and the industry promoted rather than milked at every opportunity".

A tax handbook for the uninitiated

THE TAXATION OF INDIVIDUALS AND COMPANIES, by E M Stack and M Cronje (R72), and INCOME TAX HANDBOOK 1990-91, by E Danziger and E M Stack (R42; Digma Publications) BDay 18/3/91

THE lack of tax-related publications for the uninitiated has been rectified, to a certain extent, by The Taxation of Individuals and Companies.

It takes the form more of a school textbook — albeit advanced — and is written in simple language.

It assumes nothing, beginning with a definition of tax, methods of levying tax, the canons or principles of taxation and a brief history of taxation.

It moves on to deal specifically with the taxation of people who earn a salary, retired people, people who earn investment income, people engaged in business, farmers, trusts and estates, companies and close corporations. (320)

Taxation of residents and non-residents, sole traders and partnerships are also discussed.

Detailed examples accompany each issue, which help in the practical application of seemingly incomprehensible jargon.

If, however, one has a burning desire to look at the Income Tax Act, Estate Duty Act and the various schedules, regulations and practice notes which relate to the Act, the Income Tax Handbook 1990-91 deals specifically with the income tax legislation.

It provides a useful, compact reference for those looking for the legislation currently in force.

GILLIAN HAYNE

New tax on interest of R1m likely

Cape Times 18/3/91

Own Correspondent

JOHANNESBURG. — Bankers expect to be dealt a blow by Budget proposals to impose a form of VAT on interest earnings of more than R1 million.

Senior bankers said at the weekend that finance special adviser Mr Japie Jacobs had discussed the proposed move with chief executives at a confidential meeting at the Reserve Bank last Thursday.

It is understood Mr Jacobs told them the government hoped to raise about R500 million from the new tax.

The proposed tax is expected to be charged in addition to the usual income tax on interest earnings.

It would be similar to VAT, with interest regarded as "value added". Bankers estimate it will cost 1% of interest earnings — an expense that would knock profitability.

Long-term gilt rates rose steeply to 15,48% last week, gaining almost 30 points in anticipation of the announcement in this week's Budget.

Sources said the proposal had been made by the International Monetary Fund team which advised the government on the implemention of VAT.

Although most countries in the world regard financial services as too complex to be subject to VAT, the IMF's view is that this "extraordinarily remunerative" sector

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From page 1

Banks

Cape Times 18/3/91

with its "high visibility" should be included, especially in a developing country.

The IMF recommendation followed the recent finding by government's VAT committee (Vatcom) that financial services be exempted pending further investigation.

Bankers were sworn to secrecy and declined to comment officially.

Privately, bankers say the move is part of government's redistribution policy. One banker said the decision was politically clever as banks were widely regarded as "fat cats" that could afford to give up some cream to feed the needy.

Bankers said the move would help to keep the overall VAT rate below the current GST rate of 13%. The IMF's apparent proposal of a speedy phasing out of tax on capital goods had made it difficult to set a low rate and the government needed all the revenue it could get.

The tax is expected to stem downward pressure on interest rates as it effectively raises the banks' cost of borrowing. This cost could be passed on to consumers in higher bank charges or tighter credit policies.

All earners of interest income of more than R1 million a year, including life assurers and pension funds, will be hit by the tax. Banks will be hit hardest as interest payments are their main source of income.

Bankers said this went against the principle of a "level playing field" between the different financial institutions. Although pension funds and life offices could reduce their exposure to interest income, banks could not.

The government apparently is not planning to tax non-interest investment products.

It is expected to argue that the move will not contradict its objective of encouraging "discretionary" savings with banks. The policy to encourage savings is aimed at personal investors, few of whom earn interest above R1 million.

As a concession to small savers, the Budget is expected to double from the present R2 000 the threshold of interest earnings exempted from marginal income tax rates.

VAT levy will boost tariffs

Double blow for the ratepayer

Star 18/3/91.

320

By Louise Burgers
Municipal Reporter

In a major tax shock, ratepayers throughout the country have been warned that they face massive increases in municipal tariffs this year and will have to fork out millions of rands more when value added tax (VAT) is introduced.

Johannesburg deputy city treasurer Lucas Opperman warned that the introduction of VAT would mean ratepayers faced two tariff increases for rates and services this year.

Ratepayers could, therefore, end up paying a whopping 25 percent more in municipal charges and taxes within a three-month period.

After the usual tariff increases for rates and services on July 1 at the start of the financial year for all local authorities, ratepayers would have to pay at least 10 percent in VAT on top of their rates bill when the new tax came into effect.

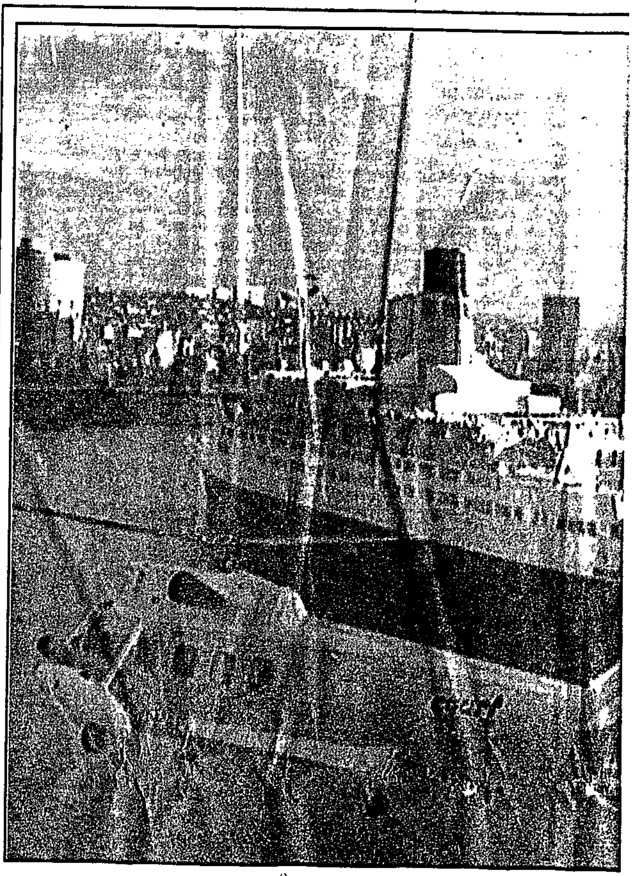
Most municipal treasurers at city and town councils surveyed expect that VAT will be introduced on October 1. The announcement is likely to be made in Wednesday's Budget speech.

Calculated

Living in the city with the largest municipal budget in the country, Johannesburg residents would have to come up with about R150 million in VAT as everything from electricity to dog licences was affected by the new tax, said Mr Opperman.

This figure was based on the council's present income of R1,5 billion with VAT calculated at 10 percent, he said.

It was not possible to calculate the ratepayers' contribution to general sales tax (GST), but the Johannesburg City Council is expected in the current financial year



Majestic . . . the Queen of the Seas glides into Durban harbour to the deligh with more than 3 000 passengers and crew on a round-the-world cruise, cal

Violent clashes on Reef leav 18 dead and scores injured

Star 18/3/91.

Staff Reporters

Eighteen people are known to have died and many have died of stab and hack wounds. Eyewitnesses said attackers had crushed one man's head with bricks.

of IFP supporters trie run up side streets to into the township.

The IFP meeting was

at city and town councils surveyed expect that VAT will be introduced on October 1. The announcement is likely to be made in Wednesday's Budget speech.

Calculated

Living in the city with the largest municipal budget in the country, Johannesburg residents would have to come up with about R150 million in VAT as everything from electricity to dog licences was affected by the new tax, said Mr Opperman.

This figure was based on the council's present income of R1,5 billion with VAT calculated at 10 percent, he said.

It was not possible to calculate the ratepayers' contribution to general sales tax (GST), but the Johannesburg City Council is expected in the current financial year (July 1990 to June 1991) to pay between R30 million and R40 million in GST from its R2,1 billion budget.

Mr Opperman said the council had not paid GST on a wide range of services, the main one being electricity, which would now be affected by VAT.

He said there was no doubt ratepayers would be harshly affected by two increases in the rates and tax bill in a single year.

The fact that VAT was being imposed so soon after the annual increases in municipal rates and service tariffs was unfortunate, he said.

"We are not particularly thrilled with the advent of VAT, but there is nothing we can do about it."

Mr Opperman said the introduction of VAT would be a one-time shock and ratepayers would eventually get used to the new tax.

Recommended

The VAT Commission has recommended to the Government that certain council services, such as housing rentals and bus fares, be exempted from VAT.

Mr Opperman said, however, that any exemptions would not be of much benefit as they would create administrative nightmares for city and town councils which would still have to pass on the cost to the end-user.

"The theory with VAT is that people will benefit in other areas of their lives from a lower taxation rate."

VAT will not only affect rates, electricity and water, but every municipal service — apart from the possible exemptions to be announced — from library fines, dog licences and parking meters to admission to zoos and public pools.

R500m blow to banking sector

Govt set to impose new interest tax

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B/Day 18/3/91

GRETA STEYN

THE banking sector is expecting to be dealt a major blow this week when the Budget proposals impose a form of VAT on interest earnings of more than R1m.

Senior bankers said at the weekend that finance special adviser Japie Jacobs had discussed the proposed move with bank chief executives at a confidential meeting at the Reserve Bank last Thursday.

● JACOBS

It is understood he told them government hoped to raise about R500m from the new tax.

The proposed tax is expected to be charged over and above the usual income tax on interest earnings, and would be similar to VAT with interest regarded as the "value added" in financial services. Bankers estimate the effective cost at 1% of interest earnings — an expense that will knock profitability.

Long-term gilt rates rose steeply last week in anticipation of the announcement, gaining almost 30 points to 15,48%.

Sources said the proposal was made by the IMF team which came to SA to advise on the implemention of VAT.

Although most countries in the world regard financial services as too complex to be subject to VAT, the IMF's view is that this "extraordinarily remunerative" sector with its "high visibility" should be included, especially in a developing country.

The IMF recommendation followed the recent finding by government's VAT committee (Vatcom) that financial services be exempted from VAT pending further investigation. Bankers were sworn to secrecy and declined to comment officially on the new tax and its affect on profits and the cost of borrowing.

Privately, bankers say the move forms part of government's redistribution policy. One banker said the decision was politically clever, as banks were widely regarded as "fat cats" that could afford to give up some cream to feed the needy.

Bankers said the move would help to keep the overall VAT rate below the current GST rate of 13%. The IMF's apparent proposal of a speedy phase-out of tax on capital goods had made a low rate difficult to achieve, and government needed all the extra revenue it could get.

The tax is expected to stem downward pressure on interest rates in the markets, as it effectively raises banks' cost of borrowing. This cost could be passed on to consumers in the form of higher bank charges or tighter credit policies.

All earners of interest income above R1m a year will be hit by the tax, including life assurers and pension funds. But banks will be hardest hit since interest payments

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Interest tax

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are their main source of income.

Bankers said this went against the principle of a "level playing field" between the different financial institutions. While pension funds and life offices could reduce their exposure to interest income, banks could not. The authorities are apparently not planning to tax non-interest investment products.

But government is expected to argue that the move will not contradict its objective of encouraging "discretionary" savings with banks. The policy to encourage savings at banks is aimed at personal investors, few of whom earn interest above R1m. As a concession to small savers, the threshhold of interest earnings exempted from marginal income tax rates is expected to be lifted in the Budget from the present R2 000 to double that amount.

Vatcom's report found that VAT on interest would create a strong incentive for disintermediation — bypassing the banking system through direct lending and borrowing. The report noted the argument that "no country has as yet been able to overcome the difficulties foreseen with taxation of financial services and it is not advisable that SA does pioneering work in this regard."

Bankers say new tax will cost them a billion a year

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Star. 19/3/91

By Derek Tommey

Bankers are deeply worried about the Government's proposal to levy a tax on gross interest income to offset the revenue the Government expects to lose by exempting financial institutions from VAT.

The proposal, which was discussed at a confidential meeting in Pretoria last Thursday, is to impose a one percent tax on interest income where the recipient receives more than R1 million a year.

The Government claims the tax should raise an extra R500 million a year. But bankers say that the Government has not done its homework properly as such a tax could easily produce more than R1 billion a year — if advantage was not taken of loopholes.

Bankers said they would also have to decide whether to include the new tax in the interest rates they charge, or whether add it on top of their normal rates.

The tax would increase the cost of a 20 percent loan by 0,2 percent and a 30 percent loan by 0,3 percent.

Bankers also point out that it was incorrect to say that financial institutions were exempt from VAT. They would have to pay VAT on everything they bought like every body else, but unlike others would not be able to pass on the cost of VAT directly to their clients.

Dr Japie Jacobs, special adviser to the Department of Finance, reacted angrily yesterday to the leaking of details of the confidential meeting to a Johannesburg newspaper.

He said this would be the last time he would discuss such proposals with bankers. Leaking the information had been a breach of confidence and had reduced the banks' credibility.

Although bankers appear surprised by the proposal to tax interest, the new tax would be in line with the recommendations of the Value Added Tax Committee (Vatcom).

Vatcom said that owing to the problems in imposing VAT on financial institutions, they should be exempt from VAT.

But other indirect taxes should be imposed or increased "to ensure that tax, equal to what would have been collected from private investors and private policy holders, is collected from financial institutions".

Tax allowance terms judged as favourable

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B Day 20/3/91

SHARON WOOD

THE terms of the phasing out of tax-deferred allowances on suspensive sale agreements — announced yesterday by Inland Revenue — were more favourable than expected, says Nedbank tax consultant Stefan van As.

Section 24 of the Income Tax Act allows banks to defer tax on an allowance on suspensive sales agreements.

In terms of Inland Revenue's ruling, corporate clients of banks were likely to lose some benefits of lower financing charges which banks were able to give because the tax could be deferred, Van As said.

Inland Revenue yesterday clarified the way in which allowances on suspensive sales agreements entered into before March 1 would be dealt with.

Allowances on suspensive sales agreements will be phased out over four years. Initial speculation was a one-year moratorium and a three-year phasing out period, Van As said.

The amount to be phased out would depend on the category in which the transaction fell. The category was determined by the time frame of the agreement and the amount involved, said Van As.

Agreements of five years or longer would be adversely affected by the phasing out of the allowance.

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Cape Times 20/3/91 (320)

VAT poser

Political Staff

THE new Value Added Tax (VAT) is expected to be one of the major points in today's crucial budget speech by the Minister of Finance, Mr Barend du Plessis.

Mr Du Plessis grappled until late last night with his most difficult — and possibly his last — budget speech.

One of Mr Du Plessis' biggest heachaches has been deciding at which level to peg VAT when it replaces GST in October.

There have been suggestions that the minister has been having difficulties "presenting VAT in the right light so that it will be palatable to the people" — a strong indication that VAT will be set higher than the 10% recommended by the all-party Vatcom report earlier this month.

The budget package he will unveil today is expected to address many of the apartheid backlogs that have accumulated over the years, particularly in the areas of housing and education

However, experts expect that Mr Du Plessis will also try to do something to help the small business sector in particular, and kickstart the depressed economy without fuelling inflation.

Mr Du Plessis is widely expected to announce a small reduction in personal tax, but higher taxes in luxury or non-essential items — like alcohol and cigarettes — appear inevitable.

Most economists would like to see a restructuring of budget expenditure towards social projects, but without an increase in total government involvement in the economy.

In a snap survey conducted yesterday by Johannesburg's branch of the London School of Economics, the majority of economists said they expected the government deficit to be in the vicinity of 3% of GDP.

On average the economists expected budgeted government expenditure to rise by 12% in the 1991/92 budget but expected the

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Budget

actual increase in expenditure to be between 1% and 2% above the budgeted figure, in the vicinity of 13,5% and 14%.

Most economists advocated the alleviation of the personal income tax burden but were sceptical as to whether the reduction in income tax would offset the effect of fiscal drag.

A majority supported a tax policy of increasing indirect tax and decreasing direct tax.

Several economists suggested that this could be the last "traditional" budget in South Africa. JCI group economist Mr Ronnie Bethlehem pointed out that in future other political movements, such as the ANC and Inkatha, could have a much bigger say.

Frankel Max Pollak Vinderine chief economist Mr Mike Brown said the forthcoming budget could be the last conventional one. Future budgets would be less meaningful, as off-budget public funds would play an increasing role in total public expenditure, he said.

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What you will pay

Reduced spending power

By TOM HOOD, Business Editor

BUDGET

THE man-in-the-street earning a salary and paying tax is likely to become worse off from the Budget changes.

While the maximum marginal rate of tax was lowered 44 to 43 percent, there was no real adjustment for "fiscal drag" — the jargon used by economists to explain the vicious circle in which salary and wage earners battle to keep pay packets in line with inflation but in turn find themselves pushed into still higher tax brackets that reduce their spending power.

The breadwinner will also be hit by the extra cost of indirect taxes arising from VAT on services and increased duties on liquor and tobacco.

"Mercifully, by flattening out the steepness of the marginal tax ladder a little, the Minister of Finance has slowed down the forced-march into higher and higher tax brackets," said economist Dr Azar Jammine.

"But the promise of a smaller tax burden is likely to prove a mirage.

"Most taxpayers may well find they confront bigger tax bills at the end of the next 12 months, compared with last year."

Mr Willem Cronje, partner in chartered accountants Deloitte Pim Goldby, said the new across-the-board tax cuts look likely to be more than offset by the gluttony of fiscal drag.

The proportion of total government tax revenue carried by personal income tax has doubled in the past decade.

In the 1980/81 financial year, individual taxpayers had to foot only 15,6 percent of the total tax revenue netted by the Department of Inland Revenue. By 1989/90, the proportion had soared to 30,8 percent.

The government, he feels, may still rely on inflation — and the fiscal drag factor — to make sure tax collections continue to hit the jackpot.

For example:

● Allowing for salaries and wages staying more or less in line with a 15 percent inflation rate, a breadwinner who earned R15 000 in 1989/90 should have increased his pay packet to about R17 250 in 1990/91.

The fiscal drag gremlins ensured his tax bill bounded upward from R640 to R1 195.

● An income of R50 000 should have increased to R57 500 — but handicapped by a tax bill that rose from R12 810 to R15 960.

● Executive salaries that went up from R150 000 to R172 500 were penalised by tax bills that rocketed from R57 210 to R67 335.

Because of the impact of inflation, all of the pay packets in fact shrank in terms of purchasing power.

Longer-term analysis of trends provides even more dramatic examples.

Take a married man with three children who was earning R10 000 a year in 1980. He paid no more than 3 percent of his salary to the taxman. If his pay packet stayed in tandem with inflation, last year it stood at about R36 000 a year — but no less than 19 percent of it was grabbed in income tax.

The shrinkage in the buying power of his pay packet has been made still worse by step-by-step increases in general sales tax on the family budget.

Dr Jammine says in the United States the top marginal tax rate on personal income has been slashed from 70 to 33 percent.

In Britain, a flat rate on all incomes up to as high as R100 000 a year has been hacked down from 35 to 25 percent, with even mega-incomes never taxed more than 40 percent.

In Canada, the top rate has been hauled down from 43 to 29 percent.

● In his budget analysis, the Argus Correspondent in Johannesburg Derek Tommey reports that hard times are in store for the average South African salary and wage earner.

He faces higher income taxes, higher excise duties on cigarettes and tobacco and new taxes on a large number of other items including food which were not taxed before.

About the only ray of sunshine in a depressing Budget for the ordinary taxpayer is the prospect of a lower petrol price.

But the Budget is also aimed at showing the rest of the world that the country is doing its utmost to improve the lot of the poor.

INCOME TAX TABLE: 1991-92 (MARRIED, UNDER 62)

INCOME	NO CHILDREN			1 CHILD			2 CHILDREN			3 CHILDREN		
	1991	1992	REDUCTION	1991	1992	REDUCTION	1991	1992	REDUCTION	1991	1992	REDUCTION
R	R	R	R	R	R	R	R	R	R	R	R	R
10 000	-	-	-	-		-	-	-	-	-	-	-
11 000	-	-	-	-		-	-	-	-	-	-	-
12 000	-	-	-	-		-	-	-	-	-	-	-
13 000	200	170	30	100	70	30	-	-	-	-	-	-
14 000	400	360	40	300	260	40	200	160	40	100	60	40
15 000	600	550	50	500	450	50	400	350	50	300	250	50
16 000	820	760	60	720	660	60	620	560	60	520	460	60
17 000	1 040	970	70	940	870	70	840	770	70	740	670	70
18 000	1 260	1 180	80	1 160	1 080	80	1 060	980	80	960	880	80
19 000	1 480	1 390	90	1 380	1 290	90	1 280	1 190	90	1 180	1 090	90
20 000	1 700	1 600	100	1 600	1 500	100	1 500	1 400	100	1 400	1 300	100
25 000	2 900	2 750	150	2 800	2 650	150	2 700	2 550	150	2 600	2 450	150
30 000	4 250	4 050	200	4 150	3 950	200	4 050	3 850	200	3 950	3 750	200
35 000	5 750	5 500	250	5 650	5 400	250	5 550	5 300	250	5 450	5 200	250
40 000	7 400	7 100	300	7 300	7 000	300	7 200	6 900	300	7 100	6 800	300
45 000	9 200	8 850	350	9 100	8 750	350	9 000	8 650	350	8 900	8 550	350
50 000	11 150	10 750	400	11 050	10 650	400	10 950	10 550	400	10 850	10 450	400
55 000	13 150	12 700	450	13 050	12 600	450	12 950	12 500	450	12 850	12 400	450
60 000	15 200	14 700	500	15 100	14 600	500	15 000	14 500	500	14 900	14 400	500
65 000	17 300	16 750	550	17 200	16 650	550	17 100	16 550	550	17 000	16 450	550
70 000	19 400	18 800	600	19 300	18 700	600	19 200	18 600	600	19 100	18 500	600
75 000	21 550	20 900	650	21 450	20 800	650	21 350	20 700	650	21 250	20 600	650
80 000	23 700	23 000	700	23 600	22 900	700	23 500	22 800	700	23 400	22 700	700
100 000	32 500	31 600	900	32 400	31 500	900	32 300	31 400	900	32 200	31 300	900
150 000	54 500	53 100	1 400	54 400	53 000	1 400	54 300	52 900	1 400	54 200	52 800	1 400

THE above amounts have been calculated on the basis that taxpayer's wife had no taxable income in the 1991-92 tax year.

Aim is black upliftment

'Putting the ANC on the spot . . .'

By SHAUN JOHNSON
Political Staff

FOR the first time, the Budget is aimed at the ANC and an international audience as much as it is at the traditional National Party electorate.

"We are putting the ANC right on the spot," said one government source. "We are saying 'now come on, chaps, it's time to co-operate'. If there is a breakdown in our progress towards (social) equity, they must bear responsibility for it."

Government believes that by being "courageous and daring" — specifically with regard to social spending and progress toward overall equity — Mr Du Plessis has forced the ANC and its supporters to respond positively, or risk being blamed for sabotaging the cause of eventual economic justice in South Africa.

Although government sources expect that groups like the ANC will criticise the amounts involved in changing the distributive focus of the Budget, they believe that the general trend — toward "equity through growth and stability" — cannot be questioned.

Mr Du Plessis has, they insist, proved the government's seriousness by courageously addressing technical aspects in his Budget — now it is up to the ANC and its supporters to co-operate in improving the physical prospects for growth and eventual equity.

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TAXABLE INCOME	RATES			
MARRIED				
R 0 - 5 000		15%	of each R1	
R 5 000 - 10 000	R 750 +	17%	of the amount over	R 5 000
R 10 000 - 15 000	R 1 600 +	19%	" " " "	R 10 000
R 15 000 - 20 000	R 2 550 +	21%	" " " "	R 15 000
R 20 000 - 25 000	R 3 600 +	23%	" " " "	R 20 000
R 25 000 - 30 000	R 4 750 +	26%	" " " "	R 25 000
R 30 000 - 35 000	R 6 050 +	29%	" " " "	R 30 000
R 35 000 - 40 000	R 7 500 +	32%	" " " "	R 35 000
R 40 000 - 45 000	R 9 100 +	35%	" " " "	R 40 000
R 45 000 - 50 000	R 10 850 +	38%	" " " "	R 45 000
R 50 000 - 55 000	R 12 750 +	39%	" " " "	R 50 000
R 55 000 - 60 000	R 14 700 +	40%	" " " "	R 55 000
R 60 000 - 70 000	R 16 700 +	41%	" " " "	R 60 000
R 70 000 - 80 000	R 20 800 +	42%	" " " "	R 70 000
R 80 000 +	R 25 000 +	43%	" " " "	R 80 000
UNMARRIED				
R 0 - 5 000		14%	of each R1	
R 5 000 - 10 000	R 700 +	17%	of the amount over	R 5 000
R 10 000 - 15 000	R 1 550 +	21%	" " " "	R 10 000
R 15 000 - 20 000	R 2 600 +	25%	" " " "	R 15 000
R 20 000 - 25 000	R 3 850 +	29%	" " " "	R 20 000
R 25 000 - 30 000	R 5 300 +	33%	" " " "	R 25 000
R 30 000 - 35 000	R 6 950 +	36%	" " " "	R 30 000
R 35 000 - 40 000	R 8 750 +	39%	" " " "	R 35 000
R 40 000 - 45 000	R 10 700 +	40%	" " " "	R 40 000
R 45 000 - 50 000	R 12 700 +	41%	" " " "	R 45 000
R 50 000 - 56 000	R 14 750 +	42%	" " " "	R 50 000
R 56 000 +	R 17 270 +	43%	" " " "	R 56 000
MARRIED WOMEN				
R 0 - 4 000		15%	of each R1	
R 4 000 - 8 000	R 600 +	18%	of the amount over	R 4 000
R 8 000 - 12 000	R 1 320 +	21%	" " " "	R 8 000
R 12 000 - 16 000	R 2 160 +	24%	" " " "	R 12 000
R 16 000 - 20 000	R 3 120 +	27%	" " " "	R 16 000
R 20 000 - 24 000	R 4 200 +	30%	" " " "	R 20 000
R 24 000 - 28 000	R 5 400 +	32%	" " " "	R 24 000
R 28 000 - 32 000	R 6 680 +	34%	" " " "	R 28 000
R 32 000 - 36 000	R 8 040 +	36%	" " " "	R 32 000
R 36 000 - 40 000	R 9 480 +	37%	" " " "	R 36 000
R 40 000 +	R 10 960 +	38%	" " " "	R 40 000

TABLE shows income tax rates for 1991-92.

The government means by this that it expects the ANC and others not to "move the goalposts" on sanctions, but to encourage investment, and to promote social stability through a concerted attempt to reduce levels of violence and lessen strike activity.

Also, Mr Du Plessis argued, "emotional and rabble-rousing statements of leaders over the political spectrum . . . undermine business and investment confidence, to the detriment not only of their opponents but also of their own adherents".

He told parliament yesterday: "This Budget thus bears a message that seeks the support and co-operation of a wide spectrum of people. The first of these are organisations and movements, both here and abroad, that in the name of political, social and economic equity advocate sanctions or are involved in violence and labour unrest . . .

"The message is that despite our political differences we simply must work together so as to make an active and positive contribution, in every sphere of life, to the creation of that climate that will promote investment, growth and job creation."

The economy's prospects were "rosier than at any stage during the past few years," he said, but this depended to a great extent on "the outcome of the political negotiating process, a drop in unrest and violence, the stabilisation of conditions in the labour market, and the course of the sanctions campaign . . ."

However, while Mr Du Plessis was at pains to emphasise the altered focus of the Budget — pulling revenue as far as possible away from traditional recipients and redirecting it to black upliftment — he made it clear that the government's concept of "equity" or "justness" did not mean "equal income for all . . . (but rather) purposive even-handed treatment, alike in the political, the social and the economic fields."

Shock, dismay at VAT rate

ARGUS 21/3/91

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Tax level of 12 percent condemned as too high

Picture: HANNES THIART, The Argus.

TAX FREE! Baker Mr Donny Ntanga shows his relief at the announcement that brown bread would be exempt from VAT.

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Argus

21/3/91

Be thankful you've got jobs, says Barend

By MICHAEL MORRIS
Political Correspondent

HAVING a job was a privilege, Finance Minister Mr Barend du Plessis bluntly told his M-NET *Budget Breakfast* audience today.

Responding to a caller from Johannesburg in the televised phone-in forum, Mr Du Plessis said: "It is a privilege to have a job. Remember, a lot of people have no job at all."

His comments followed a question by the caller about tax on overtime pay.

The caller, who worked for the railways, said that for this reason his colleagues were reluctant to work overtime.

NO OTHER WAY

Mr Du Plessis acknowledged there was unhappiness about this, but he said there was no other way to tax income other than to include overtime payments.

"If we excluded overtime, you would find everybody would claim their pay was overtime and we have no way to determine whether that is so or not.

"The fact is, overtime is still earnings."

People who worked overtime ought to be lucky they had jobs in the first place since there were so many people without work.

Mr Du Plessis suggested that to avoid having to pay in tax on overtime to the Receiver at the end of the year, employees in such cases should ask their employers to take off more tax through the year.

The Argus Correspondent and Sapa

JOHANNESBURG. — Shock and dismay has been the general reaction to the introduction of value-added tax on September 30 at 12 percent.

Consumer organisations, supermarket chains and ratepayer associations have been unanimous in condemning the high rate.

Reacting to other aspects of Budget 1991, the ANC said that a fundamental flaw lies in the fact that the Budget was "formulated and introduced in the absence of democratic institutional mechanisms to ensure equitable allocation of resources".

"This is compounded by the apparent lack of ... a development strategy to address redistribution and growth."

The ANC said social expenditure was "hopelessly inadequate", charging that this "reflects apartheid priorities".

The Congress of South African Trade Unions also expressed disappointment, saying the Budget yet again protected the white minority interests. The only beneficiaries were the "big business and apartheid bureaucrats".

There was nothing which indicated that gross racial discrimination which had characterised previous budgets had been removed.

But employers said the Budget would boost business confidence.

The president of the South African Chamber of Business, Mr Johan Hall, said: "While it was difficult to to assess the possible inflationary impact of this Budget, the broad message would be to help strengthen business confidence."

But Finance Minister Mr Barend du Plessis sparked an outcry from major supermarket chains over the 12 percent VAT.

OK Bazaars, Checkers and Pick'n Pay said the tax was a blow to consumers and Pick'n Pay added that it would lobby for exemptions on all food.

Mr Du Plessis announced exemptions on maize and brown bread.

Consumer organisations were also shocked at the proposed rate of VAT. The rate of VAT was regarded as particularly high in view of the few exemptions for food. Most bodies welcomed the exemptions for maize meal and brown bread.

Housewives' League president Mrs Lyn Morris said she was "definitely not happy with the rate of VAT at 12 percent and can only think it will put up personal expenditure".

The league had recommended an across-the-board VAT rate of six percent.

It was also disappointed that only two foods were exempt and had hoped skim-milk powder would be included.

Council officials and ratepayer associations also warned that the introduction of 12 percent VAT on municipal rates and services will have a devastating effect on the consumer.

Pensioners

The imposition of VAT on September 30, only three months after the annual rates and service increases of local authorities on July 1, could leave ratepayers with a 25 percent increase in their rates bill.

Meanwhile, white and black pensioners are unhappy about their increases.

White pensioners expressed dismay that they had been given only another R28, raising their incomes to R304 a month.

And black organisations said the continued disparity — in spite of moves to close the gap — was still a sore point.

Excise duty criticised

JOHANNESBURG. — The excise duty on spirits is higher than expected and will probably inhibit growth in the market, said KWV. The company welcomed the tax exemption of natural wine and sorghum beer. — Sapa.

● More Budget reports on pages 8 and 19.

New petrol tax will halve 10c price cut

The Argus Correspondent

JOHANNESBURG. — The petrol price will drop by 10c a litre next Monday but only half the reduction will reach the consumer — the rest will go into goverment pockets as part of a new petrol tax.

This was announced by Minister of Mineral and Energy Affairs Dr Dawie de Villiers, who said in a statement that improved prices in refined petroleum products since the last week of February had allowed for a reduction of 10c a litre in the price of petrol and 7c a litre in the price of diesel.

However, when combined with an additional 5c a litre tax on petrol and 2c a litre on diesel announced by Finance Minister Barend du Plessis in yesterday's Budget, the overall price drop for petrol and diesel will amount to only 5c a litre.

Mr Du Plessis said the new taxes would raise an estimated R533 million in additional revenue for 1991/92 without a great burden on the consumer.

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Married women get new tax deal

Political Staff

MARRIED women are to be taxed separately.

At the same time, the primary rebate for married women is to be increased from R700 to R800.

When a married woman reaches the age of 65, she will become eligible for the additional rebate of R2 100. This means her tax threshold will rise from R4 556 to R15 048.

These concessions could cost the state R46 million.

Dealing with policy issues in his Budget, the Minister of Finance, Mr Barend du Plessis, said one of the key recommendations of the Margo Commission had been that the individual should form the unit for personal tax purposes.

The government had accepted this as a long-term objective.

Despite the administrative problems and financial implications of such a "changeover", it had been possible to make drastic adjustments within a fairly short period, Mr Du Plessis said .

This had meant that a married woman, starting with the 1990/91 tax year, had been taxed separately on her business income. This would change and, as from the 1992 tax year, a married woman would be "fully taxable in her own right".

Mr Du Plessis said that rather than introduce minimum tax on companies, it had been decided to address the underlying causes of the problem. Tax concessions or tax expenditure appearing in the Income Tax Act would be removed or reduced as far as possible.

Greater attention would be given to refining "general anti-avoidance clauses and to the inclusion of specific anti-avoidance measures".

The new tax ruling means that they and their husbands will each separately be able to enjoy the benefit of the tax concession which exempts the first R2 000 of investment income from tax.

A working couple with an investment income will therefore enjoy the benefit of this tax concession twice.

Mr Graham Cochrane, a tax expert of Price Waterhouse, said the present budget was "great news for working couples".

The more investment income the couple earned that was attributable to the wife, the greater the impact of the minister's announcement, he said.

"This is because the wife's marginal tax rate (the rate at which your next rand earned will be taxed, as opposed to your overall average tax rate) will be 38%, whereas the husband's will be 43%," he said.

Mr Colin Wolfsohn, a partner at Kessel Feinstein Chartered Accountants, said that if a husband earned more than R50 000, it would pay him to put investments in his wife's name.

"He moves out of the 38% marginal rate from R50 000 upwards, while she stays in it," he explained.

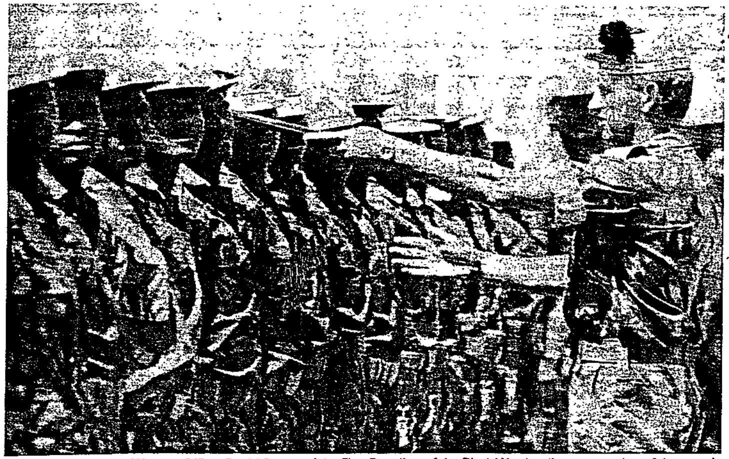
Combined income

Elderly married women also benefit from this year's budget, in that they used to pay tax on annual incomes over R4 556, while now they pay tax on their annual incomes only if they are more than R15 084.

Mr Cochrane worked out that a couple with a combined salary income of R70 000 and investment income of R5 000 would be taxed R15 160 this year and R14 160 next year.

On a combined salary of R150 000 and investment income of R10 000, the tax payable falls from R48 580 to R46 760.

On R200 000 and investment income of R15 000, tax payable falls from R71 280 to R69 015.



ONE YEAR OLD . . . Warrant Officer David Stacey of the First Battalion of the Black Watch adjusts a member of the guard of honour during rehearsals yesterday for today's celebrations to mark Namibia's first anniversary of independence.

Picture: REUTER

INCOME TAX PAYABLE 1991 and 1992 (MARRIED, UNDER 62)

INCOME	NO CHILDREN			1 CHILD			2 CHILDREN			3 CHILDREN		
	1991	1992	REDUCTION	1991	1992	REDUCTION	1991	1992	REDUCTION	1991	1992	REDUCTION
R	R	R	R	R	R	R	R	R	R	R	R	R
10 000	-	-	-	-		-	-	-	-	-	-	-
11 000	-	-	-	-		-	-	-	-	-	-	-
12 000	-	-	-	-		-	-	-	-	-	-	-
13 000	200	170	30	100	70	30	-	-	-	-	-	-
14 000	400	360	40	300	260	40	200	160	40	100	60	40
15 000	600	550	50	500	450	50	400	350	50	300	250	50
16 000	820	760	60	720	660	60	620	560	60	520	460	60
17 000	1 040	970	70	940	870	70	840	770	70	740	670	70
18 000	1 260	1 180	80	1 160	1 080	80	1 060	980	80	960	880	80
19 000	1 480	1 390	90	1 380	1 290	90	1 280	1 190	90	1 180	1 090	90
20 000	1 700	1 600	100	1 600	1 500	100	1 500	1 400	100	1 400	1 300	100
25 000	2 900	2 750	150	2 800	2 650	150	2 700	2 550	150	2 600	2 450	150
30 000	4 250	4 050	200	4 150	3 950	200	4 050	3 850	200	3 950	3 750	200
35 000	5 750	5 500	250	5 650	5 400	250	5 550	5 300	250	5 450	5 200	250
40 000	7 400	7 100	300	7 300	7 000	300	7 200	6 900	300	7 100	6 800	300
45 000	9 200	8 850	350	9 100	8 750	350	9 000	8 650	350	8 900	8 550	350
50 000	11 150	10 750	400	11 050	10 650	400	10 950	10 550	400	10 850	10 450	400
55 000	13 150	12 700	450	13 050	12 600	450	12 950	12 500	450	12 850	12 400	450
60 000	15 200	14 700	500	15 100	14 600	500	15 000	14 500	500	14 900	14 400	500
65 000	17 300	16 750	550	17 200	16 650	550	17 100	16 550	550	17 000	16 450	550
70 000	19 400	18 800	600	19 300	18 700	600	19 200	18 600	600	19 100	18 500	600
75 000	21 550	20 900	650	21 450	20 800	650	21 350	20 700	650	21 250	20 600	650
80 000	23 700	23 000	700	23 600	22 900	700	23 500	22 800	700	23 400	22 700	700
100 000	32 500	31 600	900	32 400	31 500	900	32 300	31 400	900	32 200	31 300	900
150 000	54 500	53 100	1 400	54 400	53 000	1 400	54 300	52 900	1 400	54 200	52 800	1 400

NOTE: The above amounts have been calculated on the basis that the taxpayers wife received no taxable income in the 1991-tax year.

INCOME TAX PAYABLE 1991 and 1992: UNMARRIED

INCOME	UNDER 62			OVER 62 BUT UNDER 65			OVER 65		
	1991	1992	REDUCTION	1991	1992	REDUCTION	1991	1992	REDUCTION
R	R	R	R	R	R	R	R	R	R

Political Staff

Singles, husbands pay less

THE Minister of Finance, Mr Barend du Plessis, announced limited tax concessions for individuals in yesterday's budget.

The cuts he did announce — a reduction by one percent of the marginal rate of income tax for married men and single people — will, however, not amount to an effective relief because of fiscal drag.

He said that although

tax reforms in this budget meant tax relief for individuals could not match that for 1990/91, when the maximum marginal rate was cut from 44 to 43%.

The marginal rate for married men will go down from 44 to 43%.

The maximum marginal rate for "unmarried persons" is also being reduced to 43% while their rebate drops from R1 800 to R1 625.

The lower maximum marginal rate for married women remains unchanged but their primary rebate will be increased from R700 to R800, "which gives modest relief", said Mr Du Plessis.

Mr Du Plessis announced that married

45 000	9 200	8 850	350	9 100	8 750	350	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
50 000	11 150	10 750	400	11 050	10 650	400	10 950	10 550	400	10 850	10 450	400
55 000	13 150	12 700	450	13 050	12 600	450	12 950	12 500	450	12 850	12 400	450
60 000	15 200	14 700	500	15 100	14 600	500	15 000	14 500	500	14 900	14 400	500
65 000	17 300	16 750	550	17 200	16 650	550	17 100	16 550	550	17 000	16 450	550
70 000	19 400	18 800	600	19 300	18 700	600	19 200	18 600	600	19 100	18 500	600
75 000	21 550	20 900	650	21 450	20 800	650	21 350	20 700	650	21 250	20 600	650
80 000	23 700	23 000	700	23 600	22 900	700	23 500	22 800	700	23 400	22 700	700
100 000	32 500	31 600	900	32 400	31 500	900	32 300	31 400	900	32 200	31 300	900
150 000	54 500	53 100	1 400	54 400	53 000	1 400	54 300	52 900	1 400	54 200	52 800	1 400

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	1991	1992	REDUCTION	1991	1992	REDUCTION	1991	1992	REDUCTION
R	R	R	R	R	R	R	R	R	R
10 000	-	-	-	-	-	-	-	-	-
11 000	150	135	15	30	15	15	-	-	-
12 000	360	345	15	240	225	15	-	-	-
13 000	600	555	45	480	435	45	-	-	-
14 000	840	765	75	720	645	75	-	-	-
15 000	1 080	975	105	960	855	105	-	-	-
16 000	1 320	1 225	95	1 200	1 105	95	-	-	-
17 000	1 590	1 475	115	1 470	1 355	115	-	-	-
18 000	1 860	1 725	135	1 740	1 605	135	-	-	-
19 000	2 130	1 975	155	2 010	1 855	155	30	-	30
20 000	2 400	2 225	175	2 280	2 105	175	300	125	175
25 000	3 930	3 675	255	3 810	3 555	255	1 830	1 575	255
30 000	5 640	5 325	315	5 520	5 205	315	3 540	3 225	315
35 000	7 530	7 125	405	7 410	7 005	405	5 430	5 025	405
40 000	9 520	9 075	445	9 400	8 955	445	7 420	6 975	445
45 000	11 580	11 075	505	11 460	10 955	505	9 480	8 975	505
50 000	13 700	13 125	575	13 580	13 005	575	11 600	11 025	575
55 000	15 850	15 225	625	15 730	15 105	625	13 750	13 125	625
60 000	18 040	17 365	675	17 920	17 245	675	15 940	15 265	675
65 000	20 240	19 515	725	20 120	19 395	725	18 140	17 415	725
70 000	22 440	21 665	775	22 320	21 545	775	20 340	19 565	775
75 000	24 640	23 815	825	24 520	23 695	825	22 540	21 715	825
80 000	26 840	25 965	875	26 720	25 845	875	24 740	23 865	875
100 000	35 640	34 565	1 075	35 520	34 445	1 075	33 540	32 465	1 075
150 000	57 640	56 065	1 575	57 520	55 945	1 575	55 540	53 965	1 575

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The cuts he did announce — a reduction by one percent of the marginal rate of income tax for married men and single people — will, however, not amount to an effective relief because of fiscal drag.

He said that although the government was committed to its five-year plan to reduce the marginal rate from 45% to 40%, equal progress could not be made every year.

The large number of tax reforms in this budget meant tax relief for individuals could not match that for 1990/91, when the maximum marginal rate was cut from 44 to 43%.

The marginal rate for married men will go down from 44 to 43%, while the primary rebate is being reduced from R2 100 to R2 000.

"A married man with two children earning R40 000 a year will pay R300 less annually," said Mr Du Plessis.

The maximum marginal rate for "unmarried persons" is also being reduced to 43% while their rebate drops from R1 800 to R1 625.

The lower maximum marginal rate for married women remains unchanged but their primary rebate will be increased from R700 to R800, "which gives modest relief", said Mr Du Plessis.

Mr Du Plessis announced that married women's investment income will now be taxed separately.

A married woman who had reached the age of 65 would now also become eligible for the additional rebate of R2 100.

INCOME TAX PAYABLE 1991 and 1992. (MARRIED OVER 62)

INCOME	OVER 62 BUT UNDER 65			OVER 65		
	1991	1992	REDUCTION	1991	1992	REDUCTION
R	R	R	R	R	R	R
10 000	-	-	-	-	-	-
11 000	-	-	-	-	-	-
12 000	-	-	-	-	-	-
13 000	80	50	30	-	-	-
14 000	280	240	40	-	-	-
15 000	480	430	50	-	-	-
16 000	700	640	60	-	-	-
17 000	920	850	70	-	-	-
18 000	1 140	1 060	80	-	-	-
19 000	1 360	1 270	90	-	-	-
20 000	1 580	1 480	100	-	-	-
25 000	2 780	2 630	150	800	650	150
30 000	4 130	3 930	200	2 150	1 950	200
35 000	5 630	5 380	250	3 650	3 400	250
40 000	7 280	6 980	300	5 300	5 000	300
45 000	9 080	8 730	350	7 100	6 750	350
50 000	11 030	10 630	400	9 050	8 650	400
55 000	13 030	12 580	450	11 050	10 600	450
60 000	15 080	14 580	500	13 100	12 600	500
65 000	17 180	16 630	550	15 200	14 650	550
70 000	19 280	18 680	600	17 300	16 700	600
75 000	21 430	20 780	650	19 450	18 800	650
80 000	23 580	22 880	700	21 600	20 900	700
100 000	32 380	31 480	900	30 400	29 500	900
150 000	54 380	52 980	1 400	52 400	51 000	1 400

NOTE: The above amounts have been calculated on the basis that the taxpayer's wife received no taxable income during the 1991-tax year.

INCOME TAX PAYABLE: 1991 and 1992: (MARRIED WOMEN)

INCOME	UNDER 65			OVER 65		
	1991	1992	REDUCTION	1991	1992	REDUCTION
R	R	R	R	R	R	R
4 500	-	-	-	-	-	-
5 000	80	-	80	80	-	80
5 500	170	70	100	170	-	170

Target

HOW many words of four letters or more can you make from the letters shown here? In making a word, each letter may be used once only. Each word must contain the white letter, and there must be at least one nine-letter word in the list. No plurals ending in S; no foreign words; no words with initial capital; no hyphenated words. Every word is in Chambers Concise Dictionary 1988.

TODAY'S TARGET: 23 words, good; 27 words, very good; 37 words, excellent. Solution tomorrow.

YESTERDAY'S SOLUTION: Cent centre cert cite civet client cretin crit ctene elect enter enteric entice enticer entire erect event evert evict inert inlet inter invert lectern leet lent lenti lentic lint litre nitre recent recite recti relent relet relict relit rent rete reticle retie revet rite rivet teen telic tenrec tercel tern terne tier tierce tiercel tile tiler tine tire tree trice trine vent venter ventil VENTRICLE vert.

Nationalist viewpoint from yesterday's Burger

F W de Klerk holds initiative

ONCE again President De Klerk, through a strategic move viz the unconditional indemnity for 40 "political" prisoners, succeeded in retaining his grasp on the political initiative in South Africa.

The fact that he did not only indemnify leftist radicals but also a far-rightist like Mr Piet (Skiet) Rudolph, manifests an even-handedness which could only be to the good of the constitutional negotiating processes in the long run. At the same time it could serve to further the endeavours toward conciliation in the country.

Although those who have been indemnified were standing trial on serious indictments or were already serving sentences on account of serious offences, it is worth noting that in none of the cases concerned people had been caused physical harm.

That the ANC — which on account of its inability to make the progress it had hoped for, has changed into a proper political cry-baby lately — now utters great lamentations because Mr Rudolph has received the same treatment as its members, could really not impress anyone. One could rather justifiably ask whether the ANC has now become an advocate for double standards.

LETTERS

Use Aids campaign wisely

From S J GILLMER (Plumstead):

A RECENT newspaper report states that the ANC has launched a mass campaign to educate people about the dangers of Aids. This campaign has begun in Natal and will be "taken into every house", according to an ANC spokesman, Mr Piliso.

At long last the ANC is accepting that Aids is not the white man's propaganda to limit black population growth. By showing the courage to tackle this delicate problem the ANC is to be commended. If everybody was to practise

10 000	-	-	-		-	-				
11 000	150	135	15	30	15	15	-	-	-
12 000	360	345	15	240	225	15	-	-	-
13 000	600	555	45	480	435	45	-	-	-
14 000	840	765	75	720	645	75	-	-	-
15 000	1 080	975	105	960	855	105	-	-	-
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18 000	1 860	1 725	135	1 740	1 605	135	-	-	-
19 000	2 130	1 975	155	2 010	1 855	155	30	-	30
20 000	2 400	2 225	175	2 280	2 105	175	300	125	175
25 000	3 930	3 675	255	3 810	3 555	255	1 830	1 575	255
30 000	5 640	5 325	315	5 520	5 205	315	3 540	3 225	315
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45 000	11 580	11 075	505	11 460	10 955	505	9 480	8 975	505
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100 000	35 640	34 565	1 075	35 520	34 445	1 075	33 540	32 465	1 075
150 000	57 640	56 065	1 575	57 520	55 945	1 575	55 540	53 965	1 575

DOWN
vindicators in a sorry state?
a fellow gold (5)
some lovely exotic location
officer's fixed a drink (6)
h exposition of French writer
no grief when coming from
(7)
er doing something for hu-
-3)
is affected by roughness (8)
transactions will produce
xperiences (7)
work and present a problem
mber on top of the desk (5)
rt in the New Testament (4)

CRYPTIC SOLUTIONS: ACROSS:
ova, 9 Chamberlain, 11 Charles, 12
; 15 Edison, 17 Story, 18 Dickens,
22 Ass, 23 Yesterday. DOWN: 2
Arrest, 5 Elapsed, 6 Connoisseur, 7
nachronism, 11 Celestial, 14 Royal-
19 Copse, 21 Era.

20 19 18

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I	O	T
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M	E	I

FORT
FORM DEFORM
FORMED DEFT
FORK DRIFT
GIRL RIFE
FIRED RIFT
FORT
FORD MORTIFIED
FIRM
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FRET
FRIED FROM
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President De Klerk has, with his speech of February 2 last year and his conduct since, created a climate which has led to the diminishing to virtually nil of ANC terrorism against government and civilian targets. Indeed, there is still bloody violence in the country but it is being committed mainly by black on black and mostly as a result of differences that extend far into the past.

Although an organisation such as the ANC would not admit it openly, the realisation must have penetrated that its terror campaigns of the past have not brought it any advantage and that a return to this would be a futile exercise which would cause itself the most harm.

What South Africa now requires urgently is a spirit of forgivingness in which solutions to its problems may be sought. With President De Klerk's latest step he has demonstrated anew that in this the government is still in the forefront.

From the Bible

THE Lord is my shepherd; I shall not want. He maketh me to lie down in green pastures: he leadeth me beside still waters. (Ps 23:1-2)

TYPE SARI

LETTERS

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A RECENT newspaper report states that the ANC has launched a mass campaign to educate people about the dangers of Aids. This campaign has begun in Natal and will be "taken into every house", according to an ANC spokesman, Mr Piliso.

At long last the ANC is accepting that Aids is not the white man's propaganda to limit black population growth. By showing the courage to tackle this delicate problem the ANC is to be commended. If everybody was to practise safer sex, perhaps we could all eventually benefit, as this campaign can focus much-needed attention on the population explosion problem.

Aids education could mean less promiscuity, wearing of condoms etc, and this will reduce population growth. At the same time as educating the masses about Aids the ANC would do well if they used this opportunity to promote the idea of smaller family units, thereby addressing the population explosion problem.

At present one baby is born every 26 seconds in South Africa. This means a total of 3 323 newborn every day.

... committed to its five-year plan to reduce the marginal rate from 45% to 40%, equal progress could not be made every year.

The large number of ... bate is being reduced from R2 100 to R2 000.

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15 000	480	430	50	-	-	-
16 000	700	640	60	-	-	-
17 000	920	850	70	-	-	-
18 000	1 140	1 060	80	-	-	-
19 000	1 360	1 270	90	-	-	-
20 000	1 580	1 480	100	-	-	-
25 000	2 780	2 630	150	800	650	150
30 000	4 130	3 930	200	2 150	1 950	200
35 000	5 630	5 380	250	3 650	3 400	250
40 000	7 280	6 980	300	5 300	5 000	300
45 000	9 080	8 730	350	7 100	6 750	350
50 000	11 030	10 630	400	9 050	8 650	400
55 000	13 030	12 580	450	11 050	10 600	450
60 000	15 080	14 580	500	13 100	12 600	500
65 000	17 180	16 630	550	15 200	14 650	550
70 000	19 280	18 680	600	17 300	16 700	600
75 000	21 430	20 780	650	19 450	18 800	650
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150 000	54 380	52 980	1 400	52 400	51 000	1 400

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5 000	80	-	80	80	-	80
5 500	170	70	100	170	-	170
6 000	260	160	100	260	-	260
7 000	440	340	100	440	-	440
8 000	620	520	100	620	-	620
9 000	830	730	100	830	-	830
10 000	1 040	940	100	1 040	-	1 040
12 000	1 460	1 360	100	1 460	-	1 460
14 000	1 940	1 840	100	1 940	-	1 940
16 000	2 420	2 320	100	2 420	220	2 200
18 000	2 960	2 860	100	2 960	760	2 200
20 000	3 500	3 400	100	3 500	1 300	2 200
25 000	5 020	4 920	100	5 020	2 820	2 200
30 000	6 660	6 560	100	6 660	4 460	2 200
35 000	8 420	8 320	100	8 420	6 220	2 200
40 000	10 260	10 160	100	10 260	8 060	2 200
45 000	12 160	12 060	100	12 160	9 960	2 200
50 000	14 060	13 960	100	14 060	11 860	2 200
55 000	15 960	15 860	100	15 960	13 760	2 200
60 000	17 860	17 760	100	17 860	15 660	2 200
70 000	21 660	21 560	100	21 660	19 460	2 200
80 000	25 460	25 360	100	25 460	23 260	2 200
90 000	29 260	29 160	100	29 260	27 060	2 200
100 000	33 060	32 960	100	33 060	30 860	2 200

Tax reform pace likely to slow down

Sowetan 21/3/91
(320)

THE Government would continue to focus its long-term tax reform policy on the supply or production side of the economy to promote saving and productive use of resources, Mr Barend du Plessis, said yesterday.

He also warned in his Budget Review that the struggling economy meant that the country would not be able to afford tax reforms of the same nature and extent as last year's.

Tax policy should be aimed at the promotion of long-term economic growth rather than at contra-cyclical measures.

The Government remained committed to a systematic reform of the tax system, not only to achieve its macro-economic objectives and to comply with technical requirements for a good tax system, but also to address shortcomings.

This required broadening the existing tax base; eliminating concessions, rebates and tax expenditures as far as possible; equal and just treatment for all taxpayers and sectors of taxpayers; greater emphasis on indirect taxes; and simplification of the tax system.

The Government had undertaken in 1989 to reduce the maximum marginal rate of income tax on married people from the then 45 percent to 40 percent, over five years.

Services

It had also been stated that the nominal tax rate on companies would be reduced to 40 percent - a step that could be successfully taken only to the extent that room was created by eliminating unjustified tax differentials in the effective tax rate.

Tax reform put firm bounds on State spending, and special attention would have to be given to adjusting the Government's share in providing services that could be more effectively offered by the private sector, which would also lead to a smaller but more efficient public service.

There would have to be structural adjustments to promote income generation and a better distribution of the benefits of economic growth through pursuit of equal opportunities for all, and an increasing shift in emphasis in the composition of State spending to spending on social services, particularly for developing human resources and alleviating poverty.

There would also have to be purposeful progress in corporatisation, privatisation and deregulation.

The low level of economic activity, loss of revenues due to the introduction of VAT and the necessity of social spending considerably reduced the room for maneouvre in the 1991/92 financial year.

"Tax reforms of the same nature and extent as last year's will therefore not be able to be afforded.

"While the Government is still committed to the long-term tax reform objectives set out above, this naturally does not mean equal progress towards that goal every year." - *Sapa*

Extended

IN terms of the Third Interim Debt Arrangements Agreement between South Africa and its foreign creditor banks, the debt standstill had been extended for a further three-and-a-half year period - from July 1 1990 to December 31 1993, Minister Barend du Plessis, said yesterday.

He said the Agreement took effect on July 1 1990, and in terms thereof, a further 3,5 percent of the remaining balance of the affected debt was repaid by the end of last month - about 300 million US dollars. - *Sapa*

Separate tax for wives

ALL income of working wives will be taxed separately from their husbands income, from the 1992 tax year. 320

This is disclosed in the Budget Review accompanying yesterday's main Budget. This final step will complete the process of separating husband's and wive's taxes, which was started a few years ago.

From the 1990/91 tax year all the business income of working wives was taxed separately but investment income was still added to her husband's taxable income.

This last vestige of joint taxation will be removed, treating women as equals for tax purposes.

Sowetan 21/3/91.

No withholding tax on interest income

A WITHHOLDING tax on interest income would not be introduced at this stage, the Minister of Finance, Mr Barend du Plessis, said yesterday. 320

He said in his Budget Review that the tax had been investigated by the Jacobs Committee.

"On account of the possibilities it offers for the reclassification as interest income of other income (which is taxable at normal income rates) and the possibility of arbitrage transactions, it has been decided not to introduce such a tax at this stage."

However, the Committee was continuing to investigate means of countering these practices, and was also going ahead with its investigation into a more level playing field between deposit-taking and contractual savings institutions. Sowetan 21/3/91.

The role of tax incentives in encouraging savings would also be looked at further. - *Sapa*

Separate tax for wives

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BUDGET/'91

Sowetan 21/3/91

A spoonful of syrup

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Mr Barend du Plessis, the minister of Finance, delivered his R84,9-billion Budget in Parliament yesterday.

THE Budget asked, for the sake of the country, the cooperation of all - from those who would this year have to swallow some bitter pills and those who would get a spoonful of syrup, the Minister of Finance, Mr Barend du Plessis, said yesterday.

The theme of the budget was "Equity through Growth and Stability".

Du Plessis' tax proposals included:

* The VAT rate of 12 percent;
* Slightly reduced personal tax;
* The margin of SITE increased from R40 000 to R50 000;
* Increases in the prices of beer (3 cents per "dumpy"), spirits (37,7 cents per 750ml), cigarettes (3 cents per 10), cigarette tobacco (3 cents per 50g), pipe tobacco and cigars (25c per kg) and fortified and sparkling wines (1,8 cents per 750 ml);
* Reductions in the surcharge on capital and intermediate goods;
* An increase on the tax on fuel accompanied by a reduction in fuel prices; and
* Income tax on companies reduced to 48 percent.

The income, including that from investments, of married women would also be completely divorced from that of their husbands in the calculation of their income tax.

Du Plessis said the large number of tax reforms in the budget, specially designed to promote an investment climate, unfortunately meant tax relief for individuals this year could not match that of last year.

The marginal rate for married men would be reduced from 44 percent to 43 percent, the primary rebate simultaneously being reduced from R2 100 to R2 000. The maximum marginal rate for unmarried persons was reduced to 43 percent while their rebate dropped from R1 800 to R1 625.

Although the present scale and lower maximum marginal rate of tax for married women remained unchanged, the primary rebate would be increased from R700 to R800.

Expanding on the proposed VAT which is to be introduced at the end of September, Du Plessis said the necessary Bill would be introduced in Parliament next week.

Included in the provisions would be a zero-rating for graded mielie-meal for human consumption and brown bread, which means they would not be subject to VAT.

He said Vatcom had indicated the insuperable problems in applying a classical VAT to financial services, banks, pension funds and other financial intermediaries.

This would not form part of VAT but was a tax in its own right and its introduction would coincide with that of VAT.

Du Plessis said high priority was being given to education, particularly for blacks, and housing.

He proposed education expenditure of slightly more than R16 billion, which was 16,1 percent higher than the revised expenditure in 1990/91. This meant that 18,5 per cent of the budget was going to education, compared with the 17,5 per cent last year.

The maintenance of law and order meant that a large part of the reduced Defence Force spending of R3,6 billion had to be allocated for this purpose.

The budgeted expenditure for social aid and welfare would be R6 billion, which represented an increase of 26,8 percent on the previous year.

Old age pensioners would, from April 1, receive the following:

* Whites R304
* Coloured and Asians R263
* Blacks in the Republic and self-governing areas R225. - *Sapa*

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Sowetan 21/3/91

INCOME TAX PAYABLE: 1991 and 1992 (Married, Under 62)

INCOME	OVER 62 BUT UNDER 65			OVER 65		
	1991	1992	Reduction	1991	1992	Reduction
R	R	R	R	R	R	R
10 000	-	-	-	-	-	-
11 000	-	-	-	-	-	-
12 000	-	-	-	-	-	-
13 000	80	50	30	-	-	-
14 000	280	240	40	-	-	-
15 000	480	430	50	-	-	-
16 000	700	640	60	-	-	-
17 000	920	850	70	-	-	-
18 000	1 140	1 060	80	-	-	-
19 000	1 360	1 270	90	-	-	-
20 000	1 580	1 480	100	-	-	-
25 000	2 780	2 630	150	800	650	150
30 000	4 130	3 930	200	2 150	1 950	200
35 000	5 630	5 380	250	3 650	3 400	250
40 000	7 280	6 980	300	5 300	5 000	300
45 000	9 080	8 730	350	7 100	6 750	350
50 000	11 030	10 630	400	9 050	8 650	400
55 000	13 030	12 580	450	11 050	10 600	450
60 000	15 080	14 580	500	13 100	12 600	500
65 000	17 180	16 630	550	15 200	14 650	550
70 000	19 280	18 680	600	17 300	16 700	600
75 000	21 430	20 780	650	19 450	18 800	650
80 000	23 580	22 880	700	21 600	20 900	700
100 000	32 380	31 480	900	30 400	29 500	900
150 000	54 380	52 980	1 400	52 400	51 000	1 400

NOTE: The above amounts have been calculated on the basis that the taxpayers wife received no taxable income during the 1991-tax year.

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Sowetan 21/3/91

INCOME TAX RATES: 1991/92

TAXABLE INCOME	RATES	
MARRIED		
R 0 - 5 000	15%	of each R1
R 5 000 - 10 000	R 1 600 + 17%	of the amount over R 5 000
R10 000 - 15 000	R 1 600 + 19%	of the amount over R10 000
R15 000 - 20 000	R 2 550 + 21%	of the amount over R15 000
R20 000 - 25 000	R 3 600 + 23%	of the amount over R20 000
R25 000 - 30 000	R 4 4750 + 26%	of the amount over R25 000
R30 000 - 35 000	R 6 050 + 29%	of the amount over R30 000
R35 000 - 40 000	R 7 500 + 32%	of the amount over R35 000
R40 000 - 45 000	R 9 100 + 35%	of the amount over R40 000
R45 000 - 50 000	R10 850 + 38%	of the amount over R45 000
R50 000 - 55 000	R12 750 + 39%	of the amount over R50 000
R55 000 - 60 000	R14 700 + 40%	of the amount over R55 000
R60 000 - 70 000	R16 700 + 41%	of the amount over R60 000
R70 000 - 80 000	R20 800 + 42%	of the amount over R70 000
R80 000 + R	R25 000 + 43%	of the amount over R80 000
UNMARRIED		
R 0 - 5 000	14%	of each R1
R 5 000 - 10 000	R 700 + 17%	of the amount over R 5 000
R10 000 - 15 000	R 1 550 + 21%	of the amount over R10 000
R15 000 - 20 000	R 2 600 + 25%	of the amount over R15 000
R20 000 - 25 000	R 3 850 + 29%	of the amount over R20 000
R25 000 - 30 000	R5 300 + 33%	of the amount over R25 000
R30 000 - 35 000	R 6 950 + 36%	of the amount over R30 000
R35 000 - 40 000	R 8 750 + 39%	of the amount over R35 000
R40 000 - 45 000	R10 700 + 40%	of the amount over R40 000
R45 000 - 50 000	R12 700 + 41%	of the amount over R45 000
R50 000 - 56 000	R14 650 + 42%	of the amount over R50 000
R56 000 +	R17 270 + 43%	of the amount over R56 000
MARRIED WOMEN		
R 0 - 4 000	15%	of each R1
R 4 000 - 8 000	R 600 + 18%	of the amount over R 4 000
R 8 000 - 12 000	R 1 320 + 21%	of the amount over R 8 000
R12 000 - 16 000	R 2 160 + 24%	of the amount over R12 000
R16 000 - 20 000	R 3 120 + 27%	of the amount over R16 000
R20 000 - 24 000	R 4 200 + 30%	of the amount over R20 000
R24 000 - 28 000	R 5 400 + 32%	of the amount over R24 000
R28 000 - 32 000	R 6 680 + 34%	of the amount over R28 000
R32 000 - 36 000	R 8 040 + 36%	of the amount over R32 000
R36 000 - 40 000	R 9 480 + 37%	of the amount over R36 000
R40 000 +	R10 960 + 38%	of the amount over R40 000

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Sowetan 21/3/91

INCOME TAX PAYABLE: 1991 and 1992 (Married, Under 62)

INCOME	NO CHILDREN			1 CHILD			2 CHILDREN			3 CHILDREN		
	1991	1992	Reduction	1991	1992	Reduction	1991	1992	Reduction	1991	1992	Reduction
R	R	R	R	R	R	R	R	R	R	R	R	R
10 000	-	-	-	-	-	-	-	-	-	-	-	-
11 000	-	-	-	-	-	-	-	-	-	-	-	-
12 000	-	-	-	-	-	-	-	-	-	-	-	-
13 000	200	170	30	100	70	30	-	-	-	-	-	-
14 000	400	360	40	300	260	40	200	160	40	100	60	40
15 000	600	550	50	500	450	50	400	350	50	300	250	50
16 000	820	760	60	720	660	60	620	560	60	520	460	60
17 000	1 040	970	70	940	870	70	840	770	70	740	670	70
18 000	1 260	1 180	80	1 160	1 080	80	1 060	980	80	960	880	80
19 000	1 480	1 390	90	1 380	1 290	90	1 280	1 190	90	1 180	1 090	90
20 000	1 700	1 600	100	1 600	1 500	100	1 500	1 400	100	1 400	1 300	100
25 000	2 900	2 750	150	2 800	2 650	150	2 700	2 550	150	2 600	2 450	150
30 000	4 250	4 050	200	4 1250	3 950	200	4 050	3 850	200	3 950	3 750	200
35 000	5 750	5 500	250	5 650	5 400	250	5 500	5 300	250	5 450	5 200	250
40 000	7 400	7 100	300	7 300	7 000	300	7 200	6 900	300	7 100	6 800	300
45 000	9 200	8 850	350	9 100	8 750	350	9 000	8 650	350	8 900	8 550	350
50 000	11 150	10 750	400	11 050	10 650	400	10 950	10 550	400	10 850	10 450	400
55 000	13 150	12 700	450	13 050	12 600	450	12 950	12 500	450	12 850	12 400	450
60 000	15 200	14 700	500	15 100	14 600	500	15 000	14 500	500	14 900	14 400	500
65 000	17 300	16 750	550	17 200	16 650	550	17 100	16 550	550	17 000	16 450	550
70 000	19 400	18 800	600	19 300	18 700	600	19 200	18 600	600	19 100	18 500	600
75 000	21 550	20 990	650	21 450	20 800	650	21 350	20 700	650	21 250	20 600	650
80 000	23 700	23 000	700	23 600	22 900	700	23 500	22 800	700	23 400	22 700	700
100 000	32 500	31 600	900	32 400	31 500	900	32 300	31 400	900	32 200	31 300	900
150 000	54 500	53 100	1 400	54 400	53 000	1 400	54 300	52 900	1 400	54 200	52 800	1 400

NOTE: The above amounts have been calculated on the basis that the taxpayers wife received no taxable income in the 1991-tax year.

Balance between social demands and revenue limits — economists

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SHARON WOOD and BRENT VON MELVILLE

GROWTH objectives were maintained in a Budget which achieved a balance between social demands and revenue contraints, economists said yesterday.

A primary concern of economists was that the Budget failed to address the impact of fiscal drag on the individual taxpayer. B/Day 21/3/91

The adjustments to personal income tax levels would probably be neutral, even though there was a reduction in the maximum marginal tax rate by 1% to 43%, economists added.

Government had probably underassessed the extent of average salary increases, which in real terms would make the effect of fiscal drag even more potent, said Nedcor chief economist Edward Osborn.

Bankorp economist Emile van Zyl said the 28% jump in expected tax revenue during the 1991/92 Budget year was probably an indication that the Finance Department had become more realistic about the amount of revenue they would receive.

Actual tax revenue received in the past had vastly exceeded the budgeted amount.

Sacob economist Ben van Rensburg endorsed the decision to provide immediately for full input credits for tax paid on capital and intermediate goods in the VAT system.

This and the reduction in the import surcharge, and the lower corporate tax, would help to reduce business costs and thereby assist in making the SA economy more internationally competitive.

This sentiment was also reflected by Anglo American Corporation which stated that it welcomed the reduction in the corporate tax rate and the granting of full VAT input credit for capital goods. The reduction in import surcharges on capital goods was also seen positively.

Syfrets economist Elmien de Kock said the middle-income wage-earner had been the most harshly treated.

"No attempt has been made to address the problems of fiscal drag, and these wage-earners will feel the impact almost immediately on their wage packets."

Meanwhile, the market responded on a generally favourable note to yesterday's Budget proposals.

JSE president Tony Norton said: "With the huge socio-economic demands that the Minister had to deal with, we feel he has obviously done his best to address the issues and it would be churlish to have expected more.

"We were grateful for the softer mining tax, the reduction in company taxes and of the import surcharge and the tax reduction on marketable securities (MST)," he said.

JSE President Peter Redman said the Budget was "very responsibly done".

BI

BUDGET

Lower tax on companies reflects growth policy

B Day 21/3/91 320

ROBERT GENTLE

BUDGET 1991

THE company tax rate was reduced from 50% to 48% in line with government policy of creating a suitable climate for investment, growth and job creation.

The 2% cut, which Finance Minister Barend du Plessis called the first step towards a goal of a company tax rate of 40%, will result in an estimated revenue loss of R368m.

The Budget also saw the tax rate applicable to long-term assurers fall from 45% to 43% — in line with the top marginal rate for individuals. The estimated loss of revenue that will result is R10m.

However, Du Plessis cautioned that the effective tax rate of companies would rise because of phasing out tax concessions related to the LIFO (Last In First Out) reserve and other areas.

The tax cut was welcomed across the board, although it emerged that the expected effect varied from company to company.

Evert Groeneweg, financial director of industrial group Barlow Rand, said: "It will help in terms of cash flow. But the real effect will only be felt next year when we pay in the tax."

Granite exporter Marlin's financial director Ian MacMillan said it would not have that great an impact as Marlin's tax bill was already quite low because of tax concessions related to exports.

Leisure group Interleisure's financial director Rob Smithyman called it "very good news" and said it was particularly well-timed.

This was because the group would soon be paying a lot of tax after years of tax concessions related to film productions.

"It could make a difference of R1m to our bottom line," he said.

Asked whether 2% was enough to stimulate investment and job creation, Smithyman said: "It is an added incentive — a nice start."

A statement by the Steel & Engineering Industries Federation of SA (Seifsa) said the measures would have a deflationary effect and help make SA manufacturers more competitive both locally and internationally.

Most tax experts welcomed the move.

However, they doubted whether 2% was enough to stimulate growth and investment right away, and said even the targeted 40% rate was higher than that of most Western competitor nations'.

Arthur Andersen tax manager Peter Todd said: "In the UK, for example, it will be 33% — about the same level as in the US."

Deloitte Pim Goldby tax partner Anne Pappenheim said the 2% reduction had narrowed the differential between company tax and individual income tax rates — which companies could exploit at the expense of the exchequer — from 6% to 5%.

"This is a step in the right direction," she said.

Life Offices Association (LOA) chairman Mike Levett said the industry was disappointed the Budget made little progress towards the full implementation of the trustee principle that was agreed to by government in 1989.

He said the industry was particularly disappointed that tax on dividends received by life offices had not been scrapped.

Anglovaal Insurance Holdings group CE Brian Benfield said he welcomed government's decision to reduce the rate of tax for life offices by two percentage points to 43%.

However, he expressed concern that the authorities had not made any move to let life offices deduct full expenses before taxation.

The industry is currently allowed to deduct 55% of expenses.

Plan carefully and save with VAT, says Spartan

BDay 21/3/91 (320)

CAREFUL planning will bring considerable savings when VAT is introduced, says Spartan Micromanagement financial director Neil Michelson.

He feels VAT should allow capex budgets to stretch further; that maintenance contracts and repair costs will become cheaper and rentals more affordable.

One area which is likely to retain its status is computer training, except in the case of an individual or institution making exempt supplies where training will be more costly.

A company buying computer equipment will be allowed to claim an input tax on equipment purchased, on condition the firm buying the equipment is not an institution or an individual making exempt supplies.

Assets

Speaking before yesterday's Budget, he said: "Assuming the VAT rate is 10%, a company purchasing a computer at R10 000 would pay R11 000 (R10 000 + R1 000 VAT).

"The fixed assets would be debited with R10 000 and the VAT input account with R1 000."

Provided the asset is being used to generate revenue which attracts VAT, the R1 000 VAT paid would be offset against output taxes collected from the company's customers.

"This differs from current procedures using GST," he says. "The capital budget in turn would be reduced to R10 000. Assuming GST was also 10%, the fixed asset would be debited with R11 000 and the capital budget reduced by R11 000."

This is good news for computer-using companies as it will help them

Reports by MELANIE SERGEANT

stretch their capex budgets a little further.

Michelson says the above example may prove even more advantageous if the VAT rate is lower than the GST rate.

The above example will be valid only if the VAT committee doesn't introduce a phase-in allowance for input taxes paid on capital equipment, he says.

The issue of phasing in VAT on capital equipment over a period of five years at 20% a year, is being reviewed by the VAT committee.

If the Act makes allowance for this, a computer bought for R10 000 plus R1 000 VAT would be accounted for as follows: the asset would be debited with R10 800. The VAT input account would be debited with R200 and the capex reduced by R10 800.

While the advantage of claiming a VAT input credit may be reduced over the previous example, the individual or company would still score if the VAT rate is lower than the GST rate.

"The answer would be to hold off purchases until September 30 which may not, however, be practical.

"Individuals buying equipment will be in the same position — assuming no differential in the rate of VAT over GST — because they are not entitled to deduct an input tax."

Both computer repairs and maintenance contracts attract GST. However, provided the private individual or institution does not make exempt supplies, it will be possible to claim a VAT input tax paid on a maintenance contract or repair against output taxes collected from customers.

"The effect of VAT being claimed as a deduction will help maintenance contracts and computer repairs to be less costly," says Michelson.

Short-term rentals on computer equipment, are liable for GST.

However, under the proposed VAT system, all VAT paid on rental charges will be recoverable as an input tax against output taxes paid.

But under the proposed VAT system, all VAT paid on rental charges will be recoverable as an input tax against output taxes paid.

"This will again effectively make rental of equipment more affordable to clients who have capex contraints and/or limited budgets," Michelson says.

Attractive

He says that if the Receiver chooses to phase in the VAT input tax on capital equipment, VAT paid on rental charges for computer equipment will be handled in a similar manner as when capital equipment is purchased that is only 20% of the VAT paid may be allowed as an input VAT claim.

Michelson says the benefits on computer training are not as attractive as in other areas because training does not attract GST.

"But it will be in the interests of both the individual and organisations making exempt supplies, to attend training before VAT is implemented, because the cost of the course will be increased as a result of VAT," Michelson says.

A company selling goods attracting VAT would be entitled to claim the full amount of VAT paid on courses as an input tax.

Personal tax concessions 'disappointing'

B/Day 21/3/91 (320)

GILLIAN HAYNE

THE Budget announcements on personal tax reduced the top marginal rate by 1% to 43%, made married women fully taxable in their own right and increased the level of SITE to R50 000 from R40 000.

But the concessions were met with disappointment, especially as they took no account of fiscal drag.

KPMG Aiken and Peat tax partner Pat McGurk said although the top marginal tax rate had been reduced by 1% to 43%, government has also reduced the primary rebate by R100 to R2 000 with no allowance being made for inflation.

Arthur Andersen tax manager Des Seaton said: "Although the Budget reduces the marginal rate on income, the benefit is completely overshadowed by the negative impact of inflation. For example, a married man with two children who last year earned R100 000 and now receives an inflation related increase of 14,4%, will suffer a reduction in purchasing power of R5 292, due to additional taxes in spite of reduced marginal rates."

Finance Minister Barend du Plessis attributed the disappointing tax relief for individuals to the large number of tax reforms designed to promote an investment climate and the revenue loss springing from the introduction of VAT.

However, a married woman will be fully taxable in her own right as from the 1992 tax year, in both her investment income and business income.

McGurk said it made sense to tax couples as separate entities but it could lead to increased manipulation of investment income.

The increase in the level of SITE to R50 000 from R40 000 is also in line with government's move towards greater self-assessment by putting greater onus on employers.

Du Plessis noted that the "appreciable" number of discretionary powers contained in the Income Tax Act had been the stumbling block to the adoption of a system of self-assessment and a number of these would be removed from the Act this year.

An account which directly or indirectly affects proprietorship	... the tendency is to reduce the proprietorship	... the tendency is to increase the proprietorship

The Elements of Accounting[5]

With these go a further rule that debits equals credits. Familiarity with this bookkeeping process will allow students to appreciate the broader aspects of accountancy.

assumed that "you are already familiar with the fundamentals of transaction analysis and the mechanics of how basic transaction data are summarized."[4]

Those who have started accounting studies know the following fables, those just starting will hear them in time. The first concerns the firm's oldest "accountant" (unqualified) who had been with the firm for 45 years. Each morning he would arrive at his desk, open a locked drawer, look in, then close and relock the drawer. When he died in harness (as most accountants do) the rest of the people in the office, who for years had wondered what it was that was in that drawer now forced it open. Inside was a yellowed sheet of paper which read "debits on the left of the T account, credits on the right".

The second fable concerns the accountant who lost his job when they rearranged the office and turned his desk around. He knew that debits were entered in the side nearest the window! ■

4. Shank, John K., *Matrix Methods in Accounting*, Addison-Wesley Publishing Co., U.S.A., 1972, p. 17.

5. Goldberg, L., and Hill, V. R., *The Elements of Accounting*, 3rd Edition, Melbourne University Press, Victoria, 1973, p. 66.

12% VAT is due on September 30

B/Day 21/3/91 (320)

LESLEY LAMBERT

CAPE TOWN — VAT is to be introduced on September 30 at 12% — a rate which reflects the purists' insistence on a tax as free as possible of exemptions, special treatment and phased-in benefits.

By pitching the rate two percentage points above the lower limit of 10%, and keeping exemptions to a bare minimum, the tax authorities have been able to forfeit R7,5bn annually by introducing a full input credit for tax paid on all capital and intermediate goods from day one.

The fiscus will lose half of this amount during the 1991/92 financial year since VAT is only being introduced in September. This, coupled with losses on the few exemptions and zero ratings allowed, will mean VAT is expected to yield R1,08bn less than GST would have during 1991/92.

The immediate credit for goods used in the production process represents a major windfall to industry but government has warned that it will have to be passed on to consumers in the form of lower prices.

Finance Minister Barend du Plessis said in his Budget speech yesterday the advantages of lower manufacturing and consumer costs arising from a "pure" VAT had carried more weight than the revenue losses when it came to deciding on how to introduce the tax credit.

Vatcom recommended a phasing in of the credit on capital goods to relieve the fiscus of some of the pressure, but the IMF team which advised government on the implementation of the new tax argued that immediate relief would be deflationary.

The tax credit would relieve industry and remove the double-taxation element inherent in GST, Du Plessis said.

The exemption and phasing in of tax credits would mean VAT would yield about R1,08bn less than GST during the 1992 financial year.

Government had accepted the tax authorities' argument that taxing all foodstuffs exempted under GST and providing direct assistance to the poor, would be more efficient than zero-rating basic foods.

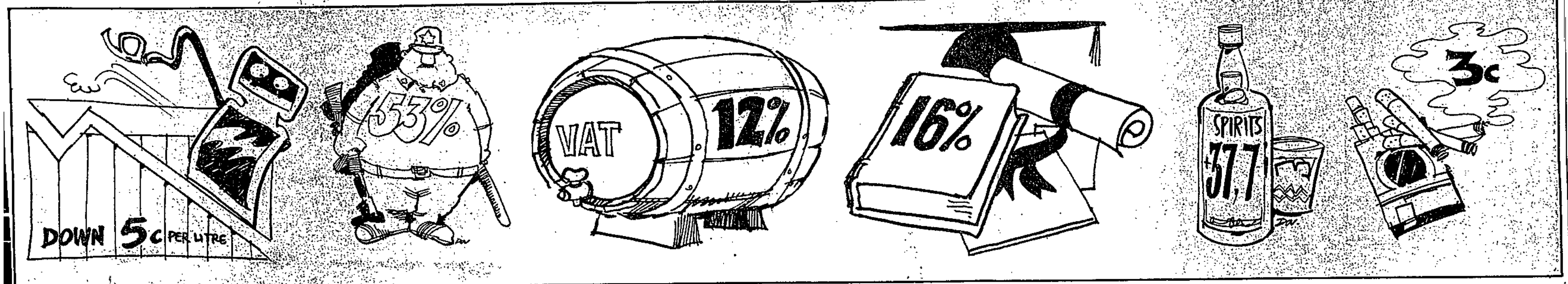
But, obstacles to the efficient delivery of targeted aid to the poor had convinced the authorities that it was necessary to zero rate two key basic foodstuffs, mielie meal and brown bread.

Exemptions for rail, bus and taxi commuter transport and concessions for welfare organisations were also aimed at relieving the poor of the tax burden.

No credit would be given for input tax on cars and the present tax treatment of both cars and their fuel would remain unchanged, Du Plessis said.

Financial services, banks, insurance, pension funds and other intermediaries would not be subject to VAT, he announced. However a turnover tax of 0,75% would be levied on the interest income and finance charges of financial institutions.

While this tax would not be part of the VAT system, its implementation would coincide with the introduction of VAT.



Police and social programmes take lion's share

Star 21/3/91. 49

Barend's 'act of faith'

Staff Reporters

A massive increase in social spending, 12 percent value added tax in place of GST and an unprecedented increase in funding to combat crime were proposed yesterday in Finance Minister Barend du Plessis's Budget.

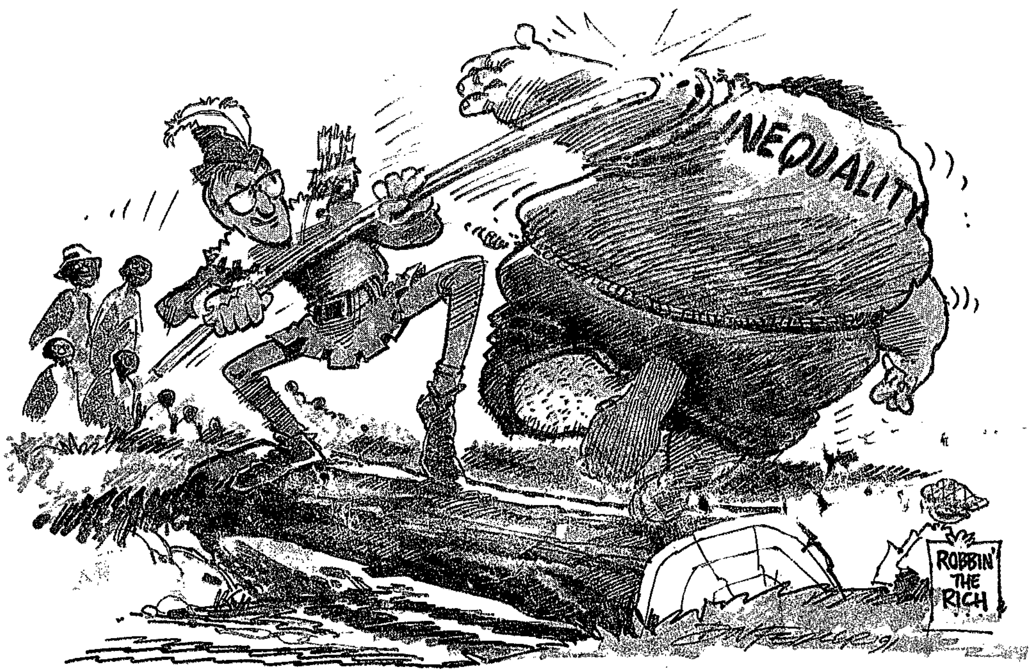
Presenting his "Equity through Growth and Stability" Budget to Parliament, Mr du Plessis said he asked, for the sake of the country, for the co-operation of all.

Sceptical

Last night tax experts were sceptical that VAT concessions announced in the industrial sector would be passed on to the consumer, and pointed to a massive increase in revenue which the Budget would bring the Government from income tax on individuals.

Social spending will account for 38,2 percent of the R85 billion Budget, with further social payments from supplementary provisions.

Education will get more than R16 billion — 16,1 percent more than last year's revised estimates; housing will get more than [illegible] health ser-



At a glance

Star 21/3/91 49

UP

- Social pensions up R28 a month for whites, R38 for coloureds and Indians and R50 for blacks.
- Civil pensions up 12,5 percent.
- Education spending up 16,1 percent to R16 billion.
- Health spending up 8,9 percent to R8,175 billion.
- Social spending up from 36,50 percent to 38,2 percent of the Budget.
- Police spending up 53 percent — to R4,63 billion.
- 3c increase in excise duty on a 340 ml bottle of beer, for a 10-pack of cigarettes and for every 50 g of cigarette tobacco.
- Excise duty up 1,5c on a tot of spirits.
- 1,8c extra excise duty in a 750 ml bottle of fortified or sparkling wine.

DOWN

- Defence spending drops 19 percent in real terms to R9,187 billion.
- Marginal rate of personal income tax down 1 percent to 43 percent.
- Marginal rates of company tax down from 50 percent to 48 percent
- Primary tax rebate for married persons down from R2 100 to R2 000.
- Primary tax rebate for unmarried persons down from R1 800 to R1 625.

STAR

21/3/91

(49)

vices R8,1 billion, a rise of 8,9 percent.

One of the notable features of the Budget, which is up 13,7 percent on last year's, is the dramatic reallocation of security spending.

The defence budget drops nearly R1 billion to about R9,2 billion — about 19 percent in real terms — while the police budget climbs a staggering 53 percent.

Mr du Plessis described the Budget as an "act of faith" and, addressing the ANC, said the Government would be able to afford increased social spending only if the economy grew.

This would happen only if the ANC co-operated by acting to prevent sanctions and domestic destabilisation.

Other major Budget proposals were:

- The gap in social pensions between white and black is to be narrowed by 20 percent. White pensions will rise by R28 to R304 a month, coloured and Indian pensions by R38 to R263 and black pensions by R50 to R225.
- Although the main housing budget is actually down from R1,2 billion to R1 billion, Mr du Plessis pointed out that these figures were not comparable as so much housing money was being channelled through independent agencies.

He said that in total, the money being spent this year should buy houses or sites for about 90 000 extra black families.

Mr du Plessis said the large number of tax reforms in the Budget, specially designed to promote an investment climate, and particularly the revenue loss from the introduction of VAT, "unfortunately mean that tax relief for individuals this year cannot match that for 1990/91".

In Budget reaction:

- Consumer organisations expressed disappointment over the introduction of VAT at 12 percent.
- Police Commissioner General Johan van der Merwe, said the dramatic increase in police spending would greatly enhance the effectiveness of the SAP.
- The Azanian People's Organisation described as "highway robbery" the decision to impose the new VAT tax on all basic foods except mealie meal and brown bread.
- Educationists welcomed the increase in spending, while calling for a single education body.
- The Government's commitment to housing was praised, yet some doubt was expressed over how effective the utilisation of funds would be.

VAT will push up home building costs 6-8 pc

(320)

By Frank Jeans Star 21/3/91.

With the introduction of VAT at a rate of 12 percent, the cost of building a new home will rise by an estimated 6 to 8 percent.

And although second hand home deals will not be affected by the new tax system, the real estate industry expects prices in the existing property sector to rise in tandem with new home values.

However, tax analysts point out that it is probable that VAT will be imposed on estate agents' fees as the agent is, in fact, rendering a service.

This would result, therefore, in the Receiver of Revenue making "rightful claim" on the seller of a home in the form of VAT on the fee — 12 percent over the recommended 6 percent commission.

Johan Grotsius, executive director of the National Association of Home Builders, says VAT will not be levied only on the price of materials but will also be calculated on the cost of land, labour and other overheads.

Input credits

"There will be minor adjustments for capital inputs in the form of input credits," he says. "But the home-building industry isn't that capital intensive. It's labour intensive.

"We welcome the fact that the capital input credit will be introduced as soon as VAT comes into force in October."

Building leaders welcome the Finance Minister's determination to tackle the low-cost housing problem with the announcement of a R 1billion budget for the sector.

"While the industry might not benefit directly from this allocation," says Mr Grotsius, "it fulfils the important role of social upliftment and economic stimulus."

On the positive side, the home building industry welcomes the allocation of R90 million to the Department of Planning Provincial Affairs and National Housing and R100 million (R70 million for education) to the Department of Development Aid and also the specific comments by the Minister which clearly signify a realisation of the importance of housing in the process of social and political reform.

Commenting on the effect of VAT on the existing residential property market, Scott McRae, managing director of the Camdons Group, believes prices must inevitably rise in this market sector.

"Based on a 12 percent VAT on the labour and profit factor in new home construction, the additional tax due on a R100 000 house, on which R40 000 accounts for building materials, would be about R7 200," he says.

On development of business property, the GST formerly paid on building materials falls away through the VAT credit system and Mr McRae believes the landlord should receive a refund.

Buying rush

Other leaders of the real estate sector expect a buying rush in the homes market before the VAT deadline in October so as to beat price rises.

"For those who own property, VAT will, in due course, give them a seven percent or so 'bonus' on the value of their properties," said one source.

VAT is budgeted to pull in less than GST

Star 21/3/91

320

By Sven Lünsche

Although value added tax (VAT) will be introduced at a relatively high rate of 12 percent, revenue income under VAT will be lower than that achieved from general sales tax (GST).

This follows the Budget announcement that full input credit will be granted on capital and intermediate goods from day one of the introduction of the new tax system on October 1.

The loss of tax revenue on capital goods — estimated by Finance Minister Barend du Plessis at about R4 billion — will be only partly offset by the introduction of VAT on food and other services, currently exempt from GST.

Tax on these services will bring in about R3 billion, leaving a shortfall of about R1 billion.

The shortfall is also not likely to be alleviated through additional collections from the informal sector, particularly as the registration threshold is high.

Government revenue from GST in the 1990-91 fiscal year totalled 27 percent of total budgeted income of R67,4 billion.

The expected revenue shortfall has confirmed pre-Budget speculation that VAT was not designed to collect more revenue for the Government.

However, Philip Dieperink, a partner in Deloitte Pim Goldby, told Sapa that it had been the experience of other countries that governments had substantially under-estimated the receipts from VAT.

Despite the expected loss in revenue, tax analysts welcomed the immediate introduction of the input credit instead of a gradual phasing in over a couple of years, as was recommended by the VAT Committee.

"This gives an immediate pure VAT system and avoids the complications of deciding what is classified as capital for VAT purposes," says Ian McKenzie of tax partners Ernst & Young.

However, KPMG Aiken and Peat tax partner Pat McGurk says the proposal could give rise to a number of anomalies or difficulties.

He says buyers are likely to defer their capital purchases until the introduction of the input credit, while vendors may delay the handover of capital in the form of capital work in progress.

Mr McGurk stresses therefore that the transitional provisions in the VAT Act to ensure a smooth handing over from the GST system will need to be sufficiently comprehensive to counter this form of manipulation.

The introduction of VAT in general, and the input credits on capital goods in particular, will also have a major impact in the battle against inflation.

Finance Minister Barend du Plessis said in his Budget speech the price adjustments that should be possible with the VAT system promised to help in cutting the inflation rate from a current 14,5 percent to 12 percent, or even lower.

This should be achieved despite the introduction of VAT on most foods which will inevitably exert some upward pressure.

However, Ernest & Young's Mr McKenzie believes the immediate jump in inflation as a result of the tax on food will be a one-off hike and should in the long run lead to a levelling off in food price increases.

But the major beneficiary impact on prices should derive from the exemption of VAT on capital goods.

The IMF mission which advised the Government on the introduction of VAT believes this step could lead to a considerable drop in the inflation rate, provided the cost reductions are passed on to the consumer.

Separation of women's income tax praised

Star 21/3/91 (320)

By Helen Grange

The complete separation of income tax on married women's earnings has been heralded by women's groups as an exceptional show of interest by the Government in the financial plight of women.

It has now completely divorced the income of married women from their husbands' income. Their investment income will also be taxed separately.

The primary rebate for married women has been increased from R700 to R800.

Barend du Plessis further announced that a married woman of 65 would now become eligible for the additional rebate of R2 100.

This meant her tax threshold was rising from R4 556 to "no less than R15 084".

Denise Bjorkman, president of Women for Justice, said: "This is the first time women have been encouraged to go back to the workplace.

"It is the most innovative demonstration by the Government of its interest in the country's growth and in motivating women in the work environment."

Sharon Lane of the Business and Professional Women's Club said: "We have waited a long time for this. Apart for the practicalities, it is good that a married woman has her own tax identity.

"This should certainly encourage women and help with the manpower shortage in the country. It is great recognition for many years of lobbying," she said.

Most people worse off (320)

By Claire Gebhardt Star 21/3/91

The man in the street is the main contributor to the revenue required to balance the Minister of Finance's 1991-92 Budget.

The decrease in the marginal rate is not likely to offset the decrease in the primary rebate and the fact that the Minister has made no adjustment for fiscal drag.

Taking the additional payment of indirect taxes arising from VAT on services, increased customs and excise duty on liquor and tobacco and the fuel levy, the average person is worse off.

Taxpayers will pay an average 27 percent more tax this year, the biggest real increase in taxation in recent years, according to Econometrix director Dr Azar Jammine.

"Last year government gave back concessions of R3,3 billion, this year the total concessions amount to only R971 million."

He notes too that the increase in social spending as a percentage of the Budget has remained constant at 38 percent.

Personal taxation revenue to rocket

Star 21/3/91

Finance Staff (320)

The Government expects to receive 27 percent more in income tax this year despite lowering the top marginal threshold.

This emerges from the Budget proposals presented to Parliament yesterday.

Minister of Finance Barend du Plessis annnounced a slight reduction in the top marginal rate for married and unmarried people, but this makes hardly any allowance for inflation.

The net effect is that revenue from personal taxpayers is expected to surge from R22,9 billion in the tax year just ended to R29,04 billion in the coming year.

Personal tax as a percentage of total revenue will therefore increase from 31 percent in the year just ended to almost 39 percent, while revenue from other sources, notably company taxes, will decline.

The maximum marginal tax rate for married men has been reduced from 44 percent to 43 percent, but the primary rebate has been dropped from R2 100 to R2 000.

Promote

The net effect is that a married man with two children will pay R300 less tax, if he earns the same as last year. But if he has had a pay rise he will still pay more tax.

The maximum marginal rate for unmarried persons is also reduced to 43 percent but the primary rebate drops from R1 800 to R1 625.

Mr du Plessis said the large number of tax reforms in the Budget — specially designed to promote an investment climate, and particularly the revenue loss from the introduction of VAT — "unfortunately mean that tax relief for individuals this year cannot match that for 1990/91."

In terms of its five-year plan, the Government was committed to the reduction of the maximum marginal rate of income tax on individuals although, "in the nature of things", equal progress in this direction could not be made every year.

Mr du Plessis added that the limit of R40 000 of net remuneration being subject to Standard Income Tax on Employees (SITE) would be raised to R50 000.

Govt rejects low-rate tax

Star 21/3/91 320

THE GOVERNMENT has decided not to introduce the low-rate, so-called "withholding tax" on the interest income of individuals.

This is disclosed in the Budget Review accompanying yesterday's main Budget. The idea of the withholding tax was to reduce tax on interest to encourage deposit savings — and level the playing field between deposit-taking and contractual-saving institutions.

The Budget Review says the Government has decided not to introduce the tax because of the opportunities it presents for taxpayers to classify other income as interest income or to enter arbitrage transactions.

The Jacobs Committee is continuing to investigate ways of overcoming the advantage enjoyed by contractual-saving institutions.

Attention is being given to the various tax dispensations covering the different types of institution, the Review says.

Possible tax incentives to save are also being investigated. □

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Fiscal drag will still chew wages

Star 21/3/91.

320

By Michael Chester

IMPACT OF FISCAL DRAG

SALARY		TAX		AVERAGE TAX RATE	
1989/90	1990/91	1989/90	1990/91	1989/90	1990/91
15 000	17 250	640	1 195	4,3	6,9
20 000	23 000	1 810	2 640	9,1	11,5
30 000	34 500	4 910	6 575	16,4	19,1
50 000	57 500	12 810	15 960	25,6	27,8
80 000	92 000	25 710	31 110	32,1	33,8
150 000	172 500	57 210	67 335	38,1	39,0

The phenomenon of an inflation gremlin known as fiscal drag threatens most breadwinners with heavier income tax bills, despite the new tax rate tables announced in the 1991 Budget, according to economic researchers.

"Mercifully, by flattening out the steepness of the marginal tax ladder a little, the Minister of Finance has slowed down the forced-march into higher and higher tax brackets," Dr Azar Jammine, director of the Econometrix think-tank, said last night.

"But the promise of a smaller tax burden is likely to prove a mirage.

"Most taxpayers may well find they confront bigger tax bills at the end of the next 12 months, compared with last year."

In short, Dr Jammine argued, they still faced the backlash of disguised tax penalties handed out by fiscal drag.

Fiscal drag, also known as bracket creep, is the jargon used by economists to explain the vicious circle in which salary and wage-earners battle to keep pay packets at least in line with inflation but in turn find themselves pushed into still higher tax brackets that rip into actual spending power.

Gluttony

Willem Cronje, partner in chartered accountants Deloitte Pim Goldby, joins most tax experts in agreeing that the new across-the-board tax cuts look likely to be more than offset by the gluttony of fiscal drag.

The devastations caused by the gremlin in recent years have been closely tracked by Econometrix. They are shown in sharp profile by studies that reveal that the proportion of total Government tax revenue carried by personal income tax has no less than doubled in the past decade.

In the 1980/81 financial year, individual taxpayers had to foot only 15,6 percent of the total tax revenue netted by the Department of Inland Revenue. By 1989/90 the proportion had soared to 30,8 percent.

Econometrix researchers are now back at their computers working out the precise outlook for the overall pattern of tax payments that can be expected in 1991/92.

"The exercise is unlikely to yield much good news," Dr Jammine fears. "True, the Minister of Finance has not been totally insensitive to the problem. He showed his concern three years ago when he trimmed the top marginal tax rate from an effective 52,5 percent to 45 percent. Last year he made it 44 percent.

"Now he has trimmed it down to 43 percent."

Dr Jammine is concerned that first impressions of lower tax bills will prove an illusion.

The Government, he feels, may still rely on inflation and the fiscal-drag factor to make sure tax collections continue to hit the jackpot. For example:

- Allowing for salaries and wages staying more or less in line with a 15 percent inflation rate, a breadwinner who earned R15 000 in 1989/90 should have increased his pay packet to about R17 250 in 1990/91.

The fiscal-drag gremlins ensured his tax bill bounded upward from R640 to R1 195.

- An income of R50 000 should have risen to R57 500, but was handicapped by a tax bill that rose from R12 810 to R15 960.
- Executive salaries that went up from R150 000 to R172 500 were penalised by tax bills that rocketed from R57 210 to R67 335.

Because of the impact of inflation, all of the pay packets in fact shrank in terms of actual purchasing power.

Longer-term analysis of trends provides even more dramatic examples. Take a married man with three children who was earning R10 000 a year in 1980. He paid no more than 3 percent of his salary to the taxman. If his pay packet stayed in tandem with inflation, last year it stood at about R36 000 a year — but no less than 19 percent of it was grabbed in income tax.

Dr Jammine welcomes the latest lowering of marginal income tax scales. But he still despairs about the relative timidity of the Government about any bold action towards sweeping reform of the entire tax system.

In the US, he points out, the top marginal tax rate on personal income has been slashed from 70 percent to 33 percent.

Hacked

In Britain, a flat rate on all incomes up to as high as R100 000 a year has been hacked down from 35 percent to 25 percent.

"There are several grounds for suggesting that excessive taxation has been an important contributor to our twin problems — slow economic growth and high inflation," he says.

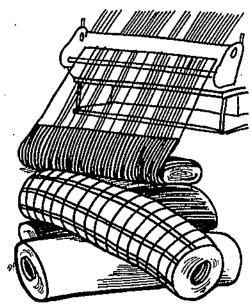
"One is driven to suggest that current trends in taxation cannot continue indefinitely without bringing to a head the need for radical changes in the direction of tax and fiscal policies in years to come.

"Especially at a time when the ANC appears to be making increased taxation a cornerstone of its policy of 'growth through redistribution', it is vital to consider the existing basic structure of taxation."

How VAT works at 12%

1. SHEEP

Farmer sells wool clip to spinner for R50, plus R6 VAT (12 percent) which he pays to Inland Revenue.



2. WEAVING MACHINE

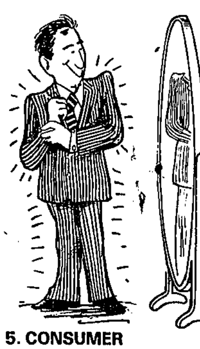
Spinner adds value to the wool by weaving it into cloth, which he sells to tailor for R100, plus R12 VAT. He pays Inland Revenue R6 in VAT — the difference between the R6 VAT included in the R56 bill from the farmer and the R12 VAT in the R112 selling price to the tailor.

3. TAILOR

Tailor adds value to the material by making a suit, which he sells to retailer for R200, plus R24 VAT. He pays Inland Revenue R12 in VAT — the difference between the R12 VAT included in the R112 bill from the spinner and the R24 VAT in the R224 selling price to the tailor.

4. MENSWEAR SHOP

Retailer works out business costs and profit margin and sells suit for R300, plus R36 VAT. He pays Inland Revenue R12 in VAT — the difference between the R24 VAT included in the R224 bill from the tailor and the R36 VAT in the R336 selling price to the end buyer.



5. CONSUMER

The customer buys the suit for R336 — "The price you see is the price you pay". The R36 VAT (12 percent) has already been paid in the chain of transactions between the sheep farmer and the end buyer.

6. TAXMAN

The Receiver of Revenue checks all production and sales stages to make certain everyone has paid a proper share of the 12 percent VAT.

In theory, it has been impossible to find loopholes to dodge the taxman.

Taylor

VAT will affect most goods and services

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By Peter Fabricius Star
Political Correspondent 21/3/91.

VAT is to be introduced at 12 percent on September 30 this year on virtually all goods and services except the most basic foods and public transport, Finance Minister Barend du Plessis announced in his Budget speech yesterday.

He said that:

- Only two items of food — graded mealie meal for human use and brown bread, would be VAT-free.
- Rail, bus and taxi commuter transport would also be VAT exempt.
- Welfare organisations would enjoy a VAT concession.
- VAT credit would be given on capital and intermediate goods — except cars.
- There would not be VAT on financial services and banks — but instead they would have a new turnover tax imposed on them of 0,75 percent of their interest and finance charges. The estimated revenue yield would be R170 million.

Mr du Plessis said that taking into acount the considerable loss of revenue from VAT compared to GST, the various VAT concessions, the special aid for the poor and increases in pensions, it was not possible to introduce VAT below 12 percent.

This would lead to a loss of revenue of R1 billion this year compared with GST.

Guarded optimism on price reductions

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By Michael Chester Star 21/3/91

Tax experts last night advised caution about the chances of the bonus of price reductions on a wide range of manufactured goods as a result of the VAT formula for the industrial sector announced by Finance Minister Barend du Plessis in the Budget.

The Minister raised optimism about possible lower costs when he confirmed that companies would escape the VAT net on all capital goods such as machinery and all intermediary goods used on production lines.

He said the exemptions would bring an end to the widescale virtual double taxation that hit manufactured goods under the GST system, which expires on September 30. He hoped cost reductions would be passed on to consumers.

Overall, the price adjustments that should be possible with the VAT system promised to help in cutting the inflation rate from a current 14,5 percent to 12 percent or even lower, said the Minister.

"The optimism about actual price reductions for consumers is commendable," said Dr Azar Jammine, head of the Econometrix research unit, "but it is likely to be wishful thinking.

"It fact, price-cutting is a dangerous assumption on the part of the Minister because of the absence of any real competitive environment in South African business. Manufacturers may well be more inclined to use any VAT tax advantages to feed into their profits and absorb pressures for higher wages rather than pass any production cost benefits on to consumers.

"I don't believe the Minister has taken into account the monopolistic nature of South African industry.

"Also, the announcement of the new VAT rate six months ahead of its actual introduction may have been premature. Several industries — not least the motor industry — will now worry that a lot of potential buyers will delay actual purchase of high-priced goods until September 30 rather than pay the extra involved in a 13 percent GST rate.

"It is unlikely to do much good to the short-term outlook about the prospects of pulling out of recession."

Tax expert Larry Kritzinger, of chartered accountants Deloitte Pim Goldby, said the 12 percent rate set for VAT had been widely expected and business reaction was likely to be largely favourable.

Business would particularly welcome confirmation of the exemption of capital goods and intermediary goods.

Pressures

But he agreed it was highly optimistic to expect any significant cuts in production costs in view of overall inflationary pressures and the scale of increases in labour costs.

Chris Frame at chartered accountants Price Waterhouse added: "The tax concessions on capital and intermediary goods will obviously be welcomed by businesses, but whether any production cost benefits will be passed on to the consumer is another issue.

"Historical patterns suggest price cuts are doubtful. They cannot be enforced by Government. They would only come about if a business were forced to chop prices to meet fierce competition."

R75-m injection for SBDC growth

The Small Business Development Corporation (SBDC) last night forecast a 20 percent expansion in its 1991/92 programme as a result of the injection of R75 million in allocations from the Budget.

Finance Minister Barend du Plessis said he hoped the R75 million from the Government would be matched by an additional R75 million in new funds for the SBDC from the private sector.

SBDC managing director Dr Ben Vosloo said the new funds would prove particularly effective in the provision of support services so needed by the small business sector.

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Banks to pass on tax to customers

Star 21/3/91.

(320)

Diagonal Street

ANN CROTTY

Stanbic and First National Bank would have had to pay R52 million and R40 million respectively in "turnover tax" if the proposed 0,75 percent tax on interest income had been in force in their latest financial year.

It would have reduced earnings of both banking groups by around 7,5 percent — a major reduction given that in the 12 months to end-December 1990 Stanbic had managed a 24 percent hike in earnings and FNB lifted earnings by 20 percent in the 12 months to end-September 1990.

Stanbic had interest income of R6,9 billion and FNB had interest income of R5,3 billion.

This sort of hit on earnings, which would be felt across the finance sector and will be aggravated by the changes to Section 24 allowances, is expected initially to put signficant downward pressure on JSE ratings in the sector.

But to the extent that this additional tax cost can be recovered by passing it on to the end consumer, earnings will be protected and ratings should recover. However, this additional cost may dampen the demand for borrowings.

The new tax will be effective from October.

Although the major banks had last week met with government to discuss this move, the announcement did come as a shock to most of them.

FNB MD Barry Swart said that in the very difficult circumstances that prevailed The Budget reflected "remarkable fiscal responsibility". But the interest tax was a great shock and disappointment to the banks.

He referred to the banks' very low interest margins and the pressure they face in boosting capital levels to meet the new requirements under the DTI Act. "We will have no choice but to pass all of it on to the end consumer," he said.

With regard to the changes to Section 24 of the Income Tax Act (details of which were published yesterday in Practice Note 13), Mr Swart noted that previously the benefits of these allowances had been passed on to clients. To the extent that the changes were retrospective customers might have to repay some of the benefits.

The interest tax represents a double tax for the banks and, as Mr Swart pointed out, it will take FNB's overall tax rate up to 52 percent.

Standard Bank's chief accountant, Henry Shaw, noted that the interest tax reflected government's dilemma about applying VAT to financial services. He also felt that it would be totally impractical not to expect the players involved to pass on the cost of the tax.

"It is likely to have some dampening effect on the level of demand for borrowings," he said.

Given the extent of the additional tax that will be received from Stanbic and FNB alone (they are the only banks that publish this information), the Minister's projection that the new tax will provide around R400 million a year seems conservative.

In an address to Frankel Max Pollak Vinderine's Budget seminar, Dr Japie Jacobs pointed out that the total amount raised would depend on the level of interest rates in the future.

The new tax would be imposed on the gross interest and interest-related income of banks, building societies, long-term insureers, pension funds, unit trusts, participation bond schemes, the Corporation for Public Deposits, the Land Bank and companies conducting credit transactions such as hire-purchase business.

In addition it was possible that corporate head offices that frequently play an important cash management role for their subsidiaries would be faced with the new charge as soon as they hit the R1 million interest income level.

Dr Jacobs pointed out that the Post Office Savings Bank, "which is providing saving facilities for the small man and in many respects perform a social function in this respect," would be excluded from the tax.

Lower rate of tax on gold mines welcomed

Finance Staff Star 21/3/91

President of the Chamber of Mines Clive Knobbs has welcomed the decision announced in the Budget to fully implement the lower rate of formula tax for gold mines.

He said the industry was pleased by this move because it provided, immediately rather than gradually, for the introduction of the lower formula tax as visualised by the Marais Committee on Mining Taxation.

He also welcomed the continuing commitment to reducing the surcharge payable by non-gold mines.

Mr Knobbs said the mining industry was encouraged by the reduction of the import surcharge on capital goods from 10 to five percent and on intermediate goods from 7,5 percent to five percent.

However, the industry looked forward to its total abolition in due course. (320)

Referring to VAT, Mr Knobbs said the industry was pleased to note the decision that full input credit for capital goods would be given from day one of the implementation of the new tax.

Clive Knobbs

'Blacks can't live on bread alone'

Sowetan 22/3/91 (320)

By ALI MPHAKI

"BLACK people cannot live by bread and mealie-meal alone," was the curt response of a majority of black organisations and individuals to Finance Minister Barend du Plessis's Budget.

By exempting only the two basic foodstuff from VAT, Du Plessis's Budget was seen as "giving with one hand but taking with the other".

"It's an insult", said the president of the Black Consumer's Union, Mrs Nonia Ramphomane.

"Until such time there are concrete changes in the political and economic sphere, black people would continue to be at the bottom of the rung. Last year they promised to equal pensions but these are still below the poverty datum line," Ramphomane said.

While the Government has allocated 38 percent of the Budget to social spending, these for blacks remain unacceptably low.

This is despite the fact that black pensions have been increased by 29 percent and those of white by 10 percent.

Mr Sam Moufhe, executive director of the Centre for Black Economic Development, said these areas require large sums of money.

"I do not think we can reach a stage where we say that their allocation is sufficient."

Moufhe challenged employers to educate employees on the Personal Investment Pension Scheme and to re-examine their roles seriously in order to move in the direction of equalising the economy to make it possible for blacks to gain access to and distribution of wealth.

"Simultaneously, Government must consciously encourage companies to contribute more toward pension by giving them tax relief," he said.

The Johannesburg Child Welfare, said they regret the continued racial fragmentation of the welfare system into 20 state, provincial and homeland authorities.

"This system is extremely wasteful of scarce welfare resources and entrenches inequity in the distribution of resources. The establishment of a single, just and democratic welfare system for South Africa remains a priority," the organisation said.

Accurate

One of the few voices to commend the Budget was Mr John Gogotya, president of Fida, who said Minister Du Plessis' Budget reflected an accurate assessment of the "devastating" effect which the on-going violence was having on all sectors of the South African economy.

"Not only is the current political instability and violence acting as a deterrent for overseas investments, but the fact is that it is gradually eroding our ability to generate the levels of income which are mandatory for progress in the new South Africa," Gogotya said.

Veteran community leader Mrs Ellen Khuzwayo, said she was "angered by irresponsible statements made by the Du Plessis and Gogotya's of this world."

"The South African government is 99 percent responsible for the violence sweeping the country. They must not try and shift the blame. Had it not been for their intransigence, there would have been no need for sanctions. The Government is to blame," she said.

Meanwhile, South Africa's large chain stores have expressed disappointment at the proposed introduction of VAT at 12 percent.

"One would have thought that with the widening of the tax base and the elimination of exemptions on most foodstuffs, the differential between GST and VAT could have been higher," he said.

However, he welcomed the sums allocated to special aid programmes, education, health and the narrowing of disparities between pensions.

The group managing director of Checkers, Sergio Martinengo, said the announcement of a 12 percent rate for VAT comes as a "severe" blow to consumers in a depressed economic climate.

"We were hoping for a rate of 11 percent or lower, and believe that initially a rate of 12 percent will be a harsh economic adjustment for consumers to make," he said.

'Fair tax deal for life offices'

LESLEY LAMBERT (320)

CAPE TOWN — Finance Minister Barend du Plessis has given assurances he will remove disparities from the tax treatment of life offices to bring them onto an equal footing with other financial institutions.

Old Mutual chief operating officer Gerhard van Niekerk said yesterday Du Plessis had conceded that the industry was unfairly taxed and had undertaken to introduce a more equitable tax package.

In his Budget Du Plessis announced that the life industry's tax rate would be reduced from 45% to 43%, the maximum marginal rate for individuals and indicated he would also address tax on dividends received by life offices and the formula for determining their tax payments.

The industry has been lobbying for "more appropriate" tax treatment for many years, arguing that punitive taxation affects its ability to compete with banks and building societies for personal savings.

It has argued that in line with the trustee principle which governs tax paid on behalf of individual policyholders, its tax rate should be reduced from 45% to about 30%, the average applied to these individuals.

The industry has also called on the authorities to scrap tax on dividends paid to life offices and to allow them to deduct all expenses from taxable income.

The strength of the industry's lobby has achieved significant results. Two years ago the authorities declared their support for the trustee principle and followed this up with the scrapping of tax on provident fund investments.

BDay 22/3/89

VAT to push up domestic airfares by 12%

LINDEN BIRNS

DOMESTIC airfares are set to rise by at least 12% with the introduction of VAT at the end of September. (320)

SAA spokesman Stephanie de Witt said yesterday no tax (GST) was charged on internal flights but the introduction of VAT would apply to domestic airfares.

However, SAA spokesman Leon Els said exact plans had not yet been made to accommodate the new tax. B/Day 22/3/91

Association of SA Travel Agents (Asata) president Barney Singer said in Cape Town yesterday government still had to "spell out" how VAT would be applied to domestic air fares.

With Trek Airways entering the domestic passenger market during the third quarter of the year, it was possible that the addition of VAT to tariffs could be the spark needed to set off a domestic price war between SAA and Trek, Singer said.

Els said he doubted that SAA or Trek would be able to undercut one another.

Just The Ticket (JTT) MD Bob Williams said while international air travel was recovering — albeit slowly — in the aftermath of the Gulf war, domestic air travel would be adversely affected by the introduction of VAT.

JTT, which opened as SA's first "bucket shop" air ticket brokers, processed more than R1,5m in international air tickets during its first 15 operational days, he said.

Surprise move on input credits 'could aggravate the recession'

B/Day 22/3/91

GILLIAN HAYNE

GOVERNMENT's surprise decision to allow full input tax credits on capital and intermediate goods from September 30 could be the catalyst to push SA into a major recession, economists have warned.

Experts said the move could see businesses delaying the purchase of capital goods until after the introduction of VAT, thereby seriously affecting capital goods suppliers' performances and distorting the economy.

University of the Western Cape economics professor Lieb Loots said: "With the economic growth rate already zero, any performance deferral would deepen the recession."

DP finance spokesman Ken Andrew said he had serious concerns about the short-term effect VAT would have on suppliers of capital goods.

"During this recessionary period any delay in purchases could knock a big hole in a major sector of the economy which would make the recession worse."

However, he added that by allowing immediate input tax credits the cost-cutting structures would filter through to consumers more rapidly which would be anti-inflationary in the longer term.

Barlow Rand group economist Pieter Haasbroek did not expect any serious disruption to business.

He said capital investment plans were decided well in advance and it was unlikely major capital projects would be put on hold, although he admitted that new business may be stalled.

Haasbroek added that it was unlikely consumers would see any benefits from the decrease in production costs in the course of this year.

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Ernst & Young tax partner Ken Walton advised capital goods suppliers to rent goods as one way to help bridge the gap.

He also said it was unlikely that consumers would feel the benefit of decreased costs, unless for example big retail companies dropped prices for the marketing advantage.

"The best consumers can hope for is a delay in future increases," he said.

KPMG Aiken & Peat tax partner Pat McGurk said the positive effects of granting capital goods input tax credits from day one was that it would reduce the extent of cascading GST and thus hopefully reduce the prices of goods to consumers.

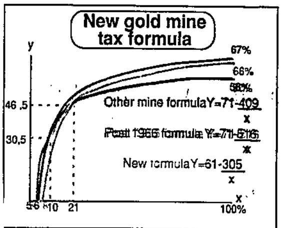
Some mines' tax will go up

B/Day 22/3/91

ROBERT LAING

INSTEAD of paying less tax in terms of the new tax formula announced in the Budget, the average gold mine will pay slightly more, closer examination of the new formula shows. And fewer marginal mines can escape in the "tax tunnel".

Gold mines are taxed according to a government formula which varies according to a mine's profitability.



Graphic: LEE EMERTON

All gold mines will have one formula from now on. (320)

While the upper tax limit of very profitable mines has been reduced by about 8%, post-1966 mines which have a profitability factor of less than 21% will pay more.

Since average profitability of Chamber of Mines gold mines is 18%, most mines' tax burdens will increase.

Under the old system, post-1966 mines did not have to pay tax if their profitability was under 7% and other mines if it was under 6%. The new formula reduces the "tax tunnel" to 5% for all gold mines, forcing more marginal mines to pay tax.

The average 18%-rated mine will have a 44% tax rate, up from 42%.

Anglo American group tax consultant Marius van Blerck said previously untaxed marginal mines would now be taxed. However, low profit mines were still better off than if a flat tax rate were applied.

Surcharge new demand not expected

B/Day 22/3/91

MELANIE SERGEANT

THE Budget's reduction of import surcharges on capital goods has been welcomed by various members of the computer industry, although most said it would not have a material effect on demand for equipment.

Siltek CE Marius Furst said halving the import surcharges — from 10% to 5% — would be good for business, but he agreed with BMI-T's Brian Niellsen that the decision would not have a material impact on demand.

Niellsen said the reduction could, in fact, affect the profitability of vendors — depending on whether they passed surcharges on to buyers.

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The VAT announcement which will have the greatest effect on the computer industry is that input tax credit on capital goods will be available from September 30.

Deloitte Pim Goldby's Doug Jolliffe said: "This will mean a pent up demand for goods up to this date, but on the upside, will mean a much cleaner implementation of VAT as opposed to phasing in this tax."

Furst agreed the move would delay buying decisions, but the Business Equipment Association's Les Wood pointed out that even though this would depress demand up to September 30, there were methods of getting around this.

"For example, buyers can rent equipment before the VAT implementation, and purchase thereafter."

While welcoming the halving of import surcharges, Wood said the industry had expected its total abolition.

Most agree VAT will affect service industries most because services have not been subject to GST.

Financial sector shocked at turnover tax on interest

BDay 22/3/91 (320)

SHARON WOOD

THE imposition of a turnover tax on interest income in yesterday's Budget came as a major shock to the financial sector.

The costs it would impose on financial institutions would probably halt the recent downward trend in interest rates, and could even lead to an increase in rates, analysts said.

Deloitte Pim Golby tax consultant Craig France said commercial banks which operated on low interest margins would be extremely hard hit by the tax.

It came at a bad time, because the economy needed a boost and not a dampener, he said.

Initially there was some confusion about which institutions and transactions would be affected. Analysts now expect all financial services to be subject to the tax, including banks, pension funds, insurers and company groups involved in internal financial transactions.

Banks considered the tax to be severe because they were already subject to VAT as end-users of products.

Standard Bank chief accountant Henry Shaw said the introduction of the tax was likely to curb the decline in interest rates.

He said it was essential that the tax be applicable to all taxpayers involved in financial transactions. If the implementation was selective it would defy the principle of equity and would lead to distortions in the market.

First National Bank general manager Jimmy McKenzie said he considered the turnover tax to be a levy on interest income, since banks had no turnover.

The tax would penalise banks, which were already subject to VAT on goods used by the bank.

Finance Minister Barend du Plessis said in yesterday's Budget that the turnover tax on interest income would be implemented at a rate of 0,75%, as a proxy for VAT, from September 29 this year.

Commuter VAT bonus 'superficial'

Blom 22/3/91

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Political Staff

THE exemption of commuters from VAT was a superficial concession because deteriorating roads were markedly increasing vehicle operating costs in buses and taxis, the SA Bitumen Tar Association (Sabita) said yesterday.

These costs were swiftly passed on to commuters, as were the rising prices in the freight transport industry.

"It is well known that southern Africa's economic lifeline — its R53bn road network — has been allowed to deteriorate alarmingly in recent years," Sabita said in a statement issued by executive director Piet Myburgh.

"Over the next ten years, for example, R15bn is urgently needed to accelerate a road construction and maintenance programme."

At a time when SA was looking to the outside world to invest in the region, government had "disinvested" from its responsibility.

By increasing fuel tax without using these resources to improve the deteriorating road network, government was jeopardising economic growth.

B/day 22/3/91

TAX ON MARRIED PERSONS

(320)

	PRIOR			CURRENT		
GROSS INCOME	36 000	68 000	112 000	36 000	68 000	112 000
Salary	30 000	60 000	100 000	30 000	60 000	100 000
Company Car	6 000	8 000	12 000	6 000	8 000	12 000
EXPENSES	2 250	4 500	7 500	2 250	4 500	7 500
Pension	2 250	4 500	7 500	2 250	4 500	7 500
TAXABLE INCOME	33 750	63 500	104 500	33 750	63 500	104 500
TAX per TABLES	7 475	18 770	36 580	7 138	18 135	35 535
REBATES	2 300	2 300	2 300	2 200	2 200	2 200
Primary	2 100	2 100	2 100	2 000	2 000	2 000
Children	200	200	200	200	200	200
TAX LIABILITY	5 175	16 470	34 280	4 938	15 935	33 335

The table examines the bottom-line tax liability of married people with salaries of R36 000, R68 000 and R112 000, specifically the effect of the changes in the tax rate and in rebates announced in the Budget.

Govt plans to set up VAT watchdog group

(320)

KEVIN DAVIE

GOVERNMENT is to set up a special VAT watchdog body to ensure that manufacturers, who get R7bn annually in input credits on capital and intermediate goods, pass the benefits on to the consumer.

The credits, which were announced on Wednesday by Finance Minister Barend du Plessis, come into effect with VAT on September 30 and will provide manufacturers with tax relief estimated at R7bn annually. The IMF team which investigated VAT for government estimated that these credits could result in price reductions of up to 8%. It persuaded government to implement the credits immediately as a phasing-in period would be difficult to administer.

"The difference is so material it will have to be passed on," former Vatcom secretary Peter Franck said yesterday. "Between R500m and R600m will be given every month in credits." BDay 22/3/91

Franck said the IMF team had recommended VAT be set at 13,3% to be able to recoup the same amount of revenue as GST. Government opted for 12% in the hope that the about R1bn shortfall would be recouped from the reduction in evasions, which the IMF team put at 60%.

Consumers will pay annually about R2,2bn more on foods as VAT only zero rates mielie meal and brown bread. It has been calculated that a 10% VAT rate which included food would cost a middle-income family an additional R500 a year.

The extra cost to the consumer will be partly cushioned by setting the rate at 12%, as the one percentage point difference offers a cushion of about R1,5bn.

☐ In Cape Town yesterday Finance Director-General Gerhard Croeser said he would be surprised if an 8% saving could be achieved as a result of the decision to allow the tax credits.

He said he would be happy if price reductions of half this amount resulted.

Croeser said there was a need for agencies to monitor whether the input credits were passed onto the consumer.

● See Page 3
● Comment: Page 12

INCOME TAX FM 22/3/91

PHASING-OUT (320)

In practice note 13, just released, Inland Revenue sets out the terms of phasing out the timing concession for finance charges, previously allowed under section 24 of the Income Tax Act. The new rules apply to suspensive sale agreements predating March 1.

For category A agreements (where the original amount does not exceed R500 000) the amount subject to phasing-out must be limited to taxable income (with a choice of years) after adding back the previous year's S24 allowance and deducting the unearned finance charge element for that year.

This amount must be phased out over 48 months, starting on March 1 1991, on a straight-line basis.

Category B agreements are those where the original loan capital exceeds R500 000. For category B1 contracts, under which the term at February 28 1991 is five years or fewer, the allowance will still be on the earlier basis, allowing finance charges, for a further four years, provided:

☐ No extension to the original period of contract will be recognised; and

Continue →

ECONOMY & FINANCE

FM 22/3/91 (320)

☐ The gross profit percentage which will be recognised each year does not exceed the percentage determined at February 28 1991. In determining this percentage, the interest rate prevailing on each contract at February 28 1991 must be used to project the interest for the rest of the contract period.

Where a contract in this category has not reached finality by March 1 1995, the full amount outstanding will immediately be taxed in full.

For category B2 contracts, where the term at February 28 was longer than five years, the allowance will still be determined on the previous basis for a further four years, subject to the following limitations:

☐ The actual gross profit percentage, but not exceeding 50%, must be used; and

☐ This percentage will be applied to the lesser of the actual outstanding receivables or three times the original loan capital.

The difference between the allowance on the previous practice and the new basis must be determined on June 30 1991. This amount must be phased out over 44 months or the remaining life of the contract, whichever is less, on a straight line basis, starting July 1.

Some further general limitations concerning gross profit margins apply to all categories. And taxpayers who also qualify for the HP debtors' allowance on the gross profit element will be subject to further restrictions (so that they do not enjoy an adventitious benefit), phased in over 48 months. ■

THE BUDGET FM 22/3/91 (320)

THE MESSAGE SOUNDS INSPIRING

BUT REMEMBER, FINE WORDS BUTTER NO PARSNIPS

With the theme of his Budget "Equity through growth and stability," Finance Minister Barend du Plessis spells out clearly that the thrust of economic policy will be redistribution through growth and not, as some would have it, the other way about.

Rather than reduce the proverbial cake and promote the equal distribution of poverty, he wants us to bake a bigger cake.

Growth is to be promoted by:

☐ Tackling inflation. He enumerates the measures as minimal real growth in spending, no pressure on interest rates, the sound financing of the deficit before borrowing, VAT credits on capital and intermediate goods, a cut in the import surcharge and preservation of the value of the rand; and

☐ Promoting an investment climate through VAT credits for capital and intermediate goods and the further phasing out of the import surcharge, which substantially reduces the extra cost of production, and reduction of company tax by two percentage points as a first step on the road from 50% to 40%. Though, as Sacob president John Hall points out, the total tax burden remains unchanged at 24,9% of GDP.

Du Plessis also mentions encouragement to small business through VAT exemptions for undertakings with annual turnover of less than R150 000 and assistance from several institutions towards job-creation.

A climate for stability will be created by:

☐ Narrowing the racial gap in old-age and other aid allowances, increases in spending on education, health and welfare and earmarking R200m for special relief programmes, as well as a focus on job-creation;

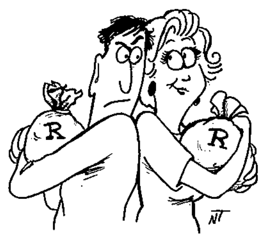
☐ Excluding mealie meal and brown bread from VAT, as well as the exemption of commuter transport and concessions to welfare bodies;

☐ The extension of police capability; and

☐ Maintenance of fiscal and monetary discipline, "together with increasing predictability and integrity in the deployment of tax and other economic reform.

So much for the good intentions.

But increased social spending in some areas, with revenue forgone of R1,786bn in "concessions", makes for a delicate balancing act. The margin for success is narrow. And whereas for many years actual revenue regularly came in well ahead of budgeted estimates, this trend has fallen away in the present recessionary environment. An in-



crease of 27,7% in revenue received in 1989-1990 over budgeted revenue for the year, fell to 3,9% in 1990-1991.

Given these constraints, the Budget goes some way towards converting the objectives to reality.

Revenue collection provides the opportunity for some statistical sleights of hand.

Concessions in personal tax amount to a loss in revenue to the Exchequer of about R1bn, reducing the original printed estimate of R28,8bn to R27,8bn. This last figure, however, is still about R2,94bn higher than it would have been without fiscal drag, at an inflation rate of 13%.

Another piece of fancy footwork can be seen in the changes in composition of the fuel price, outlined in a press statement from

continue

FM 22/3/91

THE STATE OF THE ECONOMY

Revised estimates for 1990-1991 show:

☐ Expenditure of R74,7bn (14,1% up on 1989-1990 and 2,5% above budget);

☐ Revenue of R67,4bn (10,3%, 3,9%); and

☐ A deficit before borrowing of R7,4bn (nearly 95% higher than the previous year but lower than the R7,7bn budgeted for and only 2,7% of GDP.)

Real GDP is expected to have declined by 1% in 1990 (1989: 2% growth). GDP per capita fell by 3%. This was due to:

☐ A fall in agricultural production. In the fourth quarter of 1990 it was about 23% lower than the high in the third quarter of 1989, due to a 40% drop in the wheat crop late in 1989 and a 28% fall in maize production followed by a further fall in wheat production in the fourth quarter of 1990;

☐ The -1,5% change in real value added by the mining sector (-1%), largely due to negative factors in gold mining;

☐ -1,5% (+1,5%) in the secondary sectors, due mainly to a decline in manufacturing production related to a planned reduction in inventories; and

☐ Only modest growth in the tertiary sectors, of 0,5% (2%.)

Real GDE fell by about 3% (1%.) A breakdown shows:

☐ Private consumption expenditure rose by 1,5% (2,5%) due mainly to moderate growth in real personal disposable income and growth in consumer credit;

☐ Government consumption expenditure rose by about 1% (3,5%) — the least in 12 years;

☐ Gross domestic fixed investment fell by 1,5% (5,5%.) Fixed capital expenditure in the private sector fell moderately but in the public sector by 10%.

Gross domestic saving as a proportion of GDP fell to 21,5%. The decline was mainly in the private sector. The ratio of personal saving to personal disposable income fell from about 3% in 1988 to 1,5%.

Average annual nominal pay in the nonagricultural sector rose 15,5% (1989: 18% and 1985: 11,5%.)

The surplus on current account of the BoP rose from R3,1bn in 1989 to R5,8bn, thanks mainly to a fall in imports and net payments for services, transfers to the rest of the world and increased exports of manufactured goods:

The net outflow of capital not related to reserves fell from R6,2bn in 1988 and R4,3bn in 1989 to R2,9bn, far less than the R6bn originally envisaged.

Net gold and other foreign reserves rose by R2,9bn. Gross gold and other foreign reserves rose R400m to R7,3bn.

The average nominal effective exchange rate of the rand fell by 2,8%. For most of 1990 the financial rand's discount against the commercial was 30%-35%.

Broadly defined money supply (M3) grew at about 12% over the full 1990 guideline year — fourth-quarter 1989 to fourth-quarter 1990. M3 growth (over 12 months) fell from a high of 27,5% in August 1988, and 22,5% in December 1989 to 12,5% in December 1990. The major "statistical" reason for lower money supply growth was a slowing in the rate of increase of credit granted by the monetary sector to the private sector.

FM 22|3|91

BAREND'S 1991 BUDGET

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EQUITY, GROWTH, STABILITY

That's a ringing set of objectives for any Budget, even if a cynic may suspect that it's aimed at least in part at whoever may be Minister of Finance in the next (non-NP) government. It also begs a few questions: after all, equity does not mean the same thing to all people. That is why the ANC is criticising Barend's latest Budget for not doing enough for the disadvantaged, while middle-class white economists conversely point to the massively increased burden on middle-class white taxpayers.

Both have a point. After all, on a real (inflation-adjusted) per capita basis, a 16,1% increase on nominal money spending on education vanishes almost entirely. It's all very well for Finance Minister Du Plessis to say that government has no intention of ceding responsibility for development spending to bodies like the Independent Development Trust (which concentrates on housing and education), but one can be forgiven for feeling that that's the way it looks.

On the other hand, the tax concessions to individuals are a mere R701m, against R4m-plus last year; and even after them, the tax burden on individuals will (on the estimates) rise by 27% — way ahead of the inflation rate, let alone last year's single-digit increase. Even though the number of taxpayers is presumably rising as blacks are absorbed into the fiscal structure, it would seem that fiscal drag will be more serious than for some years.

True, the switch from GST to VAT will "save" R1,08bn. This is more important than the actual rate, as it represents the actual tax burden on consumption spending, while the total revenue from six months of GST and six months of VAT is expected to rise by only 6,4% — well under the inflation rate. Of course, prices of some goods which were exempt from GST will rise under VAT, but unless there are major imperfections in the market, the introduction of VAT should *dampen* the overall rate of inflation.

One of the most ingenious measures is the legerdemain of cutting the petrol price to the consumer while raising revenue from petrol levies. (Beware, incidentally, of Du Plessis' claim that taxes are a low percentage of pump prices in SA, by international standards; fact is, many countries with higher petrol taxes also have effective public transport systems. Many South Africans have no option but to commute by private car or taxi.)

Both higher petrol taxes and VAT, incidentally, will also be a way of extracting more money from the informal sector, which is notoriously able to escape from most direct taxation. The switch from direct to indirect taxes not only satisfies some people's concept of "equity" — it also broadens the tax net considerably.

The further cut-back in the planned rate of increase in State spending is commendable, but it's still in excess of the target inflation rate and likely to be overshot, anyway. Moreover, the deficit before borrowing is again higher than public-sector capital formation, so the State is in effect still borrowing to finance current spending.

There is, nevertheless, a major shift in the emphasis of spending towards social upliftment and while the ANC may feel it's too little, Du Plessis is right to remark that you can't cure problems immediately just by throwing money at them. There's no point building schools if there aren't teachers to man them (whether it's advisable to close white schools when there's such a crying need for black education is another question, but not a Budgetary one).

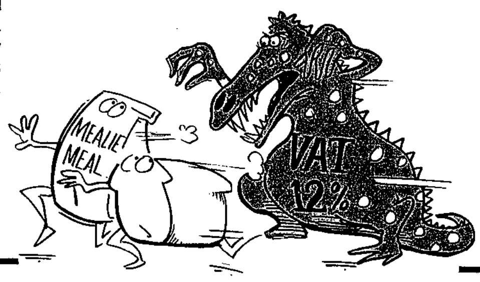
The cut in borrowing requirement by running down strategic stockpiles is another creative form of accounting that disguises what would otherwise have been a borrowing requirement well above the target 3% of GDP — and even more above last year's. Expressed another way, the adjusted financing requirement is up by a third.

While Du Plessis hopes that this will not strain the local capital market, it certainly won't do hopes of further cuts in interest rates much good.

Nor does the Budget do much to get the rate of inflation down. The cut in the import surcharge may eventually lead to new investment, which should be more cost-efficient; the switch to VAT should help in the longer term. But neither will have much impact in this fiscal year. Keeping inflation down remains largely the province of monetary policy, which fortunately is still in the safe hands of Chris Stals. This simply underlines that the Budget as such is by no means the dominant factor on economic policy that it was in more comfortable decades.

On balance, the Budget is both redistributive (at the expense of basically white taxpayers) and stimulatory (through concessions to the corporate, rather than individual, sector). Coupled with the need to maintain fiscal discipline, this has forced Du Plessis into some novel expedients.

The underlying philosophy is growth, which will ultimately take care of both inflation and unemployment. That's sound economics in principle, but is it one that can be reconciled with our political situation and the possibility that, in only a couple of years, we may have a government with a very different set of priorities?



We called last year's Budget Barend du Plessis' best to date. This year's effort is as unequivocally his most ingenious.

The question that will only be answered as the year progresses is: has he been too clever by half? ■

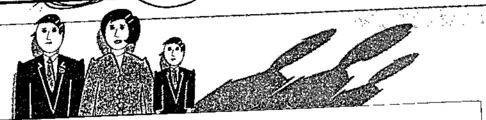
What you will pay: (1)

THE ONE BREAD-WINNER FAMILY*

(Married under 61 — no children)
Income tax payable: 1991-1992

Income	1992	1991	Reduction
12 000	0	0	0
14 000	360	400	40
16 000	760	820	60
18 000	1 180	1 260	80
20 000	1 600	1 700	00
25 000	2 750	2 900	50
30 000	4 050	4 250	100
35 000	5 500	5 750	150
40 000	7 100	7 400	200
45 000	8 850	9 200	250
50 000	10 750	11 150	400
55 000	12 700	13 150	450
60 000	14 700	15 200	500
65 000	16 750	17 300	550
70 000	18 800	19 400	600
80 000	23 000	23 700	700
100 000	31 600	32 500	900
150 000	53 100	54 500	1 400

* Child rebate is R100/child for the first five children and thereafter R150/child.
Source: Deloitte Pim Goldby



WHAT YOU WILL PAY: (2)

The two breadwinner family (married, under 61)

Salary Husband	Wife	Site/Paye 1992 Husband†	Wife	Real at Payable 1992	1991	Differ-ence
20 000	10 000	1 600	940	2 540	2 740	−200
	20 000	1 600	3 400	5 000	5 200	−200
	30 000	1 600	6 560	8 160	8 360	−200
40 000	10 000	7 100	940	8 040	8 440	−400
	20 000	7 100	3 400	10 500	10 900	−400
	30 000	7 100	6 560	13 660	14 060	−400
60 000	10 000	14 700	940	15 640	16 240	−600
	20 000	14 700	3 400	18 100	18 700	−600
	30 000	14 700	6 560	21 260	21 860	−600
80 000	10 000	23 000	940	23 940	24 740	−800
	20 000	23 000	3 400	26 400	27 200	−800
	30 000	23 000	6 560	29 560	30 360	−800

† These amounts have been calculated on the basis that the taxpayer is a married person with no children and after rebates. The child rebate is R100/child for the first five children and thereafter R150/child.
Source: Deloitte Pim Goldby

Mineral & Energy Affairs Minister Dawie de Villiers. Most of the benefit of a reduction in the petrol price is going to Revenue in the form of increased taxes. Nevertheless, the consumer is left with the happy feeling of having to part with less.

Other concessions include:

□ R756m in the further phasing out of import surcharges;

□ R1,08bn through the introduction of VAT (R910m in loss of revenue for the last six months of the financial year relative to estimated GST receipts plus R140m loss on transfer duty on real estate transaction, which will lapse from September 30, and R30m in stamp duty on short-term insurance premiums);

Uniform formula

□ R49m in mining tax following the phasing in of a uniform lower formula for gold mines;

□ Applying the trustee principle to long-term insurers, bringing the rate of tax applying to them into line with the top marginal rate for individuals, thus reduced from 45% to 43%. The cost to revenue is R10m.

□ Tax on marketable securities and stamp duties to be phased out over three years starting in 1991-1992, as promised last year. Reduction of the MST (marketable securities tax) rate from April 1 from 1,5% to 1% of the price of the security. Stamp duty on transfer of unquoted marketable securities falls from 15c on each R10 or part thereof to 10c. The cost to Revenue is R85m and R50m respectively;

□ An increase in the threshold for net remuneration, subject to SITE, from R40 000 to R50 000 from March 1 and a reduction in the maximum marginal tax rate for unmarried persons, married men and others regarded as married for the purposes of the Income Tax Act, from 44% to 43%, partly offset by a cut in primary rebates from R2 100 and R1 800 to R2 000 and R1 625;

□ A rise in the primary rebate of married women from R700 to R800 and an additional rebate for a married woman who has reached the age of 65, pushing the taxable income threshold to R15 085 from R4 556. Also, married women's investment income will be treated separately from the husband's income. The cost of these is R46m.

Concessions are countered by:

□ R340m from additional excise duty on beer, fortified wine, sparkling wine, wine spirits and cigarettes (attesting to the undimmed power of the Paarl-Stellenbosch lobby, as natural wine is yet again excluded from making any greater fiscal contribution);

□ R553m in the fuel levy;

What you will pay: (3)

MARRIED WOMEN*

Income	1992
12 000	1 360
14 000	1 840
16 000	2 320
18 000	2 860
20 000	3 400
25 000	4 920
30 000	6 560
35 000	8 320
40 000	10 160
45 000	12 080
50 000	13 960
60 000	17 760
70 000	21 560
80 000	25 360
100 000	32 960
150 000	51 960

* The table reflects an across-the-board reduction of R100 compared with 1991.
Source: Deloitte Pim Goldby

4. What you will pay:

UNMARRIED PERSONS

Under 61

Income	1992	1991	Reduction
12 000	345	360	15
14 000	765	840	75
16 000	1 225	1 320	95
18 000	1 725	1 860	135
20 000	2 225	2 400	175
25 000	3 675	3 930	255
30 000	5 325	5 640	315
35 000	7 125	7 530	405
40 000	9 075	9 520	445
45 000	11 075	11 580	505
50 000	13 125	13 700	575
55 000	15 225	15 850	625
60 000	17 365	18 040	675
65 000	19 515	20 240	725
70 000	21 665	22 440	775
80 000	25 965	26 940	875
100 000	34 565	35 640	1 075
150 000	56 065	57 640	1 575

Source: Deloitte Pim Goldby

continue

Dries, Harties, Kinross, Beatrix and Knights. The scrapping of ring-fencing would have been a much greater stimulus to new gold mining developments.

The further reduction in surcharge for non-gold mines will have broader effects, but was generally expected.

Economists describe the Budget as expansionary — but with qualifications.

Says Old Mutual's Dave Mohr: "A Budget can never be neutral. I doubt that this one is contractionary, so by default it must be expansionary. Spending in real terms will show some increase. The amount for improving conditions of service for public-sector employees implies there will be reasonable increases in remuneration. In addition there is the emphasis on social spending.

"So this represents a turning point in the continuous tightening of economic policy we have had for three years — expecially if you view it in conjunction with the 1% drop in the Bank rate."

But he adds the expected rise of 27% in direct personal taxes will check these stimulatory increases.

Standard Bank group economist Nico Czypionka also sees the Budget as having long-term expansionary impact. "Apart from the modest shift to social expenditure, the most striking feature is the attempt to improve the supply side of the economy. Gainers from this Budget in the long term will be industry, especially exporters."

But he too points to the increase in tax revenue as holding back consumption demand: "They have tried to conform to their self-imposed guidelines of keeping the deficit to 3% and have achieved this with some ingenuity. Nevertheless it is kept within reason and on technical grounds you can't fault this Budget. If you consider the social expenditure on the platter, this deficit is a deliberate decision not to choose the easy way out.

"But I don't agree it will reinforce the downward move. After all, government spending is likely to overshoot and, in that event unless they have significantly underestimated revenues, the deficit will be higher."

REVENUE COMPARISONS

	1990-91 Budgeted Rm	1990-91 Revised estimate Rm	1991-92 Budgeted at existing rates Rm	1991-92 Budgeted at new rates Rm	% Change on 1990/91 revised
Inland Revenue					
Income tax on:					
Individuals	23 500	22 900	29 840	29 139	27,2
Non-mining companies	12 950	12 401	13 651	13 713	10,6
Gold mines	1 000	631	505	490	−22,3
Diamond and other mines	1 210	1 619	1 259	1 225	−24,3
Sales tax†	18 500	18 207	20 354	19 444	6,8
Gold mine leases	300	181	140	140	−22,7
Stamp duties	—	700	735	655	−6,4
Transfer duties	—	755	815	675	−10,6
Other	3 410	1 574	1 240	1 155	−10,8
Total	60 870	58 968	68 539	66 636	13,0
Customs and Excise					
Customs duty	2 100	2 490	2 635	2 635	5,8
Import surcharge	2 700	2 085	2 165	1 409	−32,4
Excise duty	2 750	3 060	3 215	3 555	16,2
Fuel levy	4 200	3 928	3 987	4 520	15,1
Ordinary levy	100	106	111	111	4,7
Miscellaneous	196	206	233	233	12,7
Total	12 046	11 876	12 346	12 463	4,9
Less: Customs Union payments	3 448	3 448	4 233	4 233	22,8
Total	8 598	8 428	8 113	8 230	−2,3
Total Revenue	69 468	67 396	76 652	74 866	11,1

† Includes VAT from September 30 1991.

Financial Mail

BARENDS'S 1991 BUDGET

FM 22/3/91

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EQUITY, GROWTH, STABILITY

That's a ringing set of objectives for any Budget, even if a cynic may suspect that it's aimed at least in part at whoever may be Minister of Finance in the next (non-NP) government. It also begs a few questions: after all, equity does not mean the same thing to all people. That is why the ANC is criticising Barend's latest Budget for not doing enough for the disadvantaged, while middle-class white economists conversely point to the massively increased burden on middle-class white taxpayers.

Both have a point. After all, on a real (inflation-adjusted) per capita basis, a 16,1% increase on nominal money spending on education vanishes almost entirely. It's all very well for Finance Minister Du Plessis to say that government has no intention of ceding responsibility for development spending to bodies like the Independent Development Trust (which concentrates on housing and education), but one can be forgiven for feeling that that's the way it looks.

On the other hand, the tax concessions to individuals are a mere R701m, against R4m-plus last year; and even after them, the tax burden on individuals will (on the estimates) rise by 27% — way ahead of the inflation rate, let alone last year's single-digit increase. Even though the number of taxpayers is presumably rising as blacks are absorbed into the fiscal structure, it would seem that fiscal drag will be more serious than for some years.

True, the switch from GST to VAT will "save" R1,08bn. This is more important than the actual rate, as it represents the actual tax burden on consumption spending, while the total revenue from six months of GST and six months of VAT is expected to rise by only 6,4% — well under the inflation rate. Of course, prices of some goods which were exempt from GST will rise under VAT, but unless there are major imperfections in the market, the introduction of VAT should *dampen* the overall rate of inflation.

One of the most ingenious measures is the legerdemain of cutting the petrol price to the consumer while raising revenue from petrol levies. (Beware, incidentally, of Du Plessis' claim that taxes are a low percentage of pump prices in SA, by international standards; fact is, many countries with higher petrol taxes also have effective public transport systems. Many South Africans have no option but to commute by private car or taxi.)

Both higher petrol taxes and VAT, incidentally, will also be a way of extracting more money from the informal sector, which is notoriously able to escape from most direct taxation. The switch from direct to indirect taxes not only satisfies some people's concept of "equity" — it also broadens the tax net considerably.

The further cut-back in the planned rate of increase in State spending is commendable, but it's still in excess of the target inflation rate and likely to be overshot, anyway. Moreover, the deficit before borrowing is again higher than public-sector capital formation, so the State is in effect still borrowing to finance current spending.

There is, nevertheless, a major shift in the emphasis of spending towards social upliftment and while the ANC may feel it's too little, Du Plessis is right to remark that you can't cure problems immediately just by throwing money at them. There's no point building schools if there aren't teachers to man them (whether it's advisable to close white schools when there's such a crying need for black education is another question, but not a Budgetary one).

The cut in borrowing requirement by running down strategic stockpiles is another creative form of accounting that disguises what would otherwise have been a borrowing requirement well above the target 3% of GDP — and even more above last year's. Expressed another way, the adjusted financing requirement is up by a third.

While Du Plessis hopes that this will not strain the local capital market, it certainly won't do hopes of further cuts in interest rates much good.

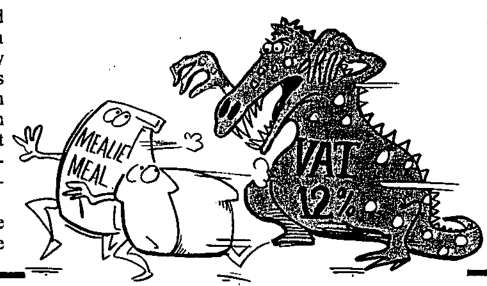
Nor does the Budget do much to get the rate of inflation down. The cut in the import surcharge may eventually lead to new investment, which should be more cost-efficient; the switch to VAT should help in the longer term. But neither will have much impact in this fiscal year. Keeping inflation down remains largely the province of monetary policy, which fortunately is still in the safe hands of Chris Stals. This simply underlines that the Budget as such is by no means the dominant factor on economic policy that it was in more comfortable decades.

On balance, the Budget is both redistributive (at the expense of basically white taxpayers) and stimulatory (through concessions to the corporate, rather than individual, sector). Coupled with the need to maintain fiscal discipline, this has forced Du Plessis into some novel expedients.

The underlying philosophy is growth, which will ultimately take care of both inflation and unemployment. That's sound economics in principle, but is it one that can be reconciled with our political situation and the possibility that, in only a couple of years, we may have a government with a very different set of priorities?

We called last year's Budget Barend du Plessis' best to date. This year's effort is as unequivocally his most ingenious.

The question that will only be answered as the year progresses is: has he been too clever by half? ■



FM 22/3/91

LOA's CROCODILE TEARS

(320)

"Disappointing" is how Life Offices Association (LOA) executive director Dick Geary-Cooke describes the Budget. Fact is, life offices score heavily, relative to other financial institutions.

LOA requests included a cut in tax attracted by policyholders' funds to 30%, which it reckons is an average individual tax rate. Instead, Finance Minister Barend du Plessis cut the rate from 45% to 43%, bringing it in line with top marginal rates. The LOA hadn't really expected anything better, though the benefit is put at only R10m.

Another request was that policyholders' investments should be freed from dividend tax, bringing them into line with all other investors and entrenching the principle that life offices are trustees for individuals. That concession was not granted, though Du Plessis referred to the trustee principle.

Nor was the suggestion that all or most of life office expenditure should be allowed against income. At present, only 55% can be claimed.

So on the face of it, life offices have taken a beating. In reality, they win hands down against banks and building societies. The so-called level playing fields debate is as open as ever.

Life offices score because of what did *not* happen. There was no capital gains tax, which they had feared, because to follow the trustee principle logically, they deal in shares on behalf of policyholders.

Nor had they realistically hoped for an increase in their expense allowances. Following the trustee principle again, policyholders as individuals can't usually offset expenses against tax.

More than offsetting any negatives was the failure of the Jacobs Committee to produce a workable withholding tax, which might have swung savings back to banks/building societies, and the new 0,75% tax (in lieu of VAT) on interest earned by financial institutions.

Publicly, life offices consider the tax detrimental to pension fund members. Privately, they note that it will apply to almost all the income of banks/building societies. In the case of life offices, between only 10%-15% of income is interest-bearing and they have far more room to hedge against the tax.

LOA deputy director Juri Wessels reckons the tax will produce about R50m in a full year from life offices — "not staggering, but significant."

By contrast, First National Bank MD Barry Swart says the tax — based on last year's figures, when FNB had R5,4bn gross interest income — amounts to 15% of pre-tax income. "It is simply not possible for banks to absorb this cost — it will be passed on to the consumer."

Moreover, 0,75% of R4,5bn is, crudely, R40,5m for FNB alone, which suggests that even the Budget estimate of a total yield of a whopping R170m could be an under-estimate.

Standard Bank chief accountant Henry Shaw also points out that financial institutions will pay VAT for goods and services that go into the provision of their products but won't be able to claim input costs, because there is no final VAT-laden product.

He foresees a multiplier effect, with depositors demanding more interest to offset their tax, which will compel banks to hold their lending rates correspondingly higher.

Deloitte Pim Goldby's Craig France reckons the tax could cost Nedcor R38m and FNB R39,7m. "Retail banks that operate on a larger margin on interest may be able to absorb the tax. Commercial banks will be extremely hard hit."

WHY VAT SHOULD HELP THE CONSUMER ... BUT ONLY IN THE LONG RUN

By REG RUMNEY AND MONDLI MAKHANYA

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THIS week's Budget was an Investment Budget.

Its nature is underscored by the reason behind the introduction of the rate for Value Added Tax at a relatively high 12 percent.

This is high because there are quite a few goods and services to which General Sales Tax doesn't apply, but VAT does.

Sanlam chief economist Johan Louw believes that VAT and effectively higher tax will put consumer budgets under pressure.

He reckons the introduction of VAT could have a one-off effect of raising the Consumer Price Index by two percentage points.

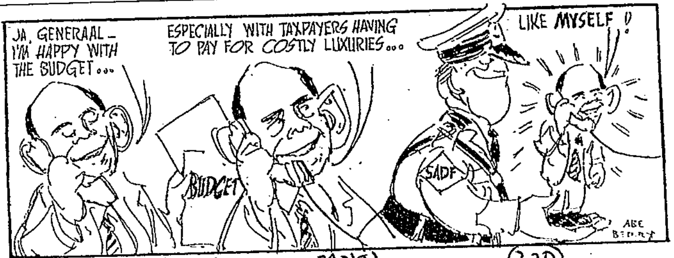
Simply, VAT had to be set at 12 percent because the government has foregone the revenue it would have got in had it not made certain provisions which favour industry.

Principally, the government has allowed producers to claim as full inputs the spending on capital equipment and intermediate goods, from the date of implementation of VAT. This is aimed at helping investment and making the economy more competitive.

Some economists predict possible reductions in personal income tax before or in the next Budget as they expect revenue from VAT to be higher than government expects.

"The government has a very conservative estimate on revenue from the 12 percent VAT and this will bring in much more than they expected. Possibly this will lead to a decrease in personal taxes," said Senbank chief economist Nick Barnhardt.

Finance Minister Barend du Plessis in his Budget speech pinpointed what the government sees as a serious flaw in GST. This is a "cascade effect". Despite the theory that the end-user or consumer pays the tax, there are a number of things, the most important of which is capital goods, like machinery, on which a producer also pays tax.



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Where a manufacturer pays 13 percent GST on capital and intermediate goods (that is, machinery and raw materials) and GST is also paid on the final product, then tax is piled on tax. The outcome is that the effective tax can be double the GST rate.

Ian MacKenzie, of Ernst & Young, stresses that while GST certificates did allow manufacturers to avoid paying some GST, there were many items on which they did, chief among them capital equipment.

In the long run, and in theory, VAT should benefit the consumer. Savings on elimination of double tax should flow through the manufacturing and selling chain. "It won't happen overnight, and it might not happen at all. But it should lead to a reduction in price increases if not to a lowering of prices," says MacKenzie.

Du Plessis said in his speech that there could be a significant reduction in the inflation rate, provided cost reductions inherent in the removal of the cascade effect did indeed reach the consumer.

Du Plessis called on the business sector to play its fair part. He added that special attempts would be made to raise public awareness of price movements through monitoring, and consumers should look to the media for this.

But it remains to be seen whether pricing by producers can in effect be policed.

Even at 12 percent, according to Du Plessis, VAT will mean a loss after it is introduced in September this year, of R1,080-billion, compared to what GST would have garnered, taking into account the loss of about R170-million from abolishing stamp duties and transfer duties on transactions subject to VAT.

Du Plessis also blamed the zero-rating of mealie-meal and brown bread, the special treatment of commuter transport (rail, bus and taxi) and of welfare bodies, the R220-million for special aid programmes and the substantial increase in old age assistance.

Pointing the finger at those last two seems unfair, since they will offset some of the hardship the poor and aged will suffer as a result of VAT not having widespread exemptions. So all fresh food other than bread and mielie-meal will now attract tax, for example.

VAT will not be applied to financial services. To make up for this, a tax of 0,75 percent of turnover (not tax deductible) will be levied on the interest income and finance charges of those providing financial services. The estimated yield for 1991/92 is R170-million.

Senbank's Barnhardt believes the individual will effectively pay more tax because increased commodity prices resulting from the introduction of VAT will erode any gains made in the reductions in personal income tax.

The maximum marginal rate for married men was reduced from 44 to 43 percent while the primary rebate was decreased from R2 100 to R2 000. This effectively means that a married man with two children who earns R40 000 a year will pay only R300 less tax a year.

For married women the maximum marginal rate remains at 43 percent but the primary rebate will increase from R700 to R800.

These cuts in the marginal tax rate are unlikely to leave the man in the street with more money in his pocket. In addition to the increases due to VAT and the fact that inflation will nullify the reduction, Du Plessis' reduction in rebates effectively takes back with the left hand what he has given with the right.

Michael Katz, a senior partner in Edward Nathan & Friedland tax firm and a member of the Standing Advisory Committee on Tax, identified the tax reform as a "symbolic gesture" by the government to increasing investments.

"It is a recognition that high tax levels are detrimental to growth and should not stifle investment. The government wants to encourage savings and the effective use of savings as investment," he said.

"Our tax rates are incompatible with those of our trading partners and the reduction in company tax, the reduction of surcharge duty and the exclusion of intermediate capital goods from VAT are designed to encourage investments."

Trapping the man in the middle

W Mail 22/3 - 27/3/91.

WHILE some attention has been paid to the poor and to reducing racially based backlogs, and there is some relief for companies, middle income earners have reason to be upset.

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Chris Frame of Price Waterhouse says the man in the street is still relied on to provide the main tax base.

"They've looked after the indigent; they've looked after industry. The man in the middle has to pay for it."

The company tax rate has been cut by 2 percentage points: the individual marginal tax rate by 1 percentage point.

The reduction in the marginal rate of income tax — the maximum rate — is negligible in the light of "bracket creep" or fiscal drag.

As salaries rise to keep up with inflation, individuals are pushed into higher tax brackets although in real terms they are earning no more.

Moreover, at the same time as decreasing the rate, the government has cut the primary rebate for men — for married men from R2 100 to R2 000, for unmarried men from R1 800 to R1 625; the rate for married women stays the same, while the primary rebate increased by R100.

It could be argued that the decrease in company tax rate is offset by the tightening up on concessions, such as the phasing out of the last-in-first-out (LIFO) reserve, and a change in the method of calculating the debtors allowances. This will garner an extra R270-million tax.

R4-bn needed for parity of pensions

wol-AR64S 23/3/91

309 320

By BLAISE HOPKINSON
Business Staff

A WHOPPING R4 billion could be needed to achieve pension parity between black and white and to review the controversial means test, says a top Department of Finance official.

At this week's annual Nedbank/Old Mutual Budget Forum panelists debated the broad topic of the Budget and a contentious point remained the inequality of pensions.

Mr Tito Mboweni of the ANC's economics department, slated the government for not seeking total parity. He warned that "the African people are still coming last" in spite of Finance Minister Mr Barend du Plessis's pledge to narrow the gap between black and white pensions.

"The people still see this as a racist thing," said Mr Mboweni.

Professor Pieter le Roux, director of the Institute for Social Development at the University of the Western Cape, branded the lack of immediate parity as mistake. He said a further R1 billion would have been required in the present Budget to achieve pension parity and this "would have sent a very important signal to the townships".

"Gone further"

Mr Gerhard Croeser, director general of the Department of Finance said more than R4 billion would be needed to achieve parity for all the country's pensioners after a review of the means test.

Mr Mboweni welcomed the cut in defence spending but said it "could have gone down further".

He questioned where the added money for social services and education would be spent and commented: "It is a pity the Budget is still caught up in the framework of apartheid South Africa".

During the debate, the head of the Reserve Bank's economic department, Dr Jaap Meijer, lashed out at the Finance Minister's failure to tackle the structural economic deficiencies which had been pin-pointed by the former minister of Administration and Economic Co-ordination, Dr Wim de Villiers who died this month.

These deficiencies included the overall tax burden, the question of direct and indirect taxation and the government's overall share of the country's economy.

The director of the School of Economics at the University of Cape Town, Professor Brian Kantor, said he wanted to see the VAT rate rise at an inverse proportion to the tax on individuals.

He said VAT had led to an increase in the burden of direct taxation and added the government should have taken the opportunity of getting rid of the import surcharge — which he regarded as "a bad tax".

More and cheaper imports were required to increase competition within South Africa, said Professor Kantor.

He also accused the government of "taxing success" by imposing higher duties on beer.

Old Mutual's chief operating officer, Mr Gerhard ban Niekerk, said the Budget could herald a new growth phase as it offered some encouragement for investment. This budget was, he said, the first to separate the old from the "new" South Africa.

Cities march against VAT

W/C AR645 23/3/91 (320)

Weekend Argus Correspondents and Sapa

JOHANNESBURG. — Major cities around the country have joined forces to fight President De Klerk's version of a poll tax nightmare: the imposition of Value Added Tax (VAT) on municipal rates and services.

The city treasurer of Cape Town, Mr Eddie Landsberg, said delegations from the cities had prepared a protest memorandum to submit to Vatcom, the committee advising the government on VAT.

Mr Landsberg said the public would regard VAT on rates and services as a tax on tax, whether this was true or not. He suggested that local authorities ask the government for a kick-back in exchange for collecting the tax.

One delegate at the United Municipal Executive (UME) conference held in Cape Town said VAT on rates, especially in black areas, would be a recipe for revolution.

Mr Paul Asherson, transport and utilities chairman on the Johannesburg City Council's management committee, said: "Ultimately, when rates go up by 12 percent, we (local government) will be blamed. I absolutely oppose the idea of a tax on tax, and this certainly is what VAT on rates is."

He endorsed the reported attitude of the Durban City Council, which has called for a meeting of all residents. It was not out of the question for "this to become Mr De Klerk's poll tax nightmare".

Property tax replaced

(The British poll tax, a cornerstone of former Prime Minister Mrs Margaret Thatcher's socio-economic policy, was levied against every person over the age of 18. It replaced a property tax and was designed to help fund local government spending. The Conservative government said this week it would replace the tax.)

Mr Asherson said city councils must talk to the government in addition to getting residents to be active, perhaps by drawing up petitions.

"We understand that it is expensive to run a government, but they must be upfront about taxes. I don't mind redistribution — it is a very necessary thing — but it must be done upfront.

"It is us poor guys at the end of the line (local government) who will get sand kicked in our faces. We are becoming the government's tax collectors."

Mr Bruce Stewart, chairman of the Sandton City Council's management committee, said his council had made representations to the Transvaal Municipal Association (TMA) and the Municipal Institute of Treasurers and Accountants not to institute VAT on rates and taxes.

The mayor of Duduza, Mr Kebane Moloi, warned that VAT on rates in the black areas could spark boycotts similar to the rent boycotts, and black local authorities could not afford to apply the tax.

Motlana echoes warning

Dr Nthato Motlana, a Soweto community leader, echoed the warning that increased rates might lead to yet another rent and services boycott.

He said the government should consider exempting the poor, the disadvantaged and the unemployed from paying VAT on municipal rates and services.

The UME executive has been told that VAT on municipal services will mean a new burden on ratepayers and local authorities.

During a snap debate at the UME biannual meeting in Cape Town, Mr Dick Friedlander said: "New computer programmes and additional staff will be needed and, as with motor licences, we should be remunerated by central government for the service."

Mr Louwtjie Rothman said that only an "add-on" tax system like general sales tax could be beneficial to local authorities.

He also urged that regional services council levies be exempted from VAT.

Education campaign urged

Delegates also warned that the introduction of VAT on September 30 would heighten dissatisfaction in black communities.

■ A nationwide education campaign about the cost of municipal services was needed to encourage black local authorities to pay for services, the executive was told.

The UME viewed the non-payment of services by black local authorities in a serious light, said the president, Mr Zanus Immelman.

Professor J de Clercq of Mtunzini said a "multi-pronged" campaign was needed to combat the problem.

Pre-paid metering systems should also be considered for all municipalities not only black ones, he added.

VAT on rates: cities revolt

Star 23/3/91. (3.20)

SA version of hated poll tax?

PAT DEVEREAUX, JOVIAL RANTAO, SUE OLSWANG and SAPA

SOUTH Africa's major cities this week banded together to fight the imposition of Value Added Tax on municipal rates and services.

City councillors warned that VAT on rates could be for President de Klerk what Britain's poll tax was for Margaret Thatcher — a disaster.

Critics of the "tax-on-tax" have suggested there should be a huge public uprising against the move which could involve the organising of petitions "a million strong".

Black councils have warned that VAT on rates would be impossible to implement and could trigger a widespread rent and services boycott. One delegate to the United Municipal Executive (UME) conference, held in Cape Town, said VAT on rates would be a recipe for revolution.

Paul Asherson, transport and utilities chairman on the Johannesburg City Council's management committee, last night said he was glad there had been a decision to fight VAT on rates and services.

"Ultimately, when rates go up by 12 percent, we (local government) will be blamed. I absolutely oppose the idea of a tax on tax."

Mr Asherson said city councils must talk to the Government and encourage residents to actively oppose the move, perhaps through petitions.

"I would like to take one million signatures to Barend (Finance Minister Barend du Plessis) and Mr de Klerk. They must be made to know how unpopular this will be."

He supported the attitude of Durban City Council, which called for a meeting of all residents, and warned it was not out of the question for "this to become Mr de Klerk's poll tax nightmare".

The British poll tax, a cornerstone of Margaret Thatcher's policy, was abolished this week. The tax replaced municipal rates and had been levied against every person over the age of 18. It was widely believed to have been a major factor in Mrs Thatcher's downfall.

Cape Town's city treasurer, Mr Eddie Landsberg, said delegations from the big cities met on Tuesday and had prepared a memorandum to submit to Vatcom.

He said the public would regard VAT on rates and services as a tax on tax, and suggested local authorities ask the Government for a kick-back in exchange for collecting the tax.

The kick-back could be phased out over three years and used to soften the impact of VAT on rates of about 9 percent. VAT and the normal annual increases are expected to push up rates by more than 20 percent this year.

Bruce Stewart, chairman of Sandton City Council's management committee, said his council had made representations to the Transvaal Municipal Association (TMA) and the Municipal Institute of Treasurers and Accountants not to institute VAT on rates.

He said: "We will continue to oppose it, and will probably follow the lead taken by other cities by grouping together.

"My personal view would be that petitions won't serve much purpose, except to indicate a massive viewpoint. I think negotiation on a professional level by an organised body would be more effective. A massive public uprising in conjunction with representation by councils would be a good two-pronged approach."

Mr Stewart agreed that the issue had the potential to become Mr de Klerk's poll tax nightmare.

The mayor of Duduza, Mr Kebane Moloi, warned that VAT on rates in black areas could spark further rent boycotts.

"We would like to increase our income ... to improve our areas, but we cannot afford to collect the Government's taxes for it.

"We would have to face the wrath of citizens if we increased rates or rents by more than R5."

Dr Nthato Motlana, a Soweto community leader, said the Government should consider exempting the poor and the unemployed from paying VAT on municipal rates and services. "They simply cannot afford it."

Taxpayers come off worst again

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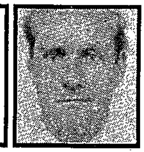
Star 23/3/91

Money Matters

MAGNUS HEYSTEK



IF this was a "neutral" to "slightly stimulatory budget" as most economists prematurely thought, I don't want to see a restrictive Budget. It took most commentators about two whole days to realise that this was a dreadful blow to individual income taxpayers.

Coupled with the final phasing in of the fringe benefits tax on housing, which will cost another R250 million, as well as having to pay VAT on a much wider range of goods and services, individuals will have significantly less money in their pockets at the end of each month.

It has been estimated that the average household will pay about R300 more a month after the introduction of VAT later this year.

Government originally budgeted for an increase of over 30 percent in revenue from individual taxpayers, from R22 billion to R28,8 billion, but relented and gave back just over R700 million in the form of a slight reduction in the marginal tax rates.

But the end result still remains a massive surge in personal taxation. It shows once again that fiscal drag, otherwise known as bracket creep, still remains the government's most powerful wealth redistribution weapon.

By keeping the top marginal level unchanged at R80 000 it means that significantly more people have moved up into higher tax brackets, paying an ever-increasing portion of their gross income over to the Receiver of Revenue.

South African individuals are rapidly gaining the distinction of being the most-heavily taxed people in the world.

Only 10 years ago Government sourced about 20 percent of its total tax revenue from individual taxpayers. In the 1989/90 tax year it reached 30 percent and last year it rose further to 32 percent.

In the current tax year it is set to increase to 38 percent and could even reach 40 percent if the pattern of revenue-overruns is continued this year.

This is a near-doubling in 10 years. And government officials have the audacity to say that they have lowered income taxes.

In the case of the gold mining industry the contribution is substantially less. In 1980/81 tax revenue from gold mines constituted more than 10 percent of total revenue. This year it will be less than one percent. Companies have also been paying a steadily declining contribution to state revenue as a result of lower profitablity as well as many loopholes and tax concessions over the years.

The question to be asked is, where else can the money be forthcoming if not from individuals? Any increases in excess of current levels will surely lead to a tax revolt.

The Minister of Finance, Mr Barend du Plessis, gave a hint of things to come when he increased the excise duty on a wide range of consumables like beer, spirits, cigarettes and tobacco. This is set to increase substantially in years to come. The ratio of excise duty to total revenue has been steadily declining in recent years; from 12,3 percent in 1978/79 to current levels around 4,5 percent.

The liquor and tobacco industries can prepare themselves for further tax increases as we move deeper into the New South Africa.

While on the NSA, it is worth mentioning the comment made by Mr Jan Steyn, chairman of the Independant Housing Trust during a post-budget seminar on government's effort to reduce the disparity between the wealthy and the poor in South Africa.

"The same exercise was launched by the United States of America during the early sixties. Billions of dollars were pumped into housing, education and general social upliftment.

"Today, the disparity between the rich and the poor is greater than ever", he said.

Barend could set the wedding bells ringing

Star 23/3/91

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DEREK TOMMEY

THIS year's Budget could set the church bells ringing.

Ardent lovers who have been refusing to get married because they could not afford to pay the higher taxes that would result, have had the ground cut from under their feet.

The argument that where income tax was concerned it was cheaper to remain single than get married is no longer valid.

Changes announced this week in the method of taxing married women will significantly reduce the tax that will be paid by a married couple compared with two single people.

There is no doubt that for many years working couples had good reason to defer marriage as one results of wedded bliss would have been a considerable increase in the tax they would have to pay.

In the past few years there have been several significant changes in the way married women have been taxed. The introduction of SITE was a major move and this was followed by changes in tax rates, and this week by the announcement that married women would be taxed completely separately from their husbands.

The main effect of this change is that a wife's investment income will no longer be added to the husband's income. Therefore it will no longer be taxed and taxed at what in most instances would be a much higher marginal rate.

Making this change even more effective is the fact that a wife's maximum marginal tax rate will be below that of the husband's. Her rate will be 38 percent while the husband's marginal tax rate can rise to 43 percent.

This process will be further helped by the fact that the R2 000 in interest payments which are exempt from tax will now apparently apply to both husband and wife, which effectively doubles the value of this concession.

The following examples shows how the changes in the tax system significantly reduced the tax paid by a married couple where the husband earns R5 000 a month and the wife ernings R2 000 a month.

If the system which was in force before SITE were still applicable today, this couple with have a joint income of R84 000 and would have to pay R25 860 in income tax.

If they had not married and were taxed as single people, their joint tax bill would have been R22 806, so there would have been a saving of some R4000 a year in income tax.

But with the wife's income now taxed competely separately from the husband their joint tax bill will be R20 462. Marriage, therefore, will result in a saving of some R2 400 a ear.

If the wife had an investment income of R3000 a month as well as an income

from her job of R2000 a month and the husband continued to earn R5 000 a month, their joint tax under the system in force before the Budget would have been R34 698.

But because the the wife's investment income will now be taxed in her hands, their joint tax bill will now be R33 396 - a saving of some R1 300.

If this couple had not been married and were both taxed as single persons, their joint tax bill would be R35 698.

All told, it seems that marriage could be worth about R2 000 a year in tax savings. This may not appear much of an incentive — but no one can say any longer than income tax is a disincentive to matrimony.

Guide to VAT ins and outs

S Times 24/3/91

Business Times Reporter

SOUTH AFRICA faces one of the biggest mass training exercises in its history as VAT day approaches.

Companies cannot delay in getting people and systems geared up for September 30, says Deloitte Pim Goldby's Anne Bennett, who is spearheading the firm's VAT education programme.

"We are concerned because few companies appear to have a defined VAT training programme.

"Any business whose staff are not conversant with VAT by September 30 could experience not only chaos resulting from inefficient administration but financial detriment caused either by overpayments of VAT due to ignorance or inefficiency.

"A business whose staff members understand VAT can only benefit."

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Examples

Responsibility for the smooth transition from GST to VAT will make heavy demands on training resources, administrative management and staff members. To enable organisations to begin training Deloitte Pim Goldby developed VAT Tutor, a computer-based learning programme.

"No computer experience is necessary. Our objective is to teach and not merely to convey information. VAT Tutor has built-in teaching skills ensuring that it is interesting to work with and that knowledge will be retained."

Several organisations have been using VAT Tutor for the past few months.

"Designed for use by individuals or small groups, the programme is interactive with the accompanying workbook, and includes practical examples. It allows users to work at their own pace and gives encouragement and feedback at every step."

VAT Tutor's 10 disks cover a variety of business activities, including salaries, tax, data processing, import-export and financial management. It also deals with the mechanics of VAT.

BUDGET 1991

The first steps to growth economy

S(Times 24|3|91 (320)

THE BUDGET marks the start of a long haul back to a growth economy better able to meet the demands of job creation.

By IAN SMITH

There is little comfort for the individual taxpayer because his contribution to will increase through bracket creep.

Individual tax collections will increase by R7-billion this year, largely from the middle-income earner.

There is also a belief that VAT's introduction on September 30 will increase the cost of living, both by its wider spread and the likelihood that cost savings will not filter quickly through to the consumer.

This, however, may well be temporary because the disappearance of the tax "cascading", which has been a feature of GST, should have a major impact on prices.

Stability

The removal of capital and intermediate goods from the sphere of VAT should also have a fairly quick effect on end prices.

Business has generally welcomed the fact that increased social spending could lead to more stability, with important implications for renewed foreign investment in SA.

Louis Geldenhuys, a partner in stockbroker Senekal, Mouton & Kitshoff Inc, says that in itself the Budget is unlikely to genuinely support economic growth in the short term.

"In the absence of favourable international developments the economy cannot be expected to enter a meaningful and sustained growth phase before we are well into 1992.

"But, in the longer term, business confidence will be favourably influenced by the fiscal discipline and lower nominal tax rates. This may, however, be neutralised by a high personal tax burden and still no real incentive to save," says Mr Geldenhuys.

The reduction of the company tax rate from 50% to 48% — the first step to a goal of 40%, said Finance Minister Barend du Plessis — has not gone a long way to bringing SA in line with its major trading partners. But the US and UK are down to 34%.

Offset

The reduction of the top personal tax rate from 44% to 43% will be largely immaterial, says Ernst & Young partner Sally de Bloor.

"It is partly offset by the reduction in primary rebates and the little that is left will be totally offset by the effects of fiscal drag, or bracket creep," she says.

Mr Du Plessis says inflation remains a high priority, with a target of 12% by the end of the year.

He places his confidence in five major steps — minimal real growth in spending, no pressure on interest rates, the fact that the deficit before borrowing is being soundly financed, VAT credits to be granted on capital goods and intermediate goods, and the cut in the import surcharge from 10% to 5%.

But not many in the private sector are so sure that inflation can be brought down to 12%.

Mr Geldenhuys says that on balance, customs and excise duties have gone up although the additional fuel levy will not be reflected in higher prices because of lower international oil costs.

VAT at 12% will be lower than GST's 13%, but he says the switch is still likely to have an adverse effect on the consumer price index, largely because of the composition of the index.

"The Budget contains nothing that will really reduce inflation, but by the same token nothing can be identified that will boost inflation."

A review of the Budget by Metropolitan Life economists says that the introduction of VAT at 12% will add at least 0,7% to the inflation rate alone. Food and some services previously exempt from GST come into the VAT fold.

"There is always the danger that VAT, as is the case with any new tax, will be used as an excuse to increase prices."

Miss De Bloor says VAT is payable on a much wider range of goods and services, including rates, water and electricity charges, short-term insurance, medical services and most food.

"The Minister is placing great reliance on the fact that the VAT input credit system will reduce production and distribution costs, leading to a fall in consumer prices.

Convincing

"But the average person will be sceptical of business' willingness to pass benefits on to the consumer," she says.

The Metropolitan Life review says the deterioration of the rand against the currencies of SA's major trading partners is likely to nullify the relief of the removal of the import surcharge.

Although the rand appreciated by 1% at an annualised rate from December 1989 to February this year, it depreciated against the currencies of the three major source countries.

It fell against sterling and the yen at 19,6% a year in the same time and it depreciated by 12,2% against the mark, the major import supplier's currency, from January 1990 to February this year.

"It is therefore clear that the cost of imports is rising and relief on import surcharges is not enough to eliminate imported inflation."

Metropolitan Life says arguments for higher social spending in a recession can be convincing.

"The Budget has gone a long way to address some of the most sensitive social issues, but shortcomings can be found in the inability of the Budget to address inflation and the dismal savings picture.

"Brave steps to tax reform were taken, but it is unfortunate that VAT was introduced at such a high rate, given the rather large deficit before borrowing, the use of strategic reserves for current expenditure and off-Budget expenditure of R1,8-billion."

The review says the Budget is stimulative in spite of tax increases and the Government's hope of getting inflation down to 12% does not look likely.

It criticises the pattern of underestimating revenue receipts that has been followed in the past three years and allowing fiscal drag to bring in more money than was budgeted for, spending the surplus and borrowing off-Budget the next year.

"This state of affairs should not be allowed to continue as it is a most inflationary practice and conceals actual expenditure," says Metropolitan Life.

WRAP-UP

All smiles as struggling gold mines get tax relief

S/Times 24/3/91 (320)

KEN WALTON: Hardly surprising that they're so happy

Business Times Reporter

IF ANYONE is smiling after the mixed Budget, it should the battered mining industry.

For the first time in years it will be a major beneficiary of Mr Du Plessis' package to encourage industry and boost job creation.

The relief comes at the right time for the gold-mining industry in particular. It has been squeezed by sharply rising production costs and a depressed gold price.

Four small mines have closed or been put into mothballs. Only two of the world's lowest-cost gold producers are South African and the Chamber of Mines has warned that up to 40 000 jobs could be lost in the industry this year. Thousands have already been laid off.

At least 17 big producers are not breaking even at the current gold price and three others are vulnerable at between $340 an ounce and $350. At least another 12 small mines are just in the balance.

One of the biggest gains for the industry will come from the change in mining income tax.

Mr Du Plessis surprised the industry when he announced that the Marais committee's proposals on mining taxation, which had been due to be phased in over several years, would be put into full force this year.

The Government expects to collect in aggregate 20% less tax from gold mines, although this is largely because of lower profits, says Ernst & Young tax partner Ken Walton.

The reduction of the maximum theoritcal marginal rate to 57,95% will cost the Government about R15-million.

Sums

The loss of revenue from other mines will be about R34-million because of the reduction in the basic rate and the surcharge. The maximum marginal rate for these mines in now 50,88%, says Mr Walton.

Gengold's Gary Maude says the tax changes will not have a big impact on mines in the group.

"Basically, the more profitable mines will pay a little less tax, while the more marginal ones will pay a little more.

"We have done our sums and our less-profitable producers will pay between R100 000 and R200 000 more a year."

Mr Maude says the biggest disappointment is that Mr Du Plessis did not touch on ring-fencing.

"Basically, the industry needs to be encouraged to develop mines, and if we had reverted to the old tax structures covering new mines development would have got moving again."

Chamber of Mines president Clive Knobbs welcomes the decision to fully implement the lower rate of formula tax for gold mines and the continuing commitment to reducing the surcharge payable by non-gold mines.

This has been cut to 6% on the lowered rate of company tax.

"We also welcome the fact that the Government remains committed to reducing the rate of inflation which has had a particularly adverse effect on mine working costs over the years," says Mr Knobbs.

Mines will also benefit from the cut in import surcharges from 10% to 5%. Many mines which decided to switch the emphasis to mechanical mining in an effort to control cost increases were seriously hit when the import surcharge was introduced because much of the sophisticated equipment is imported.

"Mines can also look forward to the total removal of the surcharge before too long," says Mr Walton.

"Paradoxically, the yield from the import surcharge is excpected to rise by nearly 4% to R2,16-billion in the current year in spite of the reduction of the rate on capital and intermediate goods."

He says the most welcome news for the mines is that they will be able to claim a full credit for the input tax paid on capital purchases.

"It was expected that the credit would be phased in over four years, which would have complicated accounting for VAT."

Mr Walton says VAT has another big advantage over GST for the mining industry.

Safety

Exemptions from GST are essentially limited to purchases of safety equipment, explosives and certain repair and maintenance services.

"It has been estimated that these exemptions represent less than 20% of working costs. When VAT comes into effect a full credit will become available for all mining stores.

"The result is that gold and exporting mines will receive a significant VAT refund each month from the Receiver. It's hardly surprising the mining industry is happy," says Mr Walton.

Motor industry to protest at VAT ruling on company cars

S/Times 24/3/91.

(320)

SPENCER STERLING: Pragmatic and positive approach

By IAN SMITH

THE MOTOR Industries Federation (MIF) is to seek urgent talks with Finance Minister Barend du Plessis about the Budget ruling that company cars will not qualify for VAT exemption as capital equipment.

The ruling has come as a blow to the motor industry, which reckons that 80% to 85% of new cars are sold to companies. As it is, the industry is not looking for much change from the forecast sale of new cars this year of about 204 000 to 205 000.

The industry was looking at a major boost if new cars qualifed for exemption from VAT, which is being introduced on September 30 at 12%.

Vatcom, the body made up of private and public representatives which was set up to advise on the introduction of the new tax system, accepted an MIF recommendation that cars bought by companies should be treated as capital equipment, which would have meant they were not subject to VAT.

But Mr Du Plessis' Budget has drawn them into the net.

As an economist says: "It would have looked strange to the worker paying VAT on his loaf of white bread while his boss drove off in a VAT-free Mercedes-Benz."

MIF executive director Vic Fourie says the organisation argued for company cars to qualify for input credits under VAT.

"We thought this was logical, and our argument was accepted by Vatcom."

National Association of Motor Manufacturers president Spencer Sterling says the decision to deny an input credit in respect of company cars means that corporate vehicles are placed in a different category from other capital goods.

However, the decision will ensure that new-vehicle sales before the introduction of VAT will — unlike other capital goods — not be affected by the inevitable deferment or staggering of capital expenditure.

Mr Fourie says the MIF is concerned about the effect the high level of VAT will have on disposable incomes.

"The used-vehicle market is highly dependent on the salary earner, and VAT will have a serious effect on disposable incomes."

But motor dealers are relieved that second-hand car sales will attract VAT at a "notional" levy — 12% of the mark-up on the price of the vehicle.

Mr Fourie says that in effect this will be about 1% to 1,5% of the price of a vehicle — "but that is very little compared with the peace of mind that comes from buying from an established dealer".

The motor industry expected an announcement on the possible introduction of a simpler and more equitable basis of taxation of the fringe benefit of a company car, along the lines of that applicable in West Germany which involves a standard rate of 1% a month of vehicle cost.

The fact that it was not mentioned means that Naamsa assumes the current framework for fringe benefit taxation of company cars will remain unchanged for the time being.

Mr Sterling says that overall the budget represents a sincere attempt by the Government to deal with, in a pragmatic and positive manner, the many challenges facing a society and an economy in transition.

At the same time, Mr Du Plessis' speech correctly identified the limitations on SA's economic growth rate brought about by sanctions and disinvestment as well as the continuing high level of domestic inflation, the country's poor record of productivity and the actions and statements of various labour and political organisations.

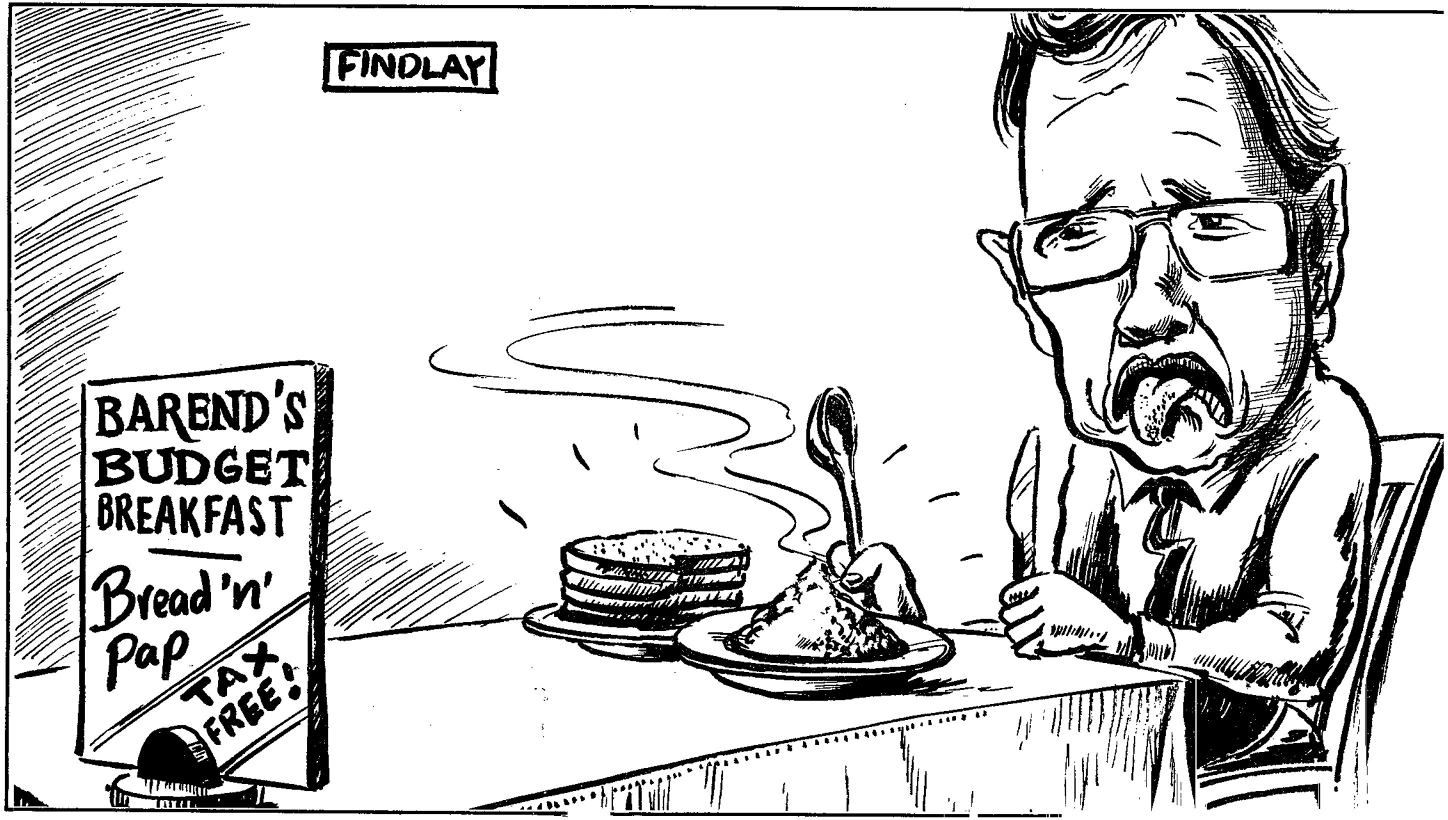
■ VAT set at 12% ■ Rebates reduced ■ Less company tax

Making the rich richer

Golden chance missed to right wrongs

320

C/Press 24/3/91.



LAST week's Budget by Finance Minister Barend du Plessis was expected to be the last Budget of an all-white parliament and also the first Budget for a 'new South Africa'.

Instead Du Plessis's Budget at best allows the government to give with one hand and take with two hands and at worst discriminates against the poor, the majority of which is black.

He has closed his eyes to South Africa's economic problems – nearly all of which lie at the door of the National Party headquarters – and penalised the nation's poor through the tax system to allow the rich to continue to enjoy the fruits of apartheid.

The poor will get little or nothing from this budget, as at this time of high unemployment and poverty Du Plessis has decided to introduce a VAT rate of 12 percent.

C/Press 24/3/91

The tax on individuals may have been reduced by one percent, from 44 percent to 43 percent, but this reduction is very little and will not encourage taxpayers to save and invest.

The primary rebate has been reduced from R2 100 a year to R2 000 a year for married people, and for unmarried peoplefrom R1 800 to R1 650 a year.

The only advantage of this Budget is that the government has finally abolished the unwanted joint taxation system.

From now on all income earned by married women, whether employees or self-employed, will be taxed separately from that of their husbands. The primary rebate for married women has however been increased from R700 to R800 a year.

In this respect the Budget has been beneficial to married women, black and white.

Company tax has been reduced from 50 percent to 48 percent.

In theory this means the budget will

Tax adviser Matsheru Matsheru told ZB MOLEFE the government lost a golden opportunity to right South Africa's economic wrongs by delivering the budget it did.

encourage economic growth, job creation and investment.

Remember it has been proved that high tax rates do not encourage people to work hard and also discourage ambition.

The reduction in company tax was included in the Budget to enhance initiative, encourage growth and thwart (white) migration and capital flight.

I don't however subscribe to the theory that reduced tax rates will automatically lead to economic production and growth. There is more to economic growth than merely reducing tax rates.

Recently black business complained that it is faced with 'red tape' when applying for loans. How do you use the reduced tax rates (in the Budget) to encourage people to enter into economic activity when they can't get money – quite possibly because of the colour of their skin?

Secondly, there is

Matsheru Matsheru . . . budget blues.

the violence in the black townships. This will discourage foreign investors from setting up companies in South Africa – even if tax rates have gone down.

How do you use tax reduction to encourage foreign investment in a climate of violence caused by the cruel government policy of apartheid?

One is also aware that nowadays white South African companies are fraudulently using the tax laws as a scapegoat for their lack of growth.

In this Budget the government announced that marketable security tax would be phased out within three years (this is the tax levied on dividends at the Johannesburg Stock Exchange).

The motive here is to encourage economic growth by increasing freedoms at the Stock Exchange. But this only helps the rich, as it is predominantly the rich who trade at the Stock Exchange.

■ Value Added Tax (VAT): the government will not levy tax on only two things – ground mielie meal and brown bread.

This, as with the Budget in general, is an insult to the poor.

What South Africa needs is a tax bill of rights to protect the taxpayer.

VAT blues will hit the average earner

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C/Press 24/3/91

By LUCAS DE LANGE

GIVEN South Africa's difficult economic conditions, the past week's Budget can be described as a fair effort to address some of the most burning issues in our society.

At the same time, every citizen should prepare for the expected severe effect of Value Added Tax (VAT) from October 1. Almost every item consumed, ranging from medicines to the cheapest beef cut, will be affected by VAT.

At the same time, most of those who are employed will be paying higher personal tax because of so-called fiscal drag. This means that an upward adjustment in a pay packet, in an endeavour to relieve the effect of the high inflation rate of almost 15 percent, will land many tax payers in a higher tax bracket.

This means that the general standard of living will decline unless employees are able to squeeze a 20 percent-plus increase out of employers. This is becoming more difficult by the day because so many commercial and mining companies are struggling with declining profits or even going into liquidation.

In fact, with the numbers of unemployed swelling rapidly, the main tax base for government revenue is taking quite a knock. This is one of the reasons why the Receiver of Revenue will be collecting more revenue from those who do have an income.

One of the most positive utterances by Finance Minister Barend du Plessis was his estimate that more than 90 000 poor families could be helped to obtain homes during the current fiscal year. This would be a new record for South Africa and is an indication that the massive backlog in black housing will at last be tackled meaningfully.

The most tragic item in the Budget is the massive increase in the cost of local protection services. With the Angolan war now well behind us, the Defence Force effectively needs, according to the Minister, about R3,6-billion less. But the high incidence of violence and rising crime compelled him to allocate most of this "saving" to the police to combat this trend. Crime, especially against property, always increases during recessions.

Unfortunately, one cannot say that the Budget will stimulate economic growth. At best one can say that it creates a climate in which the waning confidence of the business community could receive a mild boost. Du Plessis estimates that the economy might again turn positive towards the end of the year or early next year.

He lamented the continuation of sanctions, especially America's refusal to allow South Africa access to money from the International Monetary Fund at a time when the price of our most important export product, gold, is under such severe pressure.

Du Plessis' decision to exclude capital and intermediate goods from VAT should have a positive effect on prices over the long term, but it is doubtful whether manufacturers and others are going to pass on any benefits to the man in the street. As profits decline, they can be expected to pocket all savings to bolster the health of their businesses.

Many economists were disappointed that Du Plessis was unable to really address the question of high inflation and other structural problems. South Africa's savings rate is now among the lowest in the world, and statistics show this is not due to an unwillingness on the part of the populatiom to save.

Indications are that savings have been dropping because the government was grabbing this money in the form of higher taxes.

In his speech Du Plessis repeatedly emphasised that he was not going to allow unreasonably high taxes to stifle economic growth because the productive part of a population, if overtaxed, tends to become unwilling to take risks – by starting new businesses for instance – because there would be little reward.

Yet the fact is that South Africa's personal taxes are among the highest in the world. Du Plessis' decision to drop the top rate by one percent to 43 percent helps only the real fat cats at the top of the income ladder.

One can, nevertheless, say that it is a good budget, given the prevailing circumstances and the difficult times ahead for all of us.

Du Plessis seems to have reasonably maintained fiscal responsibility and discipline, while at the same time shifting resources to a greater extent towards the poorer section of the population.

VAT will lessen the tax burden, says Org Marais

Argus 25/3/91 320

JOHANNESBURG. — To be just and neutral, a consumption tax must apply to both goods and services.

This was said yesterday by the deputy Minister of Finance, Dr Org Marais, in reaction to criticism of the proposed value added tax (VAT) on municipal property taxes.

He also expressed concern about an impression being created that VAT would place an additional burden on consumers. He said on the contrary, VAT had to inevitably lessen the taxpayers' burden.

Dr Marais said criticism of VAT on municipal property taxes ignored the important taxation principle: to be just and neutral.

He emphasised that GST was "essentially unjust" as it taxed goods but not services.

"Research has shown that higher-income households spend more on services than less privileged people. But because GST does not apply to services, higher income households spend relatively less on sales tax than do the needy. VAT eliminates this anomaly by taxing goods and services."

He said the allegation that VAT on property rates amounted to double taxation was erroneous.

"Despite the popular term 'rates and taxes' municipal 'tax' is in fact a fee which residents pay for municipal services such as roads, traffic control, clinics and parks."

"Municipalities provide goods and services, the value of which has to be financed, for instance by means of levies, service charges or community taxes."

He said VAT on municipal services was nothing new.

"Already much GST is hidden in the fees residents pay their municipalities. We should bear in mind that municipalities pay GST on between 25 and 30 percent of costs.

"Municipalities finance these costs by among others, property rates and taxes. The fees which municipalities charge already comprise a GST component of about four percent."

Moreover, allegations that VAT would increase property tax by the full VAT rate of 12 per cent, were unjustified.

"Municipalities pay GST on a wide range of inputs. In terms of VAT municipalities will be able to claim the taxes they pay as an input credit.

"What appears to have been overlooked is that municipalities ought to pass on to consumers the benefit of input credit which municipalities will enjoy under VAT.

"Passing on these cost advantages will also benefit the business community, enabling them to pass the benefit of lower costs on to consumers."

Such benefits however would not materialise if municipal rates were to be exempted from VAT.

"Should a municipality fail to obtain sufficient income to cover its input tax, it would have to increase its fees, levies, rates or 'taxes'.

"City councils have already stated publicly that if property rates were to be exempted from VAT, a major administrative and cost burden would ensue, which they would have to recover from ratepapers."

Dr Marais said due to deregulation and privatisation the private sector was beginning to compete with municipalities.

"While we are supporting this trend towards more free competition, it would be anomalous to exempt municipal services from tax, yet continue to tax the private sector."

He expressed concern about an impression that VAT would be an additional burden for consumers.

"Thanks to VAT R1 billion less tax will be paid.

"The removal of double taxation on capital and intermediate goods of R7 billion will drastically reduce business costs — and VAT is one percent lower than GST.

"VAT may reduce the retail price index to up to eight percent; the precise figure will be determined by the extent at which business will pass VAT benefits to consumers." — Sapa.

Taxes: government moves away from Margo

B/Day 28/3/91.

SHARON WOOD

THE rising trend in revenue collected from direct taxes and falling indirect tax revenues expected this fiscal year are contrary to the Margo Commission recommendations.

The 1986 Margo Commission recommended that greater reliance be placed on broader-based indirect taxes, while reducing the personal income tax burden.

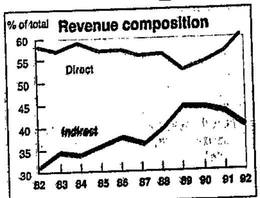
George Huyshamer economist Louis Geldenhuys told a Sacob Budget seminar on Friday that the personal income tax burden would continue to grow during the 1991/92 fiscal year in real terms, while indirect taxes would fall further.

This was a reversal of the trend established from 1982 to 1989, when a gradual reduction in the revenue from direct taxes occurred and revenue from indirect taxes rose relatively strongly.

Finance Department chief director Viv Solomon said changing political and economic circumstances since the Margo Commission report meant government could no longer be totally true to the ideals set out in the report in 1986.

In the Budget, government remained true to its commitment to reduce the maximum marginal rate of tax (MRT) over the next five years, but it failed to compensate for fiscal drag.

High inflation, therefore, would push individuals into higher tax brackets, leaving them worse off in real terms, despite a 1% reduction to 43% in the MRT. 320



Graphic: LEE EMERTON Source: SENEKAL, MOUTON & KITSHOFF

Marais replies to criticism of VAT

JOHANNESBURG. — To be just and neutral, a consumption tax must apply to both goods and services.

This was said yesterday by deputy Minister of Finance Dr Org Marais in reaction to criticism of the proposed VAT on municipal property taxes.

He also expressed concern about an impression being created that VAT would place an additional burden on consumers. He said that on the contrary, VAT must inevitably lessen the taxpayers' burden instead of adding to it.

Dr Marais said criticism of VAT on municipal property taxes ignored the important taxation principle to be just and neutral.

He emphasised that GST was "essentially unjust" as it taxed goods but not services.

"Research has shown that higher-income households spend more on services than less privileged people. But because GST does not apply to services, higher-income households spend relatively less on sales tax than do the needy. VAT eliminates this anomaly by taxing both goods and services on the same basis.

"Already much GST is hidden in the fees residents pay their municipalities." — Sapa

Business scores

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By Tom Hood Star 25/3/91

More than R5 billion was given to companies in this year's Budget in a pump-priming bid to get the economy going and create more jobs.

Business will derive huge benefits from the introduction of VAT because VAT on capital and intermediate goods will be rebated fully, a saving estimated at R4 billion in a full year.

The 2 percent cut in company tax from 50 to 48 percent will cost the revenue R368 million.

Another R756 million saving for businesses will flow from the lowering of import surcharges on capital and intermediate goods.

The Governor of the Reserve Bank, Dr Chris Stals, described the concessions to the corporate sector as "most probably the major incentive for enhanced economic growth incorporated in this Budget."

The cost of replacing plant, machinery and other capital goods will be slashed by 13 percent. Businesses have had to pay 13 percent GST on their purchases but they will now get a refund of any VAT paid.

The concession will cut costs dramatically and help exporters and could help to lower inflation.

"This is a major concession and it will save millions and millions over a year," said Cape Town tax consultant Franco Vignazia at KPMG Aiken Peat. "It will reduce the cost of goods produced and encourage businesses to invest again."

The VAT zero rating of exports would make South African produced goods and services more competitive internationally.

Taxpayer loses

(320)

Star 25/3/91

By Sven Lünsche

Economists at the Econometrix research institute have taken issue with Finance Minister Barend du Plessis' contention that the introduction of Value Added Tax will bring down the inflation rate.

In their analysis of the Budget the economists at the institute contend that VAT will actually raise the average cost of consumer goods by almost four percent.

This is on top of what Econometrix estimates will be a two percent decline in real personal disposable income over the 1991/2 fiscal year.

Dr Azar Jammine . . ."Whopping tax burden."

Disposable income

Econometrix's Tony Twine in his analysis says that although income from VAT is estimated by the fiscus to be only R1 billion below the amount GST would have delivered for a full year, "our calculations suggest that the price of the average consumer basket will increase by about 3,9 percent immediately upon the transition to VAT".

In his Budget speech Mr du Plessis suggested that VAT could reduce the inflation rate by two percentage points upon its introduction, as a result of total savings of R4 billion by companies through the input credit for intermediate and capital goods.

However, Mr Twine counters: "It will take some time for any benefits to flow to the consumer from the removal of the GST cascade and mutliple taxation effects."

Scepticism

The chief economist of the institute, Dr Azar Jammine adds: "Given SA's highly concentrated industrial structure one cannot but be sceptical whether such cost benefits will be passed on to the consumer rather than be used to cushion companies from higher pay awards."

Turning to the expected performance of consumer income Econometrix contends that real disposable income could increase by about 10,4 percent in nominal terms this year, which, given an expected inflation rate of between 12 and 13 percent, results in a real decline of two percent.

Only benefit

Largely to blame for this is a 27,6 percent rise in budgeted personal disposable income in 1991/2, says Dr Jammine.

The cut in the top marginal rate from 44 to 43 percent was the only tax benefit awarded to consumers and amounted to mere one-fifth of the tax reduction announced in last year's Budget, he adds.

"The whopping rise in the burden of tax borne by the individual from 32,7 percent of total revenue last year to a budgeted 37,5 percent this year is stunning not only in its magnitude but in that it hits the lower to middle income group hardest once more," Dr Jammine says.

"Persons in the R10 000 to R50 000 salary bracket end up paying one to 1,5 percent more tax on average, but those earning over R150 000 end up with a reduced average tax rate.

"Taken in conjunction with the increased tax burden on the lower income group implicit in VAT, one finds it difficult to accept the premise that from the tax angle this is a redistributive Budget," he concludes.

as James ...
Captain Phillips (42), separat- ment for ser...

VAT on rates not unjust, says Govt

(320)

Star 25/3/91

Staff Reporter

The revolt by the country's cities over the payment of value added tax (VAT) on municipal rates was yesterday criticised by Deputy Finance Minister Dr Org Marais.

He said the claim that VAT on property rates amounted to double taxation was erroneous. He said there had been no municipal taxes before VAT — payments were merely a fee residents paid for services.

This was classified as "goods and services" and therefore VAT — at 12 percent — could be levied, he said.

The United Municipal Executive conference in Cape Town last week decided to fight the imposition of VAT on rates and services, and delegates warned that such taxation could be a disaster for the State President.

Apply

Sandton Town Council has made representations to the Transvaal Municipal Association and the Municipal Institute of Treasurers and Accountants.

Dr Marais said the critics of VAT on municipal rates were ignoring an important taxation principle — "to be just and neutral, a consumption tax must apply to both goods and services" — and emphasised that GST, which taxed goods but not services, was essentially unjust.

"Research has shown that higher-income households spend more on services than less privileged people but because GST does not apply to services, higher-income households spend relatively less on sales tax than do the needy.

"VAT eliminates this anomaly by taxing both goods and services on the same basis."

Dr Marais said the introduction of VAT on municipal services was nothing new.

"Already much GST is hidden in the fees residents pay their municipalities. We should bear in mind that municipalities are already paying GST on between 25 and 30 percent of their costs. They finance these costs by, among others, property rates and taxes.

"What appears to have been overlooked thus far is the fact that municipalities ought to pass on to consumers the benefit of input credit which municipalities will enjoy under VAT.

"Passing on these cost advantages will also benefit the business community, enabling them to pass the benefit of lower costs on to the consumers."

Such benefits would not materialise if municipal rates were to be exempted from VAT.

Should a municipality fail to obtain sufficient income to cover its input tax, it would have to increase fees, levies, rates or "taxes" to cover costs.

City councils had already stated publicly that if property rates were to be exempted from VAT, there would be a major administrative and cost burden which they would have to recover from ratepayers.

"As a result of deregulation and privatisation, the private sector is beginning to compete with municipalities. While in South Africa we are supporting this trend towards more free competition, it would be anomalous to exempt municipal services from tax, yet continue to tax the private sector."

Dr Marais said he was concerned that an impression was being created that VAT would place an additional burden on consumers.

"Thanks to VAT, R1 billion less tax will be paid than currently," he claimed.

Shops set for rush on meat

Star 26/3/91 (320)

Supermarkets expect a rush on red meat before VAT is introduced on September 30.

Raymond Ackerman from Pick 'n Pay said he expected buyers to begin stocking up on all perishable goods — such as red meat — that were now exempt from tax but would be subject to 12 percent VAT.

He did not expect this to happen before September, and said red meat prices would be kept down as much as possible and for as long as possible.

Serge Martinengo, MD of Checkers, also expected a rush on red meat in his group.

He said the company would continue to negotiate the best prices possible. He also expected prices not to increase drastically for three months after the introduction of VAT.

A spokesman for the Meat Board expected an upswing in sales, but believed most people did not have enough disposable income to be able to buy R500 to R1 000-worth of meat in one go.

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As anger over VAT grows, here's how to scrap it!

TAXPAYERS have been enraged by discoveries that promises of income tax cuts in the 1991 Budget were a mirage. Rows about VAT have added to the furore. The Ecometrix think-tank believes the only answer to the tax revolt is a universal tax based on a simple flat rate that wipes out distortions. MICHAEL CHESTER of The Argus Business Staff reports from Johannesburg.

ANY smiles that may have been inspired by 1991 Budget promises of lower marginal tax rates soon turned into grimaces when taxpayers learned from the experts that visions of lower income tax bills were an illusion.

MONEY

What enraged taxpayers was the discovery that the personal income tax burden to be carried in the next 12 months will be heavier than ever.

As the fog of political rhetoric cleared the experts discovered that the fortune in individual income tax flowing to the Receiver of Revenue was now set to soar to record peaks at almost R28 billion in the 1991/92 tax year that started on March 1.

The ally used by Finance Minister Barend du Plessis to shift the mirrors around and give prominence to the cut in the top marginal tax rate from 44 percent to 43 percent, while in fact still heavier tax bills were on the way, was an inflation poltergeist known as fiscal drag.

It was fiscal drag that turned the mirrors to disguise the way that most taxpayers would be robbed of any tax concessions — because the salary and wage increases they had secured to try to keep pace with inflation had propelled them all into higher tax brackets.

How to plan the exorcism of the poltergeist has been one of the main preoccupations of tax experts and economists since the South African inflation rate bounded into double digits more than a decade ago.

New problems have been added to the dilemma by suspicions about the impact of VAT (value-added tax) when it is introduced on September 30.

Dr Azar Jammine, director of the Econometrix think-tank, has burned the midnight oil more than most in the search for solutions. The exercise has convinced him that mere tinkering with the present taxation system is a total waste of time and effort.

"A radical new approach has become crucial if the tax system is not going to douse the last spark of drive and initiative in salary and wage earners," he argues. "The demands to be [illegible] rises in the consumer price index have suffered the penalty of higher tax bills because of the marginal tax ladder — the fiscal drag syndrome."

The longer Dr Jammine has burned the midnight oil, the deeper he has become convinced that the solution has been staring us in the face all the time: a simple flat rate for taxation — the removal of all disincentives at one stroke.

"Such a radical notion may cause a flutter in conservative minds," he says. "But the simplicity of the solution has already dawned on governments in several major industrial nations around the world."

In Britain, for example, income tax stays on a flat rate as low as 25 percent all the way to incomes as high as R100 000 a year. And the Chancellor of the Exchequer confirmed in the UK Budget last week that he wants to flatten it down to only 20 percent. Even mega-incomes are not taxed more than 40 percent.

In the United States, the top rate of personal income tax has been cut from 70 percent to 33 percent. Canada has slashed its top rate from 43 percent to 29 percent.

Tax cutting is also high on the agenda in Germany and Japan.

Nor have tax reductions been confined to personal incomes. Corporate taxes have also been heavily cut — in the United States from 46 percent to 34, in Britain from 52 percent to 33, in Japan from 43 percent to 38.

True, tax rates have not remained static in South Africa. Under constant pressure, the Minister of Finance has gradually trimmed the top effective income tax rate from 52,5 percent in 1987 to the new setting at 43 percent and has now trimmed corporate tax from 50 percent to 48.

"The big difference," argues Dr Jammine, "is that South Africa has failed to follow the other countries with the dramatic cuts in inflation that have rescued them from the worst impact of fiscal drag.

"Here, the Minister of Finance has been able to sit back and rely on double-digit inflation and fiscal drag to make certain that actual tax payments [illegible]

Moreover, they discovered, if the flat rate were set at an accurate level for individuals and companies, total revenue could leave elbow room to scrap the rest of the tax system entirely — even VAT.

When they first constructed an economic model to test the system they agreed that the flat rate could be introduced as low as 9 percent, if linked in its initial stages to a simple transaction tax that nipped 0,75 percent in revenue from all business and consumer deals.

The model suggested that even the tiny transaction tax could be ditched as revenue increased from flat-rate tax collections as a result of the dynamic boost to the economic tempo and the vigorous increase in the number of jobs provided by economic expansion.

"Taking into account the demands of socio-economic reform, it may now be necessary to think in terms of lifting the 9 percent estimate to nearer 12 percent or even 15," says Dr Jammine.

"But even at 15 percent, a tax system with no penalties waiting to ambush initiative could give South Africa the economic kick-start that has become crucial."

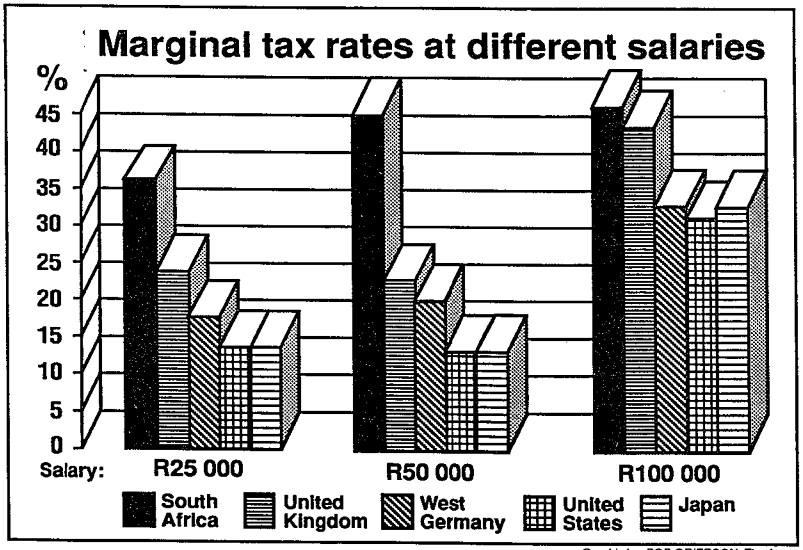
How could such a single overall tax rate be set so low?

"Two reasons," says Dr Jammine. "First, the number of taxpayers making a fair contribution to state revenue would be increased from around 5 million to more like 35 million.

"Next, the proposed system would apply with an equity beyond argument — with far more willingness among both individual and corporate taxpayers to shoulder reasonable taxation without spending half their time looking for loopholes and tax dodges that at the moment rob the state of billions of rands a year."

But doesn't the system look lop-sided, with the poor subsiding the rich?

"Not so," argues Dr Jammine. "Of course, higher income earners and companies would benefit from lower tax scales, but that is essential if we expect more effort to be put into economic growth.



Graphic by: BOB GRIERSON, The Argus

HIGHEST: South Africa's high marginal tax rates still top the world league compared with tax scales that follow the climb in salaries in all the leading international economies.

Impact of fiscal drag with 12% inflation

(New tax rates)

SALARY 1990/1991	SALARY 1991/1992	TAX 1990/1991	TAX 1991/1992
15 000	16 000	300	564
25 000	28 000	2 600	3 230
50 000	56 000	10 850	12 800
300 000	336 000	120 000	132 780

Graphic: BOB GRIERSON, The Argus

WHAT A DRAG: Even if South Africa cuts its inflation rate from a current 15 percent to 12 percent, fiscal drag will guarantee that heavier tax bills await personal taxpayers in the

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26/3/91

nomic reform targets make it vital that new incentives are laid out to boost the whole economic tempo.

"At the moment, economic enterprise is being stifled by an income-tax system that sets out penalties rather than incentives — the harder you work, the faster you are propelled into higher tax brackets.

"The basic flaw in the current system is the steepness of the marginal tax rate curve. It's nonsense that the reward for hard work and drive is a super-tax bracket that means that from every additional R1 you earn you have to hand over 43 cents to the taxman.

"The problems have been compounded by inflation. Even normal pay increases intended merely to cope with go on climbing into higher and higher orbit anyway.

"The closer one examines the problem, the more logical it becomes to scrap the tax ladder altogether — and fix a flat basic rate that rules out favours and penalties entirely.

"The government cannot penalise initiative for ever. Economic growth will grind to a crawl, with disastrous results, if the present tax system goes on eroding all enterprise and ambition."

Dr Jammine has done extensive research with Mr Nic Nel, a leading tax consultant, and both have studied the problem from all angles. The deeper the research, the deeper their conviction about the merits of the flat tax rate proposal.

ry by far the biggest share of the transaction tax because of their higher spending levels.

"Also to be borne in mind is the scrapping of GST or VAT — meaning no taxes whatsoever for the impoverished and jobless.

"The scales would balance with tremendous benefits for all sections of society, especially in view of the new economic dynamism that would bring better standards of living for everyone.

"Now that apartheid is being obliterated and we can start building a new society, South Africa can work out its own radical approaches to future economic policies. A sound and simple tax system needs to be at the top of the agenda."

Income tax relief is a clever mirage

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Sowetan 26/3/91

Barend du Plessis...deception through magical mirrors.

Taxpayers have been enraged by discoveries that promises of income tax cuts in the 1991 Budget were a mirage. Rows about VAT have added to the furore. The Econometrix think-tank believes the only answer to the tax revolt is a universal tax based on a simple flat rate that wipes out distortions. MICHAEL CHESTER, Sowetan Correspondent, reports.

ANY smiles that may have been inspired by 1991 Budget promises of lower marginal tax rates soon turned into grimaces when taxpayers learned from the experts that visions of lower income tax bills were an illusion.

What enraged taxpayers was the discovery that in fact the personal income tax burden to be carried in the next 12 months will be heavier than ever.

As the fog of political rhetoric cleared, the experts discovered that the fortune in individual income tax flowing to the Receiver of Revenue was now set to soar to record peaks at almost R28 billion in the 1991/92 tax year that started on March 1.

Bills

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Problems

New problems have been added to the dilemma by suspicions about the impact of VAT (value-added tax) when it is introduced on September 30.

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"The demands to be met to reach post-apartheid socio-economic reform targets makes it vital that new incentives are laid out to boost the whole economic tempo.

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Results

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Moreover, they discovered, if the flat rate were set at an accurate level for individuals and companies, total revenue could leave elbow to scrap the rest of the tax system entirely - even VAT

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"Two reasons," says Jammine. "First, the number of taxpayers making a fair contribution to state revenue would be increased from around 5 million to more like 35 million.

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But doesn't the system look lop-sided, with the poor subsiding the rich?

"No so," argues Jammine. "Of course, higher income earners and companies would benefit from lower tax scales, but that is essential if we expect more effort to be put into economic growth.

Spending

"But remember they would also carry by far the biggest share of the transaction tax because of their higher spending levels.

"Also to be borne in mind is the scrapping of GST or VAT - meaning no taxes whatsoever for the impoverished and jobless.

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26/3/91

Company cars miss out on tax credit

B/Day 26/3/91 (320)

GILLIAN HAYNE

COMPANIES will not be entitled to claim an input tax credit on their company cars, although Finance Minister Barend du Plessis is allowing such credits on all other capital goods.

The decision is contrary to the recommendation by Vatcom, and tax experts expect the final legislation on company cars to be similar to the initial draft legislation.

Ernst & Young senior tax consultant Brendan Dardis said: "It is widely held that this incongruous treatment, compared with other capital goods, is a political move in sympathy with low income earners.

"The political argument is that if most basic foodstuffs are subject to VAT, it is surely inequitable for the labourer to be subject to VAT on most basic foodstuffs while the MD may claim an input tax credit on his company Mercedes-Benz."

The company making taxable supplies will, however, be able to claim an input tax credit on the running cost of the vehicle.

Dardis noted that the provision of a company car to an employee would constitute a fringe benefit, which is subject to VAT. The company would effectively have to tax itself on the value of the benefit (which is determined according to an as yet unpublished table).

"Whether the company chooses to recover the VAT from the employee is an internal decision," he added.

For businesses providing exempt services — such as banks and long-term insurers — no input tax credit may be claimed by the company on both the capital and running cost of the vehicle, but no VAT is payable on the value for fringe benefits either.

Whether the "executive" bakkie will remain eligible for an input tax credit will only be determined on the release of the final legislation.

For companies which prefer awarding travel allowances, such provisions are not subject to VAT.

Taxman lassoes married women

B/Day 26/3/91 (320)

GILLIAN HAYNE

MARRIED women who earn income from investments but are otherwise not working, or earn a salary under the R50 000 SITE threshold, must register as separate taxpayers, says KPMG Aiken and Peat tax partner Pat McGurk.

These women would now have to register as taxpayers and lodge tax returns, whereas in the 1990/91 tax year they would not have been required to do so.

Inland Revenue director John Hanssen said although the separate taxation only applied to the 1992 tax year, the first provisional payment would be in August. He recommended early registration.

MEDIA SPOT

VAT and lower tax for firms please ad agents

BDay 26/3/91. (320)

Reports by MARCIA KLEIN

REACTION by the advertising industry to Finance Minister Barend du Plessis' Budget speech last week was mixed, but most welcomed the proposed introduction of VAT and the reduction of company tax.

Leading advertising agencies contributed their comment to a Rapport publication, which looked at how the 1991 Budget affected advertising.

The introduction of VAT was significant for advertising agencies in that they would be able to claim VAT on advertising as an input tax whereas GST was not recoverable, agency heads said.

Wilsenach Group financial director Pam Millbank said VAT effectively increased all advertising budgets "by 13%", and "after GST is abolished on September 30, advertisers will be able to claim back all VAT paid on advertising by way of input credits".

She said input credits claimable on running expenses and capital goods would increase the bottom line for agencies.

Hunt Lascaris TBWA financial director Alan Teeger said the introduction of VAT later this year and the reduction of company taxation were the major benefits the advertising industry would gain from this year's Budget.

The Media Business MD Bryan Gabriel said it was still not clear how VAT would apply to the advertising industry, but he hoped the minimum rate of 12% would be the actual rate applied.

Grey Advertising MD Ivor Abelheim said adspend would be under considerable pressure for the rest of 1991. However, he said VAT would be a positive factor. Agency cash flows should be improved and this would result in a marginal improvement in profit.

DMB & B financial director Neville Hicklin said the advertising industry would generally benefit along with the rest of the business sector, but it was "difficult to see any specifics which the industry can seize on as an area for joy".

NEWS FOCUS

IMF gurus left govt holding VAT baby

BDay 26/3/91. 320

Critics call them the two-week tourists. KEVIN DAVIE reports on how the IMF came for a couple of weeks, changed government's plans for the Budget, and left.

IMF chief Michel Camdessus' one-day visit five weeks ago was the highest-profile contact SA has had with the IMF for many years.

But Camdessus' whistle-stop stop-over obscured the arrival of a second IMF team at the same time, a team which had immediate effect on SA. It significantly altered Finance Minister Barend du Plessis' Budget.

On the face of it, the three-man IMF team led by Ved Ghandi would have little to do with the Budget. It was here by invitation from government to make final recommendations on VAT.

The team's credentials were not in question. It included experts recognised worldwide as authorities on VAT. They gave no interviews but impressed all who came into contact with them.

SA had already decided some years ago, when the idea of switching to VAT was first mooted, to follow IMF thinking. There were consultations, and IMF VAT models were closely followed, although made relevant to SA.

The timing of the IMF visit was crucial. VAT was scheduled to begin this October and so would need to be finalised in time for Du Plessis to plan his Budget accordingly. The IMF handed its recommendations to Du Plessis with two weeks to spare.

There were now two reports on VAT. The government-appointed Vatcom released its findings four weeks ago. Vatcom hinted at a 10% VAT and recommended the rate be kept as low as possible to ensure public confidence.

But the Vatcom report was curiously devoid of calculations and projections.

How much would VAT bring to the fiscus relative to GST? How much would be collected at 10%? How much at 13%? How much lower would the rate need to be set to offset VAT on foods which were exempted by GST?

IMF expertise, we were told, would be used to do the calculations. Government would make no final decisions until it had received the IMF report.

A separate government study was meanwhile tackling a related issue. To be pure the new tax should have as few exclusions as possible. So most foods would be taxed even though government figures showed that more than 40% of the population lived below the breadline. An effective poverty alleviation strategy would be needed to ensure people balancing on the breadline did not starve; that VAT did not precipitate food riots.

Government had also been handed an interim report of a committee of inquiry into social pensions which recommended parity at an additional annual cost of about R3bn. If help was to be given to the poor, some argued, this was the way to do it.

Pensions are often the only income of the very poor and an efficient network already exists for payment.

Government was bullish in the weeks ahead of the Budget on its intended social spending programme.

Senior ministry sources said 42% of total spending (R35,7bn) would be allocated to education, housing, health, welfare, job creation and poverty alleviation.

As it was, only R32,5n (38% of the total) was budgeted last week for social spending. An amount of R3,75bn, roughly equivalent to this shortfall, was given instead by Du Plessis to manufacturers as tax credits on machinery and goods used in production (capital and intermediate goods).

Surprised

A key advantage of VAT over GST is that it taxes only once. The cost to the consumer should be lower and the economy more efficient without the distortions of taxing what has already been taxed. The problem for government was that allowing these tax credits on inputs would result in an annual loss of R7,5bn or 37% of revenue raised by GST.

Vatcom recommended full credit should be given on all business inputs, but that these credits should be phased in to be able to keep VAT as low as possible. As on the setting of the rate, the IMF was to offer advice on this R7,5bn question.

On Budget day Du Plessis surprised many by announcing full tax credit on inputs from day one, by setting VAT at 12% and by budgeting for the new tax to raise R1bn less than GST.

If VAT was more efficient, spread the tax base, included foods in the net and would catch 60% of tax lost to evasion, why was it going to bring in R1bn less? Government estimates show that in a full year VAT will raise R2,5bn less than GST (the same amount, coincidentally, which the fiscus has been losing because GST exempts many foods).

The IMF team calculated that VAT would need to be 13,3% to raise the same revenue as GST. They argued strongly for full input credits from day one, calculating that if the benefits of the hundreds of millions of rands which would flow monthly to manufacturers were passed on to consumers, that prices would drop by up to 8%.

Each percentage point increase in the VAT rate would bring in an additional R1,5bn in a full tax year, meaning that a 12% VAT would bring an additional R3bn compared with a 10% VAT. Printed estimates in the Budget Review showed GST would have netted R20,35bn this year compared with R18,20bn last year.

But VAT will only earn R19,44bn, a 6,8% increase on last year which will not even account for inflation.

The loss is significant as it obscures the fact that VAT will net more than R1bn this year by taxing foods — and a guesstimated additional R1bn by taxing services.

The options which faced Du Plessis can be simply put. He could spend the R3,75bn in the second half of this year or phase the input tax credits in over a period of years. The IMF argued strongly for the first option.

Du Plessis said in his Budget speech that the IMF had given special attention to the effect VAT would have on low income groups. He said government believed relief action "should be supplementary to the improvement of income through economic growth and job creation".

The R3,75bn on input credits significantly reduced revenue available for social spending. A look at allocations to government departments showed Education and Training (black education) got 13,8%, more or less equivalent to the rate of inflation while the number of pupils increases by 4% a year; Planning, Provincial Affairs and Housing got 2,7%; Agriculture -16%; Development Aid 14,9%; Manpower -8,4%; and National Health and Population Development -12,1%.

Packed

The IMF team stayed their couple of weeks, packed their bags and left. The Soviet Union is understood to be a possible next destination.

But back in SA people are asking whether the IMF plan will work; whether the R3,75bn which will be given to manufacturers in the second half of this financial year will be passed on through cheaper prices. Only time will tell.

Tax relief for couples if husband pays wife

(320)

SHARON WOOD

MARRIED couples can now lighten their tax burden if a husband donates money to his wife for investment, tax analysts say. B Day 27/3/91.

A married woman's income and investment income are now subject to a lower tax table following the complete separation of a married woman's income from her spouse's in the 1991/92 budget

There are no disadvantages in donating money to a spouse unless Inland Revenue introduces a specific anti-avoidance provision. This will probably depend on the extent to which such practices become prevalent, says KPMG Aiken and Peat tax partner Pat McGurk.

Inland Revenue will probably adopt a wait-and-see approach to determine the loss of revenue involved.

Husbands will actually have to give their wives the money, otherwise it would not be legally enforcable, says McGurk.

The immediate benefit of donating money to your wife would be a R2 000 deduction on interest, he says.

Price Waterhouse national tax consultant Chris Frame says the government could publish an anti-avoidance measure in the legislation when it is released, preventing this from happening. But Inland Revenue could also ignore it, thus lowering the tax on savings.

Inland Revenue spokesman Peter Frank said the government had not yet decided how to prevent this from happening but that action would be taken against any deliberate attempts to avoid paying tax.

Council slates VAT on taxes

320

By Louise Burgers
Municipal Reporter

Star 27/3/91.

The Government's insistence that value added tax be imposed on municipal rates disadvantaged and discriminated against the ratepayer, Johannesburg Management Committee chairman Ian Davidson said last night.

Mr Davidson was speaking at a Johannesburg City Council meeting at which VAT on rates was roundly condemned by councillors, who called for rates to be zero-rated.

Johannesburg councillors last night signed a petition to urge the management committee to make immediate and urgent representation to the Minister of Finance to zero-rate rates.

"This council registers the strongest opposition to VAT on rates. What we need is a tax that is zero-rated as far as property taxes are concerned," Mr Davidson said.

He said Johannesburg would, with all other major cities, make urgent representation to the Minister of Finance.

Misconception

Mr Davidson said Deputy Minister of Finance Org Marais was under a misconception as to what rates were.

"Rates are a tax on property, and VAT on rates is a double taxation and totally unacceptable," he said.

"If the Government was to be consistent, then it would also levy VAT on income tax," Mr Davidson said.

DP councillor Martin Sweet said that if rates were zero-rated, the council would be able to claim back certain VAT expenditure.

NP councillor Hein Kruger said the council had to urge the Government to zero-rate.

"Central Government stands to lose between R200 million and R300 million if rates were zero-rated, but it could look to other ways to get this money, such as a State lottery," Mr Kruger said.

CP leader in the council Jacques Theron warned that misery lay around the corner for Johannesburg residents if VAT on rates were implemented. He likened VAT on rates to the poll tax in England.

HOUSE OF ASSEMBLY

QUESTIONS

†Indicates translated version.

For written reply:

General Affairs:

Black taxpayers

94. Mr A GERBER asked the Minister of Finance:†

(1) In respect of the latest specified tax year for which figures are available, (a) how many Black taxpayers were registered with his Department in the Republic and (b) what percentage of the total amount collected in personal income tax in the Republic was paid by these taxpayers;

(2) whether any of these taxpayers are in arrears with the payment of tax; if so, (a) how many and (b) for what average period;

(3) whether any steps have been or are being taken against these persons; if so, what steps? B260E

The MINISTER OF FINANCE:

(1), (2) and (3)

This information is not available. The reason for this, is, firstly, that taxpayers who earn remuneration not exceeding a certain amount (currently R40 000) have, since the introduction of the Standard Income Tax on Employees (SITE) system, been relieved of the obligation to submit returns of income. Secondly, for the past few years, the normal return of income which is submitted annually by registered taxpayers, does not provide for details regarding race classification. Consequently, statistics are no longer kept on a separate basis in respect of the number of taxpayers in the various race groups and the amount of tax contributed by each group.

Judges: not White

102. Mr D J DALLING asked the Minister of Justice:

Whether any persons who are not White were appointed as (a) acting judges and (b) judges within the Republic in 1990; if not, why not; if so, (i) who were so appointed and (ii)(aa) when and (bb) where was each such person appointed?

B284E

The MINISTER OF JUSTICE:

(a) and (b) No.

The State President may in terms of section 10(1)(a) of the Supreme Court Act, 1959 (Act 59 of 1959) appoint fit and proper persons as judges of the Supreme Court of South Africa.

It is policy to appoint only advocates with the distinction of *Senior Consultus* as judges. At present only one Black advocate, namely T L Skweyiya, and two Indian advocates, namely I Mahomed and H E Mall, hold the distinction of *Senior Consultus*.

Taxpayers

117. Mr K M ANDREW asked the Minister of Finance:

How many taxpayers in each income category in respect of the 1989-90 tax year were (a) White, (b) Coloured, (c) Indian and (d) Black?

B333E

The MINISTER OF FINANCE:

(a), (b), (c) and (d)

This information is not available. The reason for this is that since the introduction of the Standard Income Tax on Employees (SITE) system, taxpayers earning remuneration not exceeding a certain amount (currently R40 000) are relieved of the obligation to submit returns of income and statistics are therefore no longer kept in respect of the various population groups.

Individual taxpayers

118. Mr K M ANDREW 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

1989-90 tax year and (b) what percentage of each group of taxpayers is Black?

B334E

The MINISTER OF FINANCE:

(a) See attached schedule.

(b) This information is not available. The reason for this is that since the introduction of the Standard Income Tax on Employees (SITE) system, taxpayers earning remuneration not exceeding a certain amount (currently R40 000) are relieved of the obligation to submit returns of income. Statistics of taxpayers are thus no longer kept on a basis of race groups and it is therefore impossible to determine the amounts of tax which have been paid by the various population groups.

(a)(i) and (ii)

TAX YEAR 1990

INCOME GROUPS	MARRIED NUMBER	MARRIED TAX R'000	SINGLE NUMBER	SINGLE TAX R'000	TOTAL NUMBER	TOTAL % TOTAL	TOTAL TAX R'000	TOTAL % TOTAL
LOSS	5 889	0	674	0	6 563	0,49	0	0,00
0—5 000	141 544	1 247	57 816	1 285	199 360	14,78	2 532	0,03
5 000—10 000	36 870	4 160	9 904	3 859	46 774	3,47	8 019	0,09
10 000—15 000	57 940	21 463	12 055	12 145	69 995	5,19	33 608	0,36
15 000—20 000	73 444	82 850	17 380	36 472	90 824	6,73	119 322	1,27
20 000—25 000	127 797	313 926	38 976	140 046	166 773	12,36	453 972	4,84
25 000—30 000	119 807	483 121	32 074	170 265	151 881	11,26	653 386	6,96
30 000—35 000	111 394	648 863	24 254	176 334	135 648	10,06	825 197	8,80
35 000—40 000	96 980	748 752	16 484	153 279	113 464	8,41	902 031	9,62
40 000—45 000	80 103	777 468	11 290	128 548	91 393	6,78	906 016	9,66
45 000—50 000	63 148	740 519	7 410	99 934	70 558	5,23	840 453	8,96
50 000—60 000	82 672	1 211 992	8 134	134 478	90 806	6,73	1 346 470	14,35
60 000—70 000	44 301	833 278	3 460	72 184	47 761	3,54	905 462	9,65
70 000—80 000	22 957	529 749	1 643	41 397	24 600	1,82	571 146	6,09
80 000—90 000	12 913	354 371	846	24 917	13 759	1,02	379 288	4,04
90 000—100 000	7 847	249 117	460	15 603	8 307	0,62	264 720	2,82
100 000—150 000	13 471	560 334	678	29 188	14 149	1,05	589 522	6,28
150 000—200 000	3 134	200 231	160	10 128	3 294	0,24	210 359	2,24
200 000—250 000	1 226	104 735	70	5 669	1 296	0,10	110 404	1,18
OVER 250 000	1 447	241 982	100	17 247	1 547	0,11	259 229	2,76
TOTALS	1 104 884	8 108 158	243 868	1 272 978	1 348 752	100,00	9 381 136	100,00

DATA I.R.O. 48,86% OF ALL REGISTERED TAXPAYERS ARE REFLECTED IN THESE TABLES.

Total taxable earnings

119. Mr K M ANDREW asked the Minister of Finance: Hansard 27/3/91

(a) What were the total taxable earnings for Whites, Coloureds, Indians and Blacks, respectively, in 1989-90 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?

320

B335E

The MINISTER OF FINANCE:

(a) and (b)

This information is not available. The reason for this is that since the introduction of the

Standard Income Tax on Employees (SITE) system, taxpayers earning remuneration not exceeding a certain amount (currently R40 000) are relieved of the obligation to submit returns of income and statistics are therefore no longer kept in respect of the various population groups.

Magistrates

124. Mr D J DALLING asked the Minister of Justice: Hansard 27/3/91

(a) How many persons in the Republic, excluding the self-governing territories, held the position of (i) regional court magistrate and (ii) magistrate, (b) how many such persons were (i) White, (ii) Black, (iii) Coloured and (iv) Indian, and (c) in which magistrates' courts were these (i) Black, (ii) Coloured and (iii) Indian persons employed, as at 31 December 1990?

B285E

The MINISTER OF JUSTICE:

(a) (i) 152

(ii) 829

(b) *Regional Magistrate*

(i) 152

(ii) 0

(iii) 0

(iv) 0

Magistrate

(i) 811

(ii) 2

(iii) 5

(iv) 11

(c) *Regional Magistrate*

(i), (ii) and (iii) fall away.

Magistrate

(i) King William's Town (1)

Stanger (1)

(ii) Wynberg (1)

Queenstown (1)

Krugersdorp (1)

Malmesbury (1)

Johannesburg (1)

(iii) Durban (1)

Verulam (4)

Stanger (1)

Ladysmith (1)

Chatsworth (3)

Pinetown (1)

Hansard 27/3/91

Prosecutors

125. Mr D J DALLING asked the Minister of Justice: Hansard 27/3/91

(a) How many persons in the Republic, excluding the self-governing territories, held the position of (i) regional court prosecutor and (ii) prosecutor, (b) how many such persons were (i) White, (ii) Black, (iii) Coloured and (iv) Indian, and (c) in which magistrates' courts were these (i) Black, (ii) Coloured and (iii) Indian persons employed, as at 31 December 1990?

B286E

The MINISTER OF JUSTICE:

(a) (i) 200

(ii) 869

(b) (i) 938

(ii) 41

(iii) 64

(iv) 26

(c) *Prosecutor (Regional Court)*

(i) Pietermaritzburg 1

Pretoria 1

Empangeni 1

Johannesburg 1

(District Court)

Pretoria 3

Pretoria North 1

Pietermaritzburg 1

Johannesburg 10

Verulam 4

Springs 2

Wynberg	1
Stanger	1
Alberton	1
Durban	3
Benoni	1
Mtunzini	1
Krugersdorp	1
Greytown	1
Moutse	1
Kimberley	1
Vanderbijlpark	1
Empangeni	1
Witbank	1
Potgietersrus	1
(c) *Prosecutor (Regional Court)*	
(ii) Cape Town	1
Wynberg	4
Worcester	1
Port Elizabeth	4
Vanderbijlpark	1
(District Court)	
Cape Town	2
Bellville	2
Wynberg	19
Paarl	2
Worcester	1
Port Elizabeth	5
Witbank	1
Johannesburg	6
Springbok	1
Evander	2
King William's Town	1
East London	1
Goodwood	4
Grahamstown	1
Malmesbury	1
Kuilsriver	2

Relief Staff	
Randburg	
(c) *Prosecutor (Regional Court)*	
(iii) Durban	
Port Shepstone	
(District Court)	
Verulam	
Chatsworth	
Durban	
Scottburgh	
Pietermaritzburg	
Pinetown	
Johannesburg	
Wynberg	
Queenstown	1
Kimberley	1

Whippings

144. Mr A J LEON asked the Minister of Justice:

(1) How many persons were sentenced in South Africa in 1990 to a whipping (a) with and (b) without the option of a fine or imprisonment by (i) regional magistrates' courts and (ii) Divisions of the Supreme Court;

(2) how many (a) such whippings were carried out in 1990 and (b) cuts were administered in each case? [redacted]

Hansard 27/3/91 B409E

The MINISTER OF JUSTICE: [redacted]

(1) The required information is not readily available. In an effort to be of assistance to the Honourable Member, the following statistics for the period July 1989 until June 1990 were obtained from the Central Statistical Services:

Total number of persons sentenced to whipping only	31 647
Total number of persons sentenced to whipping and imprisonment (not suspended)	84
Total number of persons sentenced to whipping and imprisonment (partially suspended)	4 975

(2) The required information is not readily available. [redacted] [redacted]

Income tax written off

6. Mr K M ANDREW asked the Minister of nance:

Whether any income tax was written off in the 1989-90 financial year as irrecoverable; if so, (a) in respect of how many (i) individuals and (ii) companies and (b) what was the amount of tax written off in each category?

Hansard 27/3/91 B413E

he MINISTER OF FINANCE:

Yes.

(a) (i) 7 923 320

(ii) 436

(b) Amount written off in respect of individuals: R20 697 164,24

Amount written off in respect of companies: R9 738 049,97

Teacher/pupil ratio

53. Mr R M BURROWS asked the Minister of ducation and Training: Hansard 27/3/91

(1) (a) What is the teacher/pupil ratio in his Department for (i) primary and (ii) secondary schools and (b) in respect of what date is this information furnished;

(2) whether his Department has statistics on the teacher/pupil ratio in the education departments of the self-governing territories; if so, what are the relevant ratios? [redacted] [redacted]

B428E

he MINISTER OF EDUCATION AND RAINING: [redacted]

(1) (a) (i) Primary Farm School :1:37,77
Other Primary Schools :1:41,19
Total :1:40,17

(ii) Secondary Farm School :1:32,26
Other Secondary Schools :1:34,17
Total :1:34,13

(b) 4 March 1990

(2) Yes

	Primary	*Secondary*
QwaQwa	1:32,11	1:33,31
Lebowa	1:41,35	1:35,60
Gazankulu	1:42,35	1:35,49
KwaZulu	1:53,39	1:41,87
KwaNdebele	1:36,57	1:36,63
KaNgwane	1:39,62	1:36,68

Note: Hansard 27/3/91 [redacted]

All teaching staff at schools (CS Educators) including principals, are regarded as "teachers" for purposes calculating the teacher/pupil ratio.

Transcription of court proceedings: contracts

175. Mr R V CARLISLE asked the Minister of Justice: Hansard 27/3/91

(1) Whether, during the latest specified 24-month period for which information is available, any contracts for the transcription of court proceedings were awarded to certain bodies and persons, whose names have been furnished to the Minister's Department for the purpose of his reply; if not, who was awarded such contracts during the above period; if so, (a) what are the names of these bodies and persons and (b) in respect of what courts and areas were contracts awarded to each such body or person;

(2) whether, in respect of the contracts so awarded, he will furnish the House with the names of the shareholders and directors in the case of companies and the names of the members in the case of close corporations or partnerships; if not, why not; if so, what are the relevant particulars? [redacted]

B483E

The MINISTER OF JUSTICE:

(1) Contracts for the transcription of court proceedings were, *inter alia*, awarded to the following bodies and persons with effect from 1 September 1989 for a period of 4 years:

(a) *Names of Bodies and Persons*	(b) *Areas of contract awarded to Bodies and Persons*
(i) Mrs H Maré	Magistrates' Court Worcester
(ii) Paarl Tikdienste	Magistrates' Courts Paarl Stellenbosch Wellington

Do not tax 320 capital gains - expert

Sowetan 28/3/91

By JOSHUA RABOROKO

THE capital gains made by thousands of unit trust holders should not be taxed.

This is the view of Mr Roy McAlphine, the outgoing chairman of the Association of Unit Trusts (AUT) and is a view endorsed by all members of the industry.

The members manage R7,6-billion in the country's 37 units trusts on behalf of over 700 000 South African investors.

Tragedy

Writing in his chairman's statement in the association's yearbook, McAlphine says it would be nothing short of a tragedy if, in a country which requires more thrift and less consumption, fiscal measures were introduced which would penalise the savings of that sector of the community that can least afford it.

He notes that it has been reported that certain savings institutions have been making strong representations to the authorities on what they perceive to be the unequal tax treatment of life assurers as compared to other institutions.

Unhappy

"In particular, he says, "they are unhappy with tax-free capital surpluses which life assurers pass on to policyholders by way of bonus.

"As a result, it is now being proposed that, in order to achieve a level playing field' the various institutions, taxation should be imposed on capital surpluses.

Surpluses

In this regard McAlphine refers to the realised and unrealised capital surpluses of the unit trusts themselves and not to capital gains made by individual unitholders on the sale of their units.

He says the association does not wish to become involved in a dispute which should not concern it, but, "unfortunately, unit trusts have been caught in the crossfire."

Appeal

He adds: "The UAT has made the strongest possible representations to the authorities not to implement any such legislation on unit trusts. Our case is very strong.

"The total assets of the unit trust industry amount to a comparatively low R7,6 billion as compared with the combined assets of the banks, building societies, lifer assurers, and pension funds which comfortably exceed R300-billion.'

Add-in VAT 'open to scams'

B/Day 28/2/91

CAPE TOWN — Consumers could be ripped off when the amount of value added tax (VAT) is concealed by being added into the selling price of goods, says Pick 'n Pay chairman Raymond Ackerman.

He said this week he was opposed to the change from add-on GST to add-in VAT.

"On September 30 we will have to round off all prices to the nearest cent. They will be rounded off upwards and it will naturally make the consumer worse off," he said.

320

"I am against ~~add-in~~ because it increases prices and puts all the blame on the retailer and the government gets off scot-free. It is also easier to hide the tax and conceal what people are paying.

"People want to know how much tax they are paying." — Sapa.

R30m taxes written off

B/Day 28/3/91 320

LESLEY LAMBERT

CAPE TOWN — Over R30m in unpaid income tax was written off by the fiscus in the 1989/90 financial year, Finance Minister Barend du Plessis said in Parliament yesterday.

Responding to a question by DP finance spokesman Ken Andrew, Du Plessis said the fiscus had been unable to recover tax revenue of R20,69m from 7 923 individuals and R9,74m from 436 companies.

Du Plessis also provided statistics to show that during the 1990 tax year, the under R5 000 tax bracket, which had the highest proportion of taxpayers at 14,8%, earned the fiscus the smallest amount of revenue — 0,03% or R2,5m.

The R50 000 to R60 000 bracket, which comprised only 6,7% of taxpayers, was the taxman's most profitable, earning 14,35% or R1,3bn in revenue.

The highest bracket (over R250 000) was made up of only 0,11% of taxpayers and earned the fiscus 2,76% of revenue (R259m).

Govt writes off R30m unpaid taxes

By LESLEY LAMBERT 320

CMT Times 28/3/91

OVER R30m in unpaid income tax was written off by the fiscus in the 1989/90 financial year, Finance Minister Barend du Plessis said in a written reply to a question in Parliament yesterday.

Responding to question by DP Finance spokesman, Ken Andrew, Du Plessis said the fiscus had been unable to recover tax revenue of R20,69m from 7 923 individuals and a further R9,74m from 436 companies. These amounts had been written off as irrecoverable, he said.

Du Plessis also provided statistics to show that in the 1990 tax year, the tax bracket with the highest proportion taxpayers (14,8%) — the 0 to R5 000 bracket — earned the fiscus the smallest amount of revenue, 0,03% or R2,5m.

The R50 000 to R60 000 bracket which comprised only 6,7% of taxpayers was the taxman's most profitable, earning 14,35% or R1,3bn in revenue, while the highest bracket, over R250 000, comprised 0,11% of taxpayers and earned the fiscus 2,76% or R259m of revenue.

The R20 000 to R25 000 was the second largest bracket, paying R453,9m, or 4,84% of the total, while the R30 000 to R35 000 and the R35 000 to R40 000 also comprised significant proportions of the tax base.

But, in response to another question by Andrew, Du Plessis said he did not have statistics providing a racial breakdown of taxpayers because under the Standard Income Tax on Employees system, taxpayers earning under R40 000 did not have to submit income tax returns.

VAT will boost inflation rate, says economist

CAPE TIMES 28/3/91 (320)

By AUDREY D'ANGELO
Business Editor

VALUE ADDED TAX (VAT) will probably push up inflation by two percentage points, Sanlam chief economist Johan Louw forecasts in his March Economic Survey.

He thinks higher food prices "could hamper efforts to push down the consistently high inflation rate" and that it will be between 13% and 14% by the end of the year.

He expects consumers' spending power to diminish significantly, with pay rises lagging behind inflation.

"The sluggish growth overseas has considerably weakened the possibility of an export-based recovery in the SA economy.

"The relatively weak performance of gold is another factor that dampens the prospect of an upswing in general activity in the near future.

"We also expect the financial position of consumers to weaken this year, partly as a result of adjustments in labour remuneration not keeping pace with inflation."

Discussing the impact of VAT, Louw says: "We estimate that the introduction of VAT on September 30 will increase the inflation rate as measured by the rise in the consumer price index (CPI) by about two percentage points."

He expects this to cause demand for pay rises which will boost inflation further.

"The elimination of double counting of taxation on capital and intermediate goods could curb inflationary pressure.

"But, owing to the underlying propensity for inflation in SA and the increase in expenditure experienced by individuals because VAT will be levied on a much wider range of goods and services, the chances of demands for higher wages and salaries — with obvious implications for inflation — are good."

He goes on: "The sustained sharp increases in food prices in recent times are visibly countering the underlying downward trend of our inflation rate.

"Food prices are subject to large seasonal fluctuations and they could — particularly in the short to medium term — seriously thwart the government's attempts to lower the inflation rate significantly."

But, he concludes: "The expected lower interest rates, moderate growth in the money supply and continued fiscal discipline should help to curb the rate of increase in consumer prices in due course.

"Taking everything into account, we predict that the inflation rate will be about 14% for 1991 as a whole compared with 14,4% in 1990."

BUDGET ANALYSIS

'Robbing the poor to give to the rich'

320 South 28/3-3/4/91.

This year's budget fails to meet any significant aspirations of the black poor and is likely to pour oil on the fires of political instability.

The windfall in tax concessions to the private sector is unlikely to be translated into investments or lower prices. This is the analysis of University of the Western Cape economist, **Pieter le Roux:**

Pieter le Roux

Barend du Plessis

IN his recent budget speech, Minister of Finance Barend du Plessis talked a new language — equity has taken its place alongside growth and stability as a budget objective.

Does this herald a new era? Is this budget going to kick-start South Africa's economy to provide growth with justice which the country so desperately needs?

With great sadness one has to conclude that, with regard to equity, Du Plessis has tragically failed to put his money where his mouth is. Some commentators have taken Du Plessis at his word and have called this a poor man's budget.

Except for a real increase in black pensions, this budget has in fact dealt the poor and the lower income groups a severe blow.

No adjustments have been made in the income tax brackets to allow for inflation. As a consequence the low and middle income groups have generally had a decline in their real income.

The VAT now imposed on all food that were exempted from GST (with the exception of maize and brown bread) will fall proportionately more heavily on those who spend most of their income on food — the poor.

Tax burden

The net effect of all these changes in the tax laws is a surge of more than one quarter in nominal and more than one tenth in real terms in the tax paid by personal income earners.

This is an unprecedented increase in the tax burden placed on individuals.

The quid pro quo for this change is that the total revenue derived from companies has declined dramatically.

Because of the switch from VAT to GST, companies no longer need to pay tax on capital goods and other intermediate inputs and will be experiencing a massive tax windfall of between R6 and R8 billion per annum.

This dramatic increase in concessions to business is borne, as I have argued above, disproportionately by the poor and the lower income earners.

The much-vaunted additional R500 million in old age pensions and R250 million in special assistance to the poor hardly compensates them for VAT on food and is a pittance in comparison to the reduction of thousands of rand in tax paid by companies.

Is this what Du Plessis calls equity?

Will the massive injection into the private sector not kick-start the economy?

The crucial question is what will be the impact of the millions of rand in tax concessions to the private sector. There are at least four possible outcomes.

Firstly, there may be a significant drop in the rate of inflation, as the advisors of the International Monetary Fund (IMF) have reportedly predicted.

The dramatic reduction in input costs could be reflected in a decline in the rate of increase of output prices.

Secondly, the reduction in tax to be paid by companies could lead to a massive surge in business confidence and hence new investments and resumed growth.

Thirdly, instead of higher profits leading to higher rates of investments, these may lead to further increases in dividend payments.

Industrial action

Fourthly, organised labour could, through industrial action, regain the losses in real income suffered because of the much higher tax burden workers will have to bear. But this will probably call for massive industrial action which our economy can ill-afford at this stage.

In theory, some combination of all four of these outcomes could be experienced.

I want to predict, though, that because of the oligopolistic nature of our industrial sector (few sellers and a small number of competitive firms controlling the market), little will come from a dramatic reduction in inflation.

Companies will keep the benefits to themselves.

I had hoped that this budget would lead to higher investments and an increased rate of growth.

I am now, however, inclined to suspect that because of the destabilising political consequences of the budget, increased profit and dividend taking rather than higher investments will be the standard reaction in the business sector.

Much as I hope that the contrary will be true, my prediction is that the massive tax benefits the private sector is receiving in this budget will not be translated into growth or significantly lower prices.

Instead, it will enhance the class conflict.

If neither equity nor growth will be delivered, what about stability? During a period of transition, and if one takes into account the social consequences, this budget is highly destabilising.

The budget fails to meet any significant aspirations of the black poor.

To ensure equity with growth Du Plessis ought to have taken his own rhetoric more seriously.

Capital goods

The tax on intermediate and capital goods ought to have been phased out over a two or three-year period — thus facilitating a much lower initial rate of VAT than the very high 12 percent.

If the commitment to equity was genuine, parity in pensions at white levels would not have been delayed any longer.

Only another R1,6 billion had to be found to pay for this — an amount which is not that large if one considers that the tax exemptions annually given to the better-off to save for pensions amount to R6 to R8 billion.

Instead of reducing the petrol price, for instance, an additional levy could have provided the funding so sorely needed to develop a proper urban public transport system. Clearly this would have called for higher taxes on those who can afford to pay.

(Professor Le Roux is director of the Institute for Social Development at UWC.)

Is there any way around the new 'poll tax'?

WMail 28/3-4/4/91

320

Municipalities are furious that VAT will be levied on rates. Some have suggested it is similar to the hated British poll tax, and could mean rates will rise more than 20 percent, reports **REG RUMNEY**

THE confrontation between municipal leaders and the government over the imminent addition of value added tax (VAT) to their rates may yet be resolved.

It has been suggested that VAT together with normal increases could raise rates by 20 percent.

There's no doubt local authorities are upset. Durban City Council management committee chairman Derrick Watterson has ominously compared VAT on rates to the UK's unpopular poll tax, Johannesburg management committee member Paul Asherson says Johannesburg is implacably opposed to the tax, and there has even been talk of rent boycotts and revolution in black areas.

Cape Town City Council treasurer Eddie Landsberg told *The Weekly Mail* at the time of going to press a small delegation was to see the finance minister himself about the matter.

The proposal is discussed in the Vatcom report, released weeks ago, but the furore stems from a recent United Municipal Executive (UME) meeting.

Once the VAT rate of 12 percent was known, it became clear that rates could go up substantially and this seems to have sparked the tax revolt.

Not only municipalities and local authorities but also regional services councils are to be subject to VAT.

The Vatcom report argues that rates are not taxes, merely payment for services provided to property owners by the municipality, such as roads, traffic control, bus services, parks, sewerage, cemeteries, clinics, housing and street lighting.

This seems disingenuous. By the same token it could also be argued that income tax is a payment for services such as national and provincial roads, police, the defence force, health, education, housing, statistics and so on.

The big difference between paying for services and paying for both rates and taxes is that neither the property owner nor taxpayer has any choice about whether he wants the services provided or whether he wants to pay the tax.

The argument that rates are not taxes was advanced by Deputy Finance Minister Org Marais recently.

Much more cogent, though not necessarily self-evident, is the argument, also in the Vatcom report, that some of the things provided by the municipality are services. Water and lights are services, says the report, and VAT should therefore apply to these.

"Exemption of rates while other services are taxed would also place a heavy burden on the municipalities to keep records of all payments and receipts for each particular service rendered. This would increase their compliance costs, which would add to their total costs."

However, from that point Vatcom somehow arrived at the idea that all things provided by the municipality are services and payment for them are not taxes.

The Vatcom report also notes that the full 12 percent tax should not be passed on, and that ratepayers are paying double tax already because of GST.

Municipalities now pay GST on a wide range of inputs. In terms of VAT municipalities will be able to claim the taxes they pay as an input credit and so they will pay only the difference between the input credit and the VAT rate. Municipalities ought to pass on to consumers, by reducing rates, the cost benefits which will flow from VAT.

The UME accepts that ratepayers won't have to bear the full burden of the 12 percent. It says the introduction of VAT will raise rates by around 9 percent.

Landsberg says this figure was arrived at by taking out the savings which municipalities will achieve through not paying GST. He says the UME has calculated that effectively GST now accounts for about 3 percent of municipal spending. Passing that saving of 3 percent on to ratepayers and then levying 12 percent VAT would mean an increase of 9 percent.

A simple calculation shows that the 9 percent increase plus an increase in rates of say 14 percent to match inflation would bring the rates increase to more than 20 percent.

Landsberg says the delegation is hoping for zero exemption for local authorities in terms of VAT. VAT is not levied on rates in Britain, he says, though it is levied in New Zealand.

Another possibility is a kickback from the government to compensate for the impact of VAT. This could be phased out over a number of years.

VAT could offset all Budget benefits

W/Mail 28/3-4/4/91 (320)

By MARK ADDLESON

THE government's prognosis for the introduction of VAT does not coincide with the realities of the South African economy.

Discussions so far have revolved around the relative efficiency of VAT, the possibility of it stimulating investment, and the positive impact that it will have on the rate of inflation.

It is difficult to share the minister's optimism on any of these matters and, from a social welfare point of view, VAT's introduction in South Africa under the present circumstances should be roundly condemned.

One asks how a tax, which is designed to take more out of the economy than GST, can bring the rate of price increases down, when all groups who can do so will try to protect themselves via higher wage demands?

Fixed investment is conditioned more by the attitudes of businessmen than by short-term tax advantages, and the tax is going to cost more to administer.

On the social welfare side, VAT will place a very heavy burden on those living below the breadline.

The state has not indicated a willingness at this stage, nor does it have the apparatus, to compensate these people by way of welfare programmes.

●Mark Addleson is a lecturer at the Wits Business School.

Stow your surfboards and Fite

W/Mail 28/3-4/4/91 (320)

By CARMEL RICKARD: Durban

DURBAN'S mayor Jan Venter has urged "mass action" by the people of the region to curb inflation and improve the lot of consumers.

Venter officially launched a new initiative against inflation in Durban on Tuesday. Called Fite (Fight Inflation Together Effectively), it urges all consumers to stand up for their rights and badger their political representatives on issues such as inflation.

He said he could see the day when consumers took to the streets in protest against increased costs, adding: "In the new South Africa even whites should become used to demonstrating and making their voices heard and not accepting things like inflation."

Venter said consumers could be most effective in groups and encouraged the formation of community groups which would question and lobby against shoddy products and services, excessive price increases and other issues.

An immediate challenge is the government decision to levy VAT on rates, a move which could push Durban rates from an estimated eight percent increase to 18-20 percent.

Councillors, including Venter, have urged residents to "get the guts to speak up against the decision" and a public protest meeting has been called by the mayor for April 3.

"There is no doubt in the mind of accounting experts in all the major cities, that adding VAT to rates will make a tremendous contribution to inflation.

"This will be money taken out of the budget of the man in the street and I don't think we must accept that.

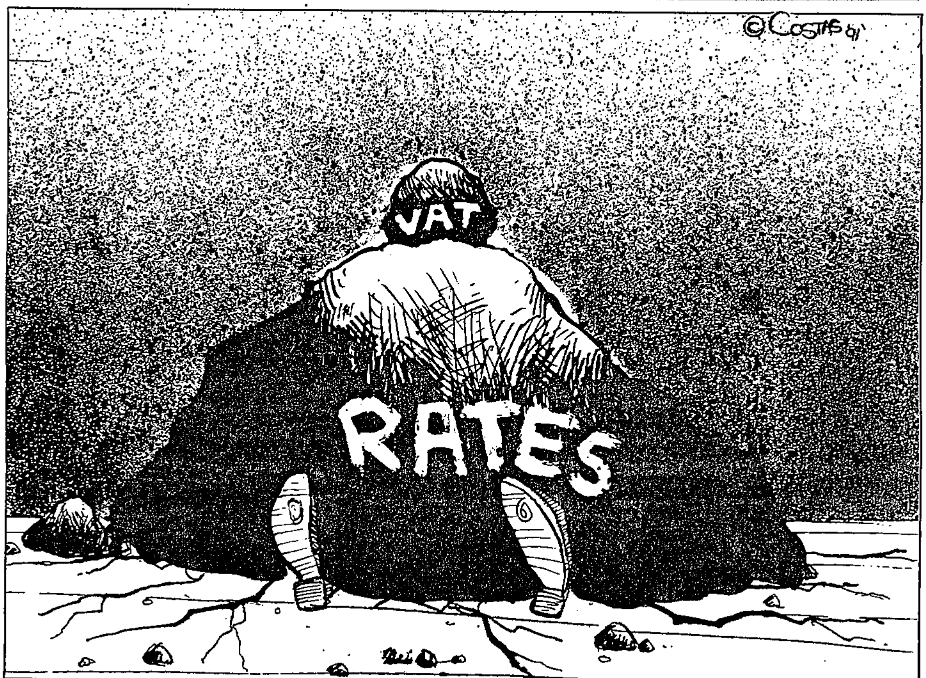
"For that reason I'm very happy to note the response to the public meeting and I hope that Durban people of all races will come to the meeting to make a statement.

"The statement we want them to make is: 'We are no longer prepared to accept increases like this. You represent us and it is your duty to look after us and to also join in the fight against inflation'."

BUDGET SUPPLEMENT TO THE WEEKLY MAIL

Review/Economy

INSIDE: PENSIONS ☆ WHERE'S THE 'EQUITY'? ☆ RAW DEAL FOR MARRIED WOMEN



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● Mark Addleson is a lecturer at the Wits Business School.

FOCUS ON THE ECONOMY

Individuals suffer as the companies prosper

WMail 28/3 - 4/4/91. (320)

The Budget increased the tax burden for the lower and middle income groups, while lowering the tax burden of companies, writes BRENDAN DARDIS, senior tax consultant at Ernst & Young

ONE of the main recommendations of the Margo Report into the tax structure in South Africa, published in 1986, was that a move be made from direct to indirect taxation.

Basically, direct taxes are levied on income, while indirect taxes are levied on consumption, with the result that the tax base is broadened.

This year's Budget objective was equity through economic growth and stability. But its effect is greater direct and indirect tax for individuals, and lower direct and indirect tax for companies. The thrust of the tax implications of the Budget are that the manufacturing and fixed investment sectors of the economy are favoured at the expense of the consumer. Whether this is equitable for the man in the street is dubious, to say the least.

The reduction in the company tax rate and import surcharge rate for capital goods, and the full input credit granted on capital and intermediate goods, provide both direct and indirect tax benefits to companies.

Under the GST system capital and intermediate goods were subject to GST. VAT will still be payable on these goods but the amount may be claimed as an input credit against VAT charged on sales (assuming the enterprise is making taxable supplies). The result is a neutralising of the tax.

The authorities have expressed optimism that these benefits will be passed on to consumers. Economists and financial observers are sceptical. Even allowing for the larger tax base under VAT, the government expects a R910-million loss in revenue for the last six months of the financial year compared to the income which GST would have garnered. Thus overall indirect tax revenue will be reduced.

The individual, on the other hand, is to be faced with an ever-increasing tax burden, particularly in the lower and middle income groups. Although the marginal rate of tax for married and unmarried persons has been cut by one percentage point to 43 percent, the benefits of the rate reduction have been offset by the reduction in rebates and the effects of fiscal drag, a phenomenon that government considers appropriate to ignore, and which arises as a result of inflation pushing up the nominal amount of salaries and wages. A direct consequence of this is that individual tax collections will increase by R7-billion this year and will now contribute 38,9 percent of total government revenue (the revised estimate for the 1991 fiscal year was 34 percent).

The greater effects of fiscal drag are borne by the low and middle income earners. For example, a married person earning R20 000 in 1991 would have paid tax of R1 700 (or 8,5 percent of income). The same person earning R23 000 in 1992 would pay R2 290 (or 9,96 percent of income). This represents an increase of tax payable of 17,18 percent.

A taxpayer earning R100 000 in 1991 would have paid tax of R32 500 (or 32,5 percent of income). Earning R115 000 in 1992 that taxpayer would pay R38 030 (or 33,1 percent of income) representing a percentage increase in tax payable of 1,85 percent.

A similar trend arises in the case of unmarried persons and married women, although the tax payable as a percentage of income differs.

It is doubtful that in the short term the introduction of VAT at a rate of 12 percent will provide the consumer with benefits compared to GST. When VAT is introduced on September 30 this year there is expected to be an initial jump in the inflation rate, partly due to businesses' expected reluctance to pass on the benefit of VAT input credits on capital and intermediate goods to the consumer, and the fact that many services not previously subject to GST will now be subject to VAT — such as rates, water and electricity charges, short-term insurance and medical services. Furthermore only brown bread and maize are not subject to VAT, whereas most basic foodstuffs were exempt from GST. VAT will also hit the informal sector, who have largely avoided paying GST.

Simply put, fiscal drag on individual taxes and the broader base of VAT collections have been used to finance the reduction in company tax rates and the VAT credit on capital goods. The Budget hits the low to middle income earners hardest and represents a redistribution of income as opposed to the redistribution of wealth supported by some commentators on the new South Africa.

Don't tie the knot too soon

(320)

By REG RUMNEY WMail 28/3-4/4/91

LIVING in sin is still more profitable for all but wealthy women.

While the final phasing in of completely separate taxation for married women is to be welcomed, it's no reason to get married.

True, the investment income of married women will now be taxed separately in their hands.

At the same time the Standard Income Tax on Employees (SITE) threshold for married women has been raised from R40 000 to R50 000.

And the top rate of tax for married women has been reduced to 38 percent, compared to 43 percent for married persons and unmarried persons.

At the top end of the scale this means a saving.

But an examination of the actual tax tables shows that at the lower income end of the tax tables at any rate married women are still not better off.

Take the example of a married woman, a married person, and an unmarried person earning a yearly income of R35 000.

With her primary rebate of R800 a married woman pays R8 320 in tax. A married person earning that amount pays R5 500; an unmarried person pays R7 125.

At the level of R200 000, however, a married woman pays R70 960 in tax, after primary rebates; a married person R74 600; and an unmarried person R77 565.

The breakeven point seems to be arrived at somewhere over an annual income of R120 000.

Aiken & Peat partner Pat McGurk comments that the minister was expected to make a further move to taxing married women and married men equally as well as separately, and it is surprising he did nothing at all.

Single people, too, are still unfairly treated by the taxman. According to the venerable principle of taxation on the basis of ability to pay, there is no logic in having three separate tables.

The rebate of R2 100 applicable to those over 65 years old now also applies to married women, as does the special rebate — being phased out over the next four years — of R120 for those over 62 years old but not over 65.

The downside of the tax moves is that Finance Minister Barend du Plessis has also started phasing out differential pension ages for men and women.

VAT will push up inflation – Sanlam

Consumer Reporter Star 28/3/91

(320)

The inflation rate could rise as much as 2 percent when value added tax is imposed on September 30, Sanlam said yesterday in its latest economic review.

However, VAT would eliminate double taxation on capital and intermediate goods, which would curb inflationary pressure.

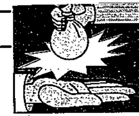
"But, owing to the underlying inflation propensity in South Africa and the increase in expenditure experienced by individuals because VAT will be levied on a much wider range of goods and services, the chances of demands for higher wages and salaries — with obvious implications for inflation — are good."

Higher food prices could also hamper efforts to force down the persistently higher inflation rate, Sanlam added.

"Food prices are subject to large seasonal fluctuations and they could — particularly in the short to medium term — seriously thwart the Government's attempts to lower the inflation rate significantly," said Sanlam.

DU TOIT ON TAX

THE SOUND OF BREAKING GLASS



Pierre du Toit is tax partner at Arthur Andersen

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FM 29/3/91

In Solaglass Finance (Pty) vs CIR, the Appellate Division has just handed down a decision which has further-reaching implications than any other during recent years *(The Taxpayer* — January 1991). In short, all five judges agreed that the taxpayer, a group finance company, was carrying on the trade of a money-lender and that a loan to a group company which had gone bad could be deducted under the general deduction formula of the Income Tax Act (Section 11(a)); however, by three against two, the court then denied the deduction to the taxpayer on the grounds that the loss had not been incurred "wholly and exclusively . . . for the purposes of trade" (S23(g) of the Act).

The reason (does the decision justify this important little word?) seems to be no more than that the taxpayer company had pursued its accepted profit objectives within the context of group objectives — like almost every other group company ever.

Space does not allow me to anticipate the barrage of criticism that this case will attract in the technical press. Suffice it to say, with the greatest seriousness and consideration, that in my view, the majority decision is thin on authority, contentious in analysis and superficial in its attempt to limit the potential damage of its own logic.

Indeed, were one consistent in this logic, the SA system of treating companies within groups as separate taxpayers has just been turned into a fiscal death trap. Add to this the clarity with which the majority once and for all broke any link between S11(a) and S23(g) and the case reaches into the fundamentals of our general deduction system.

What do taxpayers do now — more specifically, group companies? There is no appeal from the Appellate Division, nor does that court lightly contradict its own earlier pronouncements. At the same time, it's unrealistic to expect a hard-pressed Revenue not to make the most of this dubious windfall.

The first point is, don't ignore the decision; we are not dealing with an eccentric Special Court judgment. The case is compulsory reading for every group accountant and financial director.

Next, every group should examine its own circumstances. I submit that the basic question, whether a given expenditure/loss is wholly and exclusively laid out for purposes of trade, was dealt with by the court as a matter of fact rather than a matter of law.

On the assumption that a future Appellate Division court may not want to go this far, one should present it with facts which can be differentiated — that would give its members an honourable way to disagree with their brothers without having to say so.

So the task is to study the Solaglass case and avoid as far as possible factual similarity. It will be necessary to review actions, intra-group agreements, contracts, board and administrative documentation, policy statements, or press and annual financial statement announcements in the light of this.

A last thought: regardless of the merits of the case, can it be justice when a decision is finally delivered by the highest court on a claim arising from events which took place 12 years earlier?

CAPITAL GOODS

VAT SNAGS

The Budget announcement that capital and intermediate goods would be fully subjected to VAT from October 1 — which means purchasers are entitled to an input tax credit (ITC) — has stirred up a storm. A major concern is the position of suppliers, whose cash flows will be disturbed over the next six months. Then consumers are unlikely to benefit from the unqualified inclusion of capital goods in the VAT system.

Arthur Andersen tax partner Stephan Minne notes the granting of full input credit for all capital and intermediate goods is one of the most positive features of the Budget. But it is unrealistic to expect that the full benefit will be passed on to customers in reduced prices. The result will be that the burden on consumers will increase, even though VAT is expected to generate approximately R1bn less revenue than GST.

A material part of input credits will benefit exports instead of local consumers. For example, the mining industry invests large amounts in capital goods, but it is obvious that local prices will not benefit to the extent that production is exported. This will make exports more competitive but, ultimately, the public will foot the bill.

Regulated prices will also tend to inhibit the filtering through of benefits from ITCs. Inability to relate prices — for instance in the oil industry — to the specific circumstances of each producer will dilute the benefits to the consumer. Reinforcing this, says Arthur Andersen partner Pierre du Toit, is the inelasticity of markets for capital goods.

Tax specialist Costa Divaris shares this scepticism, pointing out that legal incidence of tax has nothing to do with the economic factors which determine whether a price will be cut in response to a particular event, such as a tax cut. He feels government has pinned too much hope on this naive premise.

A major practical problem, says Minne, is simply to quantify benefits. It is a fact that a business that knows what it pays in sales tax remains the exception. Even if this can be reasonably estimated, it is still difficult to relate a saving in (once-off) capital expenditure to ongoing pricing levels.

In the longer term, the granting of ITCs on capital goods will certainly lead to lower prices. But government should be careful not to create unrealistic expectations. The result might be that a broadly based system of indirect taxation, which is a crucial need, could be seriously discredited.

Noting that the granting of an immediate full ITC on capital and intermediate goods was far from fully thought through, Du Toit says that behind the purely fiscal factors lurks an important political reality.

To be seen to grant an immediate and major concession to big business at the same time as many more classes of goods are subjected to tax (with virtually no exemptions on food or other necessities) is to court political antagonism. It is highly doubtful that the benefit of the ITC will come through to the streets.

So any "solution" to the phase-in danger of delayed capital purchases, such as an interim GST concession, which would entail great concessions to business at the apparent cost of the consumer, risks something much greater — political rejection of SA's last chance for a broad indirect tax system. ■

THE BUDGET

SUGAR COATING?

FM 29/3/91 (320)

Business is cautiously optimistic that the package of relief measures in the Budget will help to reverse its declining fortunes. Finance Minister Barend du Plessis' handouts included halving the remaining import surcharge to 5%, reducing company tax by two percentage points to 48%, and scrapping the value added tax on capital and intermediate goods.

The last measure alone, which goes into effect October 1, could put a minimum of R6bn more each year into the pocket of industrialists, estimates SA Chamber of Business economist Keith Lockwood. His figure is an extrapolation of the annualised amount now paid by companies for these inputs under GST.

Industrial Development Corp senior GM Malcolm MacDonald says: "Based on these positive developments, we hope to announce some major capital projects during the current year."

Lockwood maintains that not levying VAT on capital and intermediate goods will not only boost exports, but should benefit consumers as lower costs are filtered down in the form of lower prices. However, he notes that this assumes that effective competition exists at most levels. The ever-present danger, of course, is that manufacturers might be tempted to pocket the profits.

In short, while the Budget may have contained some relief measures for business, they are not in themselves a panacea. Businesses still have to contend with the structural problems that bedevil growth — such as high interest rates, inflation, political instability, sanctions, low business confidence and local and global recession.

What's needed for SA to become globally competitive, they argue, is the immediate abolition of all import surcharges and the setting of the effective company tax rate at 30%-35%.

Sentrachem CE Johan van der Walt says: "The top end of the real company tax rate must be reduced so that we can remain competitive with countries like the US and UK, where the effective company tax rates

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are about 35%." He notes that chemical companies have to compete on the export markets with countries like Taiwan, where chemical companies pay only 25% tax.

But Iscor GM finance Eric van der Merwe, Barlow Rand director Ewert Groeneweg, Samancor GM finance Chris Norval and Textile Federation executive director Brian Brink all agree that the Budget has positive implications for investment in industry.

Iscor's capital expenditure programme for the year ending June 30 amounts to R1,3bn, so its future tax savings could be substantial. Barlows is in a similar position.

Samancor CE Hans Smith says his company has computerised the Budget's benefits on its joint, multibillion-rand Columbus stainless steel project with Highveld Steel and, though the concessions will assist the project, he says "it's too early to make any positive statements."

The Budget has certainly been good news for the motor industry. In addition to the reduction in import surcharges, there has been no apparent increase in fringe benefit tax and no mention of VAT on used cars. Theo Swart, joint MD of the McCarthy Group, says it should be somewhat easier for individuals and companies to buy vehicles. ■

'Codswallop' – cities tell Org

Councils gird their loins for last-ditch battle against 'tax on tax' VAT

STAR 30/3/91.

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CARRIE CURZON

A ROW broke out this week between Deputy Minister of Finance Dr Org Marais and South Africa's towns and cities over the plan to slap value-added-tax on municipal rates.

Dr Marais says VAT on rates would not increase the consumer's tax burden. Local authorities say that's rubbish.

City and local councils around the country have dug in their heels on behalf of the ratepayer.

After meetings this week, the councils — including those of the major cities — and the United Municipal Executive (UME) proposed joint and urgent action to fight what they labelled a "tax on tax" and what a senior Durban official called "iniquitous thieving".

Said Derrick Watterson, chairman of the Durban City Council management committee: "The statement by Dr Marais that this is to pay for municipal services is codswallop.

Harm

"A city council cannot advocate defiance of the law, so it would be inappropriate to refuse to pay. But I believe it will do our government an enormous amount of harm to go ahead with imposing VAT on rates."

Since the issue underwent serious discussion last week at the UME, members of local government have been banding together to fight VAT on rates.

Mr Watterson said: "The UME thinks the same as Durban City Council: that this is clearly a 'tax upon tax'. Putting VAT on rates is no different from putting VAT on income tax."

The local government revolt met with harsh criticism this week from Dr Marais who said the claim of double taxation was wrong. There were no municipal taxes before VAT and payments were merely a fee residents paid for services.

It was justifiable to levy a 12 percent VAT on goods and services, he said, adding that he was concerned that an impression was being created that VAT would place an additional burden on consumers. "Thanks to VAT, R1 billion less tax will be paid."

The mayor of Durban has been asked to call a public meeting on Wednesday at the city's Exhibition Centre to discuss the tax law.

Mr Watterson believes that VAT is legitimate when imposed on items in which the consumer has a choice. "But people do not have a choice when it comes to municipal services. The public has no option regarding such things as the building and maintenance of roads and cleansing services — that is what we pay tax for."

Cape Town's city treasurer, Eddie Landsberg, said at Tuesday's meeting of councillors town clerks and treasurers of the major cities, that there were enormous misgivings about VAT on rates. A memorandum had been lodged with the United Minicipal Executive (UME), he added.

The same memo, signed by 37 councillors, was sent as a protest petition to the Minister of Finance. It said ratepayers could not be compared with the ordinary consumer who paid GST on most of his or her purchases, and that any benefit from the scrapping of GST would be very small if VAT applied to rates.

Said Mr Landsberg: "We will take a strong line just as Durban has done. The major cities will stand together democratically."

Paul Asherson, transport and utilities chairman on Johannesburg City Council's management committee, said every town and city had united against VAT on rates.

Tony Challenger, chairman of the Northern Areas Group and spokesman for residents associations in 18 northern suburbs, said: "We suggest the city councils refuse to pay this tax. Let government collect it themselves."

Chairman of Johannesburg's management committee, Ian Davidson, said Dr Marais was misunderstood what rates were all about. "Rates are not a fee that residents have to pay for services. They are quite simply a tax on property that is levied by a local authority for the financing and running of the city.

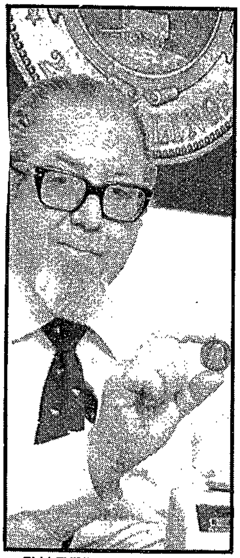
"This will have a massive impact on the poor ratepayer."

He said both cities and the UME would be making strong representations to the Government.

Andre Jacobs, chairman of Randburg City Council, is adopting a "wait and see" policy, believing that before any rash action is taken it is sensible to study exactly how the new tax will work.

VAT threatens death of trade in Krugers

S/Times 31/3/91. 320



ELI LEVINE: A helping hand

THE MARKET for Krugerrands could be killed if the Government goes ahead with its plan to make them subject to VAT.

Peter Cahi, general manager of Investec Bank's trading division, says: "The Merchant Bankers Association has appealed to the authorities to reverse their decision because when VAT was levied on gold coins in the UK the market died."

The new tax threatens the market because it will put a 12% premium on the price of a new Krugerrand over and above any other it might have over the equivalent price of gold.

In addition, VAT will be chargeable on the commissions of dealers selling Krugerrands.

Maple

Other gold coins, such as the American Eagle, the Canadian Maple Leaf and the Australian Nugget, which are more acceptable than the Krugerrand in international markets, trade at a premium of about 3% over the gold price.

Traders have anticipated the consequences of VAT because for the first time in years Krugerrands in circulation are changing hands at or even below the equivalent price of gold. They are, therefore, cheaper than new Krugerrands which the Reserve Bank sells at a premium of at least 3% above the gold price.

The Reserve Bank has for some years made new Krugers available to traders at weekly tenders. It offers 6 000 ounces of coins for sale and always sells all the coins on offer.

In times of high demand the bank realised premiums as high as 40% on the gold price.

This happened when they were being bought as a hedge against the

By CURT VON KEYSERLINGK

weakening rand. But more recently the premium sagged, partly because of the belief that the Kruger does not fit the image of the new South Africa. The VAT news eliminates it.

Mr Cahi says VAT will make Krugers a mere commodity and they may be delisted on the JSE. Brokers will probably not want to handle them because of the administrative burden of calculating VAT, which will not apply to shares.

"Our argument for not imposing VAT is that Krugers have less in common with commodities than they do with shares. They are regarded as a valid component of investment and pension fund portfolios like shares."

Demand for new Krugers remained firm until four weeks ago. The Reserve Bank's allocation of 6 000 ounces of coins was sold — but then only 200 ounces were sold. In the next three weeks the sales fell to 125 ounces, 50 ounces — and nothing.

The drop in demand may cause the Mint to at least temporarily cease production of Krugers. A source at the Mint says no decision has been taken.

One Johannesburg coin dealer says VAT could put him out of business and he is seeking opportunities in other fields.

Soften

SA Gold Coin Exchange's Eli Levine will try to soften the impact of VAT on Krugers by not charging a commission, on which VAT is payable. This means there will be no VAT component on his transactions of "second-hand" Krugers, but new Krugers will still carry 12% VAT.

VAT will also be chargeable on imported coins. The Numismatic Society has made representations to have them exempt from VAT, but some bankers say its case is not as strong as the one for exempting VAT on Krugers.

TAXATION - 1990

MAY ~~JUNE~~ — July

were mineral products, while imports ... sisted of a broad range of manufactured proaching Eastern

As legislation gets under way, VAT resistance rises

320

B/Day 2/5/90

LESLEY LAMBERT

CAPE TOWN — With draft legislation which will enable a change to value added tax (VAT) expected out soon, strong resistance from some quarters and debates on whether the new tax system should replace GST at all, are gathering steam.

A major concern, voiced by the Cape Town Chamber of Commerce, is that the proposed switchover from GST to VAT will achieve very little additional return for the fiscus and subject the country to a costly and complicated adjustment to the new tax.

The chamber, along with a number of tax consultants who have studied VAT, argues that the net result of a change will be a hidden and more costly tax system which the man in the street will end up funding by way of higher prices for goods and services. It recommends government should rather widen the base of GST and reduce the rate to a more reasonable level.

Finance Minister Barend du Plessis announced in his Budget speech in March a draft Bill to provide for the change would be published shortly. He gave assurances sufficient time would be allowed for general comment and consultation. He also promised a period of six months would be allowed after the final parliamentary approval of legislation before the tax was implemented and that this would not occur before October 1991.

Resistance to the change is implied not only in the Minister's assurance but also in the number of times the target date has been deferred.

Cape Chamber of Commerce executive director Alan Lighton argues that, apart from the difficult political decision of whether or not to include foodstuffs in the tax net to bring the rate down from an estimated 15% which would be needed to collect the same revenue as the present GST, there are many other problems to be overcome.

Bolstered

VAT is a sophisticated tax and requires complex returns and an extensive controY network. Lighton reports that in the UK about 770 people work at the two mainframe computers that handle the processing and verification of returns. More than 35 000 traders are visited each month to have their duties explained and the accuracy of their returns checked. 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.

The British Press reported this month that the present staff of 10 800 could not handle the VAT business and were going to be bolstered by another 1 000 officials over the next three years to cope with the growing workload.

One of the arguments for VAT is that it is self-policing. Businesses down the distribution line insist that VAT is paid by their suppliers to minimise their own tax liability. Lighton argues, however, that this control does not apply to the final supplier and that this is where the UK experience demonstrates that there are as many, if not more, problems with VAT as with GST.

Lighton says that other problems with VAT are that it is added into the cost of goods and services, thereby removing it from public scrutiny and requiring traders to remark prices on all their goods.

As a result, Lighton says it will multiply the number of tax collection points, adding to the cost of collection, it will cause financing problems for businesses which have to pay the tax before collecting it and it will introduce accounting and administrative complexities.

Another problem is that if government decides on a multiple-rate system to reduce the regressive effects of a single rate structure, it has been estimated that administrative costs could increase by 50% or more, he says.

Interest, tax dent Afrox 320

Higher interest payments and an increased tax rate took some of the bloom off the profit increase of African Oxygen (Afrox) in the six months ended March.

Star 4/5/90

But its shareholders have not suffered as Afrox has increased its interim dividend by 25 percent to 50c a share.

Turnover of Afrox, which is the country's major supply of industrial gases, rose strongly by 26 percent to R437,7 million. Trading profits rose even more, by 28 percent to R94,4 million. But a 163 percent jump in net interest payments to R15,8 million held down the increase in pre-taxed profits to 16 percent. And an 18 percent rise in tax payments resulted in the taxed profit rising only 14 percent to R40,4 million.

However, the day was saved to some extent by a proportionately smaller increase in the additional depreciation. This helped attributable profits to grow by 19 percent to R30,9 million equal to 103c a sharre.

All divisions performed well in an economy that is slowing, said Mr Joubert, who expects profits and earnings for the second half of the year to be simnilar to those of the second six months of last year when earnings were 83c a share.

FM 4/5/90 (320)

INTERNATIONAL TAX (320)

Softer trend

FM 4/5/90

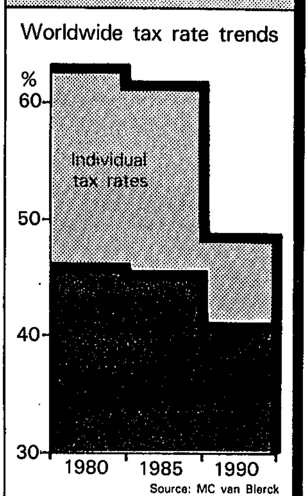
A trend towards lower corporate and personal tax rates is emerging in a surprisingly broad range of countries (**see chart**), says Juta's *Foreign Tax Review.*

Editor Marius van Blerk says in the latest edition that reform has important consistencies. Methods involve widening the income tax base, reducing income tax rates and an increasing emphasis on indirect taxation (in particular, VAT). Research is hampered, he notes, by the importance of regional (as opposed to national) taxes in some countries. Corporate rates (**table 1**) and maximum individual rates (**table 2**) are, therefore, combined national and regional rates.

There has been a steady drop in corporate tax rates in the past decade in 40 countries. Most of the obvious change took place in the past five years, though the important and influential UK tax reform (including a cut in corporate rate from 52% to 45%) was in the first half of the Eighties.

From 1985-1990, the average corporate tax rate fell from 45,23% to 40,60%.

Softening pressure



Most significantly, however, the decrease in nominal tax rates has not implied an automatic decline in effective rates, because the tax base has generally been broadened — usually through the restriction or elimination of special incentive allowances and capital deductions — a practice followed here too.

Van Blerk says it is remarkable cuts are not confined to countries generally ranked as highly committed to free enterprise. Corporate tax rates have been cut "by a wide range of countries on all continents with differing political philosophies."

Maximum personal tax rates have also declined sharply, largely because they were significantly higher at the beginning of the decade than corporate rates. In the second half of the decade, the average of the maximum marginal rates for the countries studied fell astonishingly, from 61,46% to 48,25%, bringing the decline for the decade as a whole to 14,45 percentage points.

In 1980, 21 countries had maximum marginal rates of more than 60%, seven being above 75%. Sweden headed the list of industrial countries at 86%, while Tanzania had a rate of 95%. But by 1990 only five countries imposed a maximum above 60% and none above 75%. Zimbabwe was notably out of step, increasing the maximum by 10,5 percentage points to 60%.

If Sweden completes the final leg of its reform, it will have implemented the fourth largest decline: 36 percentage points.

At the beginning of the decade, a clear majority (52,3%) of countries sampled imposed neither a broadly based sales tax nor a VAT. By 1985 this had shrunk to 43% and by 1990 to 31,4%.

Sales taxes showed a slow growth in popu-

FM 4/5/90 (320)

larity, used by 19,8% of countries in 1980 and 24,4% by 1990. But this trend was heavily overshadowed by the spread of VAT. At the start of the decade, countries with VAT comprised 27,9% of the sample, 33,7% by 1985, and 44,2% by the end of the decade.

All of which suggests that SA is on the right road — reducing maximum rates but cutting special corporate exemptions and placing greater reliance on indirect taxes as well as switching from GST to VAT. ■

SALES TAX F/M 4/5/90 (320)

Making wine

A recent income tax case — CIR v Stellenbosch Farmers' Winery (SFW) — provides important tests to determine when a process of manufacturing begins. Writing in Deloitte Haskins & Sells' *Transaction Tax News*, tax partner Ken Boggis points out the case also has significance for GST.

F/M 4/5/90 (320)

SFW claimed initial and investment allowances on machinery used in a process of manufacture on bulk carriers to transport mixed raw wine from individual wine farms and co-ops to its Stellenbosch premises.

The Supreme Court decided the "process of manufacture" of the wine begins before — or at the latest when — raw wine is placed in the carriers. The carriers thus qualify for GST exemption on parts, materials and services used to repair and maintain them.

In determining whether the requirements of the Income Tax Act (whether SFW was involved in any process of manufacture prior to the transportation of the wine and whether the carriers were used directly in the process) were complied with, the Court applied the following tests, which Boggis points out are of general application when raw materials are purchased from third parties:

☐ Does the manufacturer determine the type of raw material source used (here, the type of grape to be planted)?

☐ At what stage does he begin to give advice and assistance in relation to the raw material (such as carrying out inspections and giving advice about problems)?

☐ Does the manufacturer place an order for the raw material before it is actually available and set the price then?

☐ Does he give the supplier any instructions before the sale of the raw material (here, on how to mature wine)? and

☐ Does the process of manufacture begin at the point of transportation (here, through mixing raw wine from various sources)?

A combination of one or more of these requirements could enable services and materials for the maintenance of vehicles so used to qualify for GST exemption. ■

Investors hobbled by the 10-year rule

S/Times 6/5/90 (320)

DONALD GLYN, analyst at stockbroker Martin & Co, contends that the Budget "concession" making capital gains on shares held for more than 10 years tax free represents no progress. He puts a strong case for a more objective definition.

THE distinction between a capital gain and income is crucial for individuals who own shares because income is taxable — often at the maximum marginal rate of 44% — and capital gains are not.

It is extraordinary therefore that the Income Tax Act does not provide a definition or a set of rules which clearly distinguish capital gain from income. As a result, it has been left to the courts to settle disputes between taxpayers and the Commissioner of Inland Revenue.

The most important criterion for distinguishing income from capital gain is the intention or purpose for which the asset was acquired.

Unfortunately, this is difficult to prove one way or the other. The taxpayer may have mixed intentions, or there may be a subsequent change of intention. Even other factors may in the final result prove decisive. It is hardly surprising, therefore, that this matter has caused great confusion.

DONALD GLYN ... taxpayers caught in a cleft stick

It was held in two recent cases — ITC 8217 and CIR v Middleman — that, because shares were acquired with the dominant purpose of keeping them as long-term investments, all realised profits and losses were of a non-taxable capital nature.

This was to be distinguished from shares which were acquired with the primary purpose of holding them for long-term reasons but also with the intention of selling them at a profit. Such gains were classified as income for tax purposes.

On the question of intention, it is hard to imagine circumstances in which an investor would acquire, without any profit motive, shares on, say, a 4% dividend yield when returns approaching 16% are available on gilt-edged securities.

The Margo Commission recognised the importance of removing the confusion among taxpayers and suggested that our law develop clear, objective criteria for distinguishing capital gains from those of an income nature.

The Government, however, foresaw problems in defining acceptable objective criteria and suggested that the issue of a capital gains tax be reconsidered. It referred the matter to the permanent Tax Advisory Committee (TAC).

The TAC's initial solution, accepted in the recent Budget proposals, was to introduce a "safe haven" concept for capital gains. This haven provides that profits and losses made on the disposal of shares listed on the JSE are deemed to be non-taxable capital gains if the sale takes place at least 10 years after the date of acquisition.

The only onus on the taxpayer is to prove that the shares were held for the required time. He need not provide any reason for the original purchase or the subsequent sale.

Taxpayers are also required to elect — presumably in the relevant tax return — whether or not they wish to be subject to the new "safe haven" proposal.

It has been argued that the tax position is now even worse because the authorities have the 10-year term as an official benchmark and they may take a tougher line on profits realised over shorter periods.

This is definitely not the Finance Minister's intention. He said in his Budget speech that, subject to this concession, the existing rules for the distinction between capital and income would continue to apply.

Even if the 10-year rule does not result in a more harsh interpretation in the various Receiver's offices, the current situation is wholly unsatisfactory.

The introduction of a "safe haven" for shares held for more than 10 years will do little to improve the liquidity for our markets. The proposal affects only those shares held by taxpayers who have been classified as share dealers or where there has been reluctance to sell listed shares held for a long time for fear of being unable to prove that the gain was of a capital nature.

It will, however, prove of great benefit to the mining houses in that it allows them to free capital, effectively sterilised, for new projects and investments.

Taxpayers will continue to realise large profits on the disposal of shares only in exceptional circumstances or where there is a clear-cut defence — for example, where there is a divident cut — against any threat to tax the gains.

The tendency for taxpayers to buy and hold only low-risk blue-chip companies has perpetuated a two-tier pricing structure where blue-chip companies are expensively rated compared with smaller ones.

It has also helped to cause a built-in bias against small companies making it difficult, and costly, for them to raise capital. This is obviously undesireable in the new South Africa.

By forcing investores to remain fully invested, even in overheated and bear markets, heart-stopping volatility is often caused in portfolios.

Tax uncertainty undermines the ability of taxpayers to plan their affairs. The 10-year rule does nothing to remove this and the continuing threat of being taxed on gains will, as before, continue to discourage saving through equity investment.

The Government has stressed that the 10-year rule is not a final solution. We trust, in the interests of personal financial planning, mobility of capital, and liquidity in the markets, that urgent steps will be taken to remove the remaining uncertainties.

Other countries have satisfactory simple rules and there is no reason why we cannot do the same.

(c) (i) Request for a statement of policy in respect of the importation of fireworks with a view to banning them.

(ii) I responded in the negative for cultural and religious reasons.

(2) No, because I consider that such a ban will interfere with the cultural and religious freedom of people.

Decentralisation/deconcentration

*21. Mr H H SCHWARZ asked the Minister of Trade and Industry and Tourism:

What was the total amount paid out in respect of decentralisation or deconcentration benefits in 1989?

Hansard 8/5/90 B922E

The MINISTER OF TRADE AND INDUSTRY AND TOURISM:

R786 655 000.

Decentralisation/deconcentration: tax lost

*22. Mr H H SCHWARZ asked the Minister of Finance: Hansard 8/5/90

What is the total amount of tax lost or expected to be lost as a result of tax concessions granted to decentralised or deconcentrated industries in respect of the year ended 31 March 1989?

B923E

The MINISTER OF FINANCE:

It is estimated that the loss of tax as a result of the granting of concessions to industries in decentralised or deconcentrated areas will amount to approximately R1 million for the financial year ended on 31 March 1989. Final figures are not available as many assessments, especially in respect of companies, have yet to be processed.

With effect from 1 April 1982 the allowances have been phased out of the Income Tax Act and replaced by direct subsidisation by the Department of Trade and Industry and Tourism. This is why the loss of tax is much smaller than in previous years.

Teachers not paid

*23. Mr K M ANDREW asked the Minister of Education: Hansard 8/5/90

Whether any teachers employed by his Department on or before January 1990 had not been paid by 15 March 1990; if so, (a) how many, (b) why and (c) what steps (i) have been taken in this regard and (ii) are being taken to prevent a recurrence of such delays in the payment of salaries?

B924E

The MINISTER OF EDUCATION: Hansard 8/5/90

Yes

(a) 1 217

(b) In most cases the documents required for payment of salaries were not received in time. The unrest in some schools apparently largely contributed to this state of affairs.

(c) (i) Area officers were instructed to assist in receiving and completing application forms for employment of teachers.

(ii) Principals have been instructed to report to regional officers cases of teachers in any of their schools whose salaries are not paid at the end of each month.

(iii) Regional offices must report monthly to head office on outstanding salary enquiries.

Job creation scheme

*24. Mr J VAN ECK asked the Minster of Manpower: Hansard 8/5/90

With reference to the job creation scheme, (a) what amount was made available for the (i) 1989-90 and (ii) 1990-91 financial years, (b) how are allocations to provinces, organisations, other Government Departments and individual companies determined and (c) (i) according to what rules and (ii) under what conditions are moneys so earmarked for job creation allocated to those who make use of the scheme?

B928E

The MINISTER OF MANPOWER:

(a) (i) 1989/90 – R60 million

(ii) 1990/91 – R75 million

(b) An inter-departmental committee is responsible for the distribution of funds between Departments and Adminstrations. Thereafter each department and administration allocates funds according to applications received for funds to be made available. As far as is known only the Department of Manpower allocates funds to private companies and -organisations.

Hansard 8/5/90

(c) (i) and (ii) Job Creation projects administered by the Department of Manpower must meet the following criteria and funds are allocated accordingly:

It should

- be labour intensive;
- focus on the creation of permanent assets;
- be aimed at the upliftment of under-developed communities;
- serve the interests of the community as a whole;
- whenever possible, be combined with training; and
- be distributed geographically country-wide as proportionately as possible.

Crime prevention unit in Sandton: arrests

25*. Mr D J DALLING asked the Minister of Law and Order:

How many arrests in respect of each specified offence were effected in 1989 by the special crime prevention unit stationed in Sandton?

Hansard 8/5/90 B935E

The MINSTER OF LAW AND ORDER:

1 240 arrests on a variety of charges *inter alia*:

Assault
Malicious damage to property
Possession of drugs
Dealing in drugs
Illegal immigration
Consuming liquor in public
Tresspassing
Motor vehicle theft

Certain police stations: serviceable patrol vehicles

26*. Mr D J DALLING asked the Minister of Law and Order:

(a) How many serviceable patrol vehicles (i) with and (ii) without radio equipment installed are stationed on a daily basis at the (aa) Sandton, (bb) Bramley, (cc) Wynburg/Alexandra and (dd) Lombardy East police stations and (b) in respect of what date is this information furnised?

B936E

The MINISTER OF LAW AND ORDER:

(a)

(aa) (i) 19 vehicles

(ii) 12 vehicles

(bb) (i) 4 vehicles

(ii) none

(cc) (i) 6 vehicles

(ii) none

(dd)(i) 3 vehicles

(ii) 5 vehicles

(b) 30 April 1990

Members on duty using vehicles which are not equipped with radios, are issued with portable radios.

INTERPELLATIONS

The sign * indicates a translation. The sign †, used subsequently in the same interpellation, indicates the original language.

Own Affairs:

White schools: mandate from parent community

Mr R M BURROWS asked the Minister of Education and Culture:

Whether, in the light of the proposed abolition of the Group Areas Act, he intends to require schools wishing to remain open to White pupils exclusively, to obtain an overwhelming mandate to this effect from the parent community concerned; if not, why not?

Hansard 8/5/90 B977E.INT

The MINISTER OF EDUCATION AND CULTURE: Mr Chairman, on 19 April 1990, the hon the State President referred to the proposed scrapping of the Group Areas Act and the Government's mandate to put in its place a general pattern of residential areas which will be generally acceptable. He also stated that, *inter alia*, generally acceptable means a system which

Tax fuels inflation — economist

(320) BD 8/5/90

NEIL YORKE SMITH

HIGHLY progressive tax schedules and powerful tax accelerators are important causes of SA's rampant inflation, Nedbank economist Edward Osborn said yesterady.

"To maintain the same real position in an environment where official inflation is about 15%, a salary increase of 20% is required," he said.

"It is frightening that in some cases a given increase in taxable income results in a doubling of the amount of tax paid. Because tax payments take a greater proportion of income you are constantly striving to maintain the same position."

This resulted in a situation where people were "running as hard as possible but staying in the same place", Osborn added.

Demands for higher pay increases were countered by similar demands for higher increases by managers who were reluctant to decrease the wage gap, he said. Union pressure was also an important factor.

"In effect, labour costs rise at a greater rate than productivity. This is inflationary, as cost increases are simply passed onto end users in the form of price hikes.

"SA's uncompetitive economy and the ease with which money supply is increased makes it all too easy to pass costs on," he said.

In a more competitive environment companies would be forced to keep prices low and focus on efficiency, or accept lower profits, he said.

Osborn confirmed the problem was partially self-fulfilling, as people expected a certain inflation rate and consequently demanded higher pay increases.

This had the effect of pre-empting the type of inflation South Africans had become accustomed to, he added.

There was no easy solution to the problem, Osborn said.

"We need a stable currency to reduce external influences on inflation, a change in wage and salary structures and a different tax climate in which people are not constantly striving to maintain real incomes," he said.

TAXATION F/M 11/5/90 (320)

Fiscal accelerator

Despite Budget adjustments to the progressive scale (**see graph**), the middle income earner carries a disproportionate tax burden,

says Nedcor chief economist Edward Osborn in the latest *Nedbank Guide to the Economy.* He also draws attention to the continuing imbalances between direct and indirect taxes.

Direct taxes as a percentage of all-race current income rose from 7,6% in 1981 to 11% in 1988. Pressure has increased, says Osborn, through the rising rates of indirect taxes, especially GST.

Osborn examines an average married taxpayer with taxable income of R31 450 after pension contributions, based on the "size distribution" in the Commissioner of Inland Revenue's most recent statistical bulletin. This taxpayer would pay income tax of R5 750 in fiscal 1989, compared with R2 440 (in 1989 values) for an average taxpayer in 1981. The 1991 schedule requires payment of R5 430 at 1989 values.

So the proportion of tax to income paid by a married taxpayer with no children has increased from 7,5% in 1981 to 18,3% on the 1990 schedule, easing to 17,2% in 1991.

On reasonable assumptions about spending on food, a further 9,5% could go in GST.

With other indirect tax, some 30% of income could go in all tax, direct and indirect. Osborn estimates a taxpayer earning R80 000 will pay a total of R40 000 in all forms of tax.

Osborn argues that fiscal drag (which he calls the tax accelerator) has been a main cause of inflation in recent years. Because of the progressive scale, a salary increase equivalent to the rise in CPI leaves an individual worse off, as the proportion of nominal income taken in tax rises (the accelerator). So net income rises less than CPI. The average married taxpayer (on the 1990 tax schedule) needs almost 20% more taxable income to maintain real net income with 15% inflation.

The desperate efforts of wage and salary earners to escape this trap have acted as a powerful pump to push up money remuneration faster than CPI, as well as diverting a greater proportion of income into fringe benefits to circumvent the system.

There would also be a tendency to widen the salary and wage structures through an increased spread between those at the bot-

Osborn

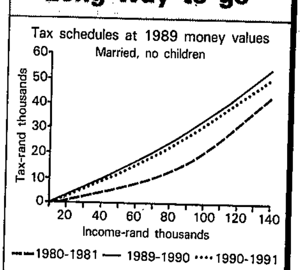
tom and those at the top of the scale.

The result would be precisely what we have suffered — remuneration costs rising well ahead of productivity. So the vicious circle of inflation becomes self-perpetuating.

Further major reform is needed to correct for fiscal drag and extinguish this powerful mechanism for intensifying inflation.

Says Osborn: "The tax accelerator is the ratio of the percentage increase in tax paid to the percentage increase in taxable income. For the average taxpayer, the tax accelerator is as much as two. It also shows a tendency to be greater, the larger the percentage rise in taxable income, for example 2,28 for a 12% rise and 2,35 for an 18% rise. At a taxable income at the top marginal rate of R80 000, the tax accelerator is 1,38 on the 1990 schedule and 1,49 on the 1991 schedule." ■

Long way to go



INCOME TAX FM 11/5/90 (320)

New line on SITE

Contrary to general understanding, the Commissioner for Inland Revenue's office says it's not true that any error in deducting tax from income subject to SITE can be corrected only by the employer.

In a recent press release the commissioner says employers must rectify overdeductions but, should they — for an acceptable reason — fail to do so, any taxpayer who does not have to submit a return may approach his Receiver of Revenue.

Operational development director Des Goosen says acceptable reasons include:

- ☐ If the employee is no longer working for the employer who made the error;
- ☐ If the employer has ceased trading;
- ☐ If an error in deducting SITE is discovered after the employer has completed the annual task of reconciling his payments to Revenue with the amounts recorded on all IRP 5 forms issued to employees; and
- ☐ If an employer refuses to make a refund despite the employee having made a good case that there had been an overdeduction.

The release emphasises the importance of employees giving employers completed IRP 2 forms, containing personal information including marital status and number of dependants. Many wrong deductions occur because employees fail to submit or update IRP 2 forms. (If no IRP 2 is submitted, the employer must deduct SITE at the highest rate applicable.)

What is really needed to solve the problem of incorrect deduction of SITE payments, argues Kessel Feinstein tax partner Ernest Mazansky, is to educate employers about the precise requirements of the system, rather than further legal changes.

Revenue may have been far too sanguine, when introducing the SITE system, in believing it could simply and easily decant an important proportion of its administrative load onto the private sector. The evident difficulties and misconceptions that have arisen demonstrate the contrary.

There does not seem to be any short cut to an effective tax system. Necessary pay and other adjustments must be made to enable Inland Revenue to perform its complex but vital task effectively.

The next major test of tax administration is likely to be the introduction of VAT. If Revenue is not adequately manned and administratively prepared, the problems that will arise will make current difficulties with SITE look like an afternoon tea party. ■

Talks to focus on tax laws

Sowetan 11/5/90

(320)

By JOSHUA RABOROKO

SOWETAN Business is inviting black entrepreneurs and interested people to attend a post-Budget seminar at the Chamdor In-Service Training Centre near Kagiso on May 23.

The seminar, which starts at 9am, is aimed at educating participants on tax changes.

Subjects to be discussed on taxation are dividends, investment income, listed shares in the Johannesburg Stock Exchange, married women, closed corporations, the construction industry, rebates, rates and 1989/90 tax returns.

The overview for tax changes will be presented by a tax and business law expert from the University of South Africa and tax director Matsheru Matsheru from Soweto.

Tax planning for the year 1990/91 will be presented by Anthony Chait and tax partner Fisher Hoffman Stride, followed by a panel discussion.

For bookings contact Mr Arnold Maqgoki at 410-2622/5852 or Mr Marcus Matsafu at 665-2002. For further information contact Jacqueline Dire at (011) 982-2297 (day) or Matsheru (011) 932-8277 (evenings).

S/Times 13/5/90

Airport fly-out tax of R3 is on the cards

(320)

By ROGER MAKINGS

SOUTH AFRICANS will have to pay an airport tax within months — to help finance the badly needed R65-million revamp of Jan Smuts Airport.

Reform moves by State President F W de Klerk have seen an enormous increase in foreign tourism in the past few months, making the revamp vital.

Minister of Transport George Bartlett announced in Parliament on Friday that taxes of R3 for departing domestic passengers and R25 for departing international passengers were being considered.

However, the chief director of the Directorate of Civil Aviation, Mr Japie Smit, said the figures were "tentative".

He said it had not yet been decided how the tax would be collected.

Boost

There were three options:

- Selling airport tax tickets to departing passengers;
- Adding the tax to the price of air tickets;
- Adding it to airlines' landing and parking fees, in which case it will, no doubt, be passed on by them to passengers.

"We still have to liaise with local and international airlines on this matter," said Mr Smit.

He said it had also still to be decided if the tax would initially be charged at Jan Smuts only, or at all state airports simultaneously.

"This is not a dedicated fund, merely a means of boosting state coffers to enable the Goverment to proceed with the facelift," he said.

Tenders will be called next week for the revamp which will feature airside corridors along the facade of the building with passenger loading bridges.

New airport tax approved in principle

LESLEY LAMBERT

CAPE TOWN — The levying of departure tax on passengers leaving state airports would enable the government to start upgrading facilities at Jan Smuts airport, according to Transport, Public Works and Land Affairs Minister George Bartlett.

Opening the debate on his department's budget on Friday, Bartlett said government had approved, in principle, the levying of departure taxes ranging from R3 for domestic to R25 for international passengers.

He said state airports were running at a loss and funds for necessary capital expenditure were becoming increasingly difficult to obtain.

But, with the additional income from departure taxes, government would be in a position to start upgrading facilities at Jan Smuts.

He said the original tenders received for work at the airport had been cancelled for technical reasons. New tenders would be invited on May 18 and the contract would most probably be awarded by the end of July this year.

Bartlett said that apart from generating funds, the new tax would create the necessary climate for the commercialisation of airport operations.

He also hinted during the debate at the possible tolling of metropolitan roads.

(320)

Concession eliminates 'twin tax on profits'

BDay 13/5/90

Business Day Reporter

THE abolition of tax on dividends received by individuals places SA in a select group of countries, says the latest Bank of Lisbon Economic Focus.

"SA is one of the few countries in the world to provide such a tax compensation," it said.

The move represented a milestone in the fiscal and economic affairs of SA. It eliminated double taxation of profits and could provide many benefits.

(320)

"Apart from possibly boosting overall personal savings, it will contribute towards neutrality of tax in the selection of the form of business organisation, as well as lead to neutrality between debt and equity financing in the tax system.

"In addition, the elimination of taxes on dividends received by individuals eases the administrative burden faced by Inland Revenue in processing tax returns.

"It may mark a step along the road to a drastic scaling down of the system of provisional income tax returns in SA, and individual annual income tax returns."

The move could lead to more individuals directly participating in the share market, but it was unlikely the dominant position of financial institutions in the share market would be materially affected.

"Nevertheless, by encouraging smaller private investors to enter the share market, interest in high dividend-yielding shares could rise.

"Renewed interest in these counters could diminish the present two-tier nature of the market in which financial institutions focus their buying activities on a coterie of blue chip shares which trade on relatively low dividend yields."

It said the share market should also become more dividend-oriented, with companies having stronger tax incentives to pay out higher dividends.

"Share values should benefit from higher dividend payments, and this could lead to a fall in the cost of equity capital, thereby enhancing the investment opportunities open to companies.

"Profitable new investments would create new jobs and strengthen the growth rate of the economy."

"The abolition of dividend taxes also raises a number of other tax issues.

"Although life insurance companies still pay tax on two-thirds of their dividend income, the application of the trustee principle to these organisations suggests that they should now be exempted from dividend taxes as well."

Hospice chief wants tax relief

BI Day 15/5/90

THEO RAWANA

GOVERNMENT was yesterday urged to permit corporate donations to organisations such as hospices to fall within the ambit of Section 18 (a) of the Income Tax Act.

At the opening of National Hospice Week in Johannesburg, Hospice Association of the Witwatersrand (HAW) chief executive, Stan Henen paid special tribute to JCI for its financial support.

Henen said government should either match private sector contributions or recognise companies' efforts by granting tax concessions for corporate donations to certain causes.

JCI chairman Murray Hofmeyr backed Henen's call.

Hofmeyr said that in 1984 JCI made a substantial donation towards the purchase of the present in-patient hospice unit in Houghton Drive.

JCI again responded in 1986 by providing funds which enabled the purchase of the an adjacent property in 2nd Avenue. (320)

Tax return backlog building up

810cm 16/5/90 (320)

GERALD REILLY

PRETORIA — A backlog of unrendered ~~tax returns~~ is building up, according to an Inland Revenue spokesman, with employers partly to blame by delaying giving IRP5s to their workers.

For the 1989 tax year more than 99 000 people have failed to submit returns — about 6% of the 1,7-million forms issued in that year.

The spokesman warned that failure to render returns could incur severe penalties — up to three times the amount of the tax assessed. So far for the 1990 tax year a "very high" percentage of the 1,4-million forms issued have been returned. The return deadline is June 4.

Cape Times 17/5/90 (320)

RSC hits firms with 13% rise

By PETER DENNEHY

ONE of the two Regional Service Council levies on businesses is to be increased by 13% from July 1, finance committee chairman Mr Richard Friedlander announced in his RSC budget speech yesterday.

The regional establishment levy — a levy on the turnover of businesses — will increase from R1,15 per R1 000 of turnover to R1,30 per R1 000.

This amounts to a 13% increase, which will bring in an estimated R12 million extra into RSC coffers. Last year's increase was 15%.

The other levy on businesses, the regional services levy, remains unchanged at R1 per R400 of a business' total salary and wage expenditure.

This levy has not been increased since the RSC was formed in 1987. Income it had generated had been "unexpectedly high" due to high growth in salaries, Mr Friedlander said.

RSC chairman Mr Piet Loubser said the number of levy payers had grown from 36 906 to 39 028 in the past year. Summonses had been issued against 198 of them who were in arrears.

Mr Friedlander said an estimated R98m out of the forthcoming year's budget would be available for improvements to the infrastructure of the region, slightly less than the R109m in the current year.

Of this, R76m was immediately set aside for "capital infrastructure projects", with a possibility of further grants later in the year.

Gross income to the RSC from levies, interest and "other revenue" would amount to R170m in the forthcoming year.

Administrative costs and money spent on those functions which fall under the RSC or are about to be allocated to it — such as traffic, fire services, libraries, and sewage — amounted to R72m.

The difference between income and expenditure was available for upgrading those areas that needed it most. Mr Loubser said the RSC was handing over funds for this purpose at a rate of R9m to R10m a month.

Call for new tax dispensation

B Day 17/5/90 (320)

ORGANISED business must help formulate a new tax dispensation for SA because the current one is expected to increase the tax load for all in the future.

Sacob chief economist Professor Ben van Rensburg says political changes will increase demands on public expenditure and the tax system.

This will increase the burden on the taxpayer.

The movement towards a global village also makes it impossible for countries to follow economic policies in isolation.

A rise in instant communication has broken down the natural barriers which existed between countries, helping to break down socialism and catching up with SA and its outdated political system.

Van Rensburg says it is important SA's tax dispensation — in spite of the need to redress the wrongs of apartheid — harmonises with international systems.

If not, SA will be unable to compete in international markets, both in its export drive and in attracting and keeping capital, entrepreneurship and trained skills.

If SA's tax system is out of step with the rest of the world, production factors such as skills and capital will simply leave the country for more profitable fields.

However, he says it does not mean all countries should have the same tax system.

SA's future system, given its importance to the economy of a new SA, will have to be designed with great care.

Regard must be given to the needs created by its special environment, such as the political need to provide a better deal to those who have experienced deprivation.

A balance will have to be found between the disincentive effects of SA's system in an open international environment, the need to redistribute income and the dictates of internal economic conditions, says Van Rensburg.

Organised business will have to make a concerted effort to provide intellectual and practical input into the planning and structure of future tax dispensations.

It has the structures, manpower and intellectual capacity to make meaningful input and the need for such input will increase, he says.

VAT should add R3-bn to tax kitty

Star 17/5/90 (320)

By Jabulani Sikhakhane

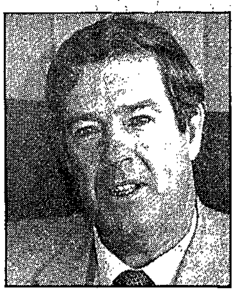
The introduction of the value added tax system (VAT) in about October next year will put an additional R2 billion to R3 billion into government coffers, says Dr Org Marais, the Deputy Minister of Finance.

These additional funds would enable the Government to create special funds to compensate the poor and those in the low-income group who would be adversely affected by the reintroduction of food into the tax net, he said yesterday.

It would also provide extra funds for social investment and upliftment.

Dr Marais told a tax seminar held at the JSE that these funds might also enable the Government to lower the VAT rate eventually to between 10 percent and 11 percent.

The Margo Commission had originally estimated that the government lost about R3,6 billion because of food exemption from GST with low income earners accounting for only R700 million of the total.



Dr Org Marais

However, Dr Marais said a recent survey showed that the Government had lost an estimated R2,9 billion in the 1989 Budget because of the food exemption.

Of the R2,9 billion, low-income groups accounted for between R500 million and R600 million.

Middle- and higher-income earners accounted for R2,3 billion, mainly because they were bigger consumers of foodstuffs such as meat and more expensive goods.

The details of the survey would be revealed next month.

Dr Marais said it was clear the food exemption from GST was benefiting middle- and higher-income earners more than the poor.

Among the possibilities being investigated by the Government were the provision of food subsidies for schools in poor communities, food assistance programmes at clinics and higher payments to pensioners.

The additional funds would enable the Government to make more investments in community upliftment programmes, in the provision of more schools, housing, improvements to infrastructure and on-the-job training programmes.

Other possibilities being investigated were the inclusion of service industries, the insurance industry among them, in the VAT net. Dr Marais said a meeting would be held with representatives of the insurance industry today to look at the details of the scheme.

reversed the gains." *Ethel Hazelhurst*

COMPANY TAX F/M 18/5/90

Self-assessment (320)

Inland Revenue has taken the first step in a fiscal revolution. A press release says 1990 company tax returns, to be posted within two weeks, will be accompanied by a new section (Part 8) "to be used for the capturing of data" for a system of self-assessment.

Revenue emphasises self-assessment will not be introduced until all interested parties have been fully informed and comprehensive information is available.

Self-assessment cannot be introduced without restructuring the system.

Kessel Feinstein tax partner Ernest Mazansky points out that many administrative discretions will have to be removed or defined objectively. Some issues may have to be dealt with through published rulings, binding on the commissioner but not on the taxpayer. This provision has been accepted in other countries which have gone to self-assessment and was proposed by Margo.

Arthur Andersen's Pierre du Toit says this by-product may be as big a step forward as the introduction of the system. But it must be done with great technical care and — most importantly — without diminishing taxpayers' existing rights.

Mazansky also draws attention to the many extra-statutory Revenue practices, only some of which are recorded — in a secret handbook. These will have to be disclosed for self-assessment to work.

Ernst & Young tax partner Roger Bramwell says some categories of revenue will attract close scrutiny under the new system, including foreign-sourced income, companies with entitlement to special allowances and those that claim capital profits. Sensitive categories will become apparent from the information required in part 8.

Du Toit warns: "Typically, when a system moves on to self-assessment the authorities are nervous that they may lose control." They may try to bolster lack of confidence with Draconian penalties. This, especially any thought of minimum penalties, must be resisted "at all costs."

This consideration leads to the important question of professional obligations of tax practitioners under self-assessment. Patrick McGurk, a tax partner at Aiken & Peat,

FM 18/5/90 (320)

says practitioners will be called upon more "to put their money where their mouth is."

It may no longer be acceptable merely to disclose material facts adequately — practitioners may be called upon to guarantee their advice. In line with other self-assessment systems, failure to disclose all income or claiming non-deductible expenditure will probably carry heavy penalties. So both practitioner and the company itself will need to take care in completing a tax return.

Du Toit says that, while self-assessment may require longer prescription periods, the time during which a taxpayer may seek redress on errors must not lag even more than it already does. Revenue will have to gear up for a much greater capacity, sophistication and decisiveness in its ruling procedures.

He also considers breaking old habits of trying to assess every return will be hard for the directorate, but it must or the system will fail. "With proper auditing criteria and procedures, self-assessment should lead to better enforcement — which means less evasion and therefore less harassment of those who reduce their tax burden within the law."

Clearly, there is a great deal of preliminary work for Revenue before self-assessment can become a reality. Mazansky doubts it can be completed by next year.

But once the system is up and running there will be a tremendous administrative saving. To take one aspect only, Bramwell argues, thousands of dormant companies will cease to take up assessors' time.

Du Toit agrees proper self-assessment uses scarce revenue resources more effectively, so allows for much greater productivity from the tax collector, without merely shifting the administrative burden to the private sector — "as happened with RSC levies and even GST (and will again with VAT)."

Bramwell contends we already, in effect, have self-assessment in the third provisional payment for companies, which has to be made within six months of the year-end.

Du Toit says companies should welcome self-assessment and co-operate. But they should "stay on their guard" against the risk that, intentional or otherwise, it becomes an excuse for unfairly loading the dice further against an already overburdened taxpaying community. *Robin Friedland*

Need to change corporate tax structure

CN6 7imp 25/5/90 (320)

Political Staff

ALTHOUGH corporate tax in SA was 50% and should be lowered to 40%, the effective rate at present was about 30% because of various exemptions, the Minister of Economic Coordination and Administration, Wim de Villiers, said in an interview.

"Basically we have to achieve a lower tax rate but a higher effective rate," he said in the latest issue of Leadership.

"To encourage capital investment or tourism, to name two examples, various concessions were made.

"However, these concessions have been abused and use for purposes other than those for which they were intended.

"Right now we are looking at implementing more of the Margo Commission's recommendations.

"Value added tax will be introduced shortly. Personally, I think we have taken too long to do this.

"Value added tax will obviously shift the tax load and bring on board the cash-based sector of the economy."

De Villiers said the sharp devaluation of the rand since 1984 enabled SA to export more competitively.

Since gold had become an increasingly less important component of total exports, "We have to examine areas in which we have a comparative advantage.

"But protective barriers will have to be lowered. This will have to be done carefully in order to minimise damage to the economy."

It was impossible to spell out economic policies to be negotiated with the ANC, "but one thing is certain — whoever comes to power will only be able to create employment opportunities from a solid economic base.

"If other parties to negotiations can be convinced that we are working in that direction, they will come along."

The government wanted a smaller and more efficient civil service.

"The entire administrative process has to be streamlined.

"One has to identify essential costs. Often what happens is that administrators look at what they spent last year, project the rate of inflation for the next, and then calculate a percentage by which they expect the service they offer to grow in real terms.

"Budgets are based on these calculations.

"In the private sector, you assess the projects at hand. You examine your cash flow, decide what you can afford and calculate the projects that will have the highest return on capital. These are then implemented in the the most cost-effective manner.

"However, this process obviously cannot be applied across the board in the civil service.

"The Prisons Service is a case in point. One cannot simply decide to reduce the number of prisoners to meet budget projections," De Villiers said.

Star 26/5/90 (320)

Take great care when completing an individual tax return

PREPARATION of an individual income tax return requires planning and method.

This article, written by Mzamo Nxumalo, a tax consultant at Ernst and Young, highlights some of the more important areas to which attention should be given. But readers having practical problems with the completion of their returns are advised to consult their accountants, lawyers or bankers.

The return is made on Inland Revenue form IT12 obtainable from local Receivers.

For the tax year to February 28 1990 this return must be completed by all who submitted returns for the previous year, all married persons with incomes in excess of R8 900 and all unmarried persons with income in excess of R6 000, except for those whose income is less than R12 000 and consists solely of employment income covered by the SITE system.

Failure to submit a return by its due date (usually June 15, unless a prior extension is obtained) may give rise to additional tax and penalties.

Part 1 of the return calls for personal particulars which, together with Part 7 (rebates) and the form IRP2 previously lodged with your employer, determine the basis on which you will be taxed (i.e as a married or unmarried person) and the rebates deductible from your tax payable.

Provided form IRP2 and parts 1 and 7 of the tax return are correctly completed you will not need to do anything further to ensure you receive the correct rebates.

A married man generally pays a lower rate of tax than an unmarried man. You will be classified as a married man if you are married in law or according to custom, or if you have one or more children under the age of 18, irrespective of your true marital status.

If you have more than one wife, only the one to whom you have been married for the longest will be recorded as such for tax purposes.

Any employment income she earns will be taxed separately on the SITE system, which gives you a further benefit. But if she has her own business or non-employment income this will be added to yours and a joint assessment issued. Any other wives will be taxed separately in their own right, either as married persons (if they have one or more children under the age of 18 of their own) or as unmarried persons.

Part 2 of the return, together with parts 5,8, 11, 12, 13, 15 and 16 require details of all income received. Failure to report any income is a serious offence.

If you carry on a farming operation or your own business or profession you should seek professional help in completing parts 12 and 13.

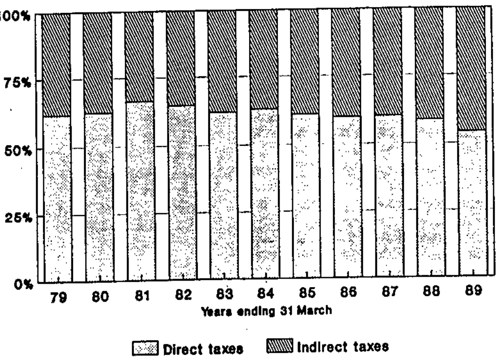
Parts 3 and 9 of the return set out deductions you may claim from your income before its is taxed. It is very important that you complete those parts carefully and provide all the details and certificates called for in the return or you will not be granted the deductions you are entitled to.

Once you have completed your return check it carefully before signing and sending it to the Receiver.

If you paid a fee to someone to prepare the return he must also sign it, but the overall responsibility for correctness remains with you.

Make a photcopy of your return before sending it off. This will help in the event of a a query being raised by the Receiver and will make it easier to prepare your return for the next year.

PERCENTAGE DIRECT AND INDIRECT TAXES OF TOTAL TAXES



South Africans are paying more and more indirect taxes and less direct taxes (as a proportion of total taxes). This trend started when the system of General Sales Tax was first introduced in the late Seventies. The changeover to Value Added Tax (VAT), forecast for September next year, is expected to hasten this process.

CAPE TIMES 28/5/90

Govt to close tax loophole

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Own Correspondent

JOHANNESBURG. — During the current session of Parliament government is expected to close a loophole in the Income Tax Act which could have cost the fiscus millions of rands in lost companies' tax.

Tax experts pounced on the loophole after a landmark decision by the Appellate Division in February in favour of Edgars Group company People's Stores, which ended the legal battle over the meaning of the term "accrued income".

The decision meant any company granting credit would not have to pay tax on the full amount of accrued income due at the end of the financial year — effectively reducing the tax bill.

Tax would only be paid on a present value of the amounts due in future, and a discount rate could be applied to arrive at that value.

However, it could not be applied to overdue amounts.

Deputy Finance Minister Org Marais indicated the loophole would be closed, saying "gross income" would be more clearly defined in the Income Tax Act as a result of the decision in the case between People's Stores and the Receiver of Revenue.

He said the current definition could result in an understatement of gross income, and the Receiver's practice was to calculate tax on the full amount.

He added there were practical problems in determining the present value of amounts due in future.

A tax expert said the Receiver should treat income and expenditure consistently. If income could not be deferred to a future tax year, tax write-offs on expenditure should also not be deferred. The current approach was to link tax benefits on expenditures to economic performance.

However, the Margo Commission had recommended that the timing of the tax treatment of expenditures be looked at — and the gross income issue had highlighted the need for a new approach.

Rich should pay for new SA — De Beer

(320) CAPE TIMES 30/5/90

By ANTHONY JOHNSON

SOUTH AFRICA should consider introducing a "reparation tax" on the wealthy to provide additional funds for essential services for the poor, the parliamentary leader of the Democratic Party, Dr Zach de Beer, said yesterday.

Dr De Beer said in an interview that funds for essentials like housing, health and especially education should be paid for, to a greater extent, by "forgoing non-essentials".

The funds required to provide for growing demands of these essentials could not be met by ordinary borrowing on capital markets.

"Maybe a reparation tax or contributions on a more or less voluntary nature will be required."

Dr De Beer said that a "silver lining" was that SA was relatively underborrowed in international terms.

It was of fundamental importance that trust in the new SA be built up. A reparation tax could play an important practical and symbolic role.

"If the rich have to sacrifice, it will be an investment in the future of the country."

The building of trust among ordinary black people would not be simply achieved by President F W de Klerk talking to the ANC.

"They want to see an improved quality of life."

Earlier, Dr De Beer told a fund-raising breakfast at a children's home in Cape Town: "Money will have to be found to meet the needs of the poor, and there may be a call for some temporary sacrifice by the richer members."

Demands

Dr De Beer said his greatest fear was that a future government, faced by black demands for housing, health and schools, would "resort to the printing press" to find money.

This could result in galloping inflation.

...er side, where he spent 14 years.
accepted his current position in April

● BADENHORST

De Beer proposes 'reparation tax'

Gl[illegible] 30/5/90 (320)

Political Staff

SA should consider introducing a "reparation tax" on the wealthy to provide additional funds for essential services for the poor, DP parliamentary leader Zach de Beer said yesterday.

De Beer said in an interview that funds for essentials like housing, health and especially education should be paid for to a greater extent by "non-essentials forgone".

The funds required to cater to growing demands for these essentials could not be met by ordinary borrowing on capital markets.

"Maybe a reparation tax or contributions on a more or less voluntary nature will be required."

He said it was of fundemental importance that trust be built up in the new SA, and a reparation tax could play an important practical and symbolic role.

"If the rich have to sacrifice, they will have to do this — but it will be an investment in the future of the country."

De Beer said his greatest fear was that a future government faced by black demands for housing, health and schools would "resort to the printing press" to find the money that was needed.

This could result in galloping inflation and the destruction not only of SA's currency, but of the very fabric of its society.

Call on govt for a flat Co tax rate

CAPE TIMES 31/5/90

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By AUDREY D'ANGELO
Financial Editor

THE Shareholders' Association of SA will ask the Minister of Finance to consider a flat rate of company tax of between 25% and 30%, with no allowances except for normal business expenses.

Announcing this yesterday, the association's chairman, Issy Goldberg, said it would be fairer than the present system which has allowed some companies making use of tax shelters such as investments in films to pay no more than 10% tax. And it could bring in as much total tax revenue as the present system.

It would save the tax authorities a great deal of time and expense and make it unnecessary for them to continually draft new legislation to close tax loopholes found by highly paid consultants.

The suggestion was welcomed by the President of Cape Town Chamber of Commerce, Lionel Hartmann, who said the principle was good. It would make tax collection easier and tax avoidance difficult.

He thought this was the direction in which the authorities wanted to move.

Goldberg raised the matter at the general meeting of Pick 'n Pay yesterday.

Pointing out that the supermarket group had paid R48m in direct tax in the year to February 28, in addition to collecting about R35m a month in general sales tax (GST), he said that the companies listed on the Johannesburg Stock Exchange paid an average of 30% tax.

This meant that while some, such as Pick 'n Pay, paid tax at a higher rate others who employed clever tax consultants got away, legitimately, with paying as little as 10%.

These schemes represented a tremendous erosion of the tax base, and made collection more expensive and time consuming for the authorities.

Pick 'n Pay chairman Raymond Ackerman said his group was one of the highest tax payers in the country in proportion to its earnings.

"We would welcome a straight figure of 25%. I know that some companies are paying as little as 10%."

Ackerman said a straight 25% would probably be better for the Revenue authorities and might result in value added tax (VAT) coming in at a lower rate.

He feared that VAT would include foodstuffs at present exempt from GST and he believed the authorities were looking at a rate of 13% or 14%.

After the meeting Goldberg said the Shareholders' Association had asked the JSE to provide it with a print-out every six months showing the tax paid by listed companies.

It was important for shareholders to have this information. Many companies were apparently achieving high earnings which would "melt away like the morning mists" if they paid an equitable rate of tax.

aming to SA.

Import tariffs on M'bican products changed

Cape Times 1/6/90

PREFERENTIAL tariffs for a limited range of Mozambican products would be Gazetted today, the Director General of Trade and Industry, S J Naude, announced today.

In a statement he said these products included cashew nut shell liquid, cotton fabrics, Texlene/-Trevira woven fabrics, clothing and blankets.

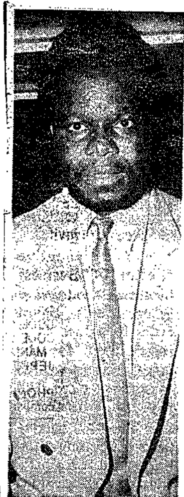
"The preferences are being granted on the same basis as those which have already been granted to Mozambique.

"The preferences, which are restricted to quotas, take the form of rebates which reduce the existing customs duties to 3% ad valorem where the duty is more than 3% ad valorem and to free where the duty is 3% ad valorem or less.

"Goods imported within the quotas are exempt from import surcharge."

The preferences would be administered by the Mozambican authorities by the issue of export certificates to Mozambican exporters. — Sapa

320



Matsheru Matsheru

Tax demands boost Mats' popularity

THE only time Matsheru Matsheru (32) becomes the most sought after man is when people get cheeky letters from the Receiver of Revenue. These letters are the annual return forms which must be filled in before end July. Sowetan 11/6/90

By JOSHUA RABOROKO

These cheeky letters have, however, helped Matsheru run a thriving business from his offices in Dube. He has now moved to 68 Manchester House, Von Williegh Street, 4th Floor, Johannesburg. The telephone number is 29-8531 and his home number 982-2297.

Matsheru, of Soweto, went through tax and business law programme run by the University of South Africa and Wits University. He remembers the nights he went through cases by candle light.

Today he is director of Matsheru Matsheru and Associates, a company which specialises in tax matters.

He is also a founder member of the Tax Shelter Group which helps most people with their tax returns and lectures to various organisations, such as Nafcoc, Business Challenge, Women's Institute of Informal Training, East Rand African Traders Association, City Press Women's Club and *Sowetan Business* seminars.

Matsheru occasionally appears on SABC-TV as an authority on tax and has written a book entitled, "Tax Made Simple".

Matsheru was born in Venda where he passed his Standard Eight examinations in 1974. For four years he was a herd-boy in the territory. He passed his Junior Certificate and Matriculation through correspondence while he was temporarily employed by a supermarket earning R200 a month.

His first full-time job was with the South African Railways where he earned R300 a month. As the job was not challenging for his active brain, he entered for the Unisa programmes.

He also attended lectures in taxation at various institutions.

Advice

320

He worked for a tax consulting company for five months and in 1988 started his own company.

"I started by advising many people, especially blacks about tax. I discovered that many people were ignorant about tax laws. I found the career exciting because it educated small and medium size business.

In 1989, he started a tax focus programme to educate particularly black taxpayers on taxation.

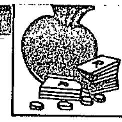
In 1990, he started an employees training tax programme to educate particularly black employees about tax such as PAYE and SITE.

Boost

"Employees' understanding of how employee tax is deducted from their remuneration is important in boosting the employee's morale and this trust in his employer. This can promote productivity. We have pledged our resources to educate employees, particularly about PAYE and SITE.

"This training has won me the most unique services during the Matchmaker Fair 1990. This year I teamed up with *Sowetan Business* to update particularly black business people on tax changes," he says.

Matsheru says tax has become complex and burdensome today. The influence of taxation on people's daily life has caused tax to be part of their lives.



Look back in anger

(320)

FM 1/6/90

Pierre du Toit, a chartered accountant and advocate, is a partner at Arthur Andersen.

On May 23, a press statement released by the Office of the Deputy Minister of Finance announced intended tax legislation which, probably intentionally, is fairly technical and not particularly dramatic. However, in more than one respect the proposal is breathtaking in its possible implications to the fundamentals of the tax system, both in substance and in proposed retroactivity to July 1 1962.

Background

The statement purports to relate to the so-called present-value allowance in terms of which taxpayers claimed a present-valuing deduction on year-end debtors where the income had accrued but the debt had not become due and payable. This claim was recently upheld by the Appellate Division in the case CIR vs People's Stores (Walvis Bay).

To counter this, it is proposed to change the gross income definition in the Income Tax Act to provide that where a taxpayer "has become entitled" during a year of assessment to any amount payable after year-end, that amount shall be deemed to have accrued to him *during* that year.

First objection

No-one can deny the authorities the right to propose laws they think needed to counter an unwanted tax result, even one underwritten by the highest court; this contest is the very stuff of the legitimate battle between State and taxpayer in any free-market society. However, the State must always seek to be as precise in its remedy as possible with no unintended impact on the fundamental principles of the system.

The problem can be simply stated — the proposed amendment introduces terminology ("become entitled to") into the soul of the Act which has neither been used elsewhere in the Act in any technical sense, nor been the subject of any particularly elucidating judicial interpretation.

What does "become entitled to" mean? "To furnish with a title to an estate . . . To regard as having title to something" is what the *Shorter Oxford* says. Must this entitlement be unconditional? What would the amendment do to (presumably) completely untargeted but common areas such as long-term or fixed investments with interest "payable in arrears?" What may it do to many a long-term service, rental, supply or master agreement? If answers here look obvious, remember it took the courts decades to establish the precise meaning of "accrue."

The point is not only the specific problems, but the apparent lack of care with which so fundamental an amendment is produced. To the tax regime, a proposed amendment to the general terms of the gross income definition is on a legislative par with an amendment to the Constitution itself — it must be done with great circumspection.

Second objection

The legislation's effective date is July 1 1962. The attempt to reduce retroactivity for claims in already submitted returns is wholly inadequate. Apart from artificiality, it leaves fully exposed to retroactivity any of the unintended possible results discussed above.

Many excuses for the ultimate admission of legislative failure and unfairness (retroactivity) have been presented in recent years, usually by politicians. But never has the explanation been the retroactive validation of a Revenue practice, held to have been illegal by the Appellate Division — one, furthermore, which has wrongly caused many millions of rands to be collected prematurely from taxpayers.

Those who correctly anticipated the Appellate Division may now sit with tax Bills for many years wrongly stated in their accounts. Many will technically be at the mercy of the Revenue for retroactively created provisional tax underpayments.

In this case, the matter is grossly exacerbated by the potential breadth and depth of ambit of an amendment that introduces uncertainties into the very soul of the system.

The ultimate sin of such restrospectivity is not unfairness, erosion of trust between authority and taxpayer, or the weak light in which it casts our legislative processes. It is the uncertainty it creates in the business community, on whose health and effort our future is vitally dependent.

SATURDAY JUNE 2

R1,2 billion tax over-payments

w/Argus 2/6/90 320

From CLAIRE GEBHARDT

JOHANNESBURG. — Employers and and their computer payroll programmes have been caught flatfooted by substantial tax reductions in this year's Budget.

As a result, roughly R1,2 billion of taxpayers' hard-earned money could be withheld from discretionary spending at the end of July.

This is the sum the director, legal drafting, of the Department of Inland Revenue, Ian Meicklejohn, estimates has been overpaid by employees during the transition from last year's tables to the new, lower tax rate tables.

This money can be repaid either as a lump-sum adjustment or in reduced instalments over the year.

But economists point out that as the thrust of the Budget was to put a little money back in the taxpayer's pocket, the man-in-the-street must be given a choice regarding credit balances owing to him — or else be paid interest.

Disclosure that taxpayers were entitled to a bonus in their July pay packets triggered a flurry.

Most employers said they had been unaware that employees stood to benefit from reductions in tax payable at the end of July and relied on computerised payroll systems to apply the new tax tables.

Payroll authors, however, claim to merely carry out their clients' (employers') wishes.

Mr Dick Bradley, managing director of Accsys and chairman of the Payroll Authors' Association, said most employers would simply follow the procedure adopted in previous years and spread the adjustment over the remaining eight months of the tax year.

This was believed by employers to be in the best interests of employees, he said.

"This way they stand less chance of having to pay in tax in at the end of the year should they receive an increase."

He conceded, however, that many employees might wish to reduce debt or earn interest on their money rather than leave it in the Receiver's hands.

"Our software will now be adjusted to give employers this choice."

For example, a married man with two children earning R40 000 a year is in line for a once-off reduction in his tax bill from R600 to R184.

Mr Bradley emphasised that payroll authors had to comply with the Receiver's instructions and were last week still uncertain as to how to apply the new tables.

However, according to Mr Meiklejohn, the Receiver is not prescriptive.

Employers had three options to deal with the overpayments, he said. These were:

- To make a once-off adjustment in July;
- To make the adjustment at the end of the tax year in February; or
- To spread the adjustment over the remaining months of the tax year.

See page 3

R1,2bn tax bonanza

w/Argus 2/6/90 32

From page 1

"With the once-off adjustment, the net tax passed over to the Receiver in July will be lower by the amount of tax overpaid and employers making the adjustment must legally pass the benefit onto employees," he said.

Mr Ron Warren, managing director of Q Packaged Programmes, said the new tax tables were made available to their users in April, so effectively only one month had been overpaid.

But he pointed out that although employers were given the option, legally they need only apply the new tables in July.

Price Waterhouse's Mr Chris Frame said the employer was unlikely to do anything which cost him money.

"In certain cases the amounts deducted from the employee might be more than what is owed to July and unless the Receiver plays ball the employer will be out of pocket.

Record amount recovered in unpaid taxes

320

Cape Times 4/6/90

Own Correspondent

PRETORIA. — Inland Revenues probes recovered a record amount of R1,24bn in unpaid taxes and pernalties in the 1989/90 financial year.

Income tax audits with penalties netted R785m, special investigations R122m (R56m in penalties) and R339m in GST evasions (R125m in penalties).

Inland Revenue chief director Schalk Albertyn, said the amount recovered by special investigations had increased spectacularly in the past three years.

In 1988 it amounted to R54m and in the 1989/90 financial year it soared to R122m.

"We'll never get everything owing to us, nowhere in the world are 100% collections achieved."

However, he said, the special investigations demanded highly skilled staff, preferably CA's and they were becoming harder to find.

Because of the reduction in national service from two years to one year the supply of young CA's seconded from the SADF would decrease markedly.

Albertyn added that in the last few years more than R1m was recovered by in unpaid taxes by each inspector.

New high in unpaid taxes

BDay 4/6/90

GERALD REILLY 320

PRETORIA — Inland Revenue probes uncovered a record amount in unpaid taxes during the 1989/90 financial year which, with penalties, totalled R1,24bn.

Income tax audits with penalties netted R785m, special investigations R122m (R56m in penalties) and GST evasions R339m (R125m in penalties).

Inland Revenue chief director Schalk Albertyn said the special investigations amount had risen spectacularly from R54m in 1988, but it was the same this year as last.

"We'll never get all that's owing to us," he said.

He said nowhere in the world were 100% collections achieved.

"But we have shown the more people we have working on the problem the greater the recoveries."

However, he said special investigations demanded highly skilled staff, preferably CAs, who were becoming harder to find.

Because of the reduction in national service from two years to one year, the supply of national service CAs seconded from the SADF would decrease markedly, he said.

Albertyn said the last few years had shown that more than R1m a year per inspector was discovered in unpaid taxation.

Increase in duty free

Cape Times 5/6/90

320

Political Staff

THE duty free allowance for travellers arriving in South Africa is to be increased by 150% to R500 from Friday.

Customs and Excise Commissioner Mr Daan Colesky said the value of certain duty free concessions had depreciated considerably since they were last reviewed in November 1984.

The allowance on consumable goods such as wine, spirits, cigarettes, toilet water and perfume is to remain the same. But the R200 allowance on other goods is to be increased to R500.

tion of teacher training and the whole view of teacher training were being looked at and that he would hopefully report later this year.

However, I want to go back to the question of the shift in numbers. I think the hon the Minister is overestimating the importance of the numbers of persons at colleges of education *vis à vis* the universities. We only have to take into consideration, for example, that the University of South Africa itself now has more than 100 000 students to understand that the numbers game is not as intimidating as he says.

He will also be aware that the University of the Witwatersrand has a link arrangement with the Giyani College of Education in Gazankulu—a very profitable exercise and one that we would hope other colleges of education in both national states and the DET could undertake. However, we are far more pleased with the latter part of the hon the Minister's answer than we are with the first part. [Time expired.]

*The MINISTER OF EDUCATION OF CULTURE: Mr Speaker, in reply to the hon member for Cape Town Gardens I want to try to convey to him that in regard to degree courses, universities are more specifically geared to scientific research and must try to view matters at the academic level from a scientific perspective. I do not mean that colleges do not function at an academic level, but colleges chiefly concern themselves with the practical training of teachers for the primary schools. That is the difference between the two.

That is not merely my view. Let me refer the hon member to the Van Wyk de Vries Report on Universities which was drawn up at the time. In paragraphs 16 and 17 of that report the hon member will notice that this was one of the points Van Wyk de Vries emphasised when he said that there was a difference between the mission—if I may call it that—of a teachers' training college, focusing on the practical training of teachers for primary schools, and that of a university which concerned itself with the academic tuition of students.

There are several other arguments we could advance. The hon member for Pinetown argued about numbers. That is one of the arguments, and we have argued about that, but it is not the most important point. The most important point is that the two institutions have two different missions.

The second important point is that the colleges, as they function at present, are not divorced from universities, and that is a good thing because universities regard it as their responsibility to ensure that there is a scientific basis, that standards are maintained and that additional scientific facts are conveyed to the colleges. The present co-operation between colleges and universities is such that it does, to my way of thinking, make provision for the most important requirements involving teachers' training colleges.

Suffice it to say that if any further suggestions are forthcoming from whatever quarter, we are of course prepared to examine them if they would contribute to the better training of teachers. [Time expired.]

Debate concluded.

QUESTIONS

†Indicates translated version.

For oral reply:

Own Affairs:

*1. Mr K M Andrew — Health Services, Welfare and Housing. [Question standing over.]

*2. Mr K M Andrew — Health Services, Welfare and Housing. [Question standing over.]

Fertiliser guidelines for mealies

*3. Dr P J GOUS asked the Minister of Agricultural Development:†

Whether he is having an investigation made into fertiliser guidelines for mealies; if so, (a) why, (b) what is the estimated cost of this investigation and (c) when is it expected that the findings of the investigation will be available? Hansard 5/6/90 B1170E

The MINISTER OF AGRICULTURAL DEVELOPMENT:

(1) Yes.

(a) The maize fertilisation guidelines compiled by the Department in collaboration with the Expertise Committee of the Co-ordinated Extension Action were last revised in 1986.

On the grounds of new research information that has come to light since then and differences of opinion on the applicability of the existing guidelines, especially for the low-potential production areas, the Department was asked by the Co-ordinated Extension Action to revise the guidelines.

Hansard 5/6/90

(b) The cost of the Inter-departmental Task Team instructed to carry out the investigation amounted to an estimated R1 500. The Task Team recommended that an independent institution, in this case the University of the OFS, should first collect and analyse all the latest available research results. It is estimated that this contract investigations will amount to R25 000.

(c) The existing guidelines will be released by the end of July 1990, with the aid of the available information and in a slightly modified form for use in the 1990/91 season. The first report of the UOFS investigation will only be available towards the end of 1990 for further modification in 1991/92.

†Dr P J GOUS: Mr Speaker, arising out of the hon the Minister's reply, is it not the case that we have been given different recommendations by different individuals from the Department as a result of the fragmentation we have had in agricultural research, and that the farmers have had to act on this?

†The MINISTER: Mr Speaker, as we receive more information, we are continually processing this new information into recommendations. As the information comes in, the stress may fall on slightly different applications. This, in fact, gives one an indication of why we took action to process it. It is in order that we may make consistent recommendations to the industry.

For written reply:

General Affairs:

320 **Taxpayers older than 80**

363. Mr R R HULLEY asked the Minister of Finance: Hansard 5/6/90

In respect of the most recent financial year for which figures are available, (a) (i) how many taxpayers were over 80 years of age and (ii) what total amount of money was collected from them and (b) in respect of which financial year is this information furnished? B891E

The MINISTER OF FINANCE:

(a) (i) 22 566 taxpayers Hansard 5/6/90

(ii) R109 275 164,47

(b) Information furnished in respect of the 1987/88 financial year.

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Income tax

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

What is the total amount of income tax assessed for the 1988-89 tax year in respect of (a) companies and (b) individuals? B1023E

The MINISTER OF FINANCE:

		Amount	% Assessed
(a)	Companies		
	Mining	R 55 623 186	
	Non-Mining	1 375 157 855	
	Total	1 430 781 041	27,89%
(b)	Individuals	9 064 358 323	60,58%

Company tax

449. Mr J J WALSH asked the Minister of Finance:

What amount in company tax was collected from (a) mining and (b) non-mining companies in each month of 1989? B1041E

The MINISTER OF FINANCE:

1989	Mining R	Non-mining R
January	791,110	1,449,178,273
February	746,557,297	219,778,123
March	103,700,658	651,972,293
April	24,752,337	888,635,119
May	100,042,362	117,695,069
June	379,239,628	530,338,621
July	8,182,074	2,240,594,740
August	427,853,260	320,429,902
September	124,119,140	972,980,444
October	7,257,851	1,469,092,144
November	69,054,807	133,292,969
December	250,683,887	394,020,800

Income tax written off 320

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

Whether any income tax was written off in the 1988-89 financial year as irrecoverable; if so, (a) in respect of how many (i) individuals and (ii) companies and (b) what was the amount of tax written off in each category?
Hansard 5/6/90 B1086E

The MINISTER OF FINANCE:

(a) (i) 7 288

(ii) 497

(b) Amount written off in respect of individuals: R18 604 915,88
Amount written off in respect of companies: R8 637 277,23.

Venda: amount paid by SA

469. Mr C W EGLIN asked the Minister of Foreign Afairs: Hansard

(1) (a) What total amount was paid by South Africa to Venda in the 1989-90 financial year in terms of agreements between the two countries and (b) how was this amount made up; 5/6/90

(2) whether any additional amounts have been paid to Venda in the form of (a) loans or (b) grants; if so, (i) how many, and (ii) what was the amount of the loan or grant, in each case;

(3) whether any further (a) loans or (b) grants are envisaged in the 1990-91 financial year; if so, what loans or grants?
B1090E

The MINISTER OF FOREIGN AFFAIRS:

(1) (a) An estimated amount of R488 590 450

(b) The amount mentioned in (a) is made up as follows:

A. *Direct to assistance*

(i) Budgetary assistance: R348 202 230

(ii) Technical assistance: R1 015 000

(iii) Loan Fund: R26 439 930

(iv) Incentive scheme for industries: R6 362 648

B. *Transfers in terms of bilateral agreements* Hansard 5/6/90

(i) Tax compensation: R12 621 392

(ii) Share in Customs Union Revenue Pool: R90 390 000

(iii) Common Monetary Area: R3 559 250

(2) (a) No. Loans in terms of project aid agreements are included in the amount mentioned under 1 (a).

(i) and (ii) fall away.

(b) Yes.

(i) One.

(ii) Transfers in respect of the action programme: Creation of job opportunities are estimated at R2 095 036.

(3) (a) Yes. Loans are granted on a continuous basis within the framework of the Economic Co-operation Promotion Loan Fund.

(b) Yes. The same type of grant which was made during the 1989/90 financial year.

Bophuthatswana: amount paid by SA

470. Mr C W EGLIN asked the Minister of Foreign Affairs: Hansard 5/6/90

(1) (a) What total amount was paid by South Africa to Bophuthatswana in the 1989-90 financial year in terms of agreements between the two countries and (b) how was this amount made up;

(2) whether any additional amounts have been paid to Bophuthatswana in the form of (a) loans or (b) grants; if so, (i) how many, and (ii) what was the amount of the loan or grant, in each case;

(3) whether any further (a) loans or (b) grants are envisaged in the 1990-91 financial year; if so, what loans or grants?
B1091E

The MINISTER OF FOREIGN AFFAIRS:

(1) (a) An estimated amount of R1 293 824 835

Hansard 5/6/90

(b) The amount mentioned in (a) is made up as follows:

A. *Direct to assistance*

(i) Budgetary assistance: R539 641 740

(ii) Technical assistance: R875 000

(iii) Loan Fund: R24 728 473

(iv) Incentive scheme for industries: R20 992 666

B. *Transfers in terms of bilateral agreements*

(i) Tax compensation: R72 647 339

(ii) Share in Customs Union Revenue Pool: R623 354 000

(iii) Common Monetary Area: R11 585 617

(2) (a) No. Loans in terms of project aid agreements are included in the amount mentioned under 1 (a).

(i) and (ii) fall away.

(b) Yes.

(i) One.

(ii) Transfers in respect of the action programme: Creation of job opportunities are estimated at R9 860 805.

(3) (a) Yes. Loans are granted on a continuous basis within the framework of the Economic Co-operation Promotion Loan Fund.

(b) Yes. The same type of grant which was made during the 1989/90 financial year.

Transkei: amount paid by SA

471. Mr C W EGLIN asked the Minister of Foreign Affairs: Hansard 5/6/90

(1) (a) What total amount was paid by South Africa to Transkei in the 1989-90 financial year in terms of agreements between the two countries and (b) how was this amount made up:

(2) whether any additional amounts have been paid to Transkei in the form of (a) loans or (b) grants: if so, (i) how many, and (ii) what was the amount of the loan or grant, in each case;

(3) whether any further (a) loans or (b) grants are envisaged in the 1990-91 financial year; if so, what loans or grants?
Hansard 5/6/90 B1092E

The MINISTER OF FOREIGN AFFAIRS:

(1) (a) An estimated amount of R1 671 292 640

(b) The amount mentioned in (a) is made up as follows:

A. *Direct to assistance*

(i) Budgetary assistance: R875 320 000

(ii) Technical assistance: R608 000

(iii) Loan Fund: R4 617 675

(iv) Incentive scheme for industries: R25 327 100

B. *Transfers in terms of bilateral agreements*

(i) Tax compensation: R192 301 965

(ii) Share in Customs Union Revenue Pool: R548 915 000

(iii) Common Monetary Area: R24 202 900

(2) (a) No. Loans in terms of project aid agreements are included in the amount mentioned under 1 (a).

(i) and (ii) fall away.

(b) Yes.

(i) One.

(ii) Transfers in respect of the action programme: Creation of job opportunities are estimated at R6 517 000.

(3) (a) Yes. Loans are granted on a continuous basis within the framework of the Economic Co-operation Promotion Loan Fund.

(b) Yes. The same type of grant which was made during the 1989/90 financial year.

Tito Mboweni of the ANC's department of economics and planning. Picture: ROBERT BOTHA

Bday 5/6/90

Tax, sexism worry ANC economist

320

ALAN FINE

ANC department of economics and planning (DEP) official Tito Mboweni dropped into the chairman's office at 44 Main Street for an hour last week, just prior to his return to Lusaka after his first visit to SA in 10 years.

Although he holds strong views on the excessive power of local conglomerates, his visit to Anglo American HQ was not for the purpose of selecting an office for his occupation after nationalisation.

Rather, he said, he went at Anglo's invitation and expected to continue the debate on economic issues which he believed necessary for achieving a "national consensus" in SA.

Mboweni, 31, was the ANC's top DEP representative at the recent Carlton conference. Now Lusaka-based, he plans to spend the next few months establishing the DEP in SA.

He holds an MA in economics from the University of East Anglia in Norwich.

Mboweni said while gatherings like the Carlton conference had their uses they also had limits.

On the one hand, it was important for the two groups — the ANC and the business community — to have received the messages they did from leaders such as Nelson Mandela and Gavin Relly.

At the same time, Mboweni believed, the process through which the ANC would develop detailed economic policies would rather occur in smaller, more focused surroundings.

He expressed unhappiness with Relly's attitude to two specific issues — taxation and gender.

"I am very worried about Relly's suggestion that our taxation system should be based increasingly on indirect rather than direct taxes," Mboweni said.

Interaction

"More indirect tax dumps more of the burden on the poor and relieves the tax burden on the wealthy. We think such policies are based on pure self-interest."

He was also unhappy with the "frivolous" attitude both Relly and Donald Masson — the two business panellists at the conference — took to the question of women's advancement in the economy.

Mboweni emphasised that, as the the ANC's main constituency was the black working class, discussions on these issues with Cosatu were very important and would continue very soon.

The ANC also was committed to further interaction with business, especially at company or industry level.

Mboweni used a trip to the cane growing areas of Natal last week to illustrate how he thought a future government should use such knowledge to determine the best form of state intervention in the economy.

He visited a Tongaat-Hulett mill and saw some of the farming done by 30 000 small growers.

He said a future government would have to devise ways of assisting the small farmers.

Powerful conglomerates and the vertical integration they had achieved in the sugar industry would have to be investigated in terms of the national interest, Mboweni added. "But we will not rush into breaking them up without careful consideration," he said.

The whole question of "conglomerates" (the ANC uses that word and "monopolies" interchangeably and not according to the strict economic definition of the latter, Mboweni explained) was critical for a future government.

"We cannot be blind to the fact that the power that Anglo and others hold is an issue. They are so all-powerful one cannot talk of free competition. They can squeeze and crush any smaller competitor ..."

He said not only the ANC was concerned. The point of anti-trust legislation for SA had been made "many times" by white SA businessmen outside the major corporations.

R9,064bn from income tax

SA Times 6/6/90 Political Staff (320)

THE total amount of individuals' income tax assessed so far in the last financial year was R9,064bn, Finance Minister Mr Barend du Plessis said.

He said in a written reply to a question from Mr Harry Schwarz (DP, Yeoville) that the total amount assessed for mining companies was R55,6m and R1,375bn for non-mining companies. More than 27% of companies and 60% of individuals had been assessed.

A total of R2,2bn in tax had been collected from mining companies in 1989, while R9,38bn had been collected from non-mining companies.

BDay 6/6/90 (320)

Tax equality for women 'overdue'

LINDA ENSOR

The discrimination between married men and women was anomalous in an era when discrimination was supposedly on the way out, said Martin Sweet, senior manager of Charter Life's legal services and a Johannesburg city councillor.

"The recognition that a woman has her own tax identity and is not merely an appendage of her husband is long overdue in SA," Sweet said at a seminar on tax challenges of the future.

He emphasised that a wife contributing to a retirement annuity (RA) should be entitled to the same tax-free limits and exemptions as her husband.

"I do not see any reason why the Section 10 (1) (X) exemption of R30 000 should not apply separately to a married woman, nor do I see any reason why the 2nd Schedule benefits should not be fully applicable to a married woman," he said.

If government had any intention of taxing married women as fully separate tax payers, then it should, Sweet said, "stop playing games and take the separation of income and tax of husband and wife to its logical consequence by applying the 2nd Schedule benefits and the R30 000 exemption to wives as well."

Sweet said SITE legislation had not only given tax relief to married couples but had also created an incentive for working wives to provide independently for their financial security through RAs.

A married woman SITE taxpayer was now entitled in her own right to an annual tax-deductable contribution up to the greatest of 15% of her own non-pensionable taxable income, or R1 750 less her current allowable pension fund contributions or R875.

This was on top of her husband's annual allowable contribution of the greatest of 15% of his own non-pensionable taxable income, or R3 500 less allowable pension contributions or R1 750.

"This concession opens the way to tax relief through extra retirement annuity 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," Sweet said.

Clarification

He added that in this way the development of the SITE system had created a "completely new untapped market for broker penetration by increasing the contributions that married couples can make to RA funds".

Sweet said clarification was still needed on whether married women would be entitled to the lump sum exemption up to a maximum of R120 000 or greater depending on the period of service and the R30 000 exempt amount paid on retirement as a bonus.

There was no doubt that the 15% of non-retirement funding income deduction should apply to married women, Sweet said, adding that Revenue wanted to maintain the status quo in terms of which women were not entitled to the full R3 500 or the R1 750 and were only able to retain the half deduction.

Individual income tax at R9bn level

320

MIKE ROBERTSON

CAPE TOWN — Income tax for individuals assessed so far for the last financial year was R9,064bn, Finance Minister Barend du Plessis said yesterday.

He said in reply to a question from Harry Schwarz (DP Yeoville) the total amount assessed for mining companies was R55,6m and for non-mining companies R1,375bn.

He said 27,8% of companies and 60,5% of individuals had been assessed. A total of R2,2bn in income tax had been collected from mining companies in 1989 and R9,38bn from non-mining companies.

Du Plessis said in reply to another question from Schwarz that a total of R18,6m in income tax had been written off as irrecoverable from 7 288 individuals while R8,6m had been written off as irrecoverable from 497 companies.

Replying to a question from Andries Bruwer (CP Lydenburg) he said R675,3m had been collected in transfer duty in the 1989/90 financial year and government had no intention of abolishing transfer duty.

"Transfer duty remains an important source of revenue, and if it was abolished it would mean tax would have to be levied in another manner to recoup the tax sacrificed."

09/06/1990

Security boost won't mean tax rise

8/6/90 520

By Peter Fabricius and Craig Kotze

CAPE TOWN — A massive R814 million is to be added to this year's Budget to boost the strength of security forces around the country.

President de Klerk said the Government's contingency fund would have to be increased from R1 billion to R2 billion to finance the increases. However, he said, this would not lead to increased taxes.

He announced details of the way the money would be spent and financed:

- The South African Police would get R644 million, and police in the self-governing territories R48 million.
- The SA Prisons Service would get R88 million, and prisons services of the self-governing territories R1 million.
- South Africa's legal services would receive R33 million.

Higher revenues

Mr de Klerk said the increase in the contingency fund would increase the total budget for 1990/91 to R73,9 billion, although this would not all necessarily be spent. It would not be necessary to increase tax to finance the extra R1 billion.

Latest figures indicated that tax revenues would probably be moderately higher than expected. This meant the deficit before borrowing need not overshoot the target of 3 percent of gross domestic product.

Mr de Klerk said the extra R814 million would mainly help the lower ranks of the police and would increase employment slightly.

Eventually the whole community would benefit through greater stability and confidence.

The extra expenditure would increase consumer spending moderately, which would have a modest effect on the economy.

Interest rates would probably have to be kept at their present levels to combat any possible increase in credit spending.

Mr de Klerk said the spending would increase business confidence and eventually be beneficial to the capital account of the balance of payments.

- The Support the Police Action Group (Spag) and a prominent strategist have welcomed the police and security forces remuneration and recruitment package announced by Mr de Klerk.

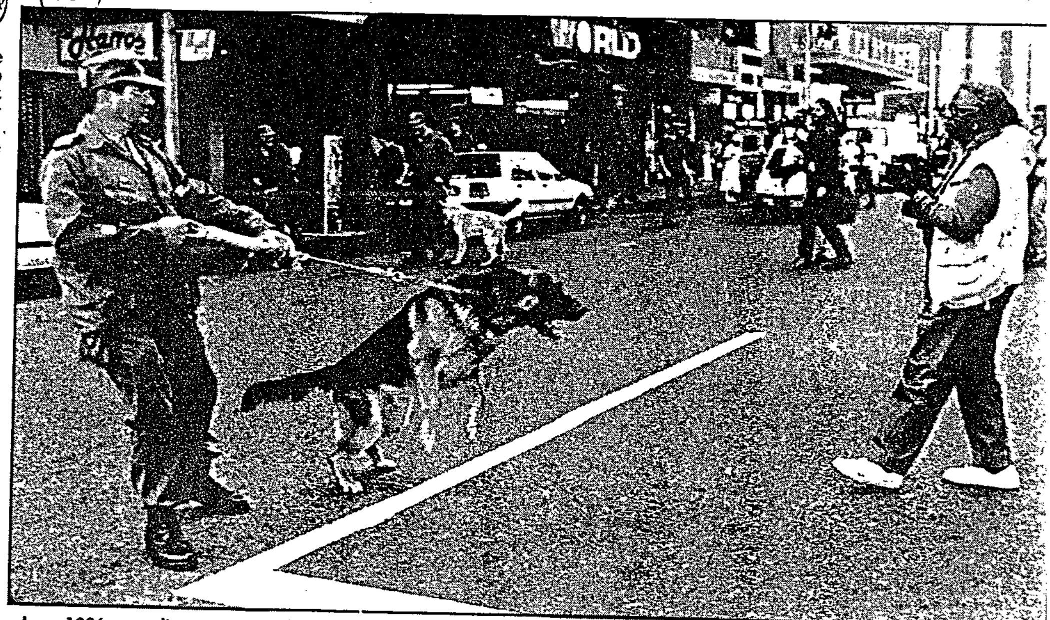
Spag appealed to policemen who left the force during the past few months because of bad salaries to return.

"Spag is pleased to hear that the money will be made available to the SAP. It is unfortunate, however, that Mr de Klerk has taken so long to recognise the importance of a strong and motivated police force.

"We would like to appeal to those who have taken their discharge to return to the force," Spag chairman Avril Budd said.

Professor Mike Hough, head of Strategic Studies at Pretoria University, said last night that the increases had come "in the nick of time" and were most welcome.

"The salary adjustments for the SAP were long overdue and in view of the high resignation rate in the force it was clear there was a need for increased salaries," Professor Hough said.



June 1986 . . . policemen act under emergency regulations to stop a demonstration and to restrict press coverage. When the state of emergency expires at midnight today, it will mean a return to the rule of law to cope with incidents such as these, except in Natal where emergency regulations will apply.

● Picture by Associated Press.

society was in sight".

... could signal a growing view among employers that the power bal-

possible in a society with divisions as deep as SA's have been."

Inland revenue prepares for introduction of VAT in 1991

PRETORIA — The commissioner for inland revenue is ready for V-day — the introduction of Value Added Tax (VAT) — on October 10 next year.

An internal revenue spokesman said staff was being mobilised and trained to administer the new system.

Orginally it was designed for and aimed at "neutral revenue" — that is a return no greater than the revenue from GST.

A fullscale training programme had been launched to equip a strengthened inspectorate staff and the staff engaged in GST surveillance work to handle the new system.

Authority was given last year to recruit

GERALD REILLY

another 12 000 workers, most of whom would be drafted to the inspectorate staff.

Tax authorities claim the new system will recover much of the tax which slips through the GST net.

(320) ŝ BD 8/6/90.

Lower rate

The authorities point out the Margo Commission estimated about 60% of tax evaded in the GST system would be recovered.

A Finance Department spokesman claimed the administration of the VAT system would be no more complicated than the work involved in administering GST.

DP finance spokesman Harry Schwarz said VAT might well be introduced at a lower rate than GST.

In spite of this, revenue collected could be greater because of the built-in policing mechanism in the system and the difficulty of cheating it.

Although government wanted to exclude all exemptions, the issue was still under consideration and consultations which had started with private sector and other interested groups would continue.

INCOME TAX FM 8/6/90

Quick response (320)

Government's swift move — by press release on May 23 — to nullify the People's Store case (*Economy* June 1) has implications that go beyond assessments for the year of accrual of a debt. The Appellate Division held in People's Store that "accruals" should be assessed at present value to the taxpayer and not, following long-standing practice, at face value (*Economy* March 9).

The decision left open whether present value should be determined on accrual of a debt or at the last day of the financial year. The better view is that it is date of accrual.

Cronje . . . reasonably fair (320)

FM 8/6/90

The press release states government's intention to amend the definition of "gross income" in Section 1 of the Income Tax Act.

Where the taxpayer has, on or before May 23, submitted a return on the basis of present value of an amount accrued, only that value will be assessed *in that year*. But the difference between it and face value will be deemed to be further income in the year in which the taxpayer "becomes entitled to or actually receives" the difference.

Where the taxpayer had not submitted a return by the date of the release, the amount to be assessed (in the year of accrual) will be the full face value of the debt.

In the light of long established practice, says the release, it will be recommended that the suggested amendment be effective from July 1 1962 (the commencement of the present Income Tax Act).

Deloitte, Haskins & Sells tax partner Willem Cronje considers the amendment "reasonably fair." Most tax advisers expected the loophole to be closed. The People's Store decision actually created asymmetry in the system, as it required accruals to be taxed on the basis of present value, whereas deductible expenses would remain claimable at face value. This is now removed.

The intended amendment, however, exposes to additional tax assessments dating back to 1962 where the taxpayer valued accruals on present value but, in subsequent returns, didn't treat the difference between present value and face value as further income. It therefore overrides the general rule that tax claims become prescribed three years from date of assessment (if full disclosure has been made).

Overriding the general rule on prescription is not a trend to be supported, says Cronje. Perhaps government should, when drafting the amendment, limit its effects to periods not yet prescribed under S79 of the Act. However, it will not mean much in practice, as few pre-1988 assessments reported accruals on the discounted basis.

FM 8/6/90 (320)

Pim Goldby partner Peter Backwell agrees the amendment is long overdue and seems to be the only sensible way to resolve the anomaly.

He does feel, though, that including the difference between face value and present value of a debt is "arguably contrary to the law as it stood before the effective date of the proposed amendment." This seems to be retroactive. And the use of date of submission of a tax return as a cut-off is, to his knowledge, unprecedented.

Kessel Feinstein tax partner Ernest Mazansky agrees the use of date of submission is unfair to taxpayers who reacted to the People's Store judgment with caution, while favouring those who put in returns on the discounted basis. Even retroactive legislation, for all its undesirability, might have been preferable.

Mazansky notes this has arisen before, as when perks tax was introduced. Those who implemented "aggressive schemes" prior to that legislation could phase in the tax; those who preferred to wait until the law was certain were taxed in full from day one. ■

W/t
Argus
9/6/90

Vat 320 details to be unveiled

By DICK USHER
Business Staff

LONG-awaited details of government proposals for Value-added Tax (VAT) will be unveiled next week.

The proposed replacement of general sales tax by VAT created a major stir in industry and commerce when it was first announced several years ago, but since then little apart from the bones of how the system would operate has been brought into the open.

It is hoped that the many questions about VAT will be clarified at Thursday's Press conference where Dr Org Marais, Deputy Minister of Finance, will outline the government's proposed legislation.

Mr Davids Clegg, a partner in Ernst & Young, said that although some sections in commerce and industry, mainly large concerns, had done some preparation for the introduction of VAT many others were unprepared.

"There was quite a flurry of activity when the introduction of VAT was anmnounced about Christmas 1987.

"Then it dawned that nobody in government was ready for the tax and a lot of people sat back to wait.

"Many large organisations carried on with preparations for VAT, but a problem they faced was that they didn't know in detail what they were getting ready for."

Mr Clegg said that among the questions that had been raised was that of an input tax on capital goods and how VAT would affect the housing and construction industry.

"In the meantime people carried on coping with GST," he said.

But although many concerns were not ready for VAT, he said that the government would not introduce legislation before October 1991 and had promised a six-month lead-in period between promulgation and implementation.

"That timetable should be enough for everyone to get ready for the new tax," he said.

Tax on interest on gilts to be considered

BARRY SERGEANT

DEPUTY Finance Minister Org Marais has confirmed that the issue of taxation of interest on gilts (such as Eskoms and RSAs) will be given attention in the Income Tax Act Amendment Bill. (320)

This confirms weeks of rumours that have sent jitters through a lacklustre capital market. Marais, however, would not give details. B/Day 11/6/90

Capital market and other sources have suggested that emigrants — who sometimes cannot take all their money abroad because of foreign exchange limit laws — buy capital market paper, earning tax-free interest. While non-resident's shareholders tax remains in place, non-resident's tax on interest (NRTI) was abolished last year.

Eskom said it could not comment officially on the speculation. However, it said it had R14bn paper in issue. While statistics on what proportion of its stock was held by emigrants were not available, Eskom finance sources said would be minimal.

Further speculation was that a proposal to tax certain classes of taxpayers on interest earned on gilts could include emigrants, and those who had already left SA and taken advantage of the "loophole".

Workings of VAT system to be made known this Thursday

(320) Star 12/6/90

By Sven Lünsche

Long-awaited details of the Value-added-Tax (VAT) system will be unveiled on Thursday by deputy Finance Minister Dr Org Marais in Cape Town.

The replacement of general sales tax by VAT was first proposed by the Margo Commission and announced in the Budget in March 1988.

It caused a major stir at the time, but since then little apart from the bones of how the system will operate has been revealed.

On Thursday, however, Dr Marais will hopefully provide details of the proposed VAT system, although legislation is unlikely to be introduced before October next year.

Dr Marais has already said a six-month lead-in period between promulgation and implementation will be allowed, which should be enough for companies to get ready for the new tax.

A big question mark, however, hangs over the ability of Internal Revenue to cope with the administration of the VAT system.

Andre Myburgh, a consultant to chartered accountants Aiken & Peat, says documentation of the new system will be of extreme importance.

"Tax invoices will have to be created and handed in on a monthly basis by most companies and traders," he says, adding that most chartered accountants have done research on VAT.

"However, I don't think Internal Revenue is prepared for the introduction of the system.

"In New Zealand, for example, inspectors investigate registered vendors at least once every six months to see that the system is implemented correctly — we just don't have the manpower for this," Mr Myburgh says.

David Clegg, a partner at Ernst & Young, says that although some sections in commerce and industry, mainly large corporations, have done some preparation, many others are unprepared.

Other questions raised relate to an input tax on capital goods and how VAT will affect the housing and construction industry.

"Certainly the tax base will be much broader and most, if not all services, will be taxed, including, possibly, services by professionals and local administrations," Mr Myburgh says.

There is, however, consensus on the rate at which VAT will be introduced, with most accountants expecting a rate of 15 percent, but certainly not less than 13 percent.

Construction tax cheats face clampdown

MIKE ROBERTSON

CAPE TOWN — Government is set to clamp down on sales tax cheats in the construction industry.

A clause in the Taxation Laws Amendment Bill passed in Parliament yesterday targets those people in the construction industry who have been charging GST for performing non-taxable activities.

Deputy Finance Minister Org Marais told Parliament construction agreements were excluded from the concept of "sale" in the Sales Tax Act. 320

It had, however, come to the attention of government that some people who performed non-taxable construction activities were nevertheless recovering sales tax from clients and pocketing the money.

In future anyone found to be carrying on such activities would face prosecution, Marais said.

The omnibus Bill also extends for a further year the moratorium on transfer and stamp duty for companies which wished to rationalise their corporate structures and which had been unable to organise their affairs to make an application in the time stipulated. B/Day 12/6/90

Marais said many companies had made use of the existing moratorium which expires on June 30.

The Bill also contains provisions exempting jewellery bought by foreigners from sales tax.

Another provision in the Bill provides for the continued exemption from postage stamps and telephone rentals from GST when the Department of Posts and Telecommunication is converted into two companies.

Govt closes two popular tax loopholes

B Day 14/6/90 (320)

LESLEY LAMBERT

CAPE TOWN — Two popular tax loopholes — one related to trading stock distribution and the other to employee housing benefits — have been closed by amendments in the newly tabled Income Tax Bill.

The Bill fixes the rates of private and company tax for the current year of assessment and introduces amendments to the Income Tax Act of 1962, many of which were announced by Finance Minister Barend du Plessis in the annual Budget speech.

The major amendments include the introduction of separate taxation for married women, the immediate exemption of dividends from tax, the "safe haven" ruling on shares held for over 10 years, a partially favourable mining tax package and the elimination of anomalies in SITE.

But, it also brings bad — and not entirely unexpected — tidings to some companies and to some employee housing scheme beneficiaries.

In the one clampdown, companies which

□ To Page 2

Tax loopholes

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□ From Page 1

have been avoiding tax on the sale of trading stock by distributing it to shareholders in the form of a liquidation dividend in specie (where the value is represented by something other than cash), will now become subject to tax, said Ian MacKenzie of Ernst & Young.

The Bill includes the proviso that from June 12 1990, the distribution should be deemed to represent a sale at market value and that the company distributing the stock should be taxed on the profit on the deemed sale.

He said the companies most affected by this clampdown will be property development companies, many of which have been selling properties they have developed, in this manner.

The other clampdown relates to conditions under which employee housing benefits are subject to favourable tax treatment.

Previously, the favourable treatment did not apply where an employee or a private company owned the house. It did apply, however, where the house was owned by a trust established for the benefit of the employee or his or her family.

In terms of the proposed amendment, if a house is owned by a trust, the employee will be taxed on his or rental rather than the favourable formula.

MacKenzie points out that some unexpected good news comes from last minute amendments to proposals on the inclusion in trading stock, for tax purposes, of certain additional items like the value of construction companies' work in progress, consumable stores and spare parts.

BUSINESS

W|Mail 8/6-14/6/90

Scrapping of div tax might boost savings

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Weekly Mail Reporter

THE abolition in the budget of the tax on dividends has been seen as a move favouring the most wealthy. However, according to the Bank of Lisbon's latest Economic Focus the abolition is a bold and radical step.

No other country in the world has removed tax on dividends.

"From the perspective of income distribution the concession is regressive in nature, since it confers benefits on a relatively small, wealthy section of the community," the report admits, though it will help some elderly people who rely on fixed investments.

But the move could boost personal savings in South Africa, which have declined and even been replaced by borrowing to fund spending. Mostly it will switch savings from one form to another. The report thinks the authorities have foreseen funds moving out of insurance companies, which offer "contractual savings" such as retirement annuities and profit-linked endowment policies, and into mutual funds, also known as unit trusts. Mutual funds invest money on the investor's behalf in a spread of listed shares.

"There is much scope for such a development. The mutual fund industry is still relatively small. At the end of 1989 it managed assets worth about R6,6-billion, while the life assurance industry had assets of R100-billion.

Some money might be diverted into direct equity investments. The benefit of this would be to reverse the trend towards the growth in institutional funds. This has been associated with increasing concentration of ownership industry involving these financial institutions.

Two other effects could be:

- Demand for high dividend yielding stocks could be boosted, by encouraging smaller private investors to enter the share market.
- The market should become more dividend oriented.

SOWETAN BUSINE

Draft Bill for new tax system

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Sowetan 14/6/90

By JOSHUA RABOROKO

THE Deputy Minister of Finance, Mr Org Marais, will table the draft Bill on Value Added Tax (VAT) in Parliament today.

The Bill will be open for comment until end September. All wanting to make suggestions must submit their comments to Vatcom, a committee comprising members from the public and private sectors and all population groups.

The address to which comments must be sent will be announced.

Vatcom will then, after considering all suggestions, submit its recommendations to the Minister of Finance, Mr Barend du Plessis.

These recommendations will, where necessary, be incorporated in a Bill to be tabled in Parliament early in 1990.

VAT will in general be introduced in October 1991.

Plans

Inland Revenue is planning an extensive training and information programme, involving seminars for people and organisations that will be closely involved in the implementation of VAT, as well as a series of newsletters and other informative literature and material for general public consumption.

In the meantime, however, Marais has preceded the June public announcement of the VAT Bill by a series of private briefing sessions with interest groups.

These sessions entailed a meeting with him and senior officials of the Department of Inland Revenue, informative literature was handed out to delegations to enable them to start preparing comments, suggestions and arguments for submission to the Government during commentary phase of the VAT introduction programme later this year.

Among the groups that saw the Deputy Minister are the National African Federated Chamber of Commerce and Industries (Nafcoc), the Foundation of African Business and Consumer Services (Fabcos) and the South African Chambers of Business.

After the meeting in Cape Town with Marais, the delegations said they would study the new tax system and later make recommendation to the government. They would not immediately say whether they favoured it or not.

The proposed introduction of VAT is regarded by government officials as a vitally important step in overhauling the tax system to cope with future demands.

It is seen as a major improvement on General Sales Tax, a system whose several flaws cannot be eliminated even by a major reform effort.

Basically a tax system on all goods and services in the country, VAT will be far more broadly based than GST and is expected to address the latter's two main shortcomings, tax evasion and double taxation.

(320) 15/6/90

VAT tax system will boost

ARGUS 15/6/90 (320)

By Sven Lunsche
Argus Correspondent
in Johannesburg

THE government proposals to widen the tax net when the value-added-tax (VAT) system replaces general sales tax (GST) in October next year should boost revenue considerably.

TAX

Although the rate at which the new tax will be introduced is likely to be lower than the present 13 percent GST rate, the inclusion into the tax net of food and basic services should bolster the governments coffers.

Presenting the concept Bill on the new tax system yesterday, Deputy Finance Minister Dr Org Marais added that tax evasion would be more difficult under the new system, although it was impossible to put an exact figure of how much is lost through evasion under GST.

He estimated that the tax on food alone could bring in about R2,44 billion at current rates, although much of this will be earmarked for specific programmes to help the poor communities.

Dr Marais said in principle it was the intention to levy VAT on all goods and services, including transport, professional services, and services provided by public and local authorities unless specifically exempted or taxed at a zero rate.

He added, however, that considerable economic distortions, caused by double taxation in the GST system, would be eliminated and result in significant savings for consumers and companies.

"To redress the inequalities that stem from double taxation, the government intends allowing manufacturers a credit for tax paid on capital and intermediate goods, which will be phased in ov[er] a period.

"These tax credits wi[ll] eventually eliminate doub[le] taxation from the sellin[g] chain and will mean marke[t] production and merchandi[s]ing cost savings, which com[merce] and industry ought [to] pass on to the consumer, wit[h] beneficial effects on infla[tion]," Dr Marais said.

Detailing the proposals h[e] said the government had n[ot] made a final decision o[n] whether VAT would be im[posed] on low-cost housin[g] but in principle "it would [be] more efficient to tax all co[n]struction and to provide ta[x]

'Consumers will gain, but the nee

From HELEN GRANGE
Argus Correspondent
in Johannesburg

RETAIL and consumer groups have greeted the government's Value Added Tax (VAT) proposal with mixed reaction — some saying it would alleviate the consumer's tax burden and others claiming it would further impoverish the needy.

It was proposed yesterday that all food items would be taxed under the VAT system, but that the rate of the new tax was likely to be lower than the present 13 percent General Sales Tax rate (GST).

Basic foodstuffs such as bread, fruit and vegetables — which are currently tax exempt — will be taxed. However, processed foods currently taxed on the GST rate will probably cost less under VAT.

However, if the new VAT reduced the present tax rate to 8 or 9 percent, it would not put anyone in a difficult situation, he said.

Chris Hurst, financial director of Pick 'n Pay, said the VAT system would broaden the tax base, and although it "may not be good for food retailers", it would probably bring the general tax rate down.

"I think that this (decreasing the tax rate) was half the motivation for the VAT proposal. Another important reason would have been that one rate of tax is far easier to police than two, and this would reduce tax evasion."

Mr Hurst said the government would probably institute another form of food subsidisation for the lower income group, in the form of food stamps for example.

Professor Leon Weyers, chairman of the Consumer Council, said it was not "strictly true" that lower income groups would suffer under the new VAT system.

"A large percentage of this group don't buy fresh food but prefer processed food. If the broader tax base means that tax on processed food comes down, it would be generally beneficial to the consumer.

15/6/90

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government revenue

geted relief to low-cost housing."

However, he indicated that medical and educational services would be exempt from VAT, as well as the rental of residential accommodation and certain financial services, including those provided by the banks, building societies and life assurances.

In a significant benefit to consumers transactions between private individuals would also be exempt from VAT if the proposals are given the go-ahead.

Products aimed at the export market would be subject to a "zero rate of VAT" to increase the competitiveness of South African goods in the export market.

Under GST, Dr Marais estimated that export prices included a five percent effective tax rate as a result of double taxation.

Other transactions which would be zero-rated include gold sales to the Reserve Bank, international travel and the sale of a going concern.

In line with previous GST legislation only businesses and people who earn more than R50 000 will have to register for VAT, which in effect excludes many small hawkers and traders in the informal sector.

Dr Marais said draft legislation containing the proposals would be published on Monday and all interested groups would be invited for comment to a committee — to be known as Vatcom — which represented the public and private sectors.

The final Bill would be tabled in parliament early next year and if passed VAT would be introduced in October 1991.

The Department of Inland Revenue was planning an extensive training and information programme for the public on the introduction of VAT.

dy will be impoverished'

One could accept this," he said.

However, according to Lynn Morris, president of the Housewives League, VAT on food will push up the cost of most consumer's shopping basket.

"Bread, meat, vegetables and fruit make up the major proportion of the shopping basket for lower and middle income groups. Tax on these foodstuffs, together with inflation, will mean increased costs and the consumer doesn't have more money to spend on food," Mrs Morris said.

The South African Chamber of Business (Sacob) has welcomed the proposal and has encouraged public debate on the issue.

"Sacob believes that any change from the existing method of indirect taxation needs to be judged against the following criteria: the widest possible tax base, the lowest possible rate, a single, uniform rate applied to the entire base and the exemption of capital goods, intermediate inputs and exports," a statement said.

The statement added it was essential that the government devise adequate, separate mechanisms to assist the poor and alleviate poverty.

Sacob will consult with its members to formulate a detailed response to the draft legislation and will hold information seminars countrywide to ensure proper understanding of the VAT proposals and business implications.

VAT will hit food giants, may push up prices

ARGUS 15/6/90

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By TOM HOOD
Business Editor

CASH flows of supermarket chains will be hard hit, forcing a new round of price increases, when the new value added tax (VAT) replaces general sales tax in October next year.

The government is set to introduce pension parity for all races if proposals to tax food are given the go-ahead.

Deputy Finance Minister Dr Org Marais announced yesterday that the government was looking at taxing all food items when the VAT system came into force.

Retail giants will lose millions of rands a year they earn from interest on sales tax collected from their customers.

CASH FLOWS

This tax money can earn the companies between 18 and 20 percent for the first 20 days of the month until it gets paid to the Receiver of Revenue.

"This could have a massive effect on cash flows and profit margins," said Mr David Clegg, chairman of Cape Town Chamber of Commerce's taxation committee.

"Although this income from interest was taxable, it helped retailers to keep prices down and companies now would be sitting on a much smaller pile of cash at the end of the month.

"In most cases, their margins won't be able to absorb the shock and retailers will have to raise prices. However, if it amounts to a cent or two an item, it will be hardly noticeable."

This factor reinforces analysts' doubts of government forecasts that price rises will be held to less than 13 percent when VAT is imposed on foods currently exempt from GST.

SOME BENEFITS

Overall, VAT could make a limited impact on inflation, says Mr Clegg.

Its effect will be tempered by some benefits, such as ending double taxing, which could lead to considerable savings on what industry paid in GST and help companies to stave off price increases.

However, the building industry, which paid sales tax only on the materials aspect of a contract, would have to pay VAT on the labour component as well.

Dr Marais said yesterday: "If there are no exemptions from the tax there will be no increase in inflation.

"If we can keep the tax rate below 13 percent we may succeed in not having a big jump in inflation."

● The Argus Political Correspondent reports that no VAT will be charged on private second-hand car sales or any private sales. At the moment, anyone buying a car in a private deal must pay GST.

Dr Marais said yesterday that when VAT came in later next year, only "enterprises" would pay sales tax and it would not apply to any private deals.

● See page 13.

VAT

B Day . 15/6/90 (320)

Feeling the bite of tax in stages

VAT, as the name implies, is a tax on the value added at each stage in the production and distribution of a product. Take the example of a wooden kitchen table:

In the table, if we look first at the grower who produced timber worth R200 (ie created something worth R200) then assuming a VAT rate of 10%, he will have to pay tax on that value (10% of R200 = R20) to the Receiver of Revenue.

The furniture manufacturer then takes the timber and turns it into a table worth R500. He added value of R300, and pays tax on that (and so on).

It can be seen that the tax ultimately borne by the purchaser of the table is collected from all three firms involved in the production and distribution of the table. This is in sharp contrast to the current GST system where the tax would have been collected entirely from the retailer. Were the rate of sales tax still 10% (it was, back in 1984) then the Receiver would still have got R60, but only from the retailer.

Base

The deputy Finance Minister says government intends introducing VAT at a rate lower than the current 13% GST, while collecting a total amount that would be the same as under GST.

This statement prompts two questions:

How much lower will the rate of VAT be?

How is government to collect the same amount of revenue using a lower rate? The answer to the first question no doubt depends on the answer to the second.

Business Day, in conjunction with audit firms Deloitte, Haskins & Sells and Pim Goldby, will answer readers' questions about VAT. Questions should be sent to: Business Day VAT Panel, P O Box 1138, Johannesburg 2000, or faxed to the panel at (011) 836-0805. The panel consists of Des Kruger and Chris Beneke (Cape Town), Rob Mun-Gavin and Dayalan Naicker (Durban) and Kenn Boggis, Rob Collins and Anne Bennett (Johannesburg).

	Timber grower	VAT	Furniture manufacturer	VAT	Retailer	VAT	Consumer	
Pays	Nil	(Nil)	=200	(+20)	500	(+50)	600	(+60)
Sells for	+200	(+20)	500	(+50)	600	(+60)		
Value added	200		300		100			
Pays to Receiver		(20+)		(30+)		10 =	60	

Assume a GST base of R1 000 (ie goods and services that are taxable). At a current GST rate of 13%, the tax yield would be R130.

To raise the same amount of tax with a VAT rate of, say, 10%, the tax base would have to be R1 300. In other words, things that are not currently being taxed will in future be taxed. Where will the R300 come from?

Before answering the question specifically, it will be noted from our example of the table that ultimately the tax (be it GST or VAT) is borne by the final consumer. He pays under a VAT system too because the tax paid by firms in the chain is simply recovered by them by being passed on to the next person in the chain. The consumer has no one to pass it on to!

Our question becomes: "If the consumer has to pay the tax, on what will he pay VAT that he does not presently pay GST on?"

A number of basic foodstuffs are not taxed under GST — e.g. bread, fresh meat, vegetables and milk.

Government is adamant that under VAT all foodstuffs will be taxed. However, an undertaking has been given to effectively refund the tax on food to those "in need". Thus straight away the new tax on foodstuffs will to some extent be eroded by a payment to the needy. Admittedly, a refund mechanism will give government some control over the quantum of the tax cost as opposed to the current exemption, which is a blanket one.

We are still left with a major difficulty of trying to determine who is worthy of assistance and who is not. And if the intention is to assist the poor, then why stop at foodstuffs?

A number of expenses not currently subject to GST will become taxable such as services provided by municipalities i.e. rates, electricity and water charges. Even those supplied by government departments, like telephone calls, will become taxable.

So will the cost of insurance, specifically insurances of a short-term nature, like householders' insurance. In fact, not only the expenses associated with the house will be taxable but also the cost of the house itself if it is newly built. So too will be conveyancing costs.

The intention is to spread the VAT base to all services including all those in the construction industry. These will now extend to the services of such businesses as electricians and plumbers and those who install burglar bars.

If you happen to be a commuter, the bus, train or taxi fare will be liable to VAT, as will other transport services like those of furniture removals.

VAT will be due on petrol (albeit in place of the existing fuel levy) and on car insurance. It will no longer be possible to separate out an invoice on a delivery charge so as to ensure it would not be taxed.

Cost

Some businesses will not be able to pass the VAT on directly to their customers because they will perform exempt services, for instance banks and building societies, life insurance companies and certain medical practitioners.

Although they are in a role similar to a consumer, it is unlikely such a business would be content to absorb the extra costs (e.g. a bank incurring legal expenses plus VAT). Rather they will regard the additional VAT as a cost which will have to be factored into the price charged for its services.

Although the consumer is not being called upon to pay a specific amount of VAT in these circumstances, there is no doubt he will be required to bear all or part of it indirectly.

VALUE-ADDED TAX FM 15/6/90 (320)

No special pleas, please

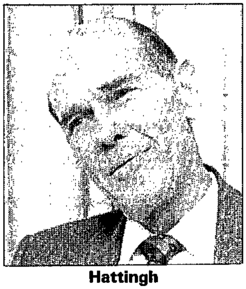
■ Exemptions need to be limited to safeguard economic neutrality

Despite expectations that the rate of the new value-added tax (VAT) will be below GST's current 13% when it is introduced in October next year, there are likely to be some hot political sparks flying during the run-up. If government does not stick to firm economic principle, and compromises with special pleaders, it might be unable to achieve the lower rate.

Controversy is likely to arise over the proposed exemptions from the tax. For they will have to be few indeed if the Exchequer is not to be prejudiced by a lower nominal indirect tax rate.

Though one of the main reasons for the change is to improve the tax yield, by reducing tax evasion (and this may be the eventual outcome), a VAT is well-known to be a more complicated and expensive tax to administer than GST.

Du Plessis



Hattingh

Moreover, since exemptions from indirect tax were last debated, restrictions on black interest groups have been largely removed — and they have made clear that they are impervious to economic reason in their desire to tax the wealthy — that is whites.

The economic reason for indirect tax (be it GST or VAT) is, of course, that it taxes spending — regardless of income levels — and therefore provides revenue without prejudicing the main creators of wealth. It is thus economically neutral.

Income tax, on the other hand, places by its progressive nature a higher burden on those whose ability to create wealth is more vigorous, that is the wealthy. So while it helps to redistribute wealth, it inhibits its creation and retards economic growth.

One of the misconceptions of the past is that if the basics of life are excluded from VAT or GST, the poor will be less worse off. That is true neither in theory nor practice. Indeed, experience has shown beyond doubt that the poor benefit more from an economic system that maximises growth than through indirect subsidies provided by exempting food and other basics from tax. In practical terms that type of subsidy has been shown to be a waste of money.

The reason is that it is practically impossible to target indirect subsidies accurately to the poor. For instance, 82% of food is consumed by those who live above the breadline.

They benefit more from the exemption of food from indirect tax than do the very poor.

Even exempting a supposed staple such as mealie meal turns out to be more of a masked subsidy for farmers than effective help for the poor.

This is because more mealie meal is used for animal feed than is consumed by the poor. Similarly, the higher the bread subsidy and lower the retail price, the greater is the inclination for farmers to use bread as an animal feed.

Moreover, studies abroad have shown that exempting food from tax to help the poor has not led to an increase in basic food consumption, but to greater purchases by the poor of clothing and other taxable products. It has been calculated that for every $12 used to help the poor, only $1 actually reaches them.

Of course, every society needs to assist its very poor and indigent. But exemption from indirect taxation is not the best way to do it. It undermines the general prosperity without achieving its intended purpose. That assistance needs to be given directly — through social pensions, unemployment assistance or the provision of food rations.

Government appears now to acknowledge that excluding some supposed basic foods from GST was a bad mistake. But whether it will be able politically now to include them under the new VAT remains to be seen. For social pressure from black communities and organisations will have to be kept increasingly in mind.

The Cabinet — from Finance Minister Barend du Plessis to those with portfolios with special interest groups, like agriculture and water affairs — will have to resist constituency pressures as well.

Our scepticism stems from government's likely decision also to exempt exports and expenditures on schooling and hospitals from the proposed standard VAT rate. Again, there are no good economic reasons for so doing, only bad ones. The rationale seeks dubious commercial justification from practice in competing countries.

Exemptions from either GST or VAT are generally motivated on political grounds or for self-interest by special pleaders. Once they are let in the door the scope for irrational economic policy becomes an increasing danger.

It is far better, therefore, for Pretoria to entertain no exemptions whatsoever and allow the exchange rate to look after exports.

Another reason for the switch to VAT from GST — the difference is that the former is levied at every stage at which value is added to a product or service and the latter only at the point of final sale — is to avoid double taxation.

It emerges largely from difficulties of definition. GST tends to become part of the price of some commodities used in other production processes.

So the GST on the final product is levied also on tax already paid.

To change that, government intends, under VAT, to allow manufacturers a credit for tax paid on capital goods. As an interim measure, however, to discourage the postponement of capital purchases until VAT, it plans to impose an excise on capital goods that will eventually be phased out.

However, even with the new VAT there are going to be problems of definition and application.

These are practical matters that government hopes will be raised when draft legislation is gazetted on June 18. An extensive training and information programme will follow.

The *FM*'s view has been that much could have been done by removing exemptions and improving collection techniques to reduce the gap between the effective GST tax yield and the nominal one, without introducing the more complex VAT, the burden of collection of which — to the perpetual gratitude of Hannes Hattingh and his tribe — falls on business.

The nominal yields from both taxes are identical. We still favour that course.

Having made the decision to change, however, government does appear to be more economically sensible in the general application of indirect tax and the subject has been debated and investigated enough. There comes a time when certainty is more important than theoretical perfection.

So, if government can stick to its guns over very limited exemptions, the greater certainty and efficiency of a streamlined tax system should be beneficial to business confidence and to competition. ■

Sacob welcomes draft legislation's gazetting

ZILLA EFRAT

(320)

THE SA Chamber of Business (Sacob) has welcomed Deputy Finance Minister Org Marais' announcement yesterday that draft legislation on VAT's introduction would be published in a Government Gazette on Monday.

B Day 15/6/90

This would open the issue for public debate and meant discussion could be based on firm proposals rather than on simple hypothesis, Sacob said.

The Margo Commission and government's White Paper published in mid-1988 recognised the need to improve the equity and efficiency of SA's tax system to make SA business more competitive in international terms and to broaden the tax base.

VAT was seen to contribute to these objectives and its introduction was therefore recommended.

Sacob believed any changes from the existing method of indirect tax needed to be judged against the following basic criteria: the widest possible tax base, the lowest possible rate, a single uniform rate applied to the entire base and the exemption of capital goods, intermediate inputs and exports.

Sacob would consult its members in order to formulate a detailed response to the draft legislation.

PETER DELMAR reports that Afrikaanse Handelsinstituut (AHI) executive director Martin van den Berg said yesterday the AHI recognised that large-scale evasion of GST had to be addressed. It would study the draft legislation.

TAX LAW — 3 FM 15/6/90

A welcome breather

The Taxation Laws Amendment Bill, debated in parliament this week, extends the so-called "moratorium" for another year, to June 30 1991. This exemption from stamp and transfer duties was enacted to aid rationalisation of corporate structures. It reduced the (often high) incidental costs these imposts imposed on transferring property from one group company to another or issuing new shares in a merger of two group companies.

Pim Goldby partner Peter Backwell welcomes the further extension. Though the moratorium has been in place for over two years, some Receiver's offices still have difficulty in keeping up with applications — particularly in Johannesburg, where approval may take six months or more.

Backwell says Revenue's approach has been admirable. The law has been applied liberally, in the spirit intended. In his experience, staff have been accommodating and helpful, and generally "appropriately qualified." Indeed, "if Revenue could extend this attitude and level of service to other activities it would go a long way to improving its relationship with taxpayers." (320)

Pierre du Toit, senior tax partner at Arthur Andersen, argues the ability to come to legislatively sanctioned agreement with Revenue on any number of income tax implications of a group rationalisation has been of even greater importance. This type of concession opened the way for many rationalisations which were of benefit to the economy in the long run, but had been shelved because of prohibitive tax implications.

Why, asks Du Toit, can these valuable concessions not be made permanent? The case for this is even stronger after their effective operation on a temporary basis — thanks largely to the "sound and fair way"

FM 15/6/90 (320)

Revenue has dealt with applications. There does not appear to have been any real abuse. ■

Retail giants will lose cash cushion with VAT

Star 15/6/90 320

By Tom Hood

CAPE TOWN — Cash flows of supermarket chains will be hard hit, forcing a new round of price increase, when the new value added tax (VAT) replaces general sales tax in October 1990.

Retail giants will lose millions of rands a year they earn from interest on sales tax collected from their customers.

This tax money can earn the companies betweem 18 and 20 percent for the first 20 days of the month until it gets paid to the Receiver of Revenue.

"This could have a massive effect on cash flows and profit margins," said Mr David Clegg, chairman of Cape Town Chamber of Commerce's taxation committee.

"Although this income from interest was taxable, it helped retailers to keep prices down and companies will now be sitting on a much smaller pile of cash at the end of the month.

"In most cases their margins won't be able to absorb the shock and retailers will have to raise prices. However, if it amounts to a cent or two an item, it will hardly be noticeable."

Pick n' Pay financial director Chris Hurst said: "GST has always worked to our advantage. On average we have held 35 days' money. If you allow for 20 percent interest and it is taken away, you have to find it somewhere else."

However, any loss would depend on how retailers were going to pay over VAT.

"I am hopeful we will do it on a quarterly basis as in Europe. Small businesses there have the option to pay it in six months."

Overall, VAT could make a limited impact on inflation, said Mr Clegg.

Its effect will be tempered by some benefits, such as ending double taxing, which could lead to considerable savings on what industry paid in GST and help companies to stave off price increases.

A company would no longer have to pay sales tax on a R4 million piece of equipment.

However, the building industry, which paid sales tax only the materials aspect of a contract, would have to pay VAT on the labour component as well.

Discussing the government's VAT proposals, Dr Org Marais, deputy minister of finance, said yesterday: "If there are no exemptions from the tax there will be no increase in inflation.

"If we can keep the tax rate below 13 percent we may succeed In not having a big jump in inflation."

Star 5/6/90 (~~299~~) (320)

TML's higher tax burden dampens profit increase

By Ann Crotty

A sharp increase in the tax charge — from 34 percent to 49 percent — means that Times Media Limited (TML) was only able to maintain attributable profit at R25,4 million (R25,1 million), despite a 21 percent hike in operating profit in the 12 months to end-March.

An increase in shares in issue resulted in earnings per share dropping five percent to 119c from 125c.

A final dividend of 36c (30c) a share has been declared, bringing the total for the year to 54c — up 20 percent on the previous year's 45c.

The higher dividend has resulted in a reduction in dividend cover from 2,8 times to 2,2 times.

Higher advertising tariffs and acquisitions helped lift turnover by 31 percent to R237,9 million (R181 million). Operating profit was up 21 percent to R39,9 million (R33,1 million), reflecting a drop in margins from 18,3 percent to 16,8 percent.

This fall is attributed to the lower-margin businesses acquired. The directors say margins are expected to improve.

Dividend income increased to R2,4 million (R1,8 million), while interest income more than doubled to R8,9 million (R3,9 million).

All this left pre-tax income showing a solid 32 percent advance to R49,7 million (R37,8 million).

But the tax payment was almost double at R24,4 million (R12,7 million).

According to the directors: "The remainder of the tax losses brought forward from previous years was fully utilised during the last financial year.

"The charge for the review year is at the full corporate tax rate."

The balance sheet shows cash and short-term investments of R57,9 million — up from R42,7 million.

However, approximately R36 million of this is earmarked for the payment of the final dividend, tax and payment for recent acquisitions.

This means the hefty interest income earned in financial 1990 will not be repeated in the current financial year.

The directors expect competition to intensify in financial 1991 because of the low rate of economic growth and the emergence of new competition, particularly in the PWV area.

"However, the company is well positioned to cope with the challenges that lie ahead and to capitalise on any growth potential in the publishing and communications field."

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Mixed reactions to Govt VAT plan

By Sven Lünsche and Helen Grange

Retail and consumer groups have greeted the Government's Value Added Tax (VAT) proposal with mixed reactions, some saying it will alleviate the consumer's tax burden, others claiming it will further impoverish the needy.

The Government yesterday proposed to tax all food items when VAT replaces general sales tax in October next year.

However, the rate at which the new tax will be introduced is likely to be lower than the present 13 percent GST.

Presenting the concept Bill on the new tax system yesterday, Deputy Finance Minister Dr Org Marais said the introduction of VAT was a necessary step in overhauling the outdated tax system.

Commenting on the inclusion of food in the VAT net, Dr Marais said the exemption of basic food from the present GST system to benefit the needy was not an efficient way of providing assistance.

Instead, he proposed targeted and practical assistance including the introduction of nationwide feeding schemes and higher social pensions.

Dr Marais said the Government had not made a final decision on whether VAT will be imposed on low cost housing, but in principle "it would be more efficient to tax all construction and to provide targeted relief to low cost housing".

He indicated that medical and educational services would be exempt from VAT, as well as the rental of residential accommodation and certain financial services.

Products aimed at the export market would be subject to "zero rate of VAT" to increase the competitiveness of South African goods in the export market.

Dr Marais said draft legislation containing the proposals will be published on Monday and all interested groups would be invited to comment to a committee (Vatcom) which represented the public and private sectors.

The final Bill will be tabled in Parliament early in 1991 and if passed VAT will be introduced in October 1991.

The proposed introduction of VAT is seen as a major improvement on GST and will address GST's two main shortcomings: tax evasion and double taxation.

Inequalities

To redress inequalities that stem from double taxation the Government intends allowing manufacturers a credit for tax paid on capital and intermediate goods.

According to Lynn Morris, president of the Housewives' League, VAT on food will push up the cost of most consumers' shopping.

"Bread, meat, vegetables and fruit make up the major proportion of the shopping basket for lower-income and middle-income groups.

"Tax on these foodstuffs, together with inflation, will mean increased costs and people will have less money to spend on food," Mrs Morris said.

The South African Chamber of Business (SACOB) has welcomed the proposal and has encouraged public debate on the issue.

● See Page 10.

GST loopholes closed

South Africa will be following most western countries by introducing VAT — the value added tax system — next year as a replacement for GST.

The switch-over was recommended by the Margo Commission that probed the whole issue of tax reform.

One of the main attractions underlined by its advocates is that VAT closes all the loopholes that riddled the GST system and cost the loss of millions of rands in missing revenue.

While payment of GST has fallen due only when goods and services reached the end consumer, VAT will have to be paid at each stage of production and distribution, leaving little or no room to dodge the tax man.

Take the purchase of an armchair as an example. VAT will have to be settled by the timber grower, the lumber miller, the carpenter, the upholsterer, the wholesaler, the retailer — and the final buyer.

The big question mark is at what rate VAT will operate, compared with the current 13 percent level of GST.

Controversy is also likely about Government proposals to clamp the tax on all food items, meaning that basic foodstuffs will lose the exemption they enjoyed under the GST system.

No more cross border tax-free shopping sprees

Cit Tr/13 15/6/90

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By AUDREY D'ANGELO
Business Editor

NEGOTIATIONS are in progress with the TBVC states and other neighbouring countries in the rand monetary area to persuade them to adopt value added tax (VAT) when it comes into force in SA, the Deputy Minister of Finance, Org Marais, told a press conference yesterday.

Firms sending goods to these countries will pay VAT, and have it refunded, as though the goods were destined for the SA market. The countries will share in the proceeds of VAT.

Marais said this would end the situation in which shoppers from SA cross into neighbouring countries to buy tax-free goods from shopping centres sited near the border.

But goods exported to other countries will be zero-rated for purposes of the tax.

Its base will be broadened to include most services and professional fees, apart from medical and education services, in addition to basic foods.

Explaining that the most efficient way to help poor people was through directly targeted aid, rather than subsidies, Marais said that the biggest tax saving on food now exempt from General Sales Tax (GST) was on meat — bought mainly by the better off.

It would be difficult for him to exempt only food eaten traditionally by the poor because this concession would be open to abuse. If mealie-meal, for instance, were exempted it would be bought by farmers to feed livestock.

Tax consultant Graham Cochrane, of Price Waterhouse, commented yesterday that VAT would be "a very broadly based tax which will place a tremendous administrative burden on small unsophisticated businesses without proper staff."

The SA Chamber of Business (Sacob) yesterday welcomed the announcement that the draft legislation relating to VAt would be published in the Government Gazette on Monday.

"This step will now open the issue for public debate and means that argument and discussion can now be based on firm proposals rather than simple hypotheses."

Sacob economist Keith Lockwood said that any change from the existing method of indirect taxation should be judged against the following criteria:

- The widest possible tax base;
- The lowest possible rate;
- A single uniform rate applied to the whole base; and
- The exemption of capital goods, intermediate goods and exports.

New tax 'to help poor'

How govt plans to spend VAT cash

Cape Times
15/6/90

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By AUDREY D'ANGELO
and Political Staff

THE government yesterday unveiled a plan to introduce a Value Added Tax (VAT) system to replace GST by October next year — and pledged that the poor would be compensated with upliftment programmes under the new system.

Revealing the new package yesterday, the Deputy Minister of Finance, Dr Org Marias, said VAT would address GST's two shortcomings — tax evasion and double taxation — and would lead to economic growth and increased spending on upliftment programmes.

Under GST, firms register for exemption when buying stock or raw materials and the tax is finally charged when it is sold to the consumer.

Under VAT the tax is paid by suppliers of raw materials and at every subsequent stage. But the tax is refunded to everyone except the final consumer.

Dr Marais told a press conference that if the new tax could be introduced without exceptions he expected that the rate could be reduced to below the current 13% of GST, while the government would still collect the same amount as under GST.

The system he would propose by way of a bill to be published in Parliament on Monday would be open to public comment for the next four months.

The bill proposes:

- A tax on consumption not borne by the consumer alone.
- To remove the present exemption on foodstuffs.
- A zero (non-taxable) rating to international travel, financial services, medical services, private sales (including cars and houses) and education services, and.
- To introduce VAT at between 10 and 13%.

All companies and individuals whose annual turnover is more than R50 000 will have to register for VAT. If they enter into transactions in which goods or services are supplied, they must charge VAT.

While VAT will be imposed on all services, it is proposed that medical and educational services be exempt.

Referring to the removal of the tax exemption on food, Dr Marais said the "new system is not intended to make the poor worse off than they are now".

He said it was "no secret that the government has to achieve parity in social services" (between races).

Money raised by imposing VAT on basic foods, estimated at R420 million, will go towards raising the level of black and coloured old-age pensions. Feeding schemes to compensate the poor will start almost simultaneously with the new tax.

Admitting that the change-over to VAT from GST might push up inflation, Dr Marais said his department would launch a campaign in September to prevent unnecessary price increases.

"We are targeting the problem that people may misuse VAT to raise prices," he said.

In fact, the minister said, some prices should come down in cases where manufacturers and suppliers had costed in GST.

Explaining why it was proposed to change over to VAT, the minister said GST provided too many opportunities for tax evasion.

He did not know how much extra money the government would get when VAT was introduced. "We do not know the magnitude of tax evasion," he said.

He did not yet know the level at which VAT would be introduced. This would depend on the number of exemptions it was finally decided to make.

It would be more than 10%, since below this level VAT would not be a viable tax. But he hoped it would be below 13%, the present level of GST.

Dr Marais emphasised that no political system that failed to tackle the problem of poverty would work in the new SA.

"The priority will be to look at the poor people of this country," he said.

The Congress of SA Trade Unions (Cosatu) and black business were among those being consulted and they had been invited to be represented on the committee which would make the final recommendations.

A special committee (Vatcom) comprising senior politicians and academics has been set up to consider any changes recommended to the draft bill.

VAT rate could be lower than GST

(320) B|Day 15/6/90

MIKE ROBERTSON

CAPE TOWN — Value Added Tax (VAT) is to be introduced in SA from October next year at a rate lower than the present 13% level of GST — provided government sticks by its stated intention of allowing as few exemptions as possible.

Unveiling a draft VAT Bill yesterday, Deputy Finance Minister Org Marais simultaneously announced plans to introduce direct food assistance plans for the poor and promised increased social pensions to counter anticipated objections to plans to impose VAT on foodstuffs.

The draft Bill has drawn heavily on recent experiences in introducing VAT in New Zealand and Canada.

Marais said VAT was a broadly based tax and would address GST's two main shortcomings — tax evasion and double taxation.

Marais told a Press conference yesterday that the exemption of GST on foodstuffs had proved to be an ineffective way of providing assistance to the needy.

Of the R2,4bn which government had lost in revenue by exempting basic foodstuffs from GST, only R420m had actualy benefited people below the "breadline".

Rather than complicating the tax system by not imposing VAT on food stuffs, government to institute programmes specifically targetted at the poor.

National Health Minister Rina Venter had been asked to produce proposals for next year's Budget, he said.

Among measures she was considering were: the introduction of feeding schemes for young children and pregnant women; higher social pensions; new subsidies for services centres and mobile feedings units to benefit the aged; subsidies to charities to offset VAT paid on food; and training and job creation programmes for the unemployed.

Marais said that exemption certificates would be done away with under VAT. This would help reduce tax evasion.

Marais said another benefit of VAT was that it would do away with "tax cascading" associated with GST.

"Not only does this process of tax cascading or double taxation affect the consumer in SA, but because it tends to hike the prices of SA-made goods, it also adversely affects SA's ability to export goods at internationally competitive prices," Marais said.

To redress inequalities stemming from double taxation, government intended paying manufacturers a credit for all tax paid on capital and intermediate goods.

To prevent manufacturers delaying all purchases of capital equipment until next October, an excise duty would be introduced on capital equipment when VAT was

□ To Page 2

VAT rates

B|Day 15/6/90 (320)

□ From Page 1

introduced. The duty would be phased out over a relatively short period.

Marais said that under the VAT system, businesses would pay an input tax for goods and services acquired and an output tax for goods and services supplied. The difference between the two taxes was the VAT payable to the Receiver.

VAT, he said, would be introduced at two rates — a standard rate and a zero rate.

Exports, goods and services supplied to a foreign-going ship or aircraft, the sale of a going concern and services rendered in a foreign country would be subject to the zero rate.

It was also planned to subject certain forms of gold supplied to the Reserve Bank, Mint or registered banking institution to a zero rate. However, this would have to be closely scrutinised to prevent avoidance.

"When the supply of goods is subject to a zero rate, the supplier does not charge tax on the supply and he may claim credit for all the input tax he has paid," Marais said.

The list of goods and services to be exempted from VAT has not been finalised, but Inland Revenue has decided to exempt medical and education services. Other proposed exemptions are: certain financial services; rental of residential accommodation; and the supply of donated goods and services by an association not for gain.

The VAT system is expected to result in considerably extra paper work for businesses. Government has decided to exclude businesses with turnovers of less than R50 000, while it is considering allowing firms with turnover of R250 000 to use a cash system.

Government is also considering refunding farmers on a monthly basis for the difference between input and output taxes.

A special committee (Vatcom) comprising senior politicians and academics has been set up to consider any changes recommended to the draft Bill. It is planned to have the final version of the Bill presented to Parliament early next year.

● See Pages 3 and 9

New system will take a slice at each stage

B Day 15/6/90 (320)

LESLEY LAMBERT

VALUE added tax is a tax on the value added to all goods and services at each stage of the production and distribution chain, which is finally borne by the end-consumer. It is also added to the value of imported goods.

All companies and individuals whose annual turnover exceeds R50 000 will have to register for VAT.

When a company supplying goods or services sells them, it must levy an input tax on the buyer. When the buyer, in turn, supplies goods or services to another business or person, it must include output tax in the price.

The amount of VAT which is payable to the receiver throughout this process is the difference between the output and the input taxes.

It is proposed that VAT be levied on all goods and services, including: used goods; the leasing and rental of movable and immovable property; the private use of trading stock and assets; and transport, professional services and services provided by public and local authorities, unless exempted or taxed at a zero rate.

Imported goods and items, like food, which have been excluded from GST, will be caught in the VAT net.

VAT will be introduced at two rates: a standard rate, which government hopes to fix below the 13% GST rate, and a zero rate. The engineers of the new system warn that the number of goods and services exempted from VAT will be limited to ensure that the system remains broadly based and simple to administer.

The zero rate will apply to exported goods, goods and services supplied to a foreign-going ship or aircraft, the sale of a going concern and services rendered in a foreign country.

The supply of certain third-class goods will be exempted. These include financial services, long-term rental of residential property, medical services, educational services and the supply of donated goods and services by an association not for gain.

Praise from tax experts

BDay 15/6/90

(320)

BARRY SERGEANT

TAX experts yesterday welcomed the proposed value added tax (VAT) system, outlined by Deputy Finance Minister Org Marais in Cape Town.

Des Kruger of Deloitte Haskins & Sells said the proposal appeared to be a combination of the best parts of VAT systems in force around the world.

Tax experts said government had prepared the legislation with far more co-operation with the private sector than had often been the case in the past.

Tax experts said the highlights of the outlined VAT were the proposed exemption from VAT of financial services, health and education and the zero-rating of exports.

The proposal to allow a credit for capital goods would be welcomed in every quarter, experts said.

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BUSINESS DAY, Friday, June 15 1990

Promise to compensate poor for higher food prices under VAT

LESLEY LAMBERT

CAPE TOWN — Government has undertaken to compensate poor people who will pay more tax if food is included in VAT by creating social upliftment programmes and improving their social pensions.

Deputy Finance Minister Org Marais said yesterday the additional R420m which was expected to be collected from people below the bread-line if food was subject to VAT, would be reinvested in social upliftment programmes.

He said it was "no longer a secret that the government has to achieve parity in social services. Maybe we will not equalise social pensions in the next Budget, but we will definitely have to do so when we introduce VAT. The new system is not intended to make the poor worse off."

He said government was currently investigating the creation of programmes targeted specifically at the poor.

Apart from higher social pensions these would include feeding schemes for young children and pregnant women, new subsidies for service centres and mobile feeding units for the aged.

There would also be subsidies to charities which would have to pay VAT on food, and training and job creation programmes for the unemployed.

Marais said the introduction of VAT was intended to remove the "unjust and unfair" effects which the GST system produced.

Under GST the exemption of basic food was intended to assist the poor. But, in effect, it was not an efficient means of assistance because the consumer was still subject to the cost of GST which was applied earlier in the production and supply chain and built into the final price, he said.

Secondly, Marais said the benefit of a tax exemption on food was enjoyed largely by people other than those for whom it was intended.

CHARLOTTE MATHEWS reports that Housewives League national president Lynne Morris said yesterday the impact of the imposition of VAT on food items depended on the state of the economy when it was introduced.

"At this stage I think it would be shattering for the average person," she said.

"It is not just the poor and needy who would be affected but the middle class. We are all getting poorer.

"The Housewives League did a study around 18 months ago which showed that the imposition of VAT at 12% on food items would add another R50 to the monthly food bill. This is quite significant to a family battling to pay a large mortgage bond."

Pick 'n Pay financial director Chris Hurst doubted whether the imposition of VAT would affect sales of food.

"Maybe marginally — but every time GST went up we found sales were affected for a short period only. People have to eat.

"This will certainly affect people at the bottom end of the market. But I believe government's aim is to accompany this with a revision in income tax at the lower levels."

Manufacturers' refund to make up for inequalities

450

LESLEY LAMBERT

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CAPE TOWN — Government is to refund manufacturers for tax paid on capital and intermediate goods in an attempt to redress inequalities which have stemmed from double taxation under the GST system.

Announcing this during his briefing on the proposed new VAT system yesterday, Deputy Finance Minister Org Marais said the effect of the tax concession would be to reduce the price of manufactured goods, with beneficial effects for inflation.

"The concessions will be phased in over a period. They will eventually eliminate double taxation from the production/merchandising chain, will lead to marked cost savings and ought to be passed on to the consumer," Marais said. B/Day 15/6/90

Double taxation is regarded, along with tax evasion, as a major flaw in the GST system. Both are addressed by proposals for the new VAT system.

Double taxation occurs when a consumer is charged GST on top of all the tax costs that have been built into a product during the production process. It means the consumer is actually paying invisible tax over and above the 13% GST rate.

By pushing up the price of goods, double taxation also adversely affects the competitiveness of SA's exports.

Apart from the inhibiting effect this concession is expected to have on inflation, it should also, provided manufacturers pass on the saving, help to boost exports which, in turn, would stimulate economic growth.

Emigrant tax loophole through gilts is closed

B/Day 15/6/90. (320) (60)

EDWARD WEST

GILTS such as Eskom, RSA and Sats stocks have been affected by a change in tax designed to plug a loophole being exploited by emigrants.

The Income Tax Act has been amended to deny emigrants the opportunity of receiving interest income free of income tax.

Previously interest earned on Eskom, Sats and RSA stocks was exempt from income tax in the hands of certain taxpayers, Deloitte Haskins & Sells accountants said yesterday in a statement.

These taxpayers included people not living in SA or carrying on business in the country, as well as external companies not carrying on business in SA.

Following the passing of the Act in Parliament this week, these taxpayers are now entitled to the exemption from income tax only if the investment in the stocks was paid for in foreign currency.

Deloitte Haskins & Sells's Orlando Fernandes noted yesterday that both the income tax and foreign exchange advantages applicable to emigrants investing in the stocks would be removed.

The denial of the interest exemption would come into operation on a date to be fixed by the Minister of Finance by notice in the Goverment Gazette.

The reason given by government for the amendment was that the relevant interest exemption was not adequately focused. The exemption was aimed only at encouraging foreign investment into SA.

However, it had become widely used by emigrants to invest their blocked funds in such tax-free exemptions. The amendment also introduced certain anomalies, said Fernandes.

"On the one hand dividends received by emigrants will be exempt from normal tax, but subject to a witholding tax of 15%. On the other hand, interest received by emigrants from a SA source will be subject to normal tax at maximum marginal rates of 44%," Fernandes said.

Both present and future emigrants would have to reconsider the structure of their investment portfolios in SA, he said.

FIM 15/6/90 (320)

TAX LAW — 1 FIM 15/6/90

Bad wording

(320)

In amending the Sales Tax Act to bring into the net "turnkey" contracts — where more than 50% of a contract is performed by a foreign supplier — Revenue has inadvertently created a double tax situation. This arises from bad draftsmanship of section 7(b) of the Taxation Laws Amendment Bill, now tabled in parliament.

Deloitte Haskins & Sells associate director Ken Boggis says the amendment is aimed at para 1A of Schedule 1 to the Act, which previously exempted from GST the proceeds of a "taxable service" performed wholly or partly outside SA. Thus if more than 50% of a turnkey contract is performed by a supplier outside SA — such as design, engineering or fabrication — then no portion of the contract price was subject to GST.

However, says Boggis, in withdrawing this exemption, Revenue appears to have overlooked that the part of a turnkey contract comprising goods imported into SA already attracts GST. This will not be changed by the amendment as worded. Either the foreign supplier will not have a GST number and will, therefore, have to pay the tax, or the SA purchaser is an end-user for capital goods and will not be allowed to use his sales tax certificate to avoid tax.

Boggis suggests the amendment should include the following words: "except to the extent that the contract price will be subject to tax as some other transaction."

Pierre du Toit, senior tax partner at Arthur Andersen, suggests that though the amendment appears to be directed primarily at "activities on the coastal shelf," it is potentially wide-ranging. Activities affected include the erection, construction, assembly or installation (as well as repairs and maintenance services) of plant and machinery used in manufacturing.

Not only will the amendment affect offshore suppliers of these services to SA buyers, but also every SA supplier or contractor who renders services abroad. This is especially important in the context of extended contractual activities in the subcontinent. Because the definition includes installation of plant for pumping water, contracts for the Lesotho Highlands Water project would be affected. So too, would power generation and transmission activities.

Du Toit argues the timing of the new regime is also important. While the legislation is not strictly retroactive (the effective date is the date of promulgation of the amending Act), it does affect concluded but uncompleted contracts. So this is yet another example of the consequences of commercial contracts being altered long after the parties assumed their rights and obligations under the tax laws as they then stood.

Du Toit explains the Bill also removes "two serious inhibitions" against the taxpayer in the appeal procedure. Firstly, the Bill will permit the commissioner to condone late submission of a notice of appeal on reasonable grounds. And his discretion itself is made subject to objection and appeal. (Du Toit advises that an appeal of this sort should certainly be made in good time!)

The Bill also provides for the taxpayer — normally bound in appeal procedures by the grounds stated in his objection — to amend those grounds with approval of the commissioner. (Or even, on good cause shown, by permission of the Income Tax Special Court itself — as proposed by Judge Margo.)

Nevertheless, argues Du Toit, the Act "still heavily loads the scales against a taxpayer dissatisfied with his GST treatment." He may object and appeal only on certain issues and then usually only if an assessment has been issued — rare with GST. In many cases, the only remedy is to have his objection referred to an advisory committee. With few exceptions, the commissioner may disregard the committee's ruling if it goes against him, while the taxpayer has no automatic further remedy. ■

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GST snag (320)

Abolition of ad valorem Customs & Excise duty on jewellery (as announced in the Budget) complicated the position of jewellers

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who sell to foreign visitors. As they no longer qualify for a "VSJ designation," explains Kessel Feinstein partner Ernest Mazansky, such transactions would no longer be exempt from GST without further provision.

Section 1(c) of the Taxation Laws Amendment Bill clears up this anomaly by writing in a definition of "exported" for GST purposes, that covers specified goods in the jewellery trade sold and delivered to a visitor to SA (provided the seller complies with the commissioner's procedures and requirements). Mazansky argues this system could usefully be extended to other items regularly sold to tourists, such as art works (very often of local origin), curios and even garments.

Better still, a system used in Europe could be introduced. This provides for a form to be filled in, certified by the customs officer and posted from the point of embarkation to entitle a tourist to a refund of GST paid on purchases within SA. With such a system, the exemption could be extended to all consumer goods bought locally. ■

'Extend all tax benefits to women'

By Jabulani Sikhakhane

Women SITE taxpayers were still being discriminated against, despite the recent tax changes which created an incentive for working wives to provide independently for their financial security through retirement annuities, a tax seminar was told yesterday.

Martin Sweet, Charter Life's senior manager for legal services, said that if the Government was serious about taxing married women separately, it should extend all benefits to them.

A married woman SITE taxpayer is now entitled in her own right to an annual tax-deductible contribution up to the greatest amount of: 15 percent of her own non-pensionable income, or 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 of: 15 percent of his non-pensionable taxable income, or R3 500 less allowable pension contributions, or R1 750.

Mr Sweet said this concession opened the way to tax relief through extra retirement annuity 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.

Exemption

However, the Government still needed to clarify whether married women would be entitled to the lump sum exemption up to a maximum of R120 000 or greater, depending on the period of service and the R30 000 exempt amount paid on retirement as a bonus.

"I don't see any reason why the exemption of R30 000 should not apply separately to a married woman and why the 2nd Schedule benefits (lump exemptions) should also not be fully applicable to a married woman," Mr Sweet said.

He added that there was little doubt that the 15 percent of non retirement-funding income deduction should apply to married women. They were already entitled to it under the SITE limit, but the Receiver of Revenue had reservations about extending the full amounts of R3 500 less pension fund contributions or the R1 750 amount.

"Although it is still difficult to quantify the likely volume of extra retirement annuity sales, Revenue feels that the loss will take them over their budgeted loss and therefore they would like the status quo maintained," Mr Sweet said.

"This is unsatisfactory as the wife has her own tax identity and should get the same tax-free limits and exemptions as her husband."

Greater burden on individuals

VAT may lift food prices

Cape Times 320 16/6/90

By ARI JACOBSON

THE incorporation of basic foodstuffs in the value added tax (VAT) system when GST falls away next year, would have the short-term effect of injecting an additional cost into food prices, tax experts said in reaction to the guidelines announced by the deputy Minister Org Marais this week.

However, Dave Clegg a tax partner at Ernst & Young said the deputy minister's contention that the rate of VAT would be lower than the current GST level should dampen price rises in other consumer orientated areas.

Tax exemptions on food stuffs, market sources said, had failed to ripple through to the poor, who lacked refigeration facilities and opted instead for canned goods in preference to fresh produce.

Clegg mentioned that tax disincentives on inputs in the production process, under GST, could be reclaimed as credits in the new system.

Kessel Feinstein tax partner Colin Wolfsohn pointed out that the new VAT system would place a greater burden on the individual confronted, for the first time, with intermediate tax provisions. This required additional administration and processing costs which included the installation of updated computer equipment.

"More important, an average household spending R400 a month on non-taxable items would be hard pressed to find an additional R52 if VAT were imposed at the current rate of GST."

Wolfsohn added that the fiscus's decision to switch tax systems must be challenged at a time when improved methods of GST collections had started creating a surplus in budgeted revenues.

"VAT charged at each stage in the production cycle could provide a perfect opportunity for manufacturers and distributors to bump-up wholesale prices with the ultimate burden passed-on to the consumer."

Brian Kantor, who heads up the economics department at the University of Cape Town, said competition in the distribution chain would prevent suppliers from passing-on unjustified price rises.

"A small disparity may arise from the exchange of these indirect tax methods, but added collections under the VAT system should cancel additions to administration costs."

Kantor suggested a complete redirection of the SA taxes towards an explicit consumer-driven value added tax — at a flat rate.

"VAT was the least likely to be avoided and by boosting revenues could place less emphasis on income taxes which were cumbersome, complicated and had major disincentive effects on investors and savers."

Benefits to the impoverished said Kantor would be realised, as the Deputy Minister of Finance Org Marais suggested, by aid on the expenditure side, through social development schemes and not lower taxes.

Tax cuts are a drop in bucket

320 Star 16/6/90

DEREK TOMMEY

HUNDREDS of thousands of South Africans will pay a little less tax next month - with "little" being the operative word.

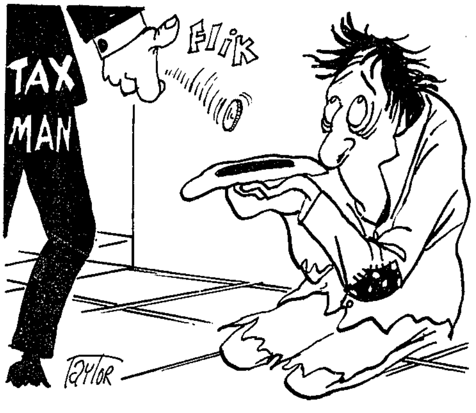
The new PAYE and SITE tax tables that become operative next month show that even after the rates had been adjusted for tax-overpayments in April, May and June, the savings give no reason for excitement.

The tables comfirm that the changes in the tax rates are aimed at helping those in lower-income groups.

The figures show that a married man earning R2 000 a month has had his bill reduced by R51, or 18 percent. But someone earning R5 000 a month will see his payments cut by R176, which, while somewhat larger, amounts to a cut of only 12 percent.

A R6 000-a-month man will see his bill drop by R186, or nine percent — which is not really a saving at all when inflation is running at 14 to 15 percent.

An examination of the SITE tables shows a similar trend, with those in the lower-income group benefiting most.



A married woman earning R1 000 a month will pay R38,76 less tax next month. One earning R2 000 a month will pay R28,71 less, while a married woman earning R3 000 a month will see her tax bill drop by R8,48.

Nonetheless, although individual tax cuts may be small, in total the amount of extra money going to the taxpayer is quite considerable.

It is estimated that it could amount to R1,6 to R2 billion in a full year.

This could provide the retail trade with a welcome light shower and help ease it through the current drought in consumer spending reported by many shops.

As people in the lower-income groups stand to benefit most from the reductions, it would seem that shops catering for the lower end of the market should see the biggest rise in business.

Food, clothing, footwear and heating seem likely to gain the most. The cuts will obviously do nothing for the luxury trade.

An analysis of the tables raises the interesting point that having many children confers little in the way of tax benefits — certainly nowhere near the cost of a child.

They show that a married man earning R3 000 a month pays R506,67 a month in tax. But a married man with two children and with the same income pays R490 a month — a reduction of R16 a month.

Clearly the Government has no intention of providing tax incentives for larger families.

However disappointing next month's tax cuts will be for many people, they can be regarded as a small step in the right direction.

The question now is whether this small step will lead to bigger things in the next Budget. Given current economic conditions this does not seem to be a question that can be answered with any certainty.

The PAYE tables

MONTHLY INCOME	TAX No Children	TAX One Child	TAX Two Children
R1 000	10,9c	0c	0c
Saving	R35,69	R27,36	R19,03
R2 000	R221,67	R213,33	R205,00
Saving	R51,10	R50,61	R50,60
R3 000	R506,67	R498,33	R490,00
Saving	R118,07	R118;07	R118,07
R4 000	R865,14	R856,81	R848,48
Saving	R163,13	R163,13	R163,12
R5 000	R1 267,35	R1 259,02	R1 250,68
Saving	R176,05	R176,05	R176,05
R6 000	R1 689,03	R1 680,70	R1 672,37
Saving	R186,05	R186,05	R186,05

New PAYE tables come into operation next month. These are based on the tax concessions announced in the March Budget, but have been adjusted for over-payment^c made in April, May and June when the old PAYE tables were still in force.

The figures in the table are for a married man under 61 with no children, with one child, with two children and with three children.

The figures show the new tax rate and the reduction from the current rate.

The SITE tables

MONTHLY INCOME Rands	TAX PAYABLE Rands	TAX SAVED Rands
800	79,67	30,76
1 200	169,67	40,76
1 600	273,67	36,89
2 000	391,67	28,58
2 400	521,00	20,93
2 800	660,57	12,46
3 200	806,59	6,48
3 600	957,28	5,16
4 000	1 109,28	5,16

New SITE tax tables come into use next month. These figures are extracted from the tax tables for working wives. They show the new tax payments by working wives and how much lower they are than the current rates.

It is clear from the figures that working wives in the lower-income groups benefit the most from the new tables.

Their tax cuts are reasonably significant. Women in the upper income group will gain hardly at all. Some, it seems, will pay only R5 a month less in tax.

VAT seen as a mixed blessing for consumers

SVEN LUNSCHE

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Star 16/6/90

VALUE-ADDED-TAX (VAT), which replaces GST in October next year, is a mixed blessing for consumers.

Undoubtedly the poorer sectors of the population stand to gain substantially from the introduction of programmes targeted specifically at them, although, ironically, this will be achieved through the inclusion of food in the VAT net.

Explaining the dichotomy at a press function this week, deputy Finance Minister Dr Org Marais said under the present tax system food was exempt from GST, but this has been mostly enjoyed by people other than those for whom it was intended.

Only 18 percent of the indirect subsidy found its way to the poor and needy — in other words only R440 million of the R2,44 billion which would have been collected had food been taxed last year, was used to help this community.

"Under VAT we can use this money, and most likely even more, to aid these people through more direct and effective ways," Dr Marais said.

He proposed a number of measures including the introduction of nationwide feeding schemes for schools, higher social pensions and training and job-creation programmes.

On the other side of the coin, however, is the possibility that the remainder of the population will see their indirect tax payments rise quite considerably.

Mark Badenhorst, a tax consultant at Price Waterhouse, says: "Under VAT all services, ranging from lawyers to engineers, with the exception of medical services, will be taxed. VAT is also likely to be introduced on short-term insurance premiums.

"In addition, the consumer's monthly budget is set to increase because property, electricity and water ratesare also to be taxed under VAT," he says.

While the Government has hedged its bets on how it will treat the low-cost housing programme, bond payments will not be taxed because financial services by banks, building societies and life assurers have been exempted from VAT.

The cost of building a house, says Mr Badenhorst, could decline if VAT, as widely expected, is introduced at a lower rate than GST.

No VAT will be charged when transactions involve private dealings such as the sale of a house or a car by individuals.

Mr Badenhorst expects a decline in prices as a result of the elimination of double taxation.

Double taxation has arisen because GST is levied on a broad range of business inputs, including plant and machinery, and a variety of consumables used in production processes.

All of these tax components are built into the cost of the product and into its final retail price, on top of which the consumer again pays GST.

Perks and pitfalls in VAT scheme

S Times 17/6/90

(320)

By IAN SMITH

THE decision to introduce Value Added Tax in October next year brings South Africa more into step with its main trading partners in the developed countries.

But some tax experts are sceptical about the scheme's advantages and doubt whether Deputy Finance Minister Org Marais will be able to set VAT at a lower level than the current 13% General Sales Tax.

Relieved

Much depends on whether VAT will be able to plug sales tax loopholes and whether the Minister can withstand heavy pressure to continue the exemption on unprocessed food.

Dr Marais has started his campaign to prepare South Africans for the new tax by emphasising that exemptions will be kept to a minimum.

But with taxpayers' — and the unions' — full attention already on disposable income erosion, he will face heavy pressure.

Ed Hoffman, of accountants Aitken and Peat, points out that when the system was originally suggested for SA there was widespread speculation of a rate of 15%.

"We should all feel relieved if it does come in at less than 13%," he said.

SA experts visited Europe, Canada and New Zealand before a decision was made on introducing the new system.

All their experience confirmed the need to keep exemptions to a minimum.

Dr Marais said: "An inherent problem in any retail sales tax system is the reliance which has to be placed on exemption certificates.

"The abuse of these certificates in South Africa has resulted in significant evasion, and thus an unfair system.

"Under VAT all supplies of goods and services are subject to tax and no exemption certificates are necessary.

Double

"This, together with the design of the tax and the opportunities it affords Inland Revenue for auditing and cross-checking, will significantly reduce evasion."

It has been found overseas that the smaller amounts of tax levied at each stage in the manufacturing and distribution process makes evasion much less attractive.

The fact that VAT should also eliminate double taxation (which arises when a manufacturer uses components or services on which GST has already been levied) will be welcomed by commerce and industry.

But businessmen who see VAT as nothing more than an administrative irritant are in for a shock, said Mark Badenhorst of Price Waterhouse.

The initial impact of VAT falls on businesses as they have the responsibility to charge VAT and to account for it. VAT provides for a system of self-assessment and failure to comply with the requirements, particularly on registration and returns, will mean that penalties will be imposed.

"It could also have an adverse effect on cash flow and operating costs," said Mr Badenhorst. "Businesses with inadequate accounting systems will have to improve operations to handle VAT."

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Make hay of Appellate tax decision

CIR expected to move quickly to block judgment

A recent judgment from the Appellate Division clears an old area of dispute in tax law, says BERIC CROOME, tax partner of accountants Kessel Feinstein. He believes the judgment can create tax-planning opportunities — but taxpayers hoping to take advantage of the new ruling should act quickly

THE timing of the recognition of gross income for tax purposes has been a vexed question in South African law for 64 years.

The first leading case to deal with the question was Lategan v The Commissioner for Inland Revenue (CIR), which was heard in 1926.

It related to the sale of certain of farmer Lategan's produce. Purchase price was payable prior to the end of his year of assessment and the balance would be paid in instalments after it.

The CIR included the full proceeds of the produce sold by Lategan in the year of assessment.

The court had to determine what amount had accrued in Lategan's favour for the year in question.

Worth

It found that Lategan was "entitled to" the instalments even though they were only due and payable in a subsequent year of assessment.

The court also laid down that the value of the instalments due to Lategan should be determined and in effect this amounted to their worth.

The CIR did not accept the decision in full.

It accepted that the taxpayer was entitled to payment but denied Lategan the right to value the debt due.

The next leading case to deal with the timing of recognition of gross income was the CIR v Delfos (1933 AD 242, 6 SATC 92), heard in 1933.

It related to the payment of salaries by private companies to its director.

The company was not in a position to pay the director in each and every year of assessment. It paid him the salary due for arrear years when it could do so.

The question that arose regarded when the salary due to Delfos should have been subjected to tax.

The court decided that as the salary was due and payable to the taxpayer in each year of assessment, he should therefore be taxed yearly.

Unfortunately, whether the word "accrued" means "entitled to" or "due and payable" was not a central issue in the Delfos case. The Appelate Division's interpretation of being "due and payable" was not binding in law.

These cases gave rise to conflicting views as to when income should be recognised for tax purposes.

The first was that the taxpayer should be taxed on an amount only once he is entitled thereto or, alternatively, once the amount is due and payable in his favour.

I believe that the issue has been settled once and for all by the judgment handed down in the case of People's Stores v CIR.

Credit

It relates to an Edgars group company which sold goods for cash or on six months' credit regarded as cash.

The taxpayer sought to exclude from income the amounts that were due and payable only after the close of its year of assessment in terms of the Delfos ruling.

CIR disputed the case. It was originally heard in the Special Income Tax Court and as yet that judgment has not been reported.

Tax professor Henry Vorster commented in the SA Tax Journal of June 1987 that the taxpayer had won his case insofar as the amounts he sought to exclude from income had to be included in the income but not at their face value.

The court laid down that the taxpayer must value the debt due to him at the end of the year of assessment.

The case went before the Appelate Division which ruled on it in February this year.

The court examined the dispute between the Delfos and Lategan judgments and accepted that the principle enunciated in Lategan was correct, that the taxpayer must include in his income any amounts to which he is entitled.

But the court made it clear that the taxpayer must value the debt due to him.

CIR has never before allowed a taxpayer to value this right to future payment and it is more than likely that Revenue will amend the Income Tax Act to prevent advantage being taken of this judgment.

I submit that the judgment can create certain tax-planning opportunities to taxpayers who fall into circumstances similar to those of People's Stores.

Where a taxpayer sells on terms he should be entitled to value the right due to him at the end of the year of assessment.

His turnover per the financial statements will be one figure, and what is included for tax purposes will be a lower figure.

The valuation of debts due can only be used where the debts are unenforceable at the year end.

If the debt is enforceable and the debtor is a bad credit risk, the taxpayer would seek relief in the form of the doubtful debts allowance provided for in section 11j of the Income Tax Act.

Question

The discounting of debts due can therefore only apply if the debt is not yet due and payable in the taxpayer's favour.

The question arising is by what manner should the debts be discounted to their present worth.

The judgment is not specific on this point but it appears that one should only have regard to the fact that the debt is not immediately enforceable.

It appears that one cannot take into account the creditstanding of the debtor when determining the discout rate.

The taxpayer would include in income the discounted value of the unenforceable debt in the first year of assessment.

The question arises on the treatment of the amount actually received by the taxpayer in subsequent years of assessment.

One school of thought is that as the amount has already been taxed, albeit the discounted value thereof, the actual amount cannot be taxed.

The alternative view is that the excess received by the taxpayer does in fact fall to be taxed in the year in which it is received.

The wording used to define gross income in the Income Tax Act is different to that used in the general deduction formula contained in section 11a of the Act.

Debatable

It is questioned whether this judgment has any bearing on the general deduction formula.

The People's Stores case in effect lays down that the taxpayer must value unenforceable debts due and not include the face value for tax purposes.

Should this discounting procedure also be applied to expenditure claimed by the taxpayer?

Certain tax schemes that have been in existence rely on the use of promissory notes which are payable years into the future, and the question arises on whether the judgment will impact upon these schemes.

It may be that a court will decide that just as income should be valued, so should expenditure in the hands of a taxpayer seeking a deduction relating to a promissory note payable in the future.

It is a debateable point, but has considerable force.

I believe that the indications are that the Inland Revenue will seek to amend the Income Tax Act to prevent taxpayers from taking advantage of this important judgment, but suggest that those taxpayers whose circumstances fit this case should take advantage of the principles enunciated while the opportunity exists.

VAT will give tax dodgers a hard time

By PATRICK MAFAFO (320)

TAX evasion will become a lot more difficult when the government replaces General Sales Tax (GST) with Value-Added Tax (VAT) in October next year.

Under the GST system the man in the street boosted government finances while others along the line avoided paying tax. With VAT, however, the consumer pays only the price on the label.

VAT is a more efficient tax system built into and paid at each stage of the process from manufacture to retail.

At a Press conference this week, deputy Finance Minister Org Marais said VAT has been introduced as part of a major tax system overhaul designed to meet future demands.

"GST contains several flaws which cannot be solved even by a major reform effort. VAT is a just, fair and neutral tax.

"It will be broadly based, will provide less opportunity for tax evasion, and will overcome economic distortions caused by double taxation."

Marais said a committee representing both the public and private sector, and all population groups, had been appointed to receive comment on draft legislation.

To be known as VATCOM, it will hear representations until the end of September and its findings possibly included in a Bill to be presented to Parliament early next year.

Marais said to ensure the success of VAT, it was vital all interested groups provide VATCOM with meaningful comment.

The government intends to introduce VAT at a lower rate than the current 13 percent GST rate. The total amount collected under VAT, however, could be the same as under GST if exemptions are kept to a minimum.

"The exemption of basic food from the present GST system, in order to benefit the needy, is not efficient because the benefit is enjoyed mostly by persons other than the needy."

Through VAT, he said, the government would be able to provide targeted assistance to the needy, and help organisations which assist the poor. Examples include:

- Nationwide feeding schemes for young children and pregnant women;
- Higher social pensions;
- New subsidies for service centres and mobile feeding units for the aged;
- Subsidies to charities; and
- Training and job creation programmes for the unemployed.

Marais said the ANC and PAC had been consulted. "We agree with the ANC and the PAC that the first priority is poor people. We agree that if we do not tackle the poor, no constitution is going to work.

"The ANC is against indirect taxation, but the government has pointed out it is not introducing indirect tax. It is making the existing one more effective."

Govt must deliver the social aid goods in order to promote VATT

P/Day 18/6/90 (320)

CAPE TOWN — One of the tasks government faces as it sells value added tax (VAT) to the nation during the next few months is to convince the 40% of the population below the breadline that promised social assistance programmes will compensate for the renewed taxation of basic foods.

Government officials have indicated that the increased efficiency and broader base of a VAT system with as few exemptions as possible, coupled with direct food assistance and larger social pensions, will more than compensate for the added cost of basic foods.

Official estimates show that by charging VAT on all foods, government will recover the R2,44bn it is losing as a result of GST-exempted fresh food products. Of this, an estimated R420m will be collected from people below the breadline.

However, these estimates, calculated by the Bureau for Market

LESLEY LAMBERT

Research, do not take into account tax evaded by way of the food exemption route — that is through withholding GST by declaring taxed food as exempt.

Total GST evasion is conservatively estimated at about 20% of the annual GST income, which is budgeted at R18bn this year. Evasion through the food exemption makes up a significant proportion of the estimated 20%.

Evidence supplied by the IMF to the Margo Commission of Inquiry into a new tax structure showed 60% of GST evasion could be recovered by introducing VAT.

Using these estimates, government could recapture about R2,2bn of previously evaded tax and should be in a position to plough more than R420m into feeding and social upliftment schemes.

Government has argued that the exemption of food is an inefficient means of assisting the poor as it ultimately benefits people who eat the most and/or the most expensive food (fillet and trout are exempt while bully-beef and canned pilchards are taxable).

The other argument against partial exemption is that while consumers do not pay GST at the cashpoint, they have been subjected to the sales tax producers and suppliers pay on inputs during the production chain and then build into the retail price.

Effectiveness

Research into food intervention programmes' effectiveness has been completed under the chairmanship of a leading academic from the University of the Orange Free State. National Health and Population Development minister Rina Venter is to investigate implementation of the programmes.

Young children and pregnant women have been pinpointed as the major targets of national feeding schemes to be introduced by local authorities in schools and clinics. By ensuring nutritional intake in these two categories, government hopes to assist the educational process and to reduce the cost of curative medicine.

New subsidies for service centres and mobile feeding units for the aged are being planned along with an increase in social pensions.

Deputy Finance Minister Org Marais pledged government's intention to ensure substantial increases in social pensions last week. Parity with white pensions would not be achieved overnight, but would probably happen during the next two years. The current disparity is as follows: white pensioners get R276 a month, coloureds and Indians R225, and blacks R175. Equality would cost the state an estimated R1,1bn.

Other assistance plans include training and job creation programmes.

Govt reconsiders VAT on homes

B/Day 18/6/90 [redacted]

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LESLEY LAMBERT

CAPE TOWN — Government is concerned about the effect of value added tax on the price of new homes, especially at a time when it is trying to make low-cost homes more accessible, says one of the top officials who engineered the proposed new tax system.

Trevor van Heerden, Inland Revenue's chief director of Tax Structure Development, says government is considering a different approach to the imposition of VAT on the construction industry.

Private sales of second-hand cars and existing homes will not be subject to VAT but new homes will, because of the imposition of the tax on the construction industry.

The exclusion of VAT from private purchases of second-hand cars should result in a significant saving. These sales are currently subject to GST, the cost of which mounts up when it is applied every time a car is resold. It is estimated that the average car changes hands seven times in its life.

Companies which buy second-hand cars from private sellers will have to pay VAT but will be entitled to claim a credit for the tax paid, according to Van Heerden.

Government's plan to pay manufacturers a credit for tax paid on capital and intermediate goods as a way of redressing the inequalities of double taxation should also help to reduce the cost of cars in the longer term. But this may be partially offset by the imposition of tax on imported goods.

Concessions may also be made to the way VAT is applied to the farming sector, to ease the effect it will have on cash flows.

Van Heerden says government is considering ways of easing the severe effect VAT could have on that sector as a result of its unusual circumstances.

The VAT system will introduce cashflow difficulties to farmers who will be subject to additional upfront costs for inputs, like seedlings, which yielded a harvest — from which the input costs could be recouped — only at the end of the season.

"This does not mean we plan to exempt them from VAT, but we hope to be able to impose it in a way that will remove the cashflow disadvantage," Van Heerden says.

● See Page 8
● Comment: Page 6

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VAT rule on cars a handicap — dealers

By Monica Nicolson

Second-hand car dealers will be unable to compete with private dealers if they were not also exempt from charging customers Value-added Tax (VAT) and may be forced to close shop.

Dealers were reacting to last week's announcement by Deputy Finance Minister Org Marais that no VAT would charged on private second-hand car sales. At the moment private sellers and dealers must pay GST.

Hugo Hagen of the Automobile Association said second-hand motor dealers needed clarification on the issue.

He said the organisation had not yet seen any documents which clearly stated the position of dealers and it was too early to speculate on potential problems.

Ed Ephron of Ephron's, Johannesburg, said dealers would be put out of business if they had to charge VAT as the price difference of at least R3 500 would be too great for the public to buy from dealers.

Loopholes

Louis Botha Motors' manager Ray Armtzen said the matter needed to be clarified as soon as possible as he wanted to know what to expect.

"It's always the dealers who suffer... we have to collect GST by stringent laws and must keep proper books. Private dealers sell at one price and give lower priced receipts to get around charging GST.

"That this VAT system has taken so long to implement shows there are big problems and loopholes."

The dealer who did not want to be named said they would always find a way around charging VAT.

"We can get round it by selling the car from home privately — and with a guarantee."

He said the public would still prefer to buy from reputable car dealers as they received a two-year guarantee.

VAT could exceed 13 pc – consultant

Value Added Tax (VAT) could well be higher than the 13 percent GST.

Business credits on capital goods purchases could eliminate up to 30 percent of tax revenues now created by GST.

Mark Badenhorst, a consultant at Price Waterhouse, commented: "The question is whether the inclusion of food and services will compensate for the loss of the income from capital goods."

● See Pages 5 and 16.

320 Star 18/6/90

REPUBLIEK VAN SUID-AFRIKA

REPUBLIC OF SOUTH AFRICA

Staatskoerant
Government Gazette

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ALGEMENE KENNISGEWING

KENNISGEWING 479 VAN 1990

DEPARTEMENT VAN FINANSIES

Binnelandse Inkomste

VOORGESTELDE INSTELLING VAN BELASTING OP TOEGEVOEGDE WAARDE

Die Konsepwetsontwerp op Belasting op Toegevoegde Waarde wat in die Bylae verskyn, vervat die Regering se voorlopige voorstelle vir die instelling van belasting op toegevoegde waarde en die herroep van die Verkoopbelastingwet, 1978.

Belanghebbende partye word uitgenooi om kommentaar in skrif daaromtrent te lewer. Kommentaar en vertoë moet skriftelik, teen nie later nie as 31 Augustus 1990, aan Die Kommissaris van Binnelandse Inkomste (BTW-komitee), Posbus 402, Pretoria, 0001, gepos word.

BYLAE

WETSONTWERP

Om belastings op die lewering van goed en dienste en die invoer van goed te hef; om die Verkoopbelastingwet, 1978, te herroep; en om vir bykomstige aangeleenthede voorsiening te maak.

INDELING VAN ARTIKELS

Artikel

GENERAL NOTICE

NOTICE 479 OF 1990

DEPARTMENT OF FINANCE

Inland Revenue

320

PROPOSED INTRODUCTION OF VALUE-ADDED TAX

The Draft Value-added Tax Bill which appears in the Schedule contains the Government's preliminary proposals for the introduction of value-added tax and the repeal of the Sales Tax Act, 1978.

Interested parties are invited to comment in writing thereon. Comments and representations should be posted by not later than 31 August 1990 to The Commissioner for Inland Revenue (VATCOM), P.O. Box 402, Pretoria, 0001.

SCHEDULE

BILL

To impose taxes on the supply of goods and services and the importation of goods; to repeal the Sales Tax Act, 1978; and to provide for matters connected therewith.

ARRANGEMENT OF SECTIONS

Section

CHARLOTTE MATHEWS

Four-phase plan to introduce new tax

THE sum of R10bn government has set aside for its value added tax (VAT) information drive will be spent in four phases over 18 months.

Handling the information campaign will be advertising agency The Agency.

MD Johan Huyser yesterday said that the campaign had kicked off with advertisements in Sunday newspapers.

These asserted that the only people who would not be better off when VAT was introduced in October 1991 were tax dodgers. B Day, 19/6/90

"This will be followed by a commentary phase which will take three months. Government will be looking at written proposals and comment from the public on whatever bothers them about the new system," said Huyser. (320)

"In the second half of ~~next year~~ there will be a training drive for different sectors of business. Training packages will be available and information on using VAT."

He said about half of the campaign budget would be used for training.

"Then there will also be a base campaign which will run throughout the period to create the necessary perspective and a positive atmosphere on the system."

Huyser said the success of the campaign would be determined by the public's general acceptance.

VAT credits could 'cost' govt R7bn a year

BDay 19/6/90

320

BARRY SERGEANT

ALLOWING businesses to claim credits on intermediate goods under the proposed VAT system would "lose" the exchequer R7bn a year, according to updated estimates based on the Margo Commission on tax.

Tax experts expect that before VAT (value added tax) — which replaces GST on October 1 next year — is implemented, a compensatory measure for the R7bn "lost" is expected to be announced. An increase in the import surcharge has been hinted at by Deputy Finance Minister Org Marais.

The proposal to allow commerce and industry to claim credits for intermediate goods, and the removal of anomalies from the GST system, have been widely welcomed. While a manufacturer could, for example, purchase gas and welding rods but not fluxes free of GST to repair machinery, under VAT all such items are creditable.

Des Kruger of Deloitte Haskins & Sells told Business Day one alternative to a higher surcharge was a VAT rate higher than the 13% GST rate. Government has stated it hopes to introduce VAT at a rate below 13%.

Tax experts pointed out, however, that the credit for intermediate business goods was designed to remove double taxation, accepted by Margo as one of the most iniquitous aspects of GST. This "tax cascading" is passed on to the end-consumer.

Marais said last week the proposed business credits would mean reduced costs for manufacturers. He said the "saving" for gold mines alone would be about R700m a year. Gold and other exporting mines would also benefit from exports being zero-rated for VAT. Moreover, Margo estimated that exports, while normally

☐ To Page 2

VAT

BDay 19/6/90

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☐ From Page 1

exempt from GST, carried an effective GST tax rate of about 5% due to the cascading tax effects of GST.

Margo estimated the total contribution to GST from the taxation of intermediate inputs (which includes capital goods) was nearly 40%. Based on the 1990-1991 estimate of R18,5bn from GST published in the Budget, commerce and industry were contributing about R7bn by way of GST on inputs.

Kruger said the "most major and welcome surprise in the proposed VAT legislation is that capital goods are to be creditable". Kruger noted that in the White Paper issued by Government in response to Margo it was announced that whilst intermediate inputs would be creditable under VAT, it was stated that "in order that the VAT rate may be kept as low as possible, the cost of capital goods will, at least initially, not be allowed as a deduction in the determination of the taxable amount".

In a major study on the proposed VAT legislation, Deloitte Haskins & Sells has found that it will:

- ☐ Overcome most of the present anomalies in the GST legislation;
- ☐ Not be inherently inflationary (studies by the IMF in 35 countries which adopted VAT found only five with detrimental effects on the CPI);
- ☐ Not carry excessively high compliance costs if exclusions and exemptions are kept to a minimum; and
- ☐ Indeed have differing effects on cash flows, the winners being vendors who sell for cash or for short credit periods, but who pay their creditors over extended periods.

Meanwhile, Marais has stated that some other compensatory measure is to be adopted to plug the hole left by crediting business inputs — with an increased surcharge mooted. Comments Kruger: "It is nevertheless welcome news that the VAT structure is not to be complicated by the inclusion of capital goods."

Kruger argues that if some compensatory measure be adopted to make good the loss of revenue due to capital goods being allowed as a deduction for some period following the adoption of VAT, this would be in accordance with the measures adopted in other countries which have changed to a VAT system.

"For example, West Germany allowed an immediate credit for VAT paid on the purchase of capital goods when adopting VAT, but imposed a separate investment tax at 11% for the three years following adoption of VAT. Austria, in turn, levied a 12% tax on business assets in the year of the change-over, the percentage declining to 2% over time, until it was abolished seven years after the year in which VAT was adopted."

'Vacancies at Receiver cost SA millions in tax'

Cape Times 19/6/90

By BARRY STREEK 320
Political Staff

INESTIMABLE millions of rand were not collected in tax because of the lack of suitably qualified staff in the Receiver of Revenue's offices, the Democratic Party MP for Pinelands, Mr Jasper Walsh, said yesterday.

Mr Walsh said during the debate on the Income Tax Bill that unfilled staff positions existed and continued to remain unfilled due to a lack of supply of suitably qualified staff.

"It is my personal view that inestimable millions are not collected as a result.

"The best financial brains in the country are matched against the Revenue office staff. The former are able to command high fees for their services. The latter are restricted to civil service salaries.

"And the beneficiaries are professional people and top executives. The shortfall has to be made up somehow. The losers are the salary and wage earners.

"The political consequences of unfairness where the wealthy or the 'haves' are the beneficiaries will not be tolerated."

Mr Walsh said he believed the system of taxation through the appropriate legislation should be scrupulously fair.

Higher tax 'suicidal'

PARLIAMENT. — It would be suicidal to increase the current tax rate in South Africa, Mr Harry Schwarz (DP Yeoville), said yesterday.

Speaking during the first reading debate on the Income Tax Bill, he said what was needed was not higher taxation rates but a broader tax base.

"The more people earn, the more tax can be levied, and the programmes for job creation can produce more revenue for the state, which will assist in the redistributive process." — Sapa

Minimum tax threat

PARLIAMENT. — The government will consider imposing a minimum tax if large-scale tax evasion continues.

The Deputy Minister of Finance, Mr Org Marais, said during debate on the Income Tax Bill that tax evasion was one of the government's biggest problems. The Receiver of Revenue was having difficulty keeping up with the new schemes to evade tax.

"If we don't succeed in bringing it under control we will have to consider a minimum tax," he said. — Sapa

DP argues for a fair deal on taxation of emigrants

B Day 19/6/90 (320)

Political Staff

CAPE TOWN — Foreign investors who had bought Eskom stock with SA rands would now have to pay tax on the interest, but it was not fair this should be made retrospective, DP Pinelands MP Jasper Walsh said yesterday.

He said this provision in the Income Tax Bill, which was debated in Parliament yesterday, would largely apply to emigrants who would be greatly disadvantaged.

"There is no strong lobby group for emigrants, many of whom will have left the country when there was little hope of a peaceful political settlement.

"Hopefully some of these people will now be reconsidering their position."

Walsh said this provision should apply only to those who acquired Eskom stock after a specified date.

Walsh also said inestimable millions of rands were not collected in tax because of the lack of suitably qualified staff in the Receiver of Revenue's offices.

Walsh said unfilled staff positions existed and continued to remain unfilled due to a lack of supply of suitably qualified staff.

"The best financial brains in the country are matched against the Revenue office staff. The former are able to command high fees for their services. The latter are restricted to civil service salaries. And the beneficiaries are professional people and top executives. The shortfall has to be made up somehow.

"The losers are the salary and wage earners. And, in the case of indirect taxes such as VAT and GST, the public at large."

Walsh said he believed the system of taxation through the appropriate legislation should be scrupulously fair.

Sapa reports that CP finance spokesman Casper Uys welcomed government's moves towards separate taxation of married women, but regretted that this could not be fully implemented now.

Broader

He said he understood the problem of possible manipulation on women's income, but felt that if there were irregularities they could be dealt with through existing methods.

DP finance spokesman Harry Schwarz said in the debate it would be suicidal to increase the tax rate.

He said what was needed to produce more revenue was a broader tax base.

"The more people earn, the more tax can be levied, and the programmes for job creation can thus be seen as producing more revenue for the state, which will assist in the redistributive process."

Tax evasion and, in some cases an inability to collect tax due to social and political disorder, were problems which confronted the Exchequer.

Indirect taxation was normally the most acceptable form of taxation when there were not massive income gaps. When there was massive evasion or non-payment of direct taxation, the fiscus turned inevitably to greater indirect taxation and forms of indirect taxation. VAT was such a tax.

The process of taxation had not been equitable until now, as in respect of certain social services there had been colour discrimination. Stopping the discrimination would have a redistributive effect.

No petrol price rise expected during June

ZILLA EFRAT

NO PETROL price increase was expected for June following the recent downward movement of international product prices, the National Energy Council (NEC) said at the weekend. B Day 19/6/90

In May PWV motorists underpaid 2,776c/l for 93 octane petrol. The amount they had been underpaying had steadily increased from 0,221c/l in January to 4,893c/l in April.

May's figures represented a break in this trend because lower international market prices resulted in the landed cost of 93-Octane falling from 49,035c/l in April to 46,918c/l in May.

For the first time this year, SA motorists overpaid for their diesel in May. During this month, diesel moved into an over-recovery position of 0,763c/l following April's under-recovery position of 0,259c/l

The landed cost of diesel fell from 44,409c/l in April to 43,387c/l in May due to lower international prices.

DP to debate troika issue today

Political Staff

CAPE TOWN — The intense debate on the future role of the DP and its troika leadership structure will be resumed at a special parliamentary caucus meeting today.

Most caucus members appear to favour dumping the three-person leadership format — an arrangement endorsed by a comfortable majority of rank-and-file party members at the federal congress in Durban about a year ago.

However, any change in the leadership structure will have to be approved by another federal congress. B Day 19/6/90

The timing and venue of such a congress still have to be finalised, but party members are mentioning possible dates ranging from August to October.

Although opposition among MPs to the troika system has been spurred by the DP's poor showing during the Umlazi by-election, it is by no means a forgone conclusion that this sentiment will be mirrored by the party's grassroots supporters.

Indeed, the DP Cape Western region decided by a substantial margin to reject a return to the one-person leader format on May 31.

Today's caucus meeting will also continue the process of examining the party's future role in view of the Umlazi setback.

While the party does not intend to ignore its role in white electoral politics in coming months, the party leadership has indicated its bridge-building role is in extra-parliamentary politics.

vestments

ded

	28 February 1990 R'000	28 February 1989 R'000
	88 665	53 884
	1 848	2 693
	1 001	962
	847	1 731
	208	504
	639	1 227
	-	1
	639	1 226

INCOME TAX FM 29/6/90

Another retreat

320

Government has quickly backtracked from its plan to tax emigrants on the full progressive scale on interest from public-sector stock bought with blocked rands.

The Income Tax Amendment Bill (by now law) amends section 10(1)(h) of the principal Act to achieve this result, with effect from a date to be gazetted. However, Deputy Finance Minister Org Marais told parliament recently that the form the tax will take is still being considered: government may instead impose a withholding tax. The change in any event is unlikely to be imple-

FM 29/6/90 320

mented before March.

Informed sources say government had second thoughts about the move because of the usual problem of administrative enforcement. To impose income tax on emigrants, some of whom left many years ago and are no longer registered as taxpayers, would involve a great deal of effort.

It seems government will do nothing to implement the amendment, leaving emigrants' interest tax-free until the introduction of the planned general withholding tax on interest, when emigrants will be treated in the same way as residents.

320 FM 29/6/90

It's regrettable that government yet again rushed into changes in tax law without adequate deliberation about all the implications, including enforceability. To make matters worse, it seems that individuals outside government, who are allowed advanced sight of proposed legislation to give them an opportunity to offer private-sector criticism, accepted the proposal without objection.

Practice and procedures for formulating tax law can be improved. In particular, government must avoid hasty over-reaction to situations where some taxpayers are suddenly perceived to be paying less tax than they

FM 29/6/90 320

might. The past 12 months have seen far too many cases of such over-hasty reactions, which required adjustments after frantic representations from the private sector. A better mechanism for canvassing the private sector needs to be considered.

The way the entire Bill was rushed through in the dying days of the session without real opportunity for the private sector to offer citicism is also unfortunate. ■

actively, a comprehensive plan of action was drawn up.

(2) Yes. Hansard 19/6/90

(a) and (b) Impossible to determine as correspondence and applications from a particular region are not kept separately.

Mr K M ANDREW: Mr Speaker, arising from the reply of the hon the Minister, in the light of the fact that pensioners in Cape Town have been waiting for six months to two years to get replies to their queries and are not getting their pensions, I would like to know at what stage does he think his department's administrative processes are going to get up to date?

†The MINISTER: Mr Speaker, I have already indicated that the backlog exists mainly in regard to pensions which are already being paid out. New applications receive immediate attention. If the hon member is experiencing problems in regard to particular cases, he may bring them to my attention and I shall see to it that they receive immediate attention.

Mr K M ANDREW: Mr Speaker, further arising from the hon the Minister's reply, is he aware of the fact that his own department in Cape Town is advising some of the pensioners that there is no point in them sending telexes to Pretoria because they will not get any reply?

The MINISTER: Mr Speaker, if the hon member says that that is the answer being given to the pensioners then I must say that I am not aware of it. If he is aware of such cases I would appreciate it if he would bring them to my attention.

New questions:

Teachers: views on opening of schools

*1. Mr A GERBER asked the Minister of Education and Culture:†

Hansard 19/6/90

(1) Whether any principals in the Cape Peninsula recently requested teachers at staff meetings to state their views in regard to the opening of schools; if so, what schools are involved;

(2) whether this action meets with his approval: if not, what steps is he contemplating against the principals concerned?

B1248E

The MINISTER OF HEALTH SERVICES, WELFARE AND HOUSING (for the Minister of Education and Culture): Hansard 19/6/90

(1) Not to my knowledge, but is probable that the matter of the opening of schools, as well as other educational matters, would have been discussed during staff meetings and discussions at schools in the Cape Peninsula and elsewhere in the country.

(2) Yes. I have no problem with meaningful discussions by teachers on matters concerning their profession and which are conducted in accordance with the code of honour of the teaching profession.

Business interrupted in accordance with Rule 180C (3) of the Standing Rules of Parliament.

Teachers: authorisation for appointments

*2. Mr A GERBER asked the Minister of Education and Culture:†

(1) Whether there are any teachers in the Cape Province who have occupied certain posts since 1989 but have not yet received authorisation for their appointments to the posts concerned; if so, (a) how many, (b) for what reasons and (c) in respect of what date is this information furnished;

(2) whether he will make a statement on the matter?

B1249E

The MINISTER OF EDUCATION AND CULTURE:

(1) Yes.

(a) 15, since 1 January 1990.

(b) Late receipt of documentation such as nomination forms, permits required for immigrants and insufficient proof of previous service and qualifications etc.

(c) 1990-03-31.

(2) No.

Appointment of additional teachers

*3. Mr K M ANDREW asked the Minister of Education and Culture:

Whether schools in his Department planning to admit children of other races in January 1991 will be allowed to appoint additional teachers with effect from January 1991 in order to make provision for the anticipated increase in their pupil numbers; if so, (a) what procedures are to be followed and (b) what will be the cut-off date for additional appointments; if not, (i) why not and (ii) what arrangements does his Department recommend that schools should make in this regard?

Hansard 19/6/90

B1301E

The MINISTER OF EDUCATION AND CULTURE:

The hon member is referred to my statement during the interpellation debate of 22 May 1990 when I gave a full exposition of departmental policy regarding the determining of establishments for a particular year, explaining in detail how the system can accommodate any significant change in pupil numbers which might occur.

Cape Town Gardens: rent-controlled premises

*4. Mr K M ANDREW asked the Minister of Health Services, Welfare and Housing:

(1) How many rent-controlled premises were there in the Cape Town Gardens constituency as at 31 December 1989;

(2) how many premises were decontrolled during the period 1 January 1987 to 31 December 1989?

Hansard 19/6/90 B1302E

The MINISTER OF HEALTH SERVICES, WELFARE AND HOUSING:

(1) 1 595 premises/dwelling units.

(2) 2 004 premises/dwelling units.

For written reply:

General Affairs:

Cape Peninsula police stations: offences/arrests

244. Mr K M ANDREW asked the Minister of Law and Order: Hansard 19/6/90

(1) How many persons live or are estimated to live within the area of responsibility of (a) Cape Town, (b) Sea Point, (c) Camps Bay, (d) Woodstock, (e) Mowbray and (f) Rondebosch police stations;

(2) for the latest specified period of 12 months for which figures are available, (a) how many arrests were made by police of each of these police stations and (b) for what offences were the arrests made?

Hansard

B631E

The MINISTER OF LAW AND ORDER: 19/6/90

(1) (a) 113 000

(b) 80 000

(c) 6 000

(d) 40 000

(e) 38 000

(f) 55 600

(2) (a)

Cape Town	5 725
Sea Point	4 007
Camps Bay	1 010
Woodstock	2 817
Mowbray	1 442
Rondebosch	997

(b) As a result of a variety of crimes, *inter alia*:

Burglary,
Dealing in drugs,
Robbery,
Theft
Driving under the influence of alcohol,
Rape,
Theft from motor vehicles,
Murder,
Possession of dangerous weapons,
Possession of drugs, etc.

Bethlehem: taxpayers (320)

366. Mr W C MALAN asked the Minister of Finance: Hansard 19/6/90

What was the number of taxpayers in each income category in the Bethlehem magisterial district in the 1980-81 and 1988-89 financial years, respectively?

B894E

The MINISTER OF FINANCE:

The Commissioner for Inland Revenue retains statistics of taxpayers in magisterial districts for only the current and three immediately preceeding tax years because of the cost of storage facilities. Statistics furnished hereafter are accordingly in respect of assessments issued for the 1987, 1988 and 1989 tax years and represent 92,3%, 81,0% and 67,9% of registered taxpayers, respectively.

These statistics exclude taxpayers falling under the final deduction system (ie those earning less than R8 000 per annum in the 1987 and 1988 tax years) and the standard income tax on employees (married woman earning less than R20 000 per annum or other taxpayers earning less than R12 000 per annum, for the 1989 tax year). 320

INCOME GROUP	NUMBER		
	1987	1988	1989
Loss	215	172	34
0 — 5 000	265	239	245
5 001 — 10 000	496	390	142
10 001 — 15 000	664	558	366
15 001 — 20 000	630	579	475
20 001 — 25 000	587	541	555
25 001 — 30 000	457	455	422
30 001 — 35 000	329	384	282
35 001 — 40 000	246	300	245
40 001 — 45 000	149	198	176
45 001 — 50 000	84	142	126
50 001 — 60 000	101	154	118
60 001 — 70 000	48	59	57
70 001 — 80 000	33	43	35
80 001 — 90 000	16	30	18
90 001 — 100 000	16	16	4
100 001 — 150 000	33	41	18
150 001 — 200 000	17	15	1
200 001 — 250 000	6	4	3
Over 250 000	2	6	2
Total	4 394	4 326	3 324

Taxpayers

436. 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 1988-89 tax year and (b) what percentage of each group of taxpayers is Black?

B1022E

The MINISTER OF FINANCE:

During this session, as in past sessions, several questions have been asked concerning the number of taxpayers or tax assessed in various income categories, split up on the basis of the different race groups. Up to and including the 1984 tax year, when all taxpayers were required to submit returns for assessment, the replies furnished to questions of this nature, which were prepared from an analysis of assessments raised, provided an accurate indication of the relative contribution made by each race group.

Since the introduction of the final deduction system in the 1985 tax year, and more particularly since the introduction of the SITE system in the 1989 tax year, an ever increasing number of taxpayers do not submit returns. The stage has been reached where an analysis of assessments issued presents a misleading picture of the relative contribution made by the different race groups. For example, in the reply furnished below, which is based on assessments issued to date in respect of the 1989 tax year, Blacks are seen to comprise approximately 20% of the number of taxpayers earning R10 000 or less. However, on the basis of statistical returns furnished by employers, Blacks would appear to comprise in excess of 65% of the taxpayers in this income group.

Thus, while answers to this and similar questions have been furnished in the form requested, and represent the most accurate information available, it must be stressed that they do not fairly represent the relative contribution to total direct tax made by each race group.

Income category	Number of individual taxpayers in each category	Tax assessed in each income category expressed as a percentage of total tax assessed in the 1988-89 tax year	Percentage of Black taxpayers in each income category
R		%	%
Loss	16 896	0,00	0,54
0 – 5 000	262 684	0,05	22,39
5 001 – 10 000	120 108	0,19	14,11
10 001 – 15 000	315 887	2,03	26,10
15 001 – 20 000	309 474	4,67	21,43
20 001 – 25 000	223 521	6,26	11,95
25 001 – 30 000	185 484	7,91	5,81
30 001 – 35 000	149 979	8,91	2,96
35 001 – 40 000	118 788	9,17	1,86
40 001 – 45 000	87 777	8,41	1,08
45 001 – 50 000	65 974	7,58	1,00
50 001 – 60 000	82 642	11,77	0,73
60 001 – 70 000	42 997	7,84	0,52
70 001 – 80 000	23 981	5,33	0,44
80 001 – 90 000	14 078	3,70	0,36
90 001 – 100 000	8 587	2,61	0,24
100 001 – 150 000	16 006	6,44	0,18
150 001 – 200 000	4 345	2,66	0,14
200 001 – 250 000	1 534	1,25	0,32
250 001 +	2 076	3,22	0,29
	2 052 818	100,00	

Note: These statistics represent 71,81% of the income tax register.

Hillbrow hospital workers: representations

444. Mr L FUCHS asked the Minister of National Health and Population Development:

(1) Whether any representations on behalf of workers at the Hillbrow Hospital have been made to any Government Department or the Transvaal Provincial Administration; if so, (a) (i) by whom, (ii) to which Department and (iii) when were such representations made and (b) what was the (i) purport of and (ii) response to each such representation; Hansard 17/6/90

(2) whether she, any Department or the provincial authorities concerned have been approached by any members of the medical staff of the Hillbrow Hospital; if so, (a) what are the names or status of these persons and (b) (i) when, and (ii) for what reasons, in each case?

B1035E

The MINISTER OF NATIONAL HEALTH AND POPULATION DEVELOPMENT:

(1) Yes,

(a) (i) the Chairman of the Hillbrow Hospital Administration Advisory Committee,

(ii) the Chief Medical/Dental Superintendent of the Hillbrow Hospital (Transvaal Provincial Administration),

(iii) various dates from November 1989 to 18 April 1990,

(b) (i) the representations were in respect of:

- Salaries and conditions of service,
- accommodation at Ursula Mansions,
- accommodation at the nurses' residence of the Johannesburg Hospital,

Schwarz warns against increase in tax rate

Star 19/6/98 (320)

It would be suicidal to increase the current tax rate in South Africa, Harry Schwarz (DP Yeoville), said yesterday.

Speaking during the first reading debate on the Income Tax Bill, he said that what was needed to produce more revenue was not higher rates of taxation but a broader tax base.

"The more people earn, the more tax can be levied, and the programmes for job creation can thus be seen as producing more revenue for the State, which will assist in the redistributive process."

Tax evasion and, in some cases an inability to collect tax due to social and political disorder, were problems which confronted the Exchequer at this time.

Indirect taxation was normally the most acceptable form of taxation when there were not massive income gaps. When there was massive evasion or non-payment of direct taxation, it was inevitable that there would be greater indirect taxation and forms of indirect taxation which could not be readily avoided. VAT was such a tax.

The process of taxation had not been equitable until now, as in respect of certain social services there had been colour discrimination. Stopping the discrimination would have a redistributive effect.

Billions in SA gilts subject to tax

(320) P/Bay 20/6/90

LIZ ROUSE

BILLIONS of rands invested by emigrants in SA gilts will be subject to normal tax at maximum marginal rates of 44% on a date to be fixed by the Finance Minister in the Government Gazette later this year.

Under Sub-section 10(1)(B) of the Income Tax Bill tabled in Parliament, the Act "shall apply in respect of all interest received or accrued on or after that date".

Only investors who paid for the stock in foreign currency will now be exempt from tax on their interest, the exemption being aimed at encouraging foreign investment.

This means that present and future emigrants, who have large rand funds, will have to reconsider the structure of their investment portfolios in SA. Whatever they do, they will be losers as tax-free gilts have yielded a 15,5% running rate.

Non-resident investors will have to switch to other investment media.

Emigrants can switch to preferred shares, but these will attract a 15% withholding tax or acquire investments

☐ To Page 2

SA gilts

Bloem 20\6\90

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☑ From Page 1

through countries where mutual tax arrangements are favourable.

Gilts such as Eskom, RSA and Sats used to provide safe and rewarding havens for emigrants' rands.

An anomaly of the Bill is that dividends received by emigrants are exempt from tax but subject to a withholding tax of 15%.

There was no reason to panic about getting out of SA gilts immediately, said tax experts. When the date was announced, investors would have the time to get out of their stocks before the last day of registration when no interest had accrued.

The value of stock involved must be large as a minimum investment of R100 000 is required for gilts.

Eskom, which has R14bn paper in issue, has said while statistics of the proportion of its stock held by emigrants were not available, it would be minimal. However, other sources say that the amount of gilts held by SA emigrants is substantial.

The 44% tax rate is the maximum and would apply only to richer emigrants. For instance, a 22% tax rate would apply on interest earned on a R100 000 investment.

B|Day 20/6/90

'Skilled staff needed to fight tax evasion'

GERALD REILLY

PRETORIA — Billions of rands were slipping through the tax net annually and much of it could be recovered if the inland revenue commissioner had skilled staff to counter the high tide of tax evasion, Inland Revenue chief inspector Schalk Albertyn said yesterday.

In Parliament earlier this week deputy Finance Minister Org Marais said government would consider imposing a minimum tax if large-scale evasion continued.

The loss of tax revenue was one of government's biggest problems, he said.

Although an increase in staff was not the complete answer and could never stop evasion completely, a large enough and skilled accounting staff could substantially reduce the number and scale of evasions.

"The trouble, too, is that the staff we train at great cost over a period of two or three years is lured away by the private sector with better pay and service conditions."

The current staff shortage on an establishment of 7 500 was around 800.

Albertyn stressed public service salaries made qualified workers easy prey for commerce and industry.

Blocked

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The shortage in the commissioner's office was symptomatic of the acute and chronic shortage of skilled workers in all areas of the economy.

Recent experience had shown that for every 10 qualified accountants employed on the commissioner's audit and inspectorate staff, more than R10m in evaded taxation could be picked up.

Albertyn said some loopholes were spotted and preempted. Others were blocked as soon as investigations uncovered sharp practices.

"But to cover every possible evasion contingency would need an act as big as a telephone directory".

In most countries, tax evasion was a problem. But it had been shown, and patently so, that the more investigations into possible tax frauds that could be made, the more revenue could be recovered.

Albertyn said in the struggle to reduce the tax drain to a minimum his staff was having to combat the manoeuvering of sharp, highly qualified finance and tax experts.

DP finance spokesman Harry Schwarz disagreed with a minimum taxation system.

What was needed, he said, was a simplified system — a system easier to police and to understand.

What was needed, too, was a tax culture where taxpayers accepted reasonable taxes were necessary.

Panel to answer VAT queries

B Day 21/6/90

BUSINESS DAY, in conjunction with audit firms Deloitte, Haskins & Sells and Pim Goldby, will answer readers' questions in regular articles about VAT. Questions should be sent to: Business Day VAT Panel, P O Box 1138, Johannesburg 2000, or faxed to the panel at (011) 836-0805. The panel consists of Des Kruger and Chris Beneke (Cape Town), Rob Mun-Gavin and Dayalan Naicker (Durban) and Kenn Boggis, Rob Collins and Anne Bennett (Johannesburg).

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Govt deliberates on emigrants' gilts tax

LESLEY LAMBERT

CAPE TOWN — Government is considering imposing a 10%-12% withholding tax on emigrants' investments in SA gilts, rather than the proposed marginal tax rate.

Although legislation containing the clause on the taxation of interest earned on the investments has been passed by Parliament, there is a provision that the clause may be implemented only once it has been approved by the Finance Minister.

This has created some confusion in the market as investors who are benefiting from the tax-free status of the investments have assumed the imposition of marginal tax on the investments will be implemented with the rest of the Income Tax Act.

However, Deputy Finance Minister Org Marais indicated during Parliamentary debate this week that the form the tax would take was still being considered and it was unlikely to be implemented before March 1991.

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He said government was investigating the possibility of imposing a withholding tax, rather than the marginal tax rate.

The aim of the tax is to close a loophole which has enabled people to take capital market investment returns out of the country tax free. BDay 21/6/90

While government is keen to close this loophole and stem the outflow of funds from SA, it is aware of the effect on the country's financial markets of immediate implementation of a marginal tax rate which peaks at 44%. Investors would have to switch their capital to markets offering a more favourable tax situation.

Government plans to tax food (320)

W Mail 15/6 - 21/6/90

THE government plans to do away with sales tax exemptions on food when it replaces General Sales Tax with Value Added Tax.

VAT will come in at lower than the present level in October year, Finance Deputy Minister Org Marais revealed at a briefing in Cape Town this week.

This is in line with government thinking that it should move away from direct intervention. However, there will probably be exemption of financial service among other things. And Marais also mentioned as possibilities for exemption or "zero rating" farmers, horse racing and private hospitals.

It is planned that VAT will be introduced at less than 13% but the same amount of tax will be collected.

VAT, Marais said at a briefing this week, would be more broadly based than GST, and would do away with tax evasion and double tax.

It will also, he added, enable the government to encourage exports, reduce the cost of manufacturing and merchandising, and to implement upliftment programmes for the poor.

Another inherent problem in the GST system is the reliance on exemption certificates issued to businesses. That VAT has few exemptions, and affords Inland Revenue greater opportunities for checking will reduce evasion.

Marais said considerable economic distortion was caused by double tax.

This double tax not only affects the consumer, he pointed out, it also made South African export goods less competitive.

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Estate agents angry at plan to levy VAT on commission

By Shirley Woodgate

Government plans to levy VAT on estate agents' commission from the sale of homes has raised a storm of protest accompanied by warnings that this will push up the cost of housing.

But leading tax consultant Costa Divaris has dismissed the outcry from estate agents, saying it is logical, if all services are to be taxed, that the selling service by middlemen — the home salesmen — should be included.

Private sale

According to Deloitte, Haskins and Sells tax partner Des Kruger, a provision in the draft VAT Bill proposes that the sale of homes by a registered vendor will attract VAT, but a private sale by the home owner will not be taxed. The selling agent will be charged VAT on his commission.

He added: "The danger is not so much the actual effect of VAT on prices, but traders using the opportunity to increase prices under the smokescreen of the change to VAT."

Cecil Golding, of Pam Golding Properties, said the addition of VAT to sales would push the price of homes up considerably, since the agents would have to add the full increase on to the cost.

Institute of Estate Agents (IEA) spokesman Jan van der Merwe warned of a "dramatic" effect on the market and said his organisation would make representations to the Government once it received details of the draft Bill.

Mr Divaris denied that home prices would rise. "The price people are willing to pay is determined by the market itself, not the costs," he said.

Camdons chief Scott McRae predicted the move would have a drastic effect on estate agents whose margins were already very small. It was likely a lot of agencies would close down.

"The exemption of private individuals will naturally make more people try amd sell their owm homes ... lacking experience or exposure to clients, they may undersell their properties."

IEA president Dave Miller claimed the Government was reconsidering the plan, as it was trying to make low-cost homes more accessible.

Star 21/6/90

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Companies could save up to R7-bn under VAT system

By Tom Hood

Industry and commerce could save as much as R7 billion a year after value-added tax (VAT) replaces general sales next in October next year.

Companies will be the major beneficiary of the changeover because tax will no longer be payable on capital goods and intermediate goods.

At present business is estimated to pay R7 billion in GST on its inputs.

Presenting the new tax system Deputy Finance Minister Dr Org Marais estimated that the mines alone pay about R700 million on GST a year.

He also revealed that Eskom last year paid GST of R465 million and Iscor about R100 million.

The state's overall tax revenue, however, is expected to be the same, because consumers will have to pay more tax, especially on food and services.

Publication of the new Value Added Tax Bill this week indicates that, contrary to earlier beliefs, supermarket and other cash businesses could earn more cash from interest on VAT before it is paid over to the Receiver.

Des Kruger, tax partner of Deloitte, Haskins and Sells, said today as a general rule companies selling for cash on short period credit but who pay creditors over longer periods will be far better off under VAT than under GST.

Companies earn as much as 20 percent interest on the GST they hold.

If such businesses are entitled to a two-month tax period, then they will be even better off as they will now be able to hang on to the money even longer, says Mr Kruger.

In addition, as traders are entitled to an input tax credit when they are issued with a tax invoice — that is, before payment is made — they need only account for VAT actually collected at a later date.

"Major losers are those vendors who sell on extended credit but who are required to pay their creditors sooner," he says.

"As VAT must be accounted for when the invoice is issued for the supply of goods and services and not when payment is received, they will be required to account for VAT before they have received the money to pay.

"While this is similar to the position under GST at present, the added problem under VAT is that such vendors are now required to account for tax on purchases."

Other major potential losers are exporters, as they will have to pay VAT on their purchases but not collect any tax on their sales — they will be continuously entitled to a refund.

Registered charitable institutions could also be losers from VAT. At present they can buy all goods and services free of GST. But no exemption of food has been provided for under VAT.

An "association not for gain", while taxable for any supplies it makes in the furtherance of any enterprise it carries out, will enjoy two advantages: Exemption of supplies of goods and services by the association if at least 80 percent of the value of the materials used constitute donated goods, and a donation of cash will not constitute a consideration for the supply of goods and services by the association.

(2) enige ander bepalings van genoemde Vasstelling te wysig wat as gevolg van (1) gewysig moet word.".

Verder word bekendgemaak dat vraelyste kragtens artikel 10 (1) van die Loonwet, 1957, aan werkgewers gestuur is om in te vul. Werkgewers wat nie vraelyste binne 14 dae na die datum van hierdie kennisgewing ontvang nie, moet asseblief die Sekretaris van die Loonraad in kennis stel.

M. J. DELPORT,
Sekretaris: Loonraad.

(22 Junie 1990)

KENNISGEWING 493 VAN 1990

DEPARTEMENT VAN MANNEKRAG

WET OP ARBEIDSVERHOUDINGE, 1956

INTREKKING VAN REGISTRASIE VAN 'N VAKVERENIGING

Ek, David William James, Nywerheidsregistrateur, maak hierby kragtens artikel 14 (2) van die Wet op Arbeidsverhoudinge, 1956, bekend dat ek die registrasie van die United Mining, Metal and Allied Workers' Union of South Africa met ingang van 11 Junie 1990 ingetrek het.

D. W. JAMES,
Nywerheidsregistrateur.

(22 Junie 1990)

KENNISGEWING 494 VAN 1990

DEPARTEMENT VAN FINANSIES

WERKNEMERSBELASTINGAFTREKKINGSTABELLE

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 32) ingevolge paragraaf 9 (1) van die Bylae vir gebruik deur die werkgewers, soos omskryf in paragraaf 1 van die Bylae, voorgeskryf is.

Die tabelle tree op 1 Julie 1990 in werking en bly tot nadere kennisgewing van krag.

Voorts word dit bekendgemaak dat die werknemersbelastingaftrekkingstabelle (Volume 31) wat op 1 Julie 1989 van krag geword het, teruggetrek word met ingang van 1 Julie 1990.

BELASTINGTABELLE VIR VOORLOPIGE BELASTINGPLIGTIGES

2. Kragtens paragraaf 17 (6) van die Vierde Bylae by die Inkomstebelastingwet, 1962 (Wet No. 58 van 1962), soos gewysig, word hiermee bekendgemaak dat tabelle (geïdentifiseer as Volume 28) ingevolge paragraaf 17 (5) van die Bylae voorgeskryf is vir opsionele gebruik deur voorlopige belastingpligtiges.

Die tabelle tree op 1 Julie 1990 in werking en bly tot nadere kennisgewing van krag.

Voorts word dit bekendgemaak dat die tabelle vir voorlopige belastingpligtiges wat op 1 Julie 1989 van krag geword het (Volume 27), teruggetrek word met ingang van 1 Julie 1990.

(2) amending any other provisions of the said Determination which may require amendment consequent on (1).".

It is further notified that in terms of section 10 (1) of the Wage Act, 1957, questionnaires have been forwarded to employers for completion. Employers who do not receive these questionnaires within 14 days after the date of this notice, should please notify the Secretary of the Wage Board.

M. J. DELPORT,
Secretary: Wage Board.

(22 June 1990)

NOTICE 493 OF 1990

DEPARTMENT OF MANPOWER

LABOUR RELATIONS ACT, 1956

CANCELLATION OF REGISTRATION OF A TRADE UNION

I, David William James, Industrial Registrar, hereby notify, in terms of section 14 (2) of the Labour Relations Act, 1956, that I have cancelled the registration of the United Mining, Metal and Allied Workers' Union of South Africa with effect from 11 June 1990.

D. W. JAMES,
Industrial Registrar.

(22 June 1990)

NOTICE 494 OF 1990

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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 32) have, in terms of paragraph 9 (1) of the Schedule, been prescribed for use by employers as defined in paragraph 1 of Schedule.

The tables shall come into force on 1 July 1990 and shall remain in force until further notice.

It is further notified that the employees tax deduction tables (Volume 31) which came into force on 1 July 1989, shall be withdrawn with effect from 1 July 1990.

TAX TABLES FOR PROVISIONAL TAXPAYERS

2. In terms of paragraph 17 (6) of the Fourth Schedule to the Income Tax Act, 1962 (Act No. 58 of 1962), as amended, it is hereby notified that tables (identified as Volume 28) have, in terms of paragraph 17 (5) of the Schedule, been prescribed for optional use by provisional taxpayers.

The tables shall come into force on 1 July 1990 and shall remain in force until further notice.

It is further notified that the tables for provisional taxpayers which came into force on 1 July 1989 (Volume 27) shall be withdrawn with effect from 1 July 1990.

Marginal tax on interest is under scrutiny

LESLEY LAMBERT (320)

CAPE TOWN. — The Inland Revenue Department is investigating the possibility of replacing normal marginal tax on interest earned by local residents with a fixed low-rated withholding tax.

Commissioner for Inland Revenue Hannes Hattigh confirmed this yesterday after strong indications by Finance Minister Barend du Plessis and Deputy Minister Org Marais that a withholding tax on interest was in the pipeline.

"We will be investigating the possibility during the parliamentary recess and an announcement may be made in the next Budget," Hattigh said.

The motive behind a low-rated withholding tax on the interest earned on bank, building society and other cash deposits, would be to provide a further savings incentive, particularly for high salaried people subject to the maximum marginal tax rate of 44%. B/Day 22/6/90

It would be the second significant step government has taken recently to encourage savings. The first was the removal of tax from stock market dividends, announced in this year's Budget speech.

Marais indicated during the parliamentary debate on the Income Tax Act this week that government was considering a rate of between 10% and 12%. This would be similar to the proposed withholding tax rate which is currently being considered for emigrants' investments in SA gilts.

The local residents who would benefit most from a low fixed withholding tax rate would be those with the highest salaries and largest investments which are currently subject to normal marginal tax.

The fiscus would probably make provision for people subject to a tax rate below that of the withholding tax to ensure that low earners were not disadvantaged by it.

Car perks to be investigated

CHARLOTTE MATHEWS

A COMMITTEE will be appointed next week to investigate "fringe benefit" tax on motor vehicles, Commissioner for Inland Revenue Hannes Hattingh confirmed yesterday. B Day 22/6/90

It is believed that the decision to set up the committee was taken following pressure by the motor industry, which is concerned about declining motor sales.

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"We are going to look at the taxable value of a company-owned car as a fringe benefit and consider whether the present rates are market related.

"These rates were increased in terms of the Budget proposals.

"It could be that the present rates are too high or we could perhaps increase the rate," Hattingh said.

BMW SA financial director Peter Barbe, who will be the chairman of the National Assocation of Automobile Manufacturers of SA (Naamsa) delegation to the committee, confirmed the objective of the committee was to find an equitable basis of taxing the fringe benefit of company cars.

"Naamsa is totally in line with the Margo recommendation that all fringe benefits be taxed and that includes the fringe benefit of a company car.

"We will be meeting to consider whether the value that has been attributed to these vehicles is correct."

UBS favours spending tax

Daily Mail Reporter

THE United Building Society has come out in support of an expenditure tax — an idea which has been described as "profoundly socialist". (320)

The reason is the drastic decline in personal savings in South Africa.

The immediate outlook for personal savings remains bleak, unless the authorities can ensure investors get returns after deducting tax and adjusting for inflation, concludes the latest Economic Perspective, put out by United.

The author of the bulletin notes the decline of personal savings as a percentage of gross domestic product, from around 7% in 1968 to less than 1% two decades later, and the increase in contractual savings (ie investments such as retirement annuities and life policies).

The danger is that the availability of risk capital has declined rapidly over the last few years, the United notes.

The United's bulletin suggests a number of solutions.

"For instance, a low withholding tax on all interest receipts at deposit-taking institutions would be a powerful incentive to save. W1Mail 22/6/90

Alternatively, the authorities could consider a tax-free retirement account for households with joint income not exceeding, say, R75 000 a year, provided the money stayed in the account for, say, 10 years.

COMPANY TAX FM 22/6/90 (320)

Stock values witch-hunt?

Does Inland Revenue plan a blitz on companies that have written down stock to unacceptably low levels to reduce profits? Part 8 of the new IT 14 form (return of income for companies) calls for certain detailed balance sheet and other information which, on the face of it, is to set up a data base for the planned system of self-assessment.

That may be the primary motive but the disclosures could open the door to an assault on companies which have taken undue advantage of stock write-downs. Included is a requirement to show balance sheet value of trading stock and the "stock provision" — by which balance sheet value differs from cost (generally, the provision for obsolete and slow-moving stock).

Pim Goldby's Peter Backwell points out that section 22(1) of the Income Tax Act directs that closing stock is to be valued at cost, less what "the commissioner may think just and reasonable as the amount by which such stock ... has been diminished by damage, deterioration, change in fashion, decrease in market value or any other reason."

If a decrease is for any of these reasons, the commissioner has no discretion over whether this allowance should be granted. His only discretion lies with the quantum.

Backwell says if a taxpayer has satisfactory justification for the amount, the commissioner would be hard pressed to disagree. Where a fall in value is for a reason other than those specified, the commissioner has discretion for both sum and reason.

Backwell notes trading stock should be included under paragraph 8 at balance sheet — not tax — value. They could differ for several reasons, including the lifo reserve and value of consumable stores. These have been dealt with in the current Income Tax Bill: in time these differences will disappear.

In the past the "stock provision" might not have been apparent, as there was no specific requirement to disclose it. Now the commissioner will probably police it more closely.

Deloitte partner Clive Selwood agrees the new requirement is "most sensitive" because the discretionary provision has not yet been amended to pave the way for self-assessment. Arthur Andersen partner Pierre du Toit says the requirements for the new part 8 are "an important indication of what is regarded as tax sensitive by Inland Revenue."

The new requirement exposes every trading company to a disallowance of at least part of its stock provisions. In the light of the vast sums involved, and because the extent of these write-downs is now entirely within the unappealable discretion of Revenue, its potential as a new source of revenue is staggering. It is a temptation to a cash-short government, argues Du Toit, to shave say 5% off stock provisions, without judicial challenge, and tax the additional amount.

There is great potential for disruptive uncertainty in "so subjective an area." The need for certainty will become more acute when self-assessment is introduced.

Du Toit urges the following measures to limit uncertainty:

☐ The discretion now available to the commissioner should be made subject to objection and appeal, which always introduces a strong element of reasonableness on the part of all parties;

☐ Greater formal reliance should be placed on the role of the auditor as to the fairness of stock provisions; and

☐ A system of safe-haven stock provision percentages could be developed for at least some of the more common industries.

The *FM* suspects the new part 8 was drafted without sufficient consideration of the possible impact on stock valuation pending the inevitable amendment of the Income Tax Act to allow for self-assessment (*Economy* May 18).

The existing Act and tax practice are incompatible with company self-assessment in various ways. In particular, you cannot have self-assessment while the Act contains numerous commissioner's discretions.

There is urgent need for high-level consultation between Revenue and the private sector to deal effectively with the alarm that has been aroused.

It would be an unfortunate prelude to self-assessment if companies conclude that extra information now required will be used to collect large additional tax in the interim period, through applying a provision Revenue never really attempted to police forcefully since the Act was passed in 1962.

Robin Friedland

PLANNING FOR VAT

"Now is the time for business to react to proposed legislation on VAT and start planning for its impact," says Ernst & Young's Ian MacKenzie. "There may be a temptation to wait for the final legislation but that would be a mistake — for two reasons. One is that the final draft is not likely to be materially different from this one. The other is that waiting could leave insufficient time for planning and implementing systems changes."

A briefing is to be given, on July 19, by the Johannesburg Chamber of Commerce & Industry and the *FM*, in association with Ernst & Young. It will be presented by MacKenzie, chairman of the SA Chamber of Business subcommittee on VAT.

Topics to be covered are:

☐ How VAT will affect you;

☐ Which transactions will be taxable?

☐ Procedural and reporting requirements;

☐ Necessary amendments to accounting systems; and

☐ What you must do now.

The venue will be the ballroom of the Carlton Hotel, Johannesburg; from 2pm to 6 pm with registration at 1 pm. Cost is R250 for Sacob members and R280 for non-members. Enquiries to Pam Freeman or Glenda Lee on (011) 726-5300.

FOREIGN TRADE FM 22/6/90

Not good enough

May's trade surplus is up R112m from April, to just under R1,1bn. Imports are down a marginal R32m to R3,6bn while exports rose R80m to just under R4,7bn.

Nevertheless, Old Mutual economist André Roux calls the figures disappointing. The small surplus indicates monetary policy must remain tight, with high real interest rates well into the fourth quarter. "A lower gold price and a slower world economy will limit the scope for an increase in exports, so we have to influence the import side."

Despite the economic downturn, imports in 16 of Central Statistical Service's 21 categories rose, adding R414m to the bill. These were offset by a R436m drop in imports of unclassified goods (mainly oil), reversing a 150% jump to R709m in April.

SA Chamber of Business economist Keith Lockwood says static levels in the past two months do not mean imports have bottomed. "I expect imports to fall more sharply in the coming months, especially durable and luxury goods. But imports of investment goods could remain at present levels, with decreases in local investment partly offset by increases in foreign capital inflows, gearing up for a more buoyant economy in 1991."

Compared to the first five months of 1989, 1990 still looks good. The surplus to May 1989 was R4bn, against R6,1bn so far this

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Financial Mail

TAXATION FM 22/6/90

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The eye of Org's needle

Org Marais is a well-meaning junior minister and one who understands well the canons of free-market economics and the need for an economic policy that promotes rapid growth. Tax reform is his very important responsibility and he deserves support in much of what he has been doing.

We have differed sharply with him over retrospective tax legislation. His patent threat in parliament this week — to impose a minimum tax if taxpayers dare to order their affairs within the law to minimise payments — must give cause for equally great concern.

Threats such as this are going to stop nothing. If tax evasion is the problem he claims it to be, then he must look more closely at the system which allows it — and at the reason for government itself encouraging the creation of perks and other concessions that abet it.

Over the past 20 years there have been two heavyweight commissions into tax and one into company law. Had the reform process initiated by these commissions been accepted, and adequately implemented by government, the tax system would probably have been so streamlined and efficient that tax evasion would not be a problem.

Another reason for evasion — which if it has reached epidemic levels suggests a full-scale tax revolt — is that taxes are too high and too concentrated on the most productive section of the community. Higher tax revenues would, in those circumstances, flow from more broadly based and lower taxes.

The labyrinth of tax concessions grew substantially — though not exclusively — out of government's reluctance (possibly inability) to remunerate a growing public sector. So, instead of pay, public servants were given perks: cheap back-dated pension rights, tax-free home loans that spawned property speculation, free cars and various other benefits that prejudiced the fiscus. It didn't seem to matter then. Nor was there immediate concern when the private sector followed suit. Inland Revenue went along with it.

Tax concessions intended to give artificial economic stimulus invariably provide the means of tax evasion. Tax concessions, for example, on forestry investments, film-making and hotel building. They are concessions that flow from government itself — private tax evaders cannot create them.

It is common cause that this had to change. But it is the manner of the change and the jaw-boning of the minister that will simply reinforce the tax revolt and inhibit the removal of practices to which most reasonable taxpayers object. A minimum tax is not going to stop evasion. Only lower taxes and tax reform will accomplish that task.

Ministers and MPs are paid — and sometimes elected — to provide society with the laws that are necessary for its protection. Among these are tax laws. If they are inadequate, and if clever tax lawyers continually outwit legislators, then ministers and MPs are clearly not doing their job properly. They certainly do not lack authority, only the wit to use it effectively in a free society.

Another problem is that there is too much panic reaction to events that could reduce public revenues. The result is that measures are taken that violate the canons of taxation in a free society and very often detract too from the democratic freedom every taxpayer has (or should have) to order his affairs so that he pays not a halfpenny more than is his legal due.

Retrospective taxation is one of those measures. The minimum company tax, which imposed a tax on losses as well as income, was another. In the confines of the Finance Ministry some will acknowledge that these were sad mistakes. But as they keep on repeating them, there must also be a sad lack of legislative and tax skills as well as democratic perceptions among our legislators. It should not be the sole responsibility of tax officials to see that the Exchequer is adequately funded. They should, too, be aware of their responsibilities towards those who pay taxes.

The advertising industry's guru, David Ogilvy, once warned fellow practitioners that "the consumer is not a moron: she is your wife." Well, the same may be said to those in the ministry. Today's tax evader is not your everyday smarmy crook. Chances are he or she is your wife, mother, daughter or brother.

The same applies to exchange control. When ordinary people are denied the right to do what they will with their own resources, they are likely to compromise on integrity, especially when an elaborate dual exchange rate system emphasises the loss of that freedom and invites desperate means of evasion. Tax evaders and exchange control violaters are men and women of the same breed — their respect for the law is generally proportional to the amount of their own freedom it is perceived to deny.

That is an understandably human trait. It is not necessarily a noble one. But it is one that will be encouraged rather than denied by Org Marais' foolish tax threats. The most efficient tax systems are those that so enhance human traits that they keep as low as possible the propensity to evade. Indeed, that is true of the efficacy of all legislation.

Progress in the implementation of the Margo Report appears for some years now to have stalled. Those recommendations that would clearly enhance the flow of taxes to the Exchequer were implemented with exceptional speed. Those, however, that would be in the interests of equity and good economics have the opposite effect, and are being dribbled out as slowly as Pretoria can possibly manage.

In such circumstances, how can Marais expect beleaguered taxpayers to heed his belligerent warning? ■

Stage by stage

FM 22/6/90 (320)

Value-added tax (VAT) is added to the price of goods and services and finally borne by the end-consumer. Unlike GST, VAT is levied at each stage of the chain of production and distribution — on the value of all goods and services acquired by a business.

The tax charged a purchaser by the previous link in the chain is *input tax*. When a business supplies goods or services (to another business or end-consumer), VAT must be included in the price. This is *output tax*. The firm pays Revenue the difference between input and output taxes — claiming a refund if input tax is greater.

Government intends to levy VAT on all goods and services, including new and used goods, leasing and rental of movable and immovable property and private use of trading stock and assets. All services will also be subject to VAT unless specifically exempted or taxed at zero rate.

VAT will be introduced at two rates: a standard rate (yet to be determined) and nil (the so-called zero rate). The zero rate applies, notably, to exports, when a going concern is sold, or to services rendered in a foreign country. In this case the supplier does not charge tax to his customer, but may claim a credit for input tax.

There will be exemptions from VAT for certain financial services, rental of residential accommodation (except short-term), medical or educational services and the supply of donated goods and services by associations not for gain. In this case, the supplier neither charges VAT to the recipient nor is entitled to claim input tax from Revenue.

Input tax paid on goods and services used to make exempt supplies is borne by their supplier, who usually passes the cost.

Any person or business whose turnover exceeds R50 000 a year will have to register. A registered business will have to charge VAT on sales; account for output tax on all goods or services supplied; complete and submit VAT returns regularly; keep proper accounting records for inspection; and issue VAT invoices. A supplier making only exempt supplies cannot be registered.

GST has suffered greatly from abuse of the system of exemption certificates, resulting in large-scale evasion. Under VAT, all goods and services are subject to tax so no exemption certificates are necessary.

There is a cascade effect under GST because manufacturers pay on many inputs. Final consumers' effective GST can be far above the nominal 13%. To redress this, government intends to allow manufacturers a credit for tax paid on capital goods. But, to discourage the postponement of purchases of capital goods until the introduction of VAT, a tax on capital goods will be introduced for a period. In the case of intermediate goods (consumables), a credit will be granted for any tax paid from the date of introduction of VAT.

Tax credits on capital and intermediate goods will eventually eliminate double taxation from the chain of production and merchandising.

Arthur Andersen partner Pierre du Toit says government is too invested politically in VAT to draw back. So debate is now confined to issues such as the level of the new tax.

Considering the intended breadth of the base for VAT and its vaunted efficiency of collection, we should be aiming for a rate approaching the original GST level of 4%, rather than hoping rather modestly to hold the rate below the current GST rate of 13%.

Du Toit fears VAT may be a political time bomb. If either system or the PR exercise surrounding it fail, it will be politically unacceptable. As GST is discredited politically, VAT represents a last chance for an accepted and, therefore, successful, indirect tax. There is a strong theoretical case for including food. But a tax must be acceptable politically. So if food is to be taxed, there must be consultation with mass political and community leadership, as — without their support — VAT will be stillborn.

So contemplated "more targeted" relief on food must be effectively in place in advance. Communities must be persuaded that substitution of these measures for exemption is a genuine gain.

Businesses, says Du Toit, must start adapting information systems to capture data needed for VAT management. As VAT is more complex than GST, the burden will not diminish. In the transitional phase there may be credits against VAT for GST paid, so such information, including date of transactions, must be preserved. Fortunately, extension of the moratorium for another year preserves flexibility in adjusting group structure.

Ian MacKenzie, a partner in Ernst & Young, complains that the VAT Bill is anything but simple, despite Margo's preference for VAT on this ground. Tax consultants will need considerable analysis before they can advise businesses appropriately, while it is virtually impenetrable by laymen, as the draftsmen have gone out of their way to provide specifically for every conceivable situation, at the cost of complexity.

The administrative burden for business in record-keeping, issue of tax invoices and debit and credit notes seems greater than could possibly have been expected.

Because businesses do not bear any VAT cost (being only the collection conduit), they will have cost savings to the extent of the outgoing GST at 13% on all intermediate goods and services for which they were not previously exempt. These savings should be passed on to the consumer to alleviate individual additional burdens from VAT.

Sales to TBVC countries do not qualify as "export sales," says MacKenzie, so will not be zero-rated. This will eliminate many of the problems Revenue experienced because export sales to TBVC countries were exempt from GST. This provision will also put pressure on these governments to implement corresponding VAT systems and to conclude "clearing house" agreements with SA to cater for cross-border input tax credits.

Coopers & Lybrand associate director Errol Danziger approves the zero-rating of exports generally, despite criticism. There is a consensus on this issue in VAT countries. (Not only is the provision equitable, it helps exports in a way acceptable to Gatt.)

Failure to exempt exports to the TBVC will cause difficulties to businesses there, as they will probably not be able to recover VAT paid as input tax. Particularly hard-hit will be those that import goods from SA, then re-export them here in some form, as they will be subject to further VAT on re-entry.

(b) R1 063 903.

(c) The State President, Cabinet, state departments, provincial councils, other state institutions according to the nature and subject of the research and under certain circumstances, to interested private bodies. Hansard 22/6/90

(d) November 1987 — 5 May 1990.

Personal/company tax

526. Mr D P DU PLESSIS asked the Minister of Finance:† Hansard 22/6/90

What total amount was collected in (a) personal tax in respect of the (i) White, (ii) Coloured, (iii) Asiatic and (iv) Black population groups and (b) company tax during the latest specified tax year which figures are available? (320) B1260E

The MINISTER OF FINANCE:

In consequence of the Final Deduction System and the Standard Income Tax on Employees a large number of taxpayers are not on the income tax register and accurate statistics are therefore not available. An income split between the various population groups has accordingly been made on the basis of statistical returns furnished by certain employers.

Income Tax Collections — 1988/89 Tax Year

(a) *Individuals*	
(i) Whites	R12 143 360 379
(ii) Coloureds	525 403 921
(iii) Asians	331 484 899
(iv) Blacks	1 473 900 507
Total	R14 474 149 706
(b) *Companies*	R10 680 090 305

KwaZulu/St Lucia: area/population

527. Mr J CHIOLÉ asked the Minister of Development Aid:† Hansard 22/6/90

(1) With reference to his reply to Question No 16 on 29 May 1990, (a) how big is the portion of KwaZulu (Reserve No 1) surrounded by the St Lucia wilderness area and (b) (i) how many people are estimated to live in this reserve, (ii) what is their approximate rate of increase and (iii) in respect of what date is this information furnished;

(2) whether the Government intends integrating the portion concerned with the said wilderness area; if not, why not; if so, (a) when, (b) in what way and (c) what steps are contemplated in respect of the present residents of this portion? Hansard 22/6/90 B1261E

The MINISTER OF DEVELOPMENT AID:

(1) (a) The total extent of Reserve No 1 (now known as No 18520) is approximately 24 000 hectares, of which approximately 7 000 hectares is surrounded by the existing proclaimed St Lucia wilderness area.

(b) (i) 4 500

(ii) 2,7% per year

(iii) census of 1985.

(2) No, the portion concerned forms part of the tribal area of the Nibela Tribe under Chief Nhlelo Mdhluli (GN 1852 of 29 November 1957) and is part of the jurisdictional area of KwaZulu since 1972. Only on request of the Nibela Tribe and with approval of the Government of KwaZulu is it possible to alter the status and utilisation of the land concerned. Such a request has not as yet been received.

(a), (b) and (c) Fall away.

PE/Uitenhage area: nurses at State-run hospitals

533. Mr E W TRENT asked the Minister of National Health and Population Development:

(1) How many (a) White, (b) Black, (c) Coloured and (d) Indian nurses were in (i) full-time and (ii) part-time employment at each State-run hospital in the Port Elizabeth/Uitenhage area as at (aa) 31 December 1980, (bb) 31 December 1985 and (cc) the latest specified date for which information is available; Hansard 22/6/90

(2) whether the number of nurses employed at any such hospital has decreased since 1980; if so, for what reasons;

(3) whether any nursing posts have been abolished at any of these hospitals since 1980; if so, (a) how many posts at each specified hospital and (b) why in each case?

B1268E

The MINISTER OF NATIONAL HEALTH AND POPULATION DEVELOPMENT:

(1) (a) White

	(aa) 1980-12-31		(bb) 1985-12-31		(cc) 1990-03-31	
	(i) Full-time	(ii) Part-time	(i) Full-time	(ii) Full-time	(i) Part-time	(ii) Full-time
PE Provincial	997		635		626	31
Livingstone, PE						
Dora Nginza, PE						
Elizabeth Donkon, PE	62		57		54	
Empilweni, PE	3		3		2	
Uitenhage	225		234		244	

(b) Black

	(aa) 1980-12-31		(bb) 1985-12-31		(cc) 1990-03-31	
	(i) Full-time	(ii) Part-time	(i) Full-time	(ii) Part-time	(i) Full-time	(ii) Part-time
PE Provincial	37		23		43	2
Livingstone, PE	121		55		903	
Dora Nginza, PE			372		446	
Elizabeth Donkon, PE					13	
Empilweni, PE	112		112		114	
Uitenhage	80		82		88	

(c) Coloured

	(aa) 1980-12-31		(bb) 1985-12-31		(cc) 1990-03-31	
	(i) Full-time	(ii) Part-time	(i) Full-time	(ii) Part-time	(i) Full-time	(ii) Part-time
PE Provincial	12		28		70	
Livingstone, PE	120		61		321	
Dora Nginza, PE						
Elizabeth Donkon, PE					11	
Empilweni, PE						
Uitenhage	55		87		98	

(d) Indian

	(aa) 1980-12-31		(bb) 1985-12-31		(cc) 1990-03-31	
	(i) Full-time	(ii) Part-time	(i) Full-time	(ii) Part-time	(i) Full-time	(ii) Part-time
PE Provincial			2		2	
Livingstone, PE	1		2		6	
Dora Nginza, PE						
Elizabeth Donkon, PE						
Empilweni, PE						
Uitenhage						

(2) yes, Livingstone, Port Elizabeth: The emergence of job opportunities in the private sector eg private hospitals, Regional Services Councils and the commissioning of Dora Nginza Hospital.

Port Elizabeth Hospital: A decreasing in the supply of White applicants especially for student training and the emergence of job opportunities in the private sector;

areas were persons moved, (c) in what specified areas were they resettled, (d) why was it necessary to resettle them and (e) how many persons were resettled in each case?
B1012E

Hansard 22/6/90

The MINISTER OF DEVELOPMENT AID:

Yes.

(a) Continuously.

(b) (i) Zaaiplaats, district of Groblersdal;

(ii) Cornfields, district of Estcourt;

(iii) Inanda Dam Basin, district of Ndwedwe in KwaZulu;

(iv) Grootspruit (KwaNgema), district of Wakkerstroom.

(c) (i) Langkloof, district of Witbank;

(ii) Boschhoek/Craig, district of Estcourt;

(iii) Ntuzuma Town, district of Inanda; higher up in tribal area, district of Ndwedwe and Waterfall/Langefontein, district of Pinetown;

(iv) Elsewhere in KwaNgema, district of Wakkerstroom.

(d) (i) At the request of the families concerned and the KwaNdebele Government;

(ii) In terms of consolidation proposals, on voluntary basis;

(iii) Due to the building of the Inanda Dam;

(iv) Due to mining.

(e) (i) 23 families;

(ii) 33 families;

(iii) 23 families;

(iv) 29 families.

GST (320)

450. Mr J J WALSH asked the Minister of Finance: Hansard 22/6/90

What amount in general sales tax was derived from (a) individuals, (b) companies, (c) the (i) building and construction, (ii) retail, (iii) wholesale, (iv) manufacturing and (v) service sectors, and (d) any other specified sources, in the 1989-1990 financial year?
B1042E

Hansard 22/6/90 (320)

The MINISTER OF FINANCE:

Statistics which distinguish between payments of sales tax by individuals and companies are not maintained. For statistical purposes collections of sales tax are analysed only under the groups specified below.

The analysis for the 1989-1990 financial year is as follows:

(i) Commercial	R 9 606 937
(ii) Manufacture	3 028 707
(iii) Taxable Services	1 348 664
(iv) Farming and Forestry	96 485
(v) Printing and Publishing	206 152
(vi) Fishing	1 435
(vii) Auctioneers	28 914
(viii) Mining and Quarrying	80 435
(ix) Accommodation/Hotel	344 610
(x) Financial Leasing in respect of Goods	1 525 752
(xi) Renting of Goods	275 375
TOTAL	R16 543 466

Sales tax irregularities (320)

451. Mr J J WALSH asked the Minister of Finance: Hansard 22/6/90

(a) How many cases of irregularities in respect of sales tax were discovered in 1989, and (b) what is the amount of tax involved?
B1043E

The MINISTER OF FINANCE:

(a) 11 554 cases of irregularities in respect of sales tax were discovered in 1989.

(b) Amount of tax involved: R188 265 832
Amount of penalties involved: 106 479 223
Total amount involved: R294 745 055

TPA hospital posts

454. Mr A E DE WET asked the Minister of National Health and Population Development:
Hansard 22/6/90

(1) How many posts had been established as at 31 December 1989 for (a) nurses, (b) paramedics, (c) medical staff, (d) administrative staff and (e) other staff at each hospital falling under the control of the Transvaal Provincial Administration;

(2) whether any posts at these hospitals were frozen as at 31 December 1989; if so, how many in each category in respect of each hospital;

(3) (a) how many applications were made from each of these hospitals in each category for the unfreezing and filling of posts in 1989 and (b) how many applications were (i) granted and (ii) refused in each case?
B1047E

The MINISTER OF NATIONAL HEALTH AND POPULATION DEVELOPMENT:

(1)	(a)	(b)	(c)	(d)	(e)
Head Office	26	—	1	3	18
A G Visser	134	3	12	20	100
Amajuba	72	1	9	12	74
Andrew McColm	239	—	—	23	145
Baragwanath	4 101	265	589	517	1 938
Baragwanath Nursing College	81	1	—	22	35
Ernest Bond Laundry	—	—	—	4	231
Barberton	239	3	22	30	191
Bernice Samuel	20	1	8	4	41
Bethal	141	4	18	47	212
Bloemhof	14	1	3	2	14
Boksburg-Benoni	684	16	94	114	492
Dunswart Laundry	—	—	—	4	412
Brits	68	1	10	9	45
Carolina	52	1	4	6	44
Christiana	36	—	5	5	35
Coronation	760	64	166	111	426
Coronation Nursing College	23	—	—	7	—
Delareyville	14	—	4	2	20
Duiwelskloof	19	—	3	5	31
Edenvale	151	12	40	23	250
Ellisras	88	2	7	15	91
Elsie Ballot	13	—	3	2	23
Ermelo	249	4	18	30	164
Evander	82	4	4	12	46
F H Odendaal	122	3	17	17	99
Ga-Rankuwa	2 111	85	273	251	332*
Ga-Rankuwa Health Laboratory	—	—	24	4	165
Ga-Rankuwa Nursing College	37	—	—	10	—*
Gen Delarey Memorial Hospital	40	3	8	6	54
Groblersdal	24	1	5	6	35
H A Grové	12	1	7	2	26
Hendrik van der Bijl	212	3	25	39	180
H F Verwoerd	2 004	320	600	571	1 772
S G Lourens Nursing College	83	—	—	11	3
H A Grové Research Centre	1	1	—	4	32
Hillbrow	1 105	194	251	326	1 017
Itshelejuba	83	1	3	12	28*
J D Verster	47	3	6	9	47

Investing for the over-40s

Edited by Magnus Heystek

Tax break for share investors

Star 23/6/90

320

The removal of the tax on dividends paid to equity investors — announced in the March Budget by Finance Minister Barend du Plessis — was welcomed by the investment community, for it at last provides a source of tax-free income which also has a chance of capital appreciation.

However, this additional benefit is unlikely to boost activity and share prices materially on the Johannesburg Stock Exchange, says Syfrets portfolio manager Patrick Chapman.

Mr Chapman says the private investor holds only a small percentage of the shares listed on the JSE and sentiment and fundamentals still play a far stronger role than would any tax breaks on dividends investors would receive.

He advises clients that this tax dispensation — which can boost investment income by about 40 percent — does not necessarily mean a signal to go out and spend.

Mr Chapman warns: "Part of the income from your investment portfolio or your holding of unit trusts will certainly comprise interest on the liquidity invested in the money market.

W/C-ARGUS 23/6/90 320

VAT will 'hit' housing

By MAGGIE ROWLEY
Business Staff

THE new valued added tax, which is to be applied to commercial construction and the sale of land and buildings including new homes, will make housing even less affordable, Mr Dave Miller president of the Institute of Estate Agents, said this week.

Spelling out how the new tax will affect the building industry, Mr David Clegg, tax consultant with Ernst and Young said commercial construction and sale of land and buildings, including residential property, would be subject to VAT.

He said, according to draft legislation, the sale of land and buildings between private individuals (for example, their private residence) would not be subject to VAT.

"However, all construction and sales of buildings and land, including sectional title units and shares in shareblock companies and time-sharing interests made by enterprises registered for VAT, will be subject to the tax," he said.

Mr Clegg said that because a credit would be granted for input tax paid by those purchasers who were registered for VAT, the major impact from the inclusion of construction and sales for both new and older buildings would be:

- On private individuals purchasing new residential property from developers who were unable to claim the input VAT as a credit.
- On organisations such as banks, building societies, life assurers and other financial institutions) which were exempt from VAT but who would be unable to claim input VAT as a credit.

He said the commercial developer of land and buildings would be charged VAT by his building contractor and would be able to claim an input VAT credit against the VAT charged on the sale of his developed properties or rental charged by him on the letting of those developed properties to commercial users.

"Where the developer is letting the completed property for private residential purposes, he will not be entitled to an input VAT credit and the rentals will be tax free," he said.

"One thing is for certain that the 200 pages of draft legislation means the property industry has homework to do!"

Mr Miller said the Institute of Estate Agents was very worried that VAT was to be applied to new homes "particularly because as a class, homeowners are more heavily taxed than anyone else".

"It is all very well saying that VAT will work out at less than GST but this is not in fact demonstrable.

"GST as currently applied is paid by a builder on all materials.

"However, when the property is sold his profit is calculated on the total cost combined whereas once VAT applies it would apply to labour as well as materials.

"Obviously the profit calculation would be on an inflated basic cost.

"This means that VAT plus transfer fees will be paid on the property, and if the builder bought the land under the VAT system both VAT and transfer fees will be paid on this too

"I beleive therefore that housing will be far less affordable whereas at present our main thrust should be towards making properties more affordable, particularly for first-time home buyers.

"It is a shame that we are being taxed to the hilt and money is being wasted in all directions which, hopefully now that new political objectives are being reached, could be channelled more sensibly into housing."

Mr Miller said recent Press reports had highlighted the fact that about R20 billion, spread over three years could come from Mossgas, reduced defence spending and reduced spending on bantustan bureaucracies. alone without any increases in tax.

"Furthermore it has been demonstrated both in developing and developed countries that the real engine of the economy could be a dynamic and viable housing industry.

"A recent survey in the United States showed that for every $1billion spent on new house construction a further $7billion was generated in the economy as a whole.

"Such items as furniture, floor coverings and appliances for example are all taken into account.

"Countries like Thailand and Colombia have made tremendous strides in recent years by funnelling money into housing construction, particularly at the lower end of the scale and doing so in co-operation with private enterprise.

"A whole army of construction workers could be created through sheer concentration of effort.

"We could meet our need to create a half a million jobs a year on average, just to keep pace with those entering the job market so conceivably housing construction could supply a large percentage of job opportunities in both the formal and informal sectors."

"In the US housing construction accounts for roughly 18 percent of the GNP and has done so for many years," he said.

Mr Miller said the Institute would be addressing this problem through their 10 branches around the country and would make every effort to alert the authorities to the attraction of a vibrant housing industry and the benefits which could flow from it to the advantage of the country as a whole.

...n black market

AD-MONITOR

ments featuring leading local municipal representatives appeared in Cape Town newspapers. In an open letter to the public of Cape Town, Alderman Louis Kreiner spelt out the details of the dispute the City Council is having with the South African Munic...

Share incentive battered by Budget

Star 23/4/90 (320)

The general exemption from tax on dividends received from March 1 — as confirmed in the Income Tax Bill published last week — will be welcomed by most shareholders.

But it has an adverse impact on employees who are able to buy shares in their employer company under a share incentive or share trust scheme.

This is the opinion of tax expert Ian MacKenzie of accounting firm Ernst and Young.

In terms of these schemes the employee is granted a low-interest or interest-free loan to purchase the shares.

He is then taxed on the deemed fringe benefit on the difference between the "official rate" of interest (at present 19 percent) and the actual interest paid.

Prior to exemption from tax on dividends he would, however, have been able to claim a deduction of two-thirds of this deemed and actual interest cost from his two-thirds taxable income from dividends.

He would thus effectively have paid tax only on one-third of deemed interest benefit. Now, because his dividends are not taxable, he will not be able to claim the interest deduction and will therefore be at a cash flow disadvantage.

To partly counter this problem the Income Tax Bill provides for a deduction of 50 percent of the deemed interest, but only for employees who are prevented by the rules of the particular scheme in force at March 15 1990 from selling their shares and repaying their loans.

The deduction applies only to loans granted before March 15 and will be allowed for the shorter of five years to February 28 1995 or the period during which the employee is prevented from selling his shares.

The deduction will not apply to new entrants to share incentive schemes, nor to existing participants who are free to dispose of their shares but choose to retain them and not repay their loans.

This means that the benefits of share incentive schemes to employees and the economy as a whole (as recognised by the Margo Commission) will now be denied to many employees, who will be forced to sell their shares to avoid the punitive tax cost arising out of the non-deduction of the interest.

The following example shows the implications for an employee who has a R100 000 interest free loan used to purchase shares on which the annual dividend is R6 000.

	Feb 1990	Feb 1991 50% Relief	Feb 1991 No Relief
Deemed interest benefit (16% in 1990, 19% in 1991)	16 000	19 000	19 000
Taxable portion of dividend	4 000		
Interest deduction (67% in 1990, 50% in 1991)	(10 700)	(9 500)	
Taxable income	R9 300	R9 500	R19 000
Tax (45% in 1990, 44% in 1991)	(4 185)	(4 180)	(8 360)
Gross dividend	6 000	6 000	6 000
After tax cash flow	R1 815	R1 820	R(2 360)

Relief for home team

(320)

SI Time 24/6/90

By IAN SMITH

THE Government is moving to level the playing fields for SA savers, hit hard by marginal tax on interest, and emigrants, who have scored handsomely through a tax loophole.

Emigrants, including the wealthiest, have taken advantage of a provision in the Income Tax Act which allowed interest on gilts, including Treasury bills and Eskom, Sats, local authority and SABC stocks, to be sent out of SA untaxed.

Now the Government has warned that this income will attract tax — either at the marginal rate, or at a 10% to 12% flat rate. It is unlikely to come into effect before March.

Inland Revenue is also looking at replacing marginal tax on SA residents' savings with a fixed low-rated withholding tax.

A cut in the tax rate would be a relief to inflation-hit widows and pensioners and would spur higher earners to save more.

A banker says: "These two measures would redress some of the more serious imbalances in our economic structure."

Interest on gilts was originally exempted from tax to encourage foreign investment. Under the new system such interest would still be exempt if foreign funds were used to buy the stock.

The steady exodus of top people has caused huge demand for gilts. Until recently emigrants were allowed to take out R100 000. Many liquidated their assets and put the proceeds into gilts. With untaxed interest at 18% to 20% they could effectively remove their capital over five or six years, says Orlando Fernandes, a tax partner with Deloitte Haskins & Sells in Cape Town.

"Huge sums are tied up in gilts."

It is difficult to make an estimate because of the problem in separating the holdings of genuine foreign investors and emigrants.

Mr Fernandes says: "I believe most emigrants would not be happy to leave money in gilts if it attracted marginal rate tax.

"They would probably ride with a lower rate withholding tax, but there's a lot of indecision in the market."

The 15% tax on dividends could make equity investments more attractive.

Brokers who manage emigrants' investments fear they might be forced to become representative taxpayers for clients if the money became subject to the marginal tax rate.

Mr Fernandes says: "That would cause hassles for everyone. But I believe a lobby will be mounted to blunt the effect of the new measures. These people may have left the country — but they still have their connections."

The Star
Finance

VAT teach-in going on the road

320 Star 27/6/92

Finance Staff

The big government roadshow to publicise and explain the Value-Added-Tax (VAT) system begins in earnest today with a series of seminars countrywide over the next three weeks.

An Inland Revenue team, led by the chief director of tax policy development and one of the architects of VAT, Trevor van Heerden, will be presenting the half-day seminars.

In particular, finance staff in commerce and industry, as well as potential new business entrepreneurs, who will be responsible for the administration of VAT, should benefit from the seminars.

They will concentrate on the basic concept of VAT, the structure and operation of the system, VAT registration of businesses and the accounting and practical implications.

The tour kicks off with a seminar at Pretoria's Synod Hall and continues in Johannesburg tomorrow at the Sandton Holiday Inn before moving onto Cape Town and other centres.

Each seminar begins at 8.30am. No fee will be charged, but space available could be limited.

St. 26/6/90 (320)

The Star
Finance

Problem areas of VAT under review

By Sven Lünsche

Additional tax legislation outside the ambit of the Value-Added-Tax system (VAT) could be introduced to make up for shortcomings in a number of areas when VAT is introduced next year.

Trevor van Heerden, chief director of tax structure development at Inland Revenue and one of the architects of the local VAT system, said yesterday a number of issues still had to be clarified by the committee investigating submissions to the Government's proposals.

"But it is likely that additional legislation will be utilised to address some of the issues not covered by VAT," Mr van Heerden said.

Top of the list is the effect of VAT on the price of new homes, in particular low-cost housing in the light of the pressing need for housing by blacks.

In terms of the proposals, full tax will be applied to the sale and construction of land and buildings, except when the transaction is between individuals.

However, Mr van Heerden said attention was being paid to the construction of low-cost homes and that the committee would have to examine a number of issues, including what constituted low-cost accommodation.

He said the inclusion of the construction industry in the VAT net would provide a higher source of revenue than before, although the building industry would be able to claim credit for the input tax paid on the purchase of capital and intermediate goods.

Here again this ironically excludes financial institutions, which are exempt from VAT, but are unable to claim input VAT as a credit, says tax analyst Ian McKenzie of Ernst & Young.

However, it seems this new source of revenue, in addition to income received from VAT on food and services, will still not be sufficient to make up for the loss of tax earnings following the exemption of tax on capital goods. (Tax on capital goods currently accounts for up to 40 percent of GST revenue).

Capital goods

Mr van Heerden said the concessions on capital goods would have to be phased in in order to widen the VAT base and lessen the disruption to the economy.

The phasing-in period — through a gradual introduction of the tax credit — could take a number of years, he said, and could be accompanied by other measures such as higher import surcharges.

● Dave Miller president of the Institute of Estate Agents, said last week the Institute of Estate Agents was worried that VAT was to be applied to new homes "particularly because as a class, homeowners are more heavily taxed than anyone else", Maggie Rowley reports from Cape Town.

"It is all very well saying that VAT will work out at less than GST, but this is not in fact demonstrable.

"GST as currently applied is paid by a builder on all materials.

"However, when the property is sold his profit is calculated on the total cost combined, whereas once VAT applies it would apply to labour as well as materials.

"Obviously the profit calculation would be on an inflated basic cost.

"This means that VAT plus transfer fees will be paid on the property, and if the builder bought the land under the VAT system, both VAT and transfer fees would be paid on this too

"I believe, therefore, that housing will be far less affordable, whereas at present our main thrust should be towards making properties more affordable, particularly for first-time home buyers.

R188m in GST fiddles discovered last year

Cape Times 27/6/90

320

ANTHONY JOHNSON
Political Correspondent

A TOTAL of 11 554 cases of sales tax irregularities involving more than R188 million were discovered last year, the Minister of Finance, Mr Barend du Plessis, said yesterday.

Replying to a question tabled in Parliament by Mr Jasper Walsh (DP Pinelands), Mr Du Plessis said the discoveries resulted in penalties amounting to R106,5m.

Mr Du Plessis said that R16,5 billion in sales tax was collected during the 1989-90 financial year.

Statistics distinguishing between payments of individuals and companies were not kept.

The 11 categories for which statistics were kept were: Commercial (R9,6bn GST collected), manufacture (R3bn), taxable services (R1,3bn), financial leasing in respect of goods (R1,5bn), hotel/accommodation (R344,5m), renting of goods (R275,4m), printing and publishing (R206,1m), farming and forestry (R96,5m), mining and quarrying (R80,4m), auctioneers (R28,9m), fishing (R1,4m).

Mr Du Plessis said R14,5bn was collected in income tax from individuals in 1988-89. In the same period R10,7bn was collected from companies.

Because of the Final Deduction System and the Standard Income Tax on Employees many taxpayers were not on the income tax register and accurate statistics on tax collected from different races were not available.

An income split between the various race groups based on the returns furnished by certain employers indicated that whites paid R12,1bn in tax, coloured people R525,4m, Asians R331,5m and blacks R1,5bn.

Houses to be taxed under VAT system

Sowetan 28/6/90

(320)

Soweto tax consultant Matsheru Matsheru discusses the implications of Value Added Tax, the taxation system that will replace General Sales Tax, on the consumer and small businessman.

THE cost of living could go up drastically when the Value Added Tax (VAT) replaces the 12-year-old General Sales Tax (GST) in October next year.

Housewives and homebuyers face increases in food and home prices as both will be taxed under the new system.

The unemployed and poor will be affected too, he says.

Deputy Minister of Finance Dr Org Marais has said that a form of direct food subsidy to the poor will be introduced before VAT is incorporated to compensate for the rise in the price of foodstuffs.

Pensions

He said pensions will also be increased and programmes will be created to assist the 40 percent of South Africans who live below the breadline.

It is not clear, however, at this stage how effective the direct food subsidy will be to the man-in-the-street, especially most people in the black population who are struggling to provide food for their families.

VAT will also apply in the construction industry, which means that new homes will be taxed under the new tax system.

Tax of new homes under VAT could raise the cost of homes and have a detrimental effect on low-cost housing.

Profit

Another disadvantage in VAT is that it involves small business people who will no longer be able to make enough profits.

A vast majority of people in the informal business sector have succeeded in evading the 13 percent general sales tax while charging it to their consumers and thus icreasing profitability.

But VAT also has its advantages:

* Collection is guaranteed
* It is more efficient than sales tax
* It is harder to evade
* It ensures quicker collection

The reason GST is being scrapped is that is has become unpopular and there is evidence of extensive evasion.

The general feeling is also that food should never have been taken out of the base. This, as the international world recognises, is not the right way to help the needy.

The difference between the two indirect taxes is in their ability to collect taxes and the method they use to collect them.

VAT is more extreme in its method than GST. It is imposed on the total consumer spending in the domestic economy.

Sociologist Dr Sylvia Moeno has been invited to Yale University in the United States of America, to work as a research fellow in projects that will include, among others, a survey on the social stratification and mobility in South Africa.

She returned to South Africa in 1986 after 15 years in America and will now help in the fundamental arrangements for a new South Africa.

Privatisation in education will save tax, says Senbank

Star 29/6/90

320

The privatisation of school education could enable South Africa to maintain the present white education and to extend this without raising taxes, Senbank says in a report on key economic issues.

Pointing out that the country has not got enough resources to maintain the present standard of white education and to extend this to all race groups, Senbank believes that a different system, namely private education, will be able to achieve this. It could be achieved without extra input and therefore without higher taxes.

However, there are certain critical premises, such as:

- The Government sets certain minimum standardsm which are internationally comparable, and guarantees it through subsidies.
- Local communities have the right to introduce their own values into the education of children over and above the minimum standards.

Rationalisation

- The subsidy per pupil will be higher for lower-income groups.

The report adds that taxes financing education should be made available as school subsidies to privatised school communities. Rationalisation of education authorities into a single department of education will lead to enormous savings.

The report warns that the costs involved in raising overall levels of education are enormous.

It notes that to finance black education at the same expenditure a pupil as in the case of whites, will cost four times as much as at present, and the total expenditure will be two and a half times more.

Total expenditure on primary and secondary education will therefore rise from R9,3 billion to R25,6 billion.

Education expenditure comprised 13,3 percent of the Government's Budget for the financial year. Equal expenditure would increase this proportion to 42 percent. — Sapa.

TAXATION FM 29/6/90 (320)

Property's new VAT trap

When it comes to VAT (value added tax) on property, the proverbial Irish joker's: "Do you want to hear the bad news or the bad news first?" seems to be most appropriate.

It seems that nearly every type of property transaction (residential and non-residential) will be affected by VAT when it replaces GST in October next year.

A measure of the seriousness, and perhaps surprise, with which the matter has been greeted by the industry comes from Sanlam Properties which says it is certain VAT will have a significant impact on the property market.

"We have asked our in-house accountant to consult with outside professional accountants and auditors, to investigate the matter and compile an in-depth report on exactly how and where it will affect developers and their clients," says a spokesman.

Worst hit will apparently be the most vulnerable sectors of the community — pensioners buying into retirement villages and the low-cost housing market. In the non-residential arena, the financial institutions look set to come off worst.

The only exception will be when second-hand residential property (which is most houses on the resale market) is sold by one private individual to another. That type of transaction will not attract VAT.

This emerges from the complex, 200-page guidelines on the workings of VAT unveiled recently by Deputy Finance Minister Org Marais.

Ernst & Young's David Clegg predicts the structure of the taxation system could trigger a pre-VAT buying spree in residential property. He points out, however, that in including property in the VAT net, government is conforming to practice which is common elsewhere, particularly in Europe.

He explains the buyer of a brand new home (one sold for the first time by a developer) costing, for example, R200 000 will pay VAT at 12% (R24 000) in addition to all his usual transfer costs and other associated charges.

When he receives the money the developer, will, on doing his VAT returns, deduct the VAT he has in turn paid to: the builder in respect of his contract price; to the seller of the land; and on his estate agent's commission.

The developer is then obliged to pay the balance of the R24 000 to the Receiver as his slice of VAT.

Clegg adds that VAT is also payable on the sale of rights in properties or property companies such as on shares in a share block company, on sectional title transactions and on the purchase of timeshare units. There is no indication, he says, that government intends exempting low-cost housing from the new tax which is expected to add significantly to the price of acquiring a home. Nor is an exemption being considered in respect of units purchased in a retirement village (on share block, sectional title, life rights or any other form of tenure) which could be perpetually subject to VAT as transfer is invariably taken from the developer.

However, Clegg believes exemptions in these cases could easily be achieved by simply zero-rating VAT for purchase purposes.

Urban Foundation residential development division MD Matthew Nell says the organisation is concerned the introduction of VAT will make housing even less affordable to low-income communities. It may also eliminate many people from the market who might now be in a position to afford the cheapest of dwellings. "Further, given that the State is already providing subsidies to enable low-income families to afford basic homes, it is questionable whether this assistance should be eroded by levying VAT," he argues.

This view is endorsed by estate agent Bearnard O'Riain who points out that homelessness has reached such critical proportions in black communities that government should zero-rate VAT on entry level housing for this group.

"Futhermore, the imminent abolition of the Group Areas Act will put pressure on the broad housing market driving house prices up and out of the reach of many. Because of this I believe there is a good case for government scrapping VAT altogether on residential property."

In the non-residential sector, a manufacturer must pay VAT on the contract price when he engages a builder to erect a new factory for him. "Similarly, if he buys an existing factory from a developer, the price paid is also subject to VAT. The sale of used industrial and business premises is also subject to VAT.

"But, when the buyer does his VAT returns for the month in which he bought the factory he can deduct that (input) VAT from that which he has collected through the sale of his manufactured goods to customers."

The result, says Clegg, is that VAT will push up the entry cost for an industrialist establishing himself in new premises, but the surcharge will be recovered in time.

FM 29/6/90 (320)

He believes one area where VAT will really expand the revenue base for tax collections through property transactions is where companies are not VAT registered because their goods or service is not subject to VAT. The tax added on to the purchase price cannot, therefore, be claimed as a credit.

Typically, among the institutions a life assurer (whose policy premiums will be exempted from VAT) will be unable to reclaim the VAT paid for an office block bought or developed for the organisation's own use.

However, it will be another matter when the institution, probably operating through a subsidiary, intends leasing or selling the development. Both the selling price or rentals charged to tenants will be subject to VAT. This means the institution can claim the VAT paid for the development or the purchase of the building as a credit when doing its returns. In the case of a rental agreement where the property yield is likely to be in the region of 10% of the purchase price (and VAT 12% of that), it could be some time before the landlord recovers the large chunk of tax paid when acquiring the property.

While the rules governing VAT and its collection are complex and will take some time for the property industry to digest, one area which appears not to have been particularly well thought through is that of VAT on low-cost housing, where even a small increase in price puts a simple shelter out of

FM 29/6/90 (320)

the reach of many. If the issue is not addressed, the social implications could be profound. ■

3. Die werknemersbelastingaftrekkingstabelle en die belastingtabelle vir voorlopige belastingpligtiges is deur geregistreerde werkgewers en voorlopige belastingpligtiges verkrygbabelastingpligtiges verkrygbaar by die kantore van die Ontvangers van Inkomste op die diensstaat van die Direktoraat: Binnelandse Inkomste, Departement van Finansies.

J. W. HATTINGH,
Kommissaris van Binnelandse Inkomste.

(22 Junie 1990)

3. The employees tax deduction tables and the tax tables for provisional taxpayers may be obtain by registered employers and provisional taxpayers from the offices of Recievers of Revenue on the establishment of the Directorate: Inland Revenue, Department of Finance.

J. W. HATTINGH,
Commissioner for Inland Revenue. (320)

(22 June 1990)

KENNISGEWING 498 VAN 1990

SUID-AFRIKAANSE RESERWEBANK

Staat van Bates en Laste op die 31ste dag van Mei 1990

Laste	R	*Bates*	R
Aandelekapitaal	2 000 000,00	Goud	3 007 165 490,86
Reserwefonds	69 956 766,96	Buitelandse bates	2 319 603 670,82
Note in omloop	8 925 598 114,00	Totaal aan goud en buitelandse bates	5 326 769 161,68
Deposito's:		Binnelandse bates:	
Regering	7 975 148 664,42	Gediskonteerde wissels	2 857 100 000,00
Provinsiale administrasies	428 468 521,08	Lenings en voorskotte:	
Banke en bouverenigings	2 315 333 275,81	Regering	—
Ander	355 775 257,10	Ander	1 938 770 971,53
Ander laste	7 145 306 197,78	Sekuriteite:	
		Regering	617 229 512,24
		Ander	1 127 983 391,30
		Ander bates	15 349 733 760,40
	R27 217 586 797,15		**R27 217 586 797,15**

Die goudreserwes soos op 31 Mei 1990 is teen R875,09 per fyn ons gewaardeer, vergeleke met die waardasieprys van R891,23 per fyn ons soos op 30 April 1990.

Pretoria, 7 Junie 1990.

C. J. SWANEPOEL,
Hoofbestuurder.

NOTICE 498 OF 1990

SOUTH AFRICAN RESERVE BANK

Statement of Assets and Liabilities on the 31st day of May 1990

Liabilities	R	*Assets*	R
Share Capital	2 000 000,00	Gold	3 007 165 490,86
Reserve Fund	69 956 766,96	Foreign assets	2 319 603 670,82
Notes in circulation	8 925 598 114,00	Total gold and foreign assets	5 326 769 161,68
Deposits:		Domestic assets:	
Government	7 975 148 664,42	Discounted bills	2 857 100 000,00
Provincial administrations	428 468 521,08	Loans and advances:	
Banks and building societies	2 315 333 275,81	Government	—
Other	355 775 257,10	Other	1 938 770 971,53
Other liabilities	7 145 306 197,78	Securities:	
		Government	617 229 512,24
		Other	1 127 983 391,30
		Other assets	15 349 733 760,40
	R27 217 586 797,15		**R27 217 586 797,15**

The gold reserves as at 31 May 1990 were valued at R875,09 per fine ounce, compared with the valuation price of R891,23 per fine ounce as at 30 April 1990.

Pretoria, 7 June 1990.

C. J. SWANEPOEL,
General Manager.

(22 Junie 1990)/(22 June 1990)

Life offices look to a better deal

(320)

S Time 1/7/90

WHEN Finance Minister Barend du Plessis announced in last year's Budget speech that the Government had accepted the trustee principle for taxing life offices, the news was widely welcomed by the industry.

Sanlam managing director Pierre Steyn says: "Following this principle would lead to lower taxation being paid on behalf of policyholders. As a mutual company, the lower the tax, the higher the benefits Sanlam would pay to the policyholders.

"In this year's Budget speech, however, Mr Du Plessis failed to implement the principle — in fact, he took a step backwards. Although individuals now do not pay tax on dividend income, the life offices are one of the few institutions still paying tax on dividends.

"This anomaly has been acknowledged by the authorities."

Mr Steyn adds: "The other retrogressive step was lowering the marginal tax rate for individuals from 45% to 44%, the tax of life offices remaining at 45%.

"Mr Du Plessis recognised this in our discussions and the Government has reaffirmed its acceptance of the trustee principle.

"Japie Jacobs's committee has been set up to look into the taxation of life offices.

"I have no doubt the trustee principle will be fully implemented in due course."

VAT will have its problems

BDay 2/7/90

NEIL YORKE SMITH

THE implementation of value added tax (VAT) which replaces GST on October 1 next year is unlikely to be smooth, although the long term results should be positive, experts predict.

They say industries such as insurance, banking and construction will face especially complex problems.

"The phasing-in period will be problematic, especially for businesses with long-term contracts affected by both GST and VAT systems," said KPMG Aiken & Peat tax consultant Andre Meyburgh.

For instance, the construction industry currently pays no GST on its labour components. This will change under VAT.

"How will the taxman approach the labour component of a contract extending from two years before to two years after the implementation of VAT?"

There are also problems regarding stocks held and the matching of revenues with expenditures.

"What would happen if a building is only half finished when VAT is introduced, but no progress payments have been received?" Meyburgh asks.

Even if the answers are available, implementation of solutions will be a massive exercise, he says.

Under the new system short term insurers will be liable for VAT but long term assurers will not. This presents interesting contradictions, he says.

"It is especially complex when short term insurance policies are interlinked with long term policies."

A similar problem exists for banks which, by virtue of their diverse service range, face different VAT liabilities for different products.

"Long term financing is viewed differently to something like financial lease or HP agreements. Getting the structures in place to accommodate all the changes will be a massive exercise," says Meyburgh.

Another interesting case is that of fringe benefits. Under VAT these are only taxed "if supplied by an enterprise which makes taxable supplies". Fringe benefits tax will be payed by the employer, says Meyburgh.

Welcomed

320

Again, long term assurers will not be liable, short term insurers will.

Defining "taxable supplies" precisely will be no easy task, he says. Aversion to paying tax on fringe benefits is likely to motivate companies to argue their services do not make taxable supplies — given the grey areas classification will be difficult in many cases.

Despite problems, the adoption of VAT has been widely welcomed.

"The system is well suited to SA. Overall, it will improve efficiency of the tax system and should reduce tax evasion," says Meyburgh.

One thing is assured — accountants are preparing for an extended honeymoon as tax advisory services are sure to pull in the money.

Builders unlikely to escape VAT

(320)

LESLEY LAMBERT

CAPE TOWN — It appears increasingly unlikely that government will agree to exempt the construction industry from value-added-tax (VAT) — a measure it had been considering as a means of curtailing the price of low-cost homes.

Inland Revenue chief director of tax structure development Trevor van Heerden said yesterday that while the needs of the construction industry were still under consideration, the authorities did not want to use the tax system to achieve social objectives. B\Day 4\7\90

Addressing businessmen at a VAT seminar here, Van Heerden said: "We hope that all assistance granted for low-cost housing will be granted outside the tax system.

"As with food exemptions, the exemption of the construction industry for the purposes of keeping the cost of low-cost housing down would be inefficient because it would also benefit people who did not need assistance, thereby reducing the tax base unecessarily."

When it unveiled its plans for VAT last month, government proposed the inclusion of GST-exempt basic foods in the VAT net, but undertook to compensate people below the breadline by way of direct feeding and other social programmes.

Van Heerden confirmed that residential rentals would be exempt from VAT, but that landlords would not be entitled to claim an input credit for rates, taxes and improvements to the property. This would probably inflate rentals, he said.

Van Heerden said his department had

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SOWETAN BUSINESS

New tax system will spread the load

320

Sowetan 5/6/90

VAT aims to curb profiteering

THE government of every country is obliged to provide certain amenities for all its citizens - health services, social security, housing, schooling, food subsidies, defence, and roads and railways.

However, government is a non-profit organisation, and therefore it needs to be provided with the finance to carry out its duties. Throughout the world, government financing is generated by the imposition of taxes upon people and business.

To reduce the effect of taxation on individuals, responsible governments are at pains to "spread the tax base" as widely as possible - by this it is meant that the total finances required by government are spread among as many sources of revenue as can be justified.

In South Africa we have a variety of forms of taxation. We have direct taxes and indirect taxes on income. We also have direct and indirect taxes on wealth.

The example of direct tax on income takes the form of what is known as "income tax". An example of indirect tax on income takes the form of what is known as "general sales tax".

The interesting question is: which is the superior tax: direct and indirect tax? It is not simple to decide. But European experience has shown that no country relies on one only, with the exception of America which relies heavily on direct tax.

Economic circumstances dictate that both taxes are relevant in any economy. And the Margo Report has accepted that indirect taxes have a permanent place in the South African tax system.

Numerous comments from the government that "the relevance of GST in our developing economy is vividly declining", led to the announcement by the Minister of Finance in his 1990 Budget Speech that GST is to be replaced by Value Added Tax (VAT) in October 1991.

GST was introduced in this country in April 1978. From a rate of four percent in 1978, it has escalated to the present 13 percent. At this high rate it was inevitable that resistance would have hardened and that considerable evasion would occur.

Evasion

Also the Swedish Tax Commission has found that GST cannot be pushed too high without disrupting the economy. Hence the government's proposal to phase out GST in October next year, and to replace it with VAT.

VAT is a tax imposed on the value added by each person or business in the production/distribution chain. The manufacturer sells his goods to the wholesaler, charges the wholesaler VAT, and pays it to the Receiver of Revenue.

The wholesaler sells the goods to the retailer, and charges VAT. The retailers sells to the consumer and charges VAT. Each business in the chain pays its portion of VAT to the Receiver, and the total amount of tax paid by the consumer, equals the total amount which the government receives.

Why do tax experts prefer VAT to GST?

* GST has become extremely unpopular.

* There is evidence of extensive evasion. Sure enough, the consumer continues to pay his tax in the form of GST, but one is not always sure whether this tax disappears into the pocket of a retailer, or reaches the Receiver of Revenue, as it should. Under VAT, a business can hardly dare take such risks, because each business knows that the others in the "chain" (manufacturer, wholesaler) have already sent their portions of VAT to the Receiver. The Receiver, therefore, is aware of this particular transaction, and will know if someone breaks the chain and pockets the consumer's tax money.

* The GST exemption of food is not working well at all. This food subsidy amounts to R2,4 billion a year, but of this only R420 million finds its way to the 12 million poorest people in the country (that is those with an income below Unisa's minimum subsistence level).

In further articles in this series, the *Sowetan* will highlight more aspects of VAT.

Soccer training alone

FM 6/7/90 (320)

tax concessions in other areas — notably the repeal of the tax on dividends — will find themselves worse off.

Arthur Andersen & Co tax partner Stephan Minne says the interest benefit on loans for share acquisitions (that is, the differential between the rate charged and "official" rates) will be taxable to the extent of 50% for the next five years on loans granted before March 15 1990.

Loans granted after that date for this purpose will attract tax on the full differential.

Any relief granted will end as soon as a participant is entitled to sell the shares, even if they are not sold. Minne foresees this provision could lead to forced sales of shares at an inopportune time, resulting in further losses for participants. The conclusion: share option schemes will predominate in future.

Deloitte Haskins & Sells partner Clive Sharwood explains participants in share schemes have obtained loans to pay for shares in their companies from a trust that carried a zero or low interest rate. They were, however, allowed to deduct the imputed interest in determining their income from dividends.

This meant that effectively only one-third of their deemed interest arising from the benefit was subject to tax.

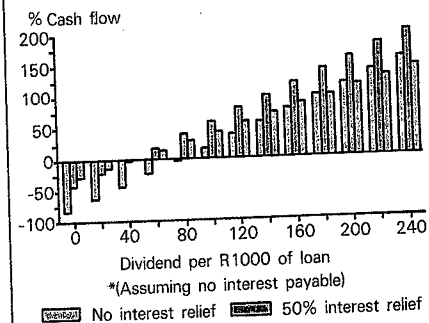
Now that dividends are exempt from tax there will no longer be a shield against the fringe benefits tax — which will become payable on the full amount of the benefit. That is the differential between the official rate of interest and the rate, if any, paid for the loan (see **chart**). Ernst & Young tax partner Ian MacKenzie notes the official rate is now 19%.

He criticises the change to the tax law on the ground that the benefits of share incentive schemes to employees and to the economy as a whole — as recognised by Margo — will now be denied to many employees forced to sell shares to avoid the additional tax.

Informed sources see the move as part of Revenue's general attack on untaxed fringe benefits.

A new scale

Cash flows per R1000 of loan*



*(Assuming no interest payable)

Source: Deloitte, Haskins & Sells

The merit of forcing employees into share options is that eventual gains, when the option is taken up (the difference between the strike price and market price when the option is exercised) are already defined as income.

Where, in the past, the employee took advantage of a loan at reduced interest rate to buy shares, the question of tax on any capital gain on those shares did not arise until they were sold.

Even then it was open to the employee to argue that the transaction was of a capital nature.

With the exception of the temporary and partial relief now given, the opportunity to achieve a capital gain through a subsidised loan is now extinguished.

Robin Friedland

TREVOR VAN HEERDEN (320)

Vatman

FM 6/7/90

Tax law runs through the veins of the Van Heerden family. Trevor, one of the four members of the Van Heerden clan working for the Department of Inland Revenue, is SA's VAT man.

Van Heerden (44), whose son Mark and brother Evan work at the Durban Inland Revenue offices, followed his father's footsteps into tax administration in 1964, after a short stint at the Department of Bantu

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Administration & Development, as it was then called, in Empangeni.

Since 1988, the quietly spoken son of retired tax Commissioner for Inland Revenue, Jacobus van Heerden, has devoted all his energy — that not expended in training for yet another marathon — to studying the VAT laws of other countries and developing a strategy suitable for SA.

In line with Revenue's determination to shake the greyness out of its image, and be more accessible to the public, Van Heerden is heading a R10m communication campaign to make VAT user-friendly.

The department has also by no means closed its doors to new input; written representations will be accepted from the public and business until August 31 and then oral evidence will be heard.

Along the way, Van Heerden is culling opinions and informing business about the implications of VAT in a whirlwind series of seminars he is conducting in seven cities until Wednesday. He and his assistants will then address a range of seminars in black areas.

Van Heerden ... new tax

Van Heerden says business has responded favourably to VAT and seminars have been fully booked. "The major benefits are that it will reduce tax evasion and get double taxation distortions out of the system." He says Revenue has no figures on the extent of tax evasion but he claims it's substantial.

He adds government is looking at a number of ways of softening the impact on the poor. "We want to use existing infrastructure and perhaps help pregnant women through clinics. Government is thinking of school feeding at primary schools and of increasing social pensions."

He argues, however, that there is a "strong feeling that, instead of giving the poor a fish, we should be teaching them to fish." Government is consequently investigating skills training projects too.

"But a tax system must be a tax system, and not a hybrid system that looks after social welfare. Our job is to collect tax."

Van Heerden, born in Roodepoort, grew up in Irene, Pretoria, and was educated at Christian Brothers College in Pretoria. He studied through correspondence for a national diploma in auditing and accounting at Pretoria technikon.

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After spending seven years in Natal with the Department of Inland Revenue, he was moved to Pretoria in 1971, first as an administrative officer and then, in 1984, as part of the law interpretation department.

The following year he became director in charge of research and two years later was promoted to chief director of tax policy development. He is an adviser to the Margo Commission and as the flaws in GST became more apparent, Van Heerden began research into VAT in 1988.

Van Heerden lives in Pretoria with his wife, Yvonne. They have three children. He is a family man and a keen sportsman who has completed two Comrades Marathons. He is also a hunter, golfer and sailor. ■

PREPARING FOR VAT

FM 6/7/90 (320)

VAT is basic in concept but complex in detail. Management and staff of business organisations will have to be well prepared for its introduction in October 1991. To assist in the transition from the present GST system, a VAT briefing will be presented on July 19 by the *FM* and the Johannesburg Chamber of Commerce & Industry, in conjunction with Ernst & Young.

For businesses used to GST, the main problem will be to avoid confusion between the two concepts; for professional firms, service organisations and others not involved with GST there will be a new world of terminology to conquer and a host of systems to put in place.

The seminar will be held in the Carlton Hotel ballroom, Johannesburg, from 2pm to 6pm with registration at 1pm. Cost is R250 for members of the SA Chamber of Commerce & Industry and R280 for non-members. Inquiries to Pam Freeman or Glenda Lee on (011) 726-5300.

INCOME TAX FM 6/7/90

Loans spiked (320)

Abolition of the tax on dividends has unwelcome implications for corporate employees in share benefit schemes — a form of fringe benefit. Those who have not benefited from

FINANCIAL MAIL JULY 6 1990

New tax ruling for women

Star 7/7/90 (320)

ALL bona fide income of married women — except investment income and annuities not paid to her by a pension or retirement annuity fund — would be taxable in her hands from the 1991 year of assessment, the Commissioner for Inland Revenue said in a Government Gazette notice in Pretoria yesterday.

All married women whose net income exceeded R40 000 a year or who received income from sources other than remuneration should register as taxpayers and where necessary also as provisional taxpayers, the notice said.

Enquiries should be addressed to the nearest Departmental Receiver of Revenue.— Sapa.

Tax breaks that grow with the trees

St Times 8/7/90

(320)

FORESTRY — the investment that has it all. And a money-back guarantee, says an advertisement. Next line down says: No outlay in cash.

I am intrigued to know how there can be a money-back guarantee when no cash is laid out. Among the other promises:

- No interest-servicing cost;
- Attractive tax benefits;
- The chance to make up to R1m tax free;
- Magnificent Drakensberg trout waters;
- Reward your management, no cost to the company.

Now if this doesn't sound too good to be true, then my suspicious nature is fading.

So I called Farmgroup managing director Stanley Sherratt.

Undertaking

Mr Sherratt says Farmgroup manages syndication partnerships in forestry. Only as an investor in such a syndicate is a non-farmer entitled to claim tax benefits.

Farmgroup has acquired timber permits over 75% of farms totalling 1 358 hectares near Newcastle and Memel. An investor can buy a minimum of six hectares at R10 000/ha. He does not put up the cash, but has to be sufficiently creditworthy for a bank to lend him R60 000.

Farmgroup has an agreement with Investec. All the interest costs will be capitalised for 10 years, after which the trees can be harvested or sold.

Investors issue a promissory note to Investec undertaking to repay capital plus interest at a minimum of 12% fluctuating with prime for 10 years.

The value of the promissory note is a liability incurred in the current tax year and is deductible in full. Using a rate of 12%, the amount deductible is slightly more than three times the initial investment.

In this case, R186 000 can be claimed, giving tax benefit of R82 000 at the top marginal rate. But it must set out to be an investment, not a tax dodge.

Mr Sherratt says possible returns outweigh tax benefits. Forestry is taxed at preferential rates to encourage growers.

The price of timber is R85 a ton. The rate of growth — or mean annual increment — is 18 tons a hectare annually. So over 10 years R10 000 grows to R15 300 — present value.

Subject that to a forecast escalation of 22% — expected by the Timber Growers Association — and the original R60 000 becomes R670 000.

Even if interest rates average 20% in that time, there is a projected profit of more than R320 000 after the bank is repaid.

Another tax benefit is that the investor can write off against income the difference between 12% and the prevailing interest rate.

Even if the valuation of the promissory note is disallowed, an investor can claim a one-for-one write-off and the whole interest cost against income.

The promise of R1-million tax free? Mr Sherratt says that if the tax saved is invested in unit trusts, it will grow to that sum in 10 years.

How does Farmgroup take its turn? Mr Sherratt says it manages the interests, for fees, and draws interest on current balances of investments held at the bank.

It does not cost R10 000 upfront to establish a hectare of forest. The bank issues reducing guarantees over the remaining capital balances and the interest accrues to Farmgroup.

Professor

Farmgroup subcontracts to specialists, who plant and monitor the trees. Its cost projections are based on 15% annual rises.

The money-back guarantee? Farmgroup will buy out investors and refund the net cost to them if the Receiver queries their tax deductions.

Mr Sherratt is a former investment broker, bank manager and public servant at the Rhodesian Prime Minister's office. Farmgroup chairman is Georges de Muelenaere, a medical professor in Pretoria who succeeded Fred Bell of Armscor and counter-trade fame.

Investing in forestry certainly has merit, but only the very rich need apply.

Savings tax bre

Rusplat waste heralds rhodium bonanza

Business Times Reporter

THE soaring price of rhodium — it hit $7 350 an ounce this week before settling in the $6 900 to $7 100 range — could give JCI's Rustenburg Platinum a bonanza.

Start-up problems at its refinery reduced the extraction of rhodium and left the group sitting on a pile of rhodium, which was priced at $1 200/oz a year ago.

Market sources say 20 000 oz of rhodium built up in the tailings dam at Rustenburg before the teething problems were fixed.

Managing director Barry Davison will not comment on the amount of unextracted rhodium, but he confirms that it is now being reclaimed.

Mr Davison says that towards the end of last year when extraction fell below planned levels, Rusplats "borrowed, leased and bought" rhodium on the open market to meet its commitments.

S Times 8.7.90

Panic

Now the plant is operating at planned levels and contracts are being met from new production.

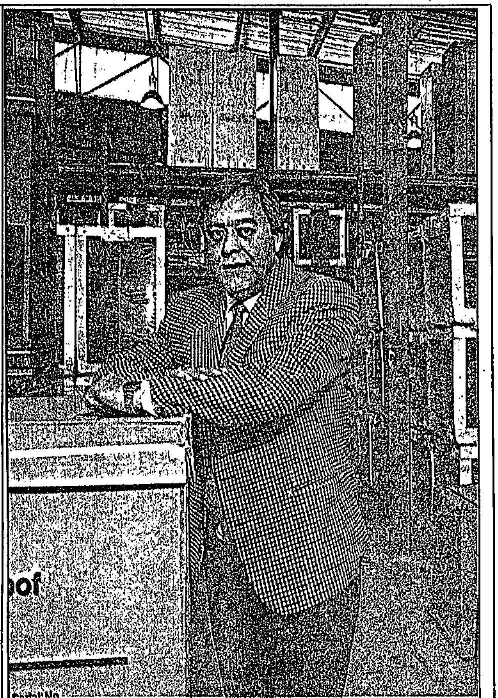
However much rhodium lies in the tailings, it is certainly worth much more than when it was mined.

Rusplats share price hit R90 this week after trading at R84,50 before the rhodium supply panic.

At week's end the rhodium price was looking "rock-steady" in London, said Tony Warwick-Ching, precious metals analyst at the Commodities Research United.

Some analysts argue that SA mines will not benefit too much because they are committed to long-term contracts.

But Frankel Kruger Vinderine platinum share analyst Kevin Kartun does not share this theory. He says contracts are determined by a formula related to market prices, exchange rates and other factors.



JANNIE ELS . . . keeping the goods moving out of the showroom in hard times

Dion heads for R32m after four lean years

S Times 8.7.90

By IAN SMITH

TIMES have been hard for the retail sector, hit by pressure on consumer spending, high interest rates, strikes and civil unrest.

But discount department store Dion has completed a remarkable turnaround in the past four years — moving from a R6m below-the-line loss in the year to June 1987 to a R25,2m profit in the year just ended.

"Prospects for continued growth are still good," says chief executive Jannie Els.

He is budgeting for a profit of R32m in the current year, and turnover should top R500m for the first time.

Four stores have opened in the four years, bringing the total to 15.

Not only the good numbers should ensure that Dion remains a major contributor to the listed Rusfurn group. Systems have been put in place which have cut millions from the shrinkage bill (aka theft), staff and management are highly motivated, labour relations are good and plans are in place for expansion of the chain. The group is unborrowed — "we earn interest," says Mr Els — and credit sales account for only 15% of turnover, which topped R412m last year. "We are happy with this level of credit. It has meant that we have ridden high interests."

He is particularly happy that Dion is increasing turnover in some sectors which are not showing overall growth. "This means we must be increasing market share."

This is one of the reasons why Dion has targeted furniture. Within a month there should be seven furniture outlets, most of them within existing Dion stores.

By the end of October Mr Els will have his strategy in place for a chain of mini-Dion high-tech stores in smaller towns. The first is likely to open in the next financial year.

Market research has been done on customers' demands and staff have been motivated by incentives which can double a monthly salary.

"We pay a lot of attention to customer service, and we do keep the promises we make," says Mr Els.

"Great care is taken to ensure that we have the right range of products. Direct imports account for about 5% of our sales, but they give us better margins."

The travel bug still bites

S Times 8.7.90

By DON ROBERTSON

EUROPE still attracts South African tourists in spite of a six-month plunge in the rand's value against most currencies.

Travel agents say that although the cents are being more closely watched, outbound tourism continues to grow, albeit modestly.

TFC Tours managing director Daphne Osborn says the effects of the falling rand were taken into account at least a year ago, and tourists are now planning more carefully.

The rand has remained fairly steady against the dollar, declining by 3,5% since the beginning of the year, but it has lost ground against sterling, falling by 11,6%. It has declined by 5,8% against the mark, 11,1% against the Swiss franc and 6,2% against the French franc.

Sales of tickets to South Africans heading abroad in April rose by 18% to R81,3m — R12,7m more than in the same month last year. Sales in the first four months of 1990 were worth R521,3m — R174,6m higher than in the corresponding time last year.

There has, however, been little real income growth for travel agents in the past two to three years, partly because of higher fares, says Rupert Lawlor, president of the Association of SA Travel Agents.

Mr Lawlor says latest figures show that 488 000 SA tourists went abroad last year compared with 478 000 in 1988.

FINANCE Minister Barend du Plessis is close to announcing a revolutionary change in the tax system.

The Government is on track to remove interest earned on personal savings from the realm of marginal tax (top rate) at 44%.

Interest would instead be subject to a flat tax of 10% to 12%, withheld at source.

"It's not a question of if, it is a question of when," says a businessman with an ear close to the authorities in Pretoria and Cape Town.

The change would signal a major step in the campaign to bring more stability to the economy. It would play a significant role in the drive to get the economy back on track for steady growth.

BY IAN SMITH

One of the biggest benefits would be the encouragement to increase personal savings, which have been in a dismal slide since the end of the affluent 1960s.

It would also be a big boost for the hard-pressed wage earner, whose discretionary spending has been cut to the bone, and it would be right in line with with Mr Du Plessis' intention to set up a fairer tax system for the less wealthy.

He has sent the proposal for a lower withholding tax on interest to the Tax Advisory Committee, under the chairmanship of Margo Commission member Michael Katz.

HARSH

A Department of Finance spokesman says: "It is part of the department's drive to provide relief to encourage savings."

Coming as it does after Budget moves to remove tax from shareholders' dividends, the proposal to lift the tax threshold and to increase the amount of savings on which interest is tax free from R1 000 to R2 000, would be a dramatic change.

The tax system is coming under increasingly harsh criticism from economists and businessmen.

At the same time the drought of investment capital from abroad has spurred the Government to become a generator of savings.

The change to a flat 10% on interest would move depositors from a return well below the inflation rate to the positive side of the line.

SOCIAL

For example, interest at 18% on a fixed deposit becomes 10% after marginal tax is taken into account. If a 10% tax rate is applied the 18% becomes 16,2% — a big incentive to build savings.

Allied Bank managing director Kevin de Villiers says informed speculation has brought the date forward for the change.

"Six weeks ago businessmen were evenly divided on whether it would come in the next Budget or in 1992.

"Now 75% believe it will be sooner."

He says the move would be the most far-reaching by any Government in 20 years to encourage savings.

Azar Jammine, head of the Econometrix consultancy, says: "The change would show a huge switch official thinking and it ... be a big step to corre... the distortion which has ... en place in our economy.

"It would be an exc... move, particularly ... there is so much ... about social upliftment."

SUDDEN

A better return on sav... would have a negative ... on equity investment, ... would be unlikely to hit ... JSE too hard, say eco... mists.

"It would, in fact, lead ... more stable stock ma... one less susceptible to 'mad peaks'," says Jammine.

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(320)

Dramatic changes to ease the burden of top rates

S1 Times 8|9|90

By IAN SMITH

would show a huge switch in official thinking and it would be a big step to correcting the distortion which has taken place in our economy.

"It would be an excellent move, particularly when there is so much debate about social upliftment."

SUDDEN

A better return on savings would have a negative effect on equity investment, but would be unlikely to hit the JSE too hard, say economists.

"It would, in fact, lead to a more stable stock market, one less susceptible to the 'mad peaks'," says Dr Jammine.

The search for investments yielding returns higher than the inflation rate has caused a paper-chase on the JSE, leading to unjustified highs and sudden collapses.

A change in the tax on interest would also help correct the imbalance in the investments attracted by life assurers and building societies.

The swing to life assurers, helped by current taxation, is shown by figures from the Reserve Bank. In 1982 life assurers' total assets stood at R19-billion and by 1989 they had grown to R94-billion.

Building societies, on the other hand, had assets of R18-billion in 1983. They rose to R30-billion in 1989.

The proposed change should also lead to a better spread of business in the banking sector. Traditionally banks looked to receive 70% of their business from retail banking and 30% from wholesale operations. But in recent years this has been reversed.

GERMAN

Any move to make bank deposits a more worthwhile investment would do much to redress the balance.

Mr De Villers believes the Government would like to see a move to what he calls the German equation where there is a 6% to 7% return on bank deposits and 10% on equities, making some allowance for the greater risk in shares.

In SA, after adjusting for tax and inflation, there can be a 7% return on equities compared with minus 6% to 7% on bank deposits.

UK Metaclo offer runs into a storm

By DAVID CARTE

A JOHANNESBURG stockbroking firm is leading resistance to an "iniquitous" offer to minority shareholders of Metal Closures SA by its UK parent.

In a precedent-setting move "to promote equity in mergers and takeovers", stockbroker Martin & Co says the offer is far too low.

It is highly critical of the method by which Metal Closures UK is going about the offer. It also slates Finansbank's protection of the minority.

To avoid a scheme of arrangement, Metaclo UK intends to convert ordinary shares owned by the minority into prefs and then to redeem the prefs, thus depriving them of a say in the matter.

S1 Times 8|9|90

Ineffective

Having repeatedly been voted by institutions the best research firm on the JSE, Martin & Co is extremely influential.

Martin & Co is believed to be backed in its fight by three large minority holders, the Mine Officials, Mine Employees and Anglo American pension funds.

Metaclo UK was recently taken over by predator Wassall PLC, formed by breakaway directors of Hanson Trust, Christopher Miller, David Roper and J D Miller.

After the UK deal, SA management is thought to have made an offer to its UK parent, which was rejected.

Metaclo UK is offering effectively R23 a share to the Metaclo minority.

In advertisements to be placed tomorrow, the stockbroker advises the Metaclo minority to resist the scheme.

Martin takes merchant bank Finansbank to task "for promoting a scheme in which the minority has no effective say whatever".

Metaclo has called a meeting of shareholders for Tuesday. It proposes to amend the articles of Metaclo SA to allow it to convert "any of its shares" into another class.

The 600 000 ordinary shares not owned by Metaclo UK will be converted into 600 000 redeemable preference shares of 50c each. The company will then redeem the new prefs at a premium of 2 250c each, each shareholder receiving R23 a share.

Martin says: "Effectively, the company is acquiring its own shares, which is contrary to the general philosophy of the Companies Act.

"Four special resolutions are required to give effect to the above. Special resolutions require holders of 75% of the issued capital to vote in favour. As Metaclo UK owns 77% of the shares it is able to steamroller the resolutions through the meeting — even if every minority shareholder votes against."

Martin says Metaclo has ignored a JSE request not to vote. It says Metaclo's reasons for refusing to comply with the request are "specious" and "without validity".

Martin rejects Metaclo's claim that Finansbank, acting for the minority, has found the proposal fair and reasonable.

Martin asks: "Is any scheme fair and reasonable where the shareholders ... have their shares confiscated without any effective say in the matter whatever? Furthermore, if Metal Closures UK really believed it was fair and reasonable, why did they prevent minority shareholders from having an effective vote?"

Martin doubts that the offer is fair and reasonable. It says after R40m of capex, Metaclo SA's asset base has been almost completely renewed and that shareholders have yet to reap the benefit of its technology.

Insight

Gearing, says Martin, is below that of industry leaders Nampak and Consol. The high market ratings of its major customers — SA Breweries, Amalgamated Beverage Industries and Suncrush — reflect the inherent growth potential of its market.

"Priced on the same pretax PE as Nampak and Consol, the price of Metal Closures would be 3 480c and 4 830c respectively."

Martin says Metaclo earnings were less volatile than those of Nampak and Consol in the 1980s.

To Page 3

10% rate for VAT 'too optimistic'

CAPE TIMES 11/7/90

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By JON BEVERLEY

SPECULATION that Value Added Tax would come in at 10% was "a bit optimistic", Trevor van Heerden, chief director of tax policy development with the Commissioner for Inland Revenue, said at a VAT seminar yesterday.

He also disclosed that it would be possible to publish the names of VAT tax offenders and the amounts concerned in the Government Gazette and by tabling Parliament.

Van Heerden said this was a drastic step and would have to be carried out in a very careful way.

The government has not yet determined the VAT rate but hopes to impose the new tax from October 1991 at a rate lower than the current 13% for GST.

A committee, Vatcom, was established to hear about problem areas until the end of August which would be followed by the draft VAT law early next year — a first draft has been published.

The draft now being discussed could be changed radically in the light of submissions. For example the R50 000 ceiling for small business (where they would not register for VAT) might be found to be too low and could be lifted in the final law.

VAT delinquents who failed to pay their VAT in time would be fined 10% for the first month and 2,5% thereafter but if the Receiver failed to make a VAT repayment within 21 days the current rate (about 19%) would be paid.

Unlike GST it would be possible to fine offenders who had evaded VAT from the time the offence started.

Vendors would have two months plus 20 days to pay VAT, but concerns with turnover over R18m a year would have only one month plus 20 days.

A rapid appeal system would be established and consideration would be given to something analogous to a Small Claims Court to tackle problems about small amounts.

Van Heerden said the proposals to free capital and intermediate goods from VAT, with an expected phasing-in period, would have a "dramatic" reduction of the tax base.

It was planned to gather as much VAT as was being collected under the GST system — about R16,5bn in the past tax year.

However, there were other activities which would be taxed — such as food, construction and a variety of services.

Municipal services such as water, electricity and sewage would be taxed but where tenants paid a lump sum, which included these services and rental, to a local authority the tax would be paid by the local authority and not the individual.

"Telephones and postage would be included, something the Post Office does not appear to be aware of yet," he said.

There are various limits which will govern who must register as a VAT vendor.

Concerns where turnover does not exceed R50 000 a year need not register but they will not get a tax refund on the goods they buy and they do not have to pay VAT on the sales they make to the Receiver.

In some circumstances it will be possible to operate on cash payments and receipts — instead of the conventional invoice basis.

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Employee share schemes hit by tax exemption

By DAVID CLEGG
of Ernst & Young

ALTHOUGH the general exemption from tax on dividends just confirmed in the Income Tax Bill will be welcomed by most shareholders, it has an adverse impact on employees who are able to purchase shares in their employer's company under a share incentive or share trust scheme.

In terms of these schemes the employee is granted a low-interest or interest-free loan to purchase the shares. He is then taxable on the deemed fringe benefit on the difference between the "official rate" of interest (currently 19%) and the actual interest paid.

Prior to exemption from tax on dividends he would, however, have been able to claim a deduction of two thirds of his deemed and actual interest cost from his two-thirds taxable income from dividends. He would thus effectively have paid tax only on one-third of the deemed interest benefit.

Now, because his dividends are not taxable, he will not be able to claim the interest deduction and will therefore be at a cash flow disadvantage.

To partially counter this problem the Income Tax Bill provides for a deduction of 50% of the deemed interest, but only for employees who are prevented by the rules of the particular scheme in force at March 15, 1990 from selling their shares and repaying their loans.

The deduction only applies to loans granted before March 15, 1990 and will be allowed for the shorter of five years to February 28, 1995 or the period during which the employee is prevented from selling his shares.

The deduction will not apply to new entrants to share incentive schemes, nor to existing participants who are free to dispose of their shares but choose to retain them and not repay their loans.

This means that the benefits of share incentive schemes to employees will now be denied to many employees who will be forced to sell their shares in order to avoid the punitive tax cost.

SOWETAN BUSINESS
Building the Nation

Sowetan 12/7/90

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Seminar aims to clear confusion over VAT

By JOSHUA RABOROKO

THE deputy Minister of Finance, Dr Org Marais, will be one of the speakers at Value Added Tax seminar, organised by *Sowetan Business*, to be held at Funda Centre on July 25.

The coordinator of the seminar said the seminar's task was to communicate various aspects of VAT to the public in general and in particular to a number of interest groups.

Dr Org Marais

The other speakers will include, Mr Thami Mazwai, senior assistant editor of *Sowetan*, Mr Matsheru Matsheru, a Soweto tax consultant and Mr Anthony Chait, a tax expert.

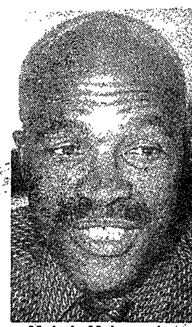
The Minister tabled the draft Bill concerning VAT in Parliament last month. Soon thereafter, representations from interest groups have been heard with a view to incorporate useful suggestions into the final legislation to be before Parliament next year.

Briefings

He has also arranged to hold a series of briefing sessions which will entail senior officials of the Department of Revenue.

Informative literature will be handed out to delegations to enable them to start preparing comment, suggestions and arguments for submission to the Government during the commentary phase of the VAT programme later this year.

For businesses used to GST, the main problem will be to avoid confusion between the two taxes; for professional firms, service organisations and others not involved with GST there will be a new world of terminology to conquer and a host of systems to put in place, according to sources.



Mohale Mahanyele

Star 13/7/90 (320)

The Star
Finance

Some prices will fall, says top Vat official

Finance Staff

DURBAN — Prices of many goods should fall with the introduction of value-added tax (VAT) next year, according to a senior Inland Revenue official.

The Pretoria official, Clive Prevost, told delegates to an Inland Revenue seminar on VAT in Durban that the new system, which the Government proposes implemting on October 1 next year, was likely to cause a one-off rise in the prices of many goods, particularly those exempt from general sales tax.

But many prices would drop because VAT-payers would make deductions from tax paid on numerous input costs, which would be taken account of in calculating final prices.

With GST, tax was payable only on the final sale price.

He warned that incorrect costing would result in increased prices, reducing the competitiveness of goods against those correctly costed.

"Remember to exclude the input tax before costing your supplies as the input tax that is paid to the supplier of goods or services is recovered when you render your return," he said.

The formula

"The formula is: Output tax minus input tax equals the tax to be paid to the Receiver of Revenue."

Trevor van Heerden, chief director of tax policy development in the Revenue Department, said VAT was not designed to raise more tax than GST and therefore should not be inflationary.

What might cause prices to rise was uncertainty among traders of the consequences of a new tax system. They might put their prices up as a hedge against the unknown.

It was to counter this sort of development that Inland Revenue had allocated a large sum to educate and advise business.

Other points made by Mr van Heerden were:

- Retail prices would have VAT "added in", although vendors would be permitted to provide a break-up of price and tax.
- GST paid on input costs would be allowed as an input tax credit after the introduction of VAT for an unspecified phasing in period.
- It was political irony that a person would pay tax on basic foods but not on medical services when he was taken to hospital starving to death.

Direct feeding schemes offer better deal for needy

By Sven Lünsche

Direct feeding schemes are a far more effective way of assisting the poor than indirect food susbidies such as the exemption of food from GST.

This is the key finding of a study by Unisa's Bureau of Market Research (BMR), which supports the decision by the Government not to exempt food from Value-added-Tax (VAT), when the system is introduced next year.

The biggest drawback of general indirect food subsidies is that they benefit all consumers irrespective of their need for aid, says the BMR in its report.

Total consumption of those items exempt from GST is estimated by the BMR at about R18,8 billion last year.

At the present GST rate of 13 percent the state's loss of revenue on these items amounted to R2,44 billion, with the biggest share of the subsidy going to meat (R1,04 billion) and vegetables (R406,5 million), followed only then by the two staple foods, bread (R216,7 million) and mealie-meal (R204,5 million). (see chart)

However, as is illustrated by the fact that fully 42 percent of this money goes towards subsidising the price of meat, "this system is not only the most untargeted of exempt food items," the BMR says.

It recommends that the Government shift attention to direct feeding programmes, a proposal which has in principle already been accepted by the authorities.

Using surveys by the World Bank, the BMR suggests that these programmes should be targetted at the most vulnerable neo- ing women, who would represent at most two percent of government spending.

The Government has, however, already indicated that the programmes would be extended to supply food directly to the poorer communities, in particular to schools in those areas.

Direct feeding programmes should be furth...

	Consumption R-million	GST lost R-million
Bread, flour	1 666.6	216.7
Butter, margarine	617.6	80.3
Raw eggs	376.3	48.9
Raw fish	536.6	69.8
Milk, milk powder	1 278.6	166.2
Mealie-meal	1 572.9	204.5
Fruit	1 212.5	157.6
Raw meat	7 999.7	1 040.0
Rice	389.5	50.6
Vegetables	3 126.5	406.5
TOTAL	18 776.8	2 441.1

The table shows the estimated amounts lost annually to the Government's revenue on food items not subject to GST.

STm. 13/7/90

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aid systems for the poor, but is also the most costly for the state budget," the BMR argues.

Exempt items

It estimates that 11,8 million, or 40,1 percent of the population, are found to be poor by definition and that this group is responsible for only 17,6 percent of the spending on the exempt food items.

"Fully 82 percent of the indirect food subsidy, therefore, finds its way to the well-to-do," the bureau says.

"Even worse, the number of people in urgent need of nutrition in 1989 is estimated at 1,7 million and the percentage of the indirect food subsidy which benefited them was a paltry 2,2 percent."

A further consideration is that this programme benefits persons in the middle- and lower-income groups the most and perpetuates rather than corrects the unequal distribution of income.

"It is poorly utilised by persons in the poorest rural areas, who do not participate fully in the market economy and so buy fewer of the ple — those exposed to malnutrition.

"Providing only the most vulnerable with nutrition assures the highest benefit-cost ratio and achieves maximum cost effectiveness."

The BMR is very selective about the target groups and suggests that the nutritional programme should initially be extended only to children under three, and to pregnant and nurs-

an extensive nutrition education programme, the BMR argues.

In the light of these findings the bureau recommends that all food items should by subjected to VAT.

"If all food items are subjected to VAT the 1,2 milion beneficiaries of state aid such as old-age and disability pensioners should be compensated in some way or another for their loss of income caused by the increased cost of food," the bureau says.

MINE TAXES FM 13/7/90

Too little (320)

Mining house tax experts agree that Barend du Plessis' Budget concessions on ring fencing do not go nearly far enough to act as a real incentive to the development of new gold mining ventures.

According to Brian Robinson, administra-

FINANCIAL MAIL JULY 13 1990

tive manager, companies services, Anglovaal, there are two serious limitations. Anglo tax consultant Marius van Blerck endorses these sentiments.

Firstly, a mining company may not access the 25% allowance on the tax base of an existing mine until the new mine is in production in the year of assessment. Of course, unredeemed capex may be carried forward.

Van Blerck concedes a measure of compensation for this wait has been given through the increase in the allowance on unredeemed capex (from 10% to 12% a year). But — given the unavoidably long lead times — the waiting period decreases the return and increases the risk.

This is particularly serious in the context of a low gold price. Gold mining tax bases have shrunk dramatically in the past few years and there can be no certainty of much tax base at all five or 10 years from now.

Secondly, says Van Blerck, ring fencing may not be relaxed where a mining company acquires the right to mine a new area through the issue of any shares which have dividend rights calculated by reference to profits in that area.

When mineral rights owners sell their holdings to a mining company, they often want to participate in the profits in that specific area rather than see the benefit diluted through taking merely a share in the company as a whole.

Robinson agrees, saying there is more uncertainty than ever about the value of a new gold mine. To classical uncertainty about grade must now be added volatility in the dollar price of gold and the exchange rate of the rand, while inflation makes future working costs more difficult to predict.

All this, says Robinson, can make it well-nigh impossible to put a confident money value on a given block of mineral rights when a mining venture is put together. The only way to structure a deal satisfactory to both buyer and seller will often be the issue of shares — perhaps participating preference shares — which will enable the vendor of mineral rights to participate in whatever future profits turn out to be.

True, says Van Blerck, mineral right holders can still get a direct return through a royalty, but this is not always ideal. Van Blerck expresses sympathy for the Revenue, which wants to block artificial schemes which enable the mining company simply to "host" the new mining development without being an economic participant. But there must be better, more sophisticated ways to achieve this than such a severe restriction on ring fencing.

Robin Friedland

FM/13/7/90 (3 20)

EXCHEQUER REVENUE (3 20)

Drag factor

FM 13/7/90

An indication of how much fiscal drag pushes up income tax payments emerges in a breakdown of Exchequer revenue in last week's *Government Gazette*. The 1990-1991 tax tables will be used for the first time this month, so payments in the first quarter of the fiscal year were still at 1989-1990 tax rates.

In consequence, despite the slowing in the economy, tax payments on income of individuals and companies of R2,6bn in April was 25% more than in April 1989.

It is not yet known what proportion of the increase relates to companies and what to individuals. If one assumes, however, that individuals were in fact subject to a 25% increase, it is possible to make a rough calculation of where they would have stood without the tax concessions announced in March.

It is estimated that the fiscal drag factor on tax payments of individuals in 1989-1990 was about 1,8, which implies the average annual increase in taxable income April-to-March was about 14%. Given a 14,9% increase in CPI in the 12 months, the average taxpayer would have had a real income decline of almost one percentage point — plus an 11% increase in income tax.

With the new tables this month, excess payments will be refunded and future payments will drop accordingly.

☐ Sales tax revenue in April rose 16% to R1,5bn. With various other taxes Inland Revenue's total income was R4,2bn, an increase of 25%. ■

NEED TO RE-ESTABLISH REAL SAVINGS

Tax cuts planned on interest income

14/7/90 320

A lighter, flat-rate tax on interest is on the way in the next Budget. It will encourage savings and ripple through to lower bond rates, ARI JACOBSON was told yesterday.

THE new low-level withholding tax on interest, being estimated at between 10% and 12%, is due to be introduced in the next Budget. It will not only change the pattern of savings in SA but make cheaper money available to banks and building societies. This will result in more disposable income for the man in the street.

So said Japie Jacobs, special adviser to the Minister of Finance.

The new system could have a considerable impact on property prices since it should encourage savings and reduce mortgage bond interest rates, making some housing affordable for the first time and pushing other property still higher.

In recent years the burdensome tax on interest income has distorted the savings pattern, diverting money from building societies and banks to the life assurers.

The life offices have siphoned the savings potential of the private sector into their varied products. The end-result has been the oft-quoted dissavings scenario, as retail borrowings outstripped retail savings to the tune of R21 billion in 1989.

The need to address this incongruity has become paramount. A lighter tax load effected by means of a withholding tax at the forefront will complement the return to positive real interest rates.

Flat-rate tax

The failure of the banking system to compete for so-called retail funding has been double-edged. Firstly negative real rates of interest which have prevailed in the economy, throughout most of the eighties, made savings at banks and building societies pointless. Quite simply, an inflation rate that surpasses the rate of interest on offer provides a negative real return for depositors.

Although this has been remedied, albeit through higher interest rates, the other disadvantage remains. Income tax on interest at the individual's marginal rate continued to be a disincentive to savings. For example, at present, 18% on a fixed deposit with inflation

JAPIE JACOBS

at 14% provides a 4% real return.

However the after-tax return sinks well below the inflation rate. Taking the top marginal tax rate of 44% — a nominal return of about 10% is realised although the average wage or salary-earner would manage to stay nominally abreast of inflation at his marginal rate of about 20%.

Of course, exemption of the first R2 000 from interest income tax sees most middle-income earners escape the real burden of taxation. But these returns dwindle into insignificance against the hefty returns on life products. Japie Jacobs, who acts as a special economics advisor to the Minister of Finance, said a withholding tax at a flat rate was imminent and would side-step incongruities caused by the marginal rate tax application.

He said: "The intention is to address this issue in the next budget, with the idea of making deposits more attractive by levelling the ground between institutions that take deposits and those that do not."

He said the introduction of a flat-rate tax on interest income would obviate the need for a penalty tax on borrowings by encouraging surplus savings.

Disposable incomes

Such a tax, which market speculation has at 10%, could prompt property and business owners to simultaneously lend high, and borrow high for the tax benefits. Interest earnings of R100 000 would only attract a tax of R10 000 at 10% instead of R44 000 for top income-earners at present, while in many cases they would be able to deduct interest payments where borrowings are for business purposes.

Jacobs said the inflation curse helped life offices whose stereotyped pattern of investment on the JSE provided the necessary inflationary hedge through a capital appreciation on listed shares.

He said: "The dull investment techniques adopted by the assurers is not the correct recipe for generating growth in the economy."

Jacobs said an escalation of funds to banks and building societies would provide the platform for channelling resources to productive areas — previously avoided or merely disregarded.

He explained: "Financial institutions, without the necessary mandate requirements, can venture into risky yet potentially productive areas, where life assurers have feared to tread."

United Building Society's managing director Mike DeBlanche was adamant that a greater savings flow to financial institutions would see SA grow through policies of economic rejuvenation and restoration.

Another off-shoot, said DeBlanche, was that the current phenomenon of backing housing loans with expensive wholesale funds would fall away with the expansion of retail deposits conveniently passed on to the man in the street.

He said: "At present, the negative savings position on retail deposits has forced deposit-taking institutions to enter the wholesale market where contractual savings are made available, at a higher price, by the mutual funds.

"Cheap retail deposits would decrease an individual's bond repayments and boost disposable incomes. The ultimate effect of increasing disposable incomes would filter though to the real economy and enhance the welfare of the whole community."

'Feeding schemes are best aid for poor'

W/C ARGUS 14/7/90

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From SVEN LUNSCHE

JOHANNESBURG. — Direct feeding schemes are a far more effective way of assisting the poor than indirect food subsidies such as the exemption of food from GST.

This is the key finding of a study by Unisa's Bureau of Market Research (BMR), which supports the decision by the government not to exempt food from Value-added-Tax (VAT), when the system is introduced next year.

The biggest drawback of general indirect food subsidies is that they benefit all consumers irrespective of their need for aid, says the BMR in its report.

Total consumption of those items exempt from GST is estimated by the BMR at about R18,8 billion last year.

At the present GST rate of 13percent the state's loss of revenue on these items amounted to R2,44billion, with the biggest share of the subsidy going to meat (R1,04billion) and vegetables (R406,5million), followed only then by the two staple foods, bread (R216,7million) and mealie-meal (R204,5million).

However, this system is not only the most untargeted of aid systems for the poor, but is also the most costly for the state budget" the BMR argues.

It estimates that 11,8million, or 40,1percent of the population, are found to be poor by definition and that this group is responsible for only 17,6percent of the spending on the exempt food items.

"Fully 82 percent of the indirect food subsidy, therefore, finds its way to the well-to-do," the bureau says.

"Even worse, the number of people in urgent need of nutrition in 1989 is estimated at 1,7million and the percentage of the indirect food subsidy which benefited them was a paltry 2,2percent."

A further consideration is that this programme benefits persons in the middle and lower-income groups the most and perpetuates rather than corrects the unequal distribution of income.

It recommends that the Government shift attention to direct feeding programmes, a proposal which has in principle already been accepted by the authorities.

Using surveys by the World Bank, the BMR suggests that these programmes should be targetted at the most vulnerable people — those exposed to malnutrition.

The BMR is very selective about the target groups and suggests that the nutritional programme should initially be extended only to children under three, and to pregnant and nursing women.

Used-car dealers fear death blow from VAT

By DON ROBERTSON

USED-CAR dealers fear their business will be devastated when value added tax (VAT) is introduced in October next year.

VAT will replace GST on all deals between buyers and dealers — but no tax will be charged on those between individuals.

VAT charged to dealers will be based on the difference between the buying and selling price, and any other value added to the car, such as new tyres or engine reconditioning.

S/Times 15/7/90

Request

The National Automobile Dealers Association (Nada) has asked the Department of Finance to reconsider the matter.

Nada president Errol Richardson suggests that a "catalogue system" be applied to used-car sales over perhaps 10 years.

This system, used in Europe, allows for the depreciation of a car's value each year. VAT is charged on this value every time the car is sold.

His suggestion would also apply to private deals. It would require that the odometer reading be attached to each deal to prevent people from winding back the kilometres.

Mr Richardson says that as a result of a quirk in the proposed legislation, it is possible that used-car sales would increasingly be handled privately by "brokers" — not dealers.

About 75% of annual used-car sales of 500 000 worth about R6-billion are handled by dealers. Mr Richardson quotes the example of Germany where 80% of used-car sales were once handled by dealers. After VAT's introduction, the figure fell to 20% — and it was made up mostly of demonstration models belonging to dealers.

Mr Richardson says Nada has been watching the development of the VAT legislation for some time and was told by the Department of Finance in April that it had plenty of time to object.

He believes that under the proposed change, most sales could be shifted outside the tax net into private hands. The State would lose a large tax take. The ploy could be extended to heavy machinery and tractors.

He says it is vital that a strong dealership network be maintained. Dealers offer the buyer protection, he says.

"You would not by a Rolex watch from a man in the street and for the same reason you would be ill advised to buy an expensive car from the same person."

The new-car market could, however, benefit from VAT. It is generally accepted that VAT will come in at less than the 13% of GST.

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Evasion

Economic consultant Econometrix believes that the Government's intention to raise R18,5-billion from GST in the current fiscal year could be achieved through a 7% VAT levy provided there is no "leakage" or evasion.

Even allowing for a generous tax "leakage" of 30%, the same income could be raised by 10% VAT.

If this were the case, the new-car market would benefit, says Nico Vermeulen, director of the National Association of Automobile Manufacturers of SA.

VAT system will curb tax dodgers and help with food-aid for needy

Sowetan 19/7/90

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THIS is the first of our series of articles on Value Added Tax (VAT), which considers the basic principles underlying the new tax which the Government wants to introduce in October next year. In this article, tax consultant Matsheru Matsheru compares VAT with GST.

THE exemption of certain foods from GST is a very costly subsidy - yet, at the same time a very ineffective one.

This is the opinion of Unisa's Bureau for Market Research following an in-depth investigation into the three kinds of food help programmes provided by the Government:

* The Department of Health's feeding schemes.
* The price subsidies on maize, brown bread and wholewheat bread.
* The indirect food subsidy by means of the GST exemption on food.

Of the above three, the GST exemption is by far the largest. Basic food such as raw meat, raw fish, raw eggs, bread, butter, margarine, milk, vegetables and fruit, are not GST taxed.

Last year, says the Bureau, retail sales of the above food items amounted to R18,7 billion. Through the GST exemption, the government subsidised these foodstuffs by an amount of R2,4 billion. How much of this subsidy benefit was enjoyed by the country's needy? Precious little, says the Bureau; in fact, not even 18 percent of this food exemption went to the 12 million South Africans living below the breadline.

But worse is to follow: The Bureau found that of the 12 million South Africans, mostly blacks, living below the minimum subsistence level, the ones who need food assistance most, are young children and pregnant women. Yet, they enjoyed only 2,2 percent of the R2,4 billion GST exemption benefit.

Clearly, while the food exemption under GST had good intentions, it has turned out to be most ineffective: the wealthy are benefitting more than the poor.

What is to be done? Deputy Finance Minister, Dr Org Maraissays if VAT can be introduced with virtually no exemptions, it will be possible to introduce programmes such as:

* Feeding schemes for young children, pregnant women, and women feeding babies.
* Feeding schemes for the aged.
* Training and job creation programmes for the unemployed.

In summary, the differences between GST and VAT:

* GST has become extremely unpopular and there is evidence of extensive evasion.

* GST has lost its way, so to speak. Food should never have been taken out of the base. As it is now internationally recognised, this is not the best way of helping the needy. VAT would, therefore, provide an opportunity of restoring food to the base and assisting the needy in a more targeted fashion.

* VAT would not merely enable harmonisation with countries for the system to operate effectively. Harmonisation is of course strongly emphasised in the Margo Report.

* GST is a single stage tax, as it is collected at retail level. VAT is multiple stage tax as it is collected on all transactions of every stage of production and distribution in domestic commerce. Therefore, VAT will have more impact than GST.

* With GST, a business can escape tax by misuse of a registration certificate. Under the VAT system this may not be possible.

* Because a number of parties are involved, evasion is more difficult under VAT than GST. With VAT, the tax dodger does at least pay tax on goods he has bought. He may escape tax only on the value he has added.

With GST, if a business keeps the tax money in the till, the entire 13 percent is lost by the Receiver and by the consumer.

VAT, therefore, is a fair, just and neutral tax that could go a long way towards avoiding exploitation of the consumer.

VAT seminar to be held in Soweto

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Sowetan 19/7/90

NEXT Wednesday and Friday are major days for *Sowetan Business.*

On Wednesday, the Deputy Minister of Finance, Dr Org Marais, will address traders at Soweto's Funda Centre on Value Added Tax and on Friday we have our seminar on the business plan at the Magaliesberg-Broedestroom Centre.

First the tax seminar. Marais will be accompanied by senior officials of his department and the nitty gritty of the new tax will be explained.

Registration

This tax even affects professional people, like lawyers and doctors, so make sure you attend.

The registration fee is R10. Tea and lunch will be provided free. Phone Lynn de Villiers at 886-2440 to book your place.

Other speakers include Matsheru Matsheru, of Soweto, and Anthony Chait, of Fisher Hoffmann Stride.

The seminar at Broederstroom is open to all teachers helping pupils with the business plan for our schools competition.

Remember that teachers advising the three winning teams qualify for prizes of R1 000 each.

Other teachers with an interest in business education are welcome to attend.

All those who have entered for our business ideas competition may also attend.

As detailed earlier, if you have an idea on starting a business needing up to R10 000 in capital, you can enter for this competition.

This seminar will assist you in preparing your business plan. Those wanting to participate can phone Mrs Yolande Smith at 376-3211 during office hours.

All participants will be informed by telephone from where and when the buses will leave.

All costs will be paid by Genmin, which is sponsoring the seminar.

If you are from outside Soweto Genmin will pay for your travel costs to their offices in Johannesburg.

SA may set world first on VAT system

WMail 20/7-22/7/90

(320)

Weekly Mail Reporter

SOUTH Africa could be the first country in the world in which Value Added Tax was applied on financial services, said Sally de Boar at a seminar on VAT organised by Ernst & Young yesterday.

The current VAT Bill excludes financial services, except short-term insurers, from charging VAT. One reason is that it is not easy to monitor financial services.

Another reason VAT does not yet include financial services, said De Boar in an interview after the seminar, is that is is very difficult to calculate the rate at which such services should be charged. Should a R1-million transaction be charged one million times the tax of a R1 transaction?

A further problem is that duties already apply to several transactions, such as cheque payments.

The government, said De Boar, is looking into the question of extending VAT to financial services, perhaps at a lower rate than on other transactions. This extension may be included in the legislation to go before parliament next year, but it could be added in an amendment later.

The application of VAT to land transfers remains controversial. It is not clear whether VAT will supercede existing land transfer duties, and if not, whether the duties will themselves be taxable. Ken Waltan of Ernst & Young noted hat the government had not yet come to a decision on these questions.

Another undecided matter is the question of how the government would exempt low-cost housing schemes from VAT. Waltan remarked that if the dividing point was, say, R50 000, relatively poor white homebuyers would be subject to VAT, raising the "blanke armoede" question.

In question time it became clear that many of those present most worried about VAT were from enterprises that had never before been subject to complex transactions taxes. Lawyers and engineers, for example, are now going to have to collect tax invoices for all their business-related purchases, and apply for tax credits.

As Waltan noted, VAT has enormous administrative implications for a wide range of business, and they had better begin preparing for the new system soon.

Meanwhile, Mzimkulu Malunga reports VAT came under heavy attack from the National Black Consumers' Union (NBCU) yesterday.

NBCU managing director Johnny Dladla said VAT came at a time when black consumers faced rising costs on essential services and consumer goods.

He said although the government had promised to compensate the poor it did not convince the NBCU as the nature of the subsidies which would be provided to the poor had not been clarified.

"The NBCU believes that if the government wants to help consumers, food and medicine must be exempted from tax. It must come up with something bigger and better than the feeding schemes so far suggested," he said.

Dladla said experienced had shown subsidies never reached their targets, "instead they distort markets and are poorly administered by bureaucrats".

"Unemployed black consumers will be hit hardest by VAT. With bond rates going up, housing shortages will increase and the end result will be more shacks and squatters nationwide," said Dladla.

Star 20/7/90 (320)

Black union protests over VAT on medicine, food

Finance Staff

The National Black Consumer Union (NBCU) has called on the Government to exempt food and medicine from the Value Added Tax (VAT) to be introduced.

NBCU managing director Johnny Dladla said yesterday that unemployed black consumers will be hardest hit by VAT. The housing shortage will increase and the result would be more shacks and squatting.

"Black consumers have no guarantee that VAT will be below the 13 percent GST rate. The Government's vague promises that the poor will be compensated through undefined subsidies are not reassuring.

"Experience has taught us that subsidies never reach their targets. They distort markets and are poorly administered."

Mr Dladla said South Africa did not have a welfare system built into the tax system, and there was no net to catch those people who would starve as a result of VAT.

KENNISGEWING 589 VAN 1990

DEPARTEMENT VAN MINERAAL- EN ENERGIESAKE

UITHOU VAN GROND VIR DIE DOELEINDES VAN 'N OPENBARE PAD

Die Mynkommissaris vir die myndistrik Heidelberg het 'n strook geproklameerde grond op die plase Droogebult 170 IR, Varkensfontein 196 IR en Grootfontein 165 IR, distrik Nigel, myndistrik Heidelberg, provinsie Transvaal, soos getoon op 'n sketskaart waarvan afdrukke onder RMT R18/88 in die Mynbriewekantoor, Johannesburg, en in die kantoor van die Mynkommissaris, Heidelberg, bewaar word, kragtens artikel 179 (1) (b) van die Wet op Mynregte, 1967 (Wet No. 20 van 1967), vir die doeleindes van 'n openbare pad uitgehou.

(19/5/1/2910)

(20 Julie 1990)

KENNISGEWING 590 VAN 1990

KENNISGEWING VAN AANSOEK OM GOEDKEURING VIR DIE OPRIGTING VAN 'N NUWE ABATTOIR KRAGTENS ARTIKEL 12 (1) VAN DIE WET OP DIE ABATTOIRBEDRYF, 1976 (WET No. 54 VAN 1976)

Kennis geskied hiermee kragtens artikel 12 (1) van die Wet op die Abattoirbedryf, 1976 (Wet No. 54 van 1976), dat D. H. Fletcher, Pk. Tosca, 8618, kragtens artikel 11 van genoemde Wet by die Minister van Landbou aansoek gedoen het om goedkeuring vir die oprigting van 'n nuwe abattoir te Sandhurst Restant 162.

Indien die aansoek toegestaan word, sal die abattoir gebruik word vir die slag van twee beeste of 20 skape/bokke of vyf varke per dag vir die voorsiening van vleis aan die inwoners van Vryheid en omgewing.

Iemand wat vertoë of besware in verband met bogenoemde aansoek wil rig, moet sodanige vertoë of besware aan die Voorsitter, Abattoirkommissie, Privaatsak X250, Pretoria, 0001, rig binne 'n tydperk van 30 dae vanaf datum van publikasie van hierdie kennisgewing en op die wyse uiteengesit in die regulasies kragtens genoemde Wet uitgevaardig.

Aandag word gevestig op die bepalings van regulasie 11 (6) van die genoemde regulasies wat vereis dat iemand wat vertoë of besware teen 'n aansoek aan die Minister voorlê, terselfdertyd 'n afskrif van die stuk waarin sy besware uiteengesit is op die betrokke applikant moet bestel.

L.W.: Die regulasies vereis dat besware onder eed bevestig en in drievoud voorgelê moet word.

(20 Julie 1990)

KENNISGEWING 591 VAN 1990

DEPARTEMENT VAN FINANSIES (BINNELANDSE INKOMSTE)

KENNISGEWING AAN WERKGEWERS

TERUGBETALING VAN WERKNEMERSBELASTING

Paragraaf 1.3 van die "NOTAS VIR WERKGEWERS" vervat in Volume 32 van die LBS- en SIBW-aftrekkingstabelle, wat op 1 Julie 1990 in werking getree het, magtig werkgewers om ooraftrekkings van

NOTICE 589 OF 1990

DEPARTMENT OF MINERAL AND ENERGY AFFAIRS

RESERVATION OF LAND FOR THE PURPOSES OF A PUBLIC ROAD

The Mining Commissioner for the Mining District of Heidelberg has, in terms of section 179 (1) (b) of the Mining Rights Act, 1967 (Act No. 20 of 1967), reserved for the purposes of a public road a strip of proclaimed land on the farms Droogebult 170 IR, Varkensfontein 196 IR and Grootfontein 165 IR, District of Nigel, Mining District of Heidelberg, Province of the Transvaal, as shown on a sketch plan copies of which have been filed under RMT R18/88 in the Mining Titles Office, Johannesburg, and in the office of the Mining Commissioner, Heidelberg.

(19/5/1/2910)

(20 July 1990)

NOTICE 590 OF 1990

NOTICE OF APPLICATION FOR APPROVAL FOR THE ERECTION OF A NEW ABATTOIR IN TERMS OF SECTION 12 (1) OF THE ABATTOIR INDUSTRY ACT, 1976 (ACT No. 54 OF 1976)

It is hereby made known in terms of section 12 (1) of the Abattoir Industry Act, 1976 (Act No. 54 of 1976), that D. H. Fletcher, P.O. Tosca, 8618, has in terms of section 11 of the said Act applied to the Minister of Agriculture for approval for the erection of a new abattoir at Sandhurst Restant 162.

If the application is granted, the abattoir will be used for the slaughter of two head of cattle, or 20 sheep/goats or five pigs per day for supplying meat to the residents of Vryheid and vicinity.

Any person intending to submit representations or objections in regard to the above-mentioned application shall forward such representations or objections to the Chairman, Abattoir Commission, Private Bag X250, Pretoria, 0001, within a period of 30 days from the date of publication of this notice and in the manner set out in the regulations published under the said Act.

Attention is invited to the provisions of regulation 11 (6) of the said regulations which require any person who submits objections to an application to the Minister to serve on the applicant concerned a copy of the document in which his objections are set out.

Note: The regulations require that objections be affirmed under oath and submitted in triplicate.

(20 July 1990)

NOTICE 591 OF 1990

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DEPARTMENT OF FINANCE (INLAND REVENUE)

NOTICE TO EMPLOYERS

REFUND OF EMPLOYEES TAX

Paragraph 1.3 of the "NOTES FOR EMPLOYERS" contained in Volume 32 of the PAYE and SITE Deduction Tables, which came into effect on 1 July 1990, authorises employers to correct overdeductions of werknemersbelasting reg te stel wat ontstaan het as gevolg van die gebruik van die vorige tabelle sedert 1 Maart 1990. Hierdie regstelling sal normaalweg geskied deur latere LBS-aftrekkings te verminder, hetsy eenmalig of versprei oor die oorblywende gedeelte van die belastingjaar.

As gevolg egter van die aansienlike verhoging in die belastingaanspreeklikheidsdrempels wat uit die nuwe belastingskale voortvloei, is baie werknemers van wie LBS in die maande Maart tot Junie afgetrek is, nie meer vir belasting aanspreeklik nie. Sodanige werknemers sal dus slegs die volle voordeel van die verminderde belastingskale onmiddellik kan geniet indien hul werkgewers 'n terugbetaling maak van die bedrae wat reeds afgetrek is.

Terugbetalings van hierdie aard was voorheen spesifiek ingevolge paragraaf 29 van die Vierde Bylae by die Inkomstebelastingwet verbied — werkgewers is slegs toegelaat om terugbetalings te maak nadat hulle hul SIBW-berekeninge aan die einde van 'n belastingtydperk (soos in paragraaf 15.3 van Volume 32 omskryf) gedoen het. Laasgenoemde bepaling is egter nou gewysig om die Kommissaris te magtig om ander omstandighede voor te skryf waarin terugbetalings van werknemersbelasting gemaak kan word. Kragtens daardie magtiging, word genoemde paragraaf 1.3 van die NOTAS VIR WERKGEWERS nou soos volg gewysig:

1.3 Aftrekkings wat vanaf 1 Maart 1990 ooreenkomstig Volume 31 gemaak is, mag reggestel word om dit in ooreenstemming met die tabelle in Volume 32 te bring, hetsy by wyse van 'n eenmalige regstelling teen die volgende LBS-aftrekking wat gemaak moet word of deur die regstelling oor die oorblywende gedeelte van die jaar te versprei, of wanneer 'n SIBW-berekening aan die einde van 'n belastingtydperk gedoen word.

Indien 'n werknemer ingevolge Volume 32 nie meer vir belasting aanspreeklik is nie, of die oormatige aftrekkings meer is as die volgende aftrekking wat verskuldig word, kan die oorbetaling onmiddellik aan die werknemer terugbetaal word.

Werkgewers wat in sodanige gevalle terugbetalings gemaak het, kan die bedrag verhaal deur dit af te trek van die volgende betaling van LBS wat hulle aan die Ontvanger van Inkomste maak of, indien daardie betaling onvoldoende is om die volle bedrag te verhaal, kan hulle by die Ontvanger van Inkomste aansoek om 'n terugbetaling doen.

J. W. HATTINGH,

Kommissaris van Binnelandse Inkomste.

(20 Julie 1990)

employees tax which arose through the use of the previous tables since 1 March 1990. Ordinarily, this correction would be done by reducing subsequent PAYE deductions, either on a once-off basis ~~or~~ spread over the remainder of the tax year.

However, in view of the substantial increase in the tax liability thresholds flowing from the new tax rates, many employees from whom PAYE was deducted in the months March to June are no longer liable for tax. The only manner in which such employees could immediately enjoy the full benefit of the reduced tax rates, would be by way of their employers refunding the amounts deducted to date. 320

Previously, such refunds were specifically prohibited under paragraph 29 of the Fourth Schedule to the Income Tax Act—employers were permitted to make refunds of overpaid PAYE only after making their SITE determinations at the end of an imployee's tax period (as defined in pargraph 15.3 of Volume 32). The last-mentioned provision has, however, now been amended so as to give the Commissioner for Inland Revenue power to prescribe other circumstances in which refunds of PAYE may be made. In terms of that authority, the said paragraph 1.3 of the NOTES FOR EMPLOYERS is now amended as follows:

1.3 Deductions made in accordance with Volume 31 from 1 March 1990 may be corrected to bring them into line with the tables in Volume 32, either by way of a once-off adjustment against the next PAYE deduction which has to be made or by spreading the adjustment over the remainder of the year, or when a SITE calculation is done at the end of the tax period.

If an employee is no longer liable for tax in terms of Volume 32, or the excessive deductions exceed the next deduction due, the overpayment may be refunded to the employee immediately.

Employers who have made refunds in such cases may recover the amount refunded by deducting it from their next payment of PAYE made to the Receiver of Revenue or, if that payment is insufficient to recoup the full amount, they may apply to the Receiver of Revenue for a refund.

J. W. HATTINGH,

Commissioner for Inland Revenue.

(20 July 1990)

KENNISGEWING 592 VAN 1990

DOEANE- EN AKSYNSTARIEFAANSOEKE.—LYS 26/90

Onderstaande aansoeke betreffende die Doeane- en Aksynstarief is deur die Raad van Handel en Nywerheid ontvang. Enige beswaar teen of kommentaar op hierdie vertoë moet binne ses weke na die datum van

NOTICE 592 OF 1990

CUSTOMS AND EXCISE TARIFF APPLICATIONS.—LIST 26/90

The following applications concerning the Customs and Excise Tariff have been received by the Board of Trade and Industry. Any objections to or comments on these representations must be submitted to the Board

The Star Star 20/7/90
Finance

Govt adds VAT to anti-inflation fight

By Jabulani Sikhakhane

In a bid to bolster its fight against inflation, the Government intends asking companies to use their VAT-exemption on capital goods to hold down retail price increases, says deputy Minister of Finance Dr Org Marais.

Org Marais

Speaking yesterday at a briefing organised jointly by the Johannesburg Chamber of Commerce & Industry and the Financial Mail, Dr Marais said the names of the companies agreeing to participate in the anti-inflation campaign would be made public.

Dr Marais said it was the Government's intention to introduce an excise duty on capital investments to smooth out the transition to VAT.

The duty, which would be lower than the VAT rate (the Government is currently working on the basis of 12 percent), would be phased out over time.

He said the transition period would be needed to avoid distortions in the economy.

Dr Marais said without the transition period, companies would wait until October 1 next year before making any capital investments.

He said the first stage in preparation for the introduction of VAT would be to invite business people to submit comments on the draft Bill.

Members of the VAT committee will be announced next week. The committee will receive comments and recommendations on the draft Bill and submit its report to the Cabinet at the beginning of November.

The final Bill is expected to be released at Budget time next year, after which the Government will embark on the second phase of providing training on the implementation of VAT.

Dr Marais said that among the comments received so far, most interest had centred on bringing food into the VAT net.

Others related to construction and fixed capital goods, transitional rules, compliance costs, second-hand goods, fringe benefits, entertainment, financial services, transport, medical services and local and regional services council levies.

From the economic point of view, October next year would be about the right time to introduce VAT.

Inflation was expected to be lower and interest rates would have fallen, Dr Marais said.

Beware of policies which drive away mobile taxpayers

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B/Day 20/7/90

BRIAN KANTOR

APARTHEID has been part, not the whole, of the problem restraining the growth in the incomes of black South Africans. Removing apartheid will only be part of the solution.

The system of apartheid was a shameful abomination. The danger is that the simple correlation of poverty with apartheid will encourage a naive belief in some quick economic fix. A fix, moreover, that will neglect some of the strengths of the South African economic system. Strengths that were gathered not because of, but despite, the interventions of apartheid in the economic system.

The task before South Africans is to make sure that the economy does better for the next generation than it did over the last. Better, that is, for the great majority and especially for the most vulnerable group: the bottom 20% of income earners.

Such an outcome should not be regarded as anything of a foregone conclusion. Indeed, the smart money right now in the financial markets of the world would be betting against it happening.

An indicator of the justness of a particular policy is to determine whether the intervention in the economy will be helpful to the really poor, that is to say the bottom 20% of income earners.

This group is invariably poorly represented in even the most representative of political systems. In SA, quite obviously, by no means all blacks are in this category. The bottom 20% are to be found mostly in the rural areas and outside formal sector employment.

Foreign investors have for long not been particularly impressed by the prospects for the SA economy. As a result, on balance, South Africans have imported very little foreign capital over the past 30 years.

One of the debates is about the distribution of income and wealth. The problem with redistributing income through taxation or regulation is that the economic actors who earn the highest incomes are often the most internationally mobile.

It thus becomes easier to redistribute taxpayers than taxes, to the great disadvantage of those for whom additional income is intended. Mobile earners of relatively high incomes, if unable to achieve their required after-tax and risk-adjusted returns, will take their skills elsewhere.

It would be a grave mistake to underestimate the degree of mobility of the capital, human and financial, currently employed in SA. Many of the skilled are also foreign passport holders and they will leave quicky in response to actual or perceived threats to their standard of living.

The economy would be disastrously affected by such outflows. It is possible to trade off higher taxes for a greater degree of certainty in the economic future. The task should be to provide that certainty so as to retain and increase the commitment of mobile capital.

In this way, more income can be collected from taxpayers primarily through the availability of a much larger income and tax base. The redistribution of income cannot occur, on any meaningful scale, without a strong rate of growth in the tax base.

Owners of physical capital — plant and buildings — are, unfortunately, far more vulnerable to expropriation. They are vulnerable because they can't take all their accumulated wealth away with them.

Paradoxically, what may be fair, redistributing income, is largely impractical and certainly unhelpful to the poor. Redistributing wealth is dangerously possible, but is highly unfair and is also very damaging to the interests of the poor if a long-term view of their prospects is taken.

Claims for the redistribution of wealth from white to black South Africans are based upon the unfairness of the process by which incomes and wealth have been generated.

It can be agreed that the process has been unfair in that some whites were and are able to use their political power to rig the economic system in their favour. Their did so by reserving jobs and protecting markets against entry by blacks. Also the spending of government, especially on education and welfare, favoured whites rather than blacks to their permanent advantage.

Clearly fairness demands freedom for all individuals to compete for jobs or for any other service or resource without interference by other in the process of exchange. Fairness demands also that government spending and hiring practices be colour blind. So much may be regarded as common cause.

It should be recognised, nevertheless, that an unequal distribution of incomes or wealth, the fact that some individuals or groups of individuals are better off than others, does not in itself imply unfairness. A fair race does, after all, go to the fastest runner.

Yet even given that the economic process in SA has been unfair to some degree, the issue of whether some part (which part?) or all of the accumulated savings of SA whites, as revealed in their wealth, could fairly be taken away from them and redistributed to blacks is highly debatable.

Part of the answer may be found in a consideration of the act of saving. Whatever may have been the source of income or wealth, whether income is gained by a fair or unfair process, the wealth owner may choose either to consume or save, that is, to use up resources or to preserve them for later use.

Clearly preserving rather than spending income is of benefit to others, benefits for which an agreed reward (interest) is paid. Preserving rather than consuming wealth is especially helpful to the poor for whom resources are in short supply.

Expropriation is highly damaging to the interests of the poor because it discourages additional flows of saving and investment. The unskilled poor cannot hope to escape poverty without being able to combine their labour with more capital.

Expropriation without full compensation is not only unwise. Because it discourages saving, it is also manifestly unfair because while income or wealth may be unfairly gained, preserving rather than consuming such wealth, is an act of sacrifice that deserves to be respected rather than punished.

The wealth of the saver, the accumulator, is vulnerable to expropriation. The pleasures of the spendthrift are beyond reach.

An unfair economic process is one that keeps out competition, that prevents suppliers from freely supplying their goods or services. As a result prices, including wages, will be higher or the quality of the goods or services supplied will be inferior.

Consumers and taxpayers are called upon to bear the cost of protection. Consumers are always many, producers relatively few. It is the numerous poor consumers who can least afford protection for inefficient production.

While replacing a few privileged white producers or officials with an equal or greater number of privileged black ones may be regarded as inevitable, it will be no more fair than the previous system of patronage. Nor will it be any less damaging to the great many consumers and taxpayers of all colours. And the poor, as before, will bear the greatest burden.

There is, in fact, a simple way to judge whether an act of economic policy is an exercise of political power that redistributes income and opportunity in favour of a small minority of producers at the expense of the majority and has absolutely nothing to do with fairness.

Consider whether the step taken is in the consumers interest. If it means higher prices, wages, taxes or lower standards of service or quality it will clearly represent a gain for a few producers at the cost of the many consumers.

Fairness in practice would mean simply putting the interest of the great majority of consumers first.

☐ Kantor is Acting Dean of the Commerce Faculty at UCT. This is an excerpt from his address to the Idasa conference in Port Elizabeth last month.

Contributions to medical aid schemes set tax poser

21/7/90 FINANCE STAFF

EVER since the 1989 assessment year, taxpayers under the age of 65 have, in many instances, been unable to obtain tax relief for either medical expenses or contributions to medical aid societies.

This is the opinion of KPMG Aiken & Peat partner, Alister MacKenzie.

Mr MacKenzie says: "Under the present rules, taxpayers under the age of 65 can only deduct medical costs for tax purposes when medical expenses or contributions exceed the greater of R1 000 or five percent of their taxable income.

"On this basis the five percent limit will apply whenever taxable income exceeds R20 000.

"To ensure that at least contributions to medical aid societies are deductible, many schemes have changed their rules and now operate on a non-contributory basis.

"The payment of the full contribution, like any other employment cost such as salaries, is fully tax deductible.

"In this regard," said Mr Mackenzie, "certain companies may wish to take account of this additional cost when setting the level of other employee benefits, including actual renumeration paid.

"Section 7(1) of the Income Tax Act includes in an individual's taxable income any income which is 'dealt with on his behalf ...'," said Alister MacKenzie.

"To avoid the application of this section, where medical aid rules previously stated that contributions were payable on, say, a 50:50 basis, these need to be changed so that instead all contributions are payable by the employer company who then can be given a discretion on how and when it may recover such amount.

Directors' tax dodge derailed

320 Star 21/7/90

MAGNUS HEYSTEK

THE Receiver of Revenue has delivered a crippling financial blow to private company directors as a result of a directive that stipulates certain amounts of their renumeration will now becomes subject to pay-as-you-earn (PAYE) deductions.

It also "blows out of the water" certain insurance schemes that were linked to this exemption.

Says Pat McGurk, tax partner at KMPG Aiken and Peat :"I think one of the sneakiest provisions that came through this year commits directors of companies, whether private or public subject to PAYE deductions on certain renumeration from March next year."

Popular

The clause that allowed directors of companies, including Close Corporations, to postpone PAYE deductions until the end of the tax year has become very popular amongst certain types of businesses.

Many employees in specialised functions, like creative artists or computer specialists, have used a loophole in the Act by forming Close Corporations and demanded that the CC be paid for work done by them, and not them personally. On paper they then worked for the CC which they in essence owned.

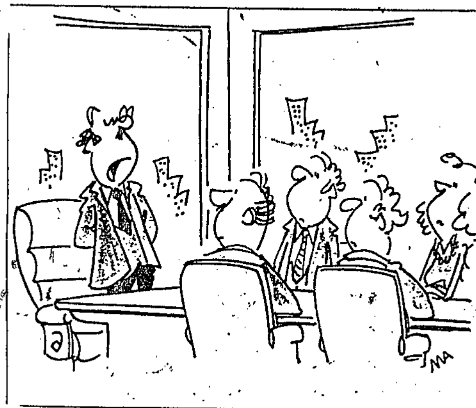
As this work was then done by either a CC or even a company, no PAYE-taxation was paid as only "natural" persons are liable to PAYE-deductions.

The CC, on its part, then onpaid the members of the CC who in effect were in the same position asdirectors of private companies, and no PAYE was again paid.

The new provision in the Income Tax Act also "blows out of the water" certain schemes whereby directors paid their PAYE savings into an insurance policy and then borrowed on this policy to pay their tax, adds Mr McGurk.

The advantage was that income tax payments were only made every six months in the form of provisional payments. These payments were calculated on the basis of the expenses of the CC, which reduced the overall tax burden.

In addition, CC members had control of their money for a much longer period which improved cash-flow considerably while interest was earned on the money until provisional payments were made.



"Gentlemen, our little dodge has been found out."

According to sources in the accounting world, the Receiver has been aware of these schemes for many years now, but the sharp increase in the use of CC's for this purpose was threatening to undermine the cash-flow of the Department of Internal Revenue.

"The bottom line now is that, if you are a director of companies, public or private, you are going to have PAYE withheld from remuneration from March next year.

"Surprisingly, there is no mention of this even in the explanatory memorandum to the Income Tax Amendment Act. I am also surprised that no one is jumping up and down in protest," Mr McGurk added.

Confusing

The proposed changes to the law have not yet been promulgated but tax analysts are predicting this be happen at any moment.

Dealing with provisional taxpayers, Mr McGurk said that confusion over whether a company director was made a provisional taxpayer by the Receiver or whether he had to make himself one had been resolved.

"Now it becomes quite clear. The day a person is appointed a director, he becomes a provisional taxpayer and it is his obligation to register as one with the Receiver of Revenue within 30 days of his appointment. If he doesn't he runs into trouble."

W/C ARGUS 21/7/90 326

VAT seen from October '91

From JABULANI SIKHAKHANE

IN a bid to bolster its fight against inflation, the government intends asking companies to use their VAT-exemption on capital goods to hold down retail price increases, says deputy Minister of Finance Dr Org Marais.

Dr Marais said from an economic point of view, October next year would be about the right time to introduce VAT.

Inflation was expected to be lower and interest rates would have fallen, he said.

Dr Marais said the names of the companies agreeing to participate in the anti-inflation campaign would be made public.

He said it was the government's intention to introduce an excise duty on capital investments to smooth out the transition to VAT.

The duty, which would be lower than the VAT rate (the government is currently working on the basis of 12 percent), would be phased out over time.

He said the transition period would be needed to avoid distortions in the economy.

Dr Marais said without the transition period, companies would wait until October 1 next year before making any capital investments.

He said the first stage in preparation for the introduction of VAT would be to invite business people to submit comments on the draft Bill.

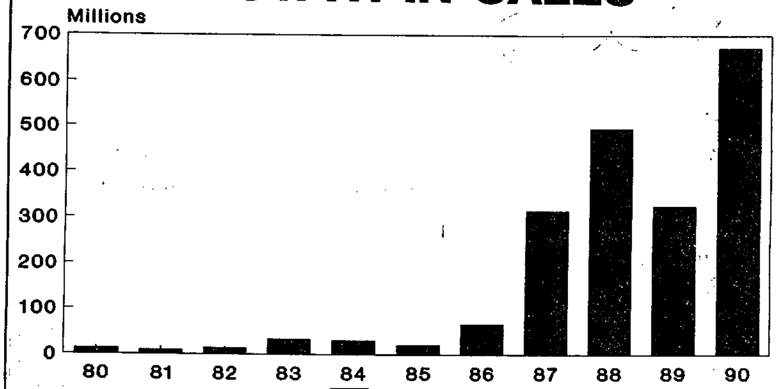
Members of the VAT committee will be announced next week. The committee will receive comments and recommendations on the draft Bill and submit its report to the Cabinet at the begining of November.

The final Bill is expected to be released at Budget time next year, after which the government will embark on the second phase of providing training on the implementation of VAT.

Dr Marais said that among the comments received so far, most interest had centred on bringing food into the VAT net.

Others related to construction and fixed capital goods, transitional rules, compliance costs, second-hand goods, fringe benefits, entertainment, financial services, transport, medical services and local and regional services council levies.

GROWTH IN SALES



1-year period ending June 30

ABOUT R670 million flowed into the coffers of Old Mutual's five unit trusts in the 12 months ended June 30. About 64 000 new accounts were opened — more than half of them debit orders and about a quarter from black investors — bringing the total to 270 000. The combined assets of the five funds exceeded R2,5 billion, a leap of 39 percent from the previous year, making Mutual's unit trusts more the size of the closest competitor.

'Watershed' tax is on the cards

W/t Mail 2/7/90 (320)

From MAGNUS HEYSTEK

JOHANNESBURG. — The introduction of a witholding tax on most forms of traditional savings — widely forecast to be announced in next year's Budget — could prove to be a watershed for South Africa's financial markets.

It could also, according to some financial experts, lead to a tax bonanza for government.

While the finer details of the witholding tax are currently still being worked out by government officials, most bankers and building society spokesmen expect the rate to be pitched at between 10 and 12 percent.

A low rate of anything between 10 and 12 percent will be a great tax-saving for savers, especially in the higher marginal tax brackets. The tax will be collected upfront by the financial institution and passed on to the Receiver of Revenue. It will also remove from many investors the need to fill in provisional tax returns.

Says Barry Swart, managing director of First National Bank: "This is an enormous change for local financial markets. It is bound to change the flow of funds, which have been pouring into the coffers of life insurance companies during the last two decades, back into more traditional savings areas like banks and building societies," he said this week.

The expected inflow of funds into banks will also impact — some say dramatically — on the bottom-line performance of banks as the expected inflow of funds will lower the cost of funding substantially.

"About 60 percent of all bank financing is funded by means of short-term money, which places margins under great pressure. A larger and more stable inflow of funds will reduce our cost of funding," Mr Swart said.

"The enormous inflow of money into the coffers of the life insurance companies impacted negatively on much-needed grassroots developments in this country. It is not the function of life insurance companies to finance grass-roots developments. This has always been the function of banks. A return to a more normal flow of funds will make more money available for high-risk business development," he added.

Local financial markets in the last 15 years have been characterised by a diversion of domestic funds away from banks and building societies to life insurance companies. This was the result of high inflation and periods of negative returns earned on traditional savings.

While gross domestic savings in the economy have remained fairly stable during the eighties fluctuating around 22 percent and 28 percent of gross domestic savings, has the structure of savings undergone drastic changes.

During the 1980s the assets of banks and building societies grew by 14 percent a year — less than the average inflation rate - while assets of long-term insurers advanced by roughly 26 percent a year.

Traditional savings have suffered under the combined onslaught of negative overall returns, even before taxes, which was compounded by high rates of personal taxes which discouraged savings even more. Contractual savings in the form of life insurance premiums accounted for the largest increase in savings.

The introduction of a witholding tax could revive South Africa's lagging personal savings tendency which has dropped to alarmingly low levels. In 1981 personal savings represented 5,8 percent of gross domestic savings while by 1988 it amounted to only 4,4 percent. Such savings constituted 2,9 percent of personal disposable incomes in 1981 while the comparable figure in 1988 was 1,7 percent.

Dr Bruce Ilsley, general manager at Sage Life, reckons that the government stands to gain substantially from this move. All savings at banks and building societies will be taxed upfront with the banking system acting as the tax-collection agent. This will also greatly increase the cashflow of the Receiver of Revenue and cut down on the administrative effort to collect the tax on savings of individuals, he said.

Spokesmen for life insurance companies refused to be drawn on this subject, but privately admitted that it might impact negatively on the huge flow of funds the life companies. Taken with the abolition of income tax on dividends, including unit trusts, and high real interest rates, this is bound to reduce the massive flow of funds that were a characteristic of the 1980s.

Vat costly, inflationary — analyst

320

Cape Times 21/7/90

ARI JACOBSON

IN a strongly worded attack on the Value Added Tax (Vat) system Peter Maspero of accounting firm Coopers & Lybrand has asserted that the introduction of the new system, next year, would cost millions to administer, give rise to increased inflation and result in lower productivity.

The Margo Commission recommended the retention of the GST system of indirect taxes in a modified form, noted Maspero, a Cape partner.

He argued that Vat was a sophisticated tax system developed for First World conditions while SA as a developing nation had inherently different problems.

Business profits were structured to account for costs, which included Vat and the necessity to increase staff components to administer this tax. These additions would lead to spiralling costs, he said.

"Cheating will also continue under the Vat system and policing will be necessary by an authority already stretched with fewer collection points under GST."

The real distinction between the two systems is simply the manner in which the tax is collected — the stage of collection and payment. He pointed out that inclusions, such as foodstuffs or capital goods could be advanced under either tax system.

Maspero supported the viewpoint that VAT at every stage of the economic chain would be superior in the collection process to the once-off final stage collection under GST.

"But the real issue is the dismal tax morals of SA citizens — not paying tax is stealing and should be punished accordingly."

With the moral climate taking time to correct and detection only coming from an effective policing system, registration certificates should be issued to vendors with an annual turnover of R1m. "In this way tax would be collected from responsible sources and the informal and semi-formal sectors bypassed."

He said the need for the goverment to spend R10m on a tax campaign illustrated the complexities arising from the introduction of this system.

Refund on VAT by EC

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By DIRK TIEMANN

SOUTH Africans who have visited European Community countries on business could be in line for a tax bonanza.

Individuals and companies can now reclaim the VAT part of their expenses.

SA Foreign Trade Organisation (Safto) international manager David Graham says EC traders have for some time been able to recover VAT on goods and services bought in other member countries.

Broadest

The EC's new directive allows traders from outside the community to reclaim VAT incurred in all member countries.

Safto has a formed a link with the UK's Travelex Financial Services. Claims by companies and individuals can be submitted to Travelex.

Germany and the UK allow the broadest range of recoveries. Claims for Germany, the Netherlands and Belgium can be backdated to 1986 provided the claim is submitted by the end of this year. The UK allows claims back to July 1, 1989, and France and Denmark will accept claims from January 1 this year.

S.T. 24/11/90

STAR 23/7/90 (320)

Taxpayers bear brunt of rise in government debt

CAPE TOWN — In the past 30 years the outstanding nominal value of central government debt has risen thirty-two fold to R81 billion, analyst Ursula Maritz says in Old Mutual's latest Economic Monitor.

She says central government spending grew rapidly from R847 million in 1960 to R65 billion in 1989 and was financed largely by a sharp rise in the tax burden as well as borrowing on the local capital market.

"Although the absolute level of debt increased, expressed as a percentage of GDP it declined from 47 percent in 1960 to 32,1 percent in 1989, confirming the fact that the taxpayer rather than excessive deficit financing had borne the brunt of financing this increase.

"It also demonstrates how the real value of the outstanding debt has been eroded over time by high inflation."

Ms Maritz says it is clear from these figures that the present ratio of government debt to GDP is not excessive by local historical standards.

"It also compares favourably internationally, as the ratio is 46,7 percent in the UK , 42,9 percent in the US, 22,3 percent in West Germany and 32,1 percent in South Africa.

"A further positive feature is that local government debt has been financed mainly from the domestic capital market rather than by foreign borrowing.

"The servicing and repayment of foreign debt implies a transfer of real resources abroad, as such payments have to be made in terms of a foreign currency.

"In a country with a structurally weak currency, such as South Africa, the repayment of foreign debt could place severe pressure on domestic taxpayers and/or the capital market."

Worrying features

In spite of these positive aspects there are several worrying features.

"The rapid escalation in interest payments from less than five percent of government spending in 1960 to more than 15 percent at present is cause for concern.

"A consistent rise in the share of interest payments in total government spending leads to the risk of either a rise in the tax burden or a disruptive cutback in other areas of government spending.

"In this way the flexibility of fiscal policy is undermined, not only by the government's reduced ability to manipulate the discretionary portion of its spending, but also because it limits the ability of the government to reduce the overall tax burden on the economy over time." — Sapa.

Harsher penalties under VAT

3.20

Crack down planned on tax evaders

B/Day 23/7/90

GRETA STEYN

INLAND revenue will crack down much harder on VAT evaders than it has on GST offenders, says chief director of tax policy Trevor van Heerden.

He told a Midrand seminar on VAT on Friday the penalties for failing to pay the new tax would be "much worse" than those under the current GST system. There would also be a section in the Income Tax Act aimed at clamping down on deals done specifically to avoid payment of VAT.

"This new anti-avoidance measure will be similar to Section 103 in the Act. We will look at schemes in terms of a series of transactions to determine what lies behind them. Focus will be on the substance and not the form. As is the case everywhere in the world, the criterion will be whether the transactions have *bona fide* commercial objectives or not."

Penalties for tax evasion would be an immediate doubling of the amount of tax an offender owed. Under GST, culprits paid an extra 10% a month.

Van Heerden criticised the present approach on two counts — it was not severe enough on those businesses that had deliberately not paid tax, and it was too severe for those that had failed to pay by mistake.

Offenders' names would be published in the Government Gazette — an embarrassment that could be avoided by immediately revealing details of tax evasion once Inland Revenue was on to the case.

Apart from the treatment of offences, there were other important administrative differences between VAT and GST. Disputes between Inland Revenue and taxpayers under the new system would be settled far more speedily. To this end, a VAT Revision Council would be created, headed by a retired judge or advocate.

There would be administrative problems in transition from GST to VAT, for instance in the treatment of the stock of intermediate goods on hand once VAT was introduced. Van Heerden said industries would be looked at separately and, if necessary, treated differently.

"Transitional provisions are needed to ensure there is no double taxation of both VAT and GST," he said.

"The same goes for seeing to it that no-one escapes both taxes."

Van Heerden appealed to businesses to inform Inland Revenue of potential hitches in transition, such as long-term contracts.

Other issues that the VAT committee, Vatcom, was looking at included finding a way around the exemption of financial services from VAT. The exemption came about because of difficulty imposing this tax on financial services such as banking and life assurance.

But in the interests of neutrality, there was no reason not to impose a value-added tax on financial services. Vatcom was looking at imposing a similar yet administratively simpler tax on the industry.

Turning to macro-economic issues, Van Heerden said government was looking at the possible influence, if any, of VAT on the inflation rate. He predicted there could be a once-off "bump-up" in the inflation rate before the implementation of VAT as companies started raising prices in anticipation of the new tax. However, in some cases less tax would be paid and those prices should drop.

Married women nearly lost big tax break

B Day 25/7/90 (320)

GRETA STEYN

AN OVERSIGHT in the amendments to the Income Tax Act almost cost married women a major tax break on retirement funds that effectively doubles the concessions available to married couples.

However, Inland Revenue spokesman Ian Meiklejohn said yesterday a retroactive change to the Act would be made next year to include retirement schemes in separate taxation of married couples' income. He acknowledged the omission had been a mistake.

The oversight had life assurers worried — they had expected married men and women to be entitled to the maximum tax-free concessions on lump sum payments from retirement funds.

Southern Life assistant GM Nigel Scott said the institution had contacted Inland Revenue immediately on the discovery that the Act's definition of a married woman's income excluded retirement funds.

"The Act as it stands deems retirement income to be taxable in the hands of the husband. While the definition of trade in the Act is broad enough to cover any occupation, venture or calling, it would not include annuity income derived from a pension or retirement annuity fund. However, retroactive legislation next year means assurers can carry on as if annuities are included."

Since women are now regarded as separate taxpayers, the R30 000 exemption in respect of lump sums received on termination of service is available to them.

A less significant concession is the raising of the level of the annual annuity below which the entire benefit payable by a pension or retirement annuity may be paid by way of a lump sum. This has been increased from R250 to R600.

VAT expected to hit the mass housing sector hard

THE introduction of value-added tax (VAT) could have a "devastating" effect on construction costs, warns Camdon's MD Scott McRae. (320)

He says the effects on retirement village development and mass housing in particular would be totally out of keeping with government's new social and political stance. B/Day 25/7/90

"The proposed system would definitely boost costs at a time when the construction industry and the housing market can least afford it," says McRae, adding that first-time home owners would be particularly hard hit.

"Building costs are rising by about 2% per month. VAT would boost this rate of increase significantly, making it difficult, if not impossible, for the first-time home owner to buy property," he says.

This would mean growing numbers of people without a financial stake in a peaceful future, and facing a steadily eroding standard of living as rentals increased along with inflation.

McRae suggests that instead of taxing the construction sector through VAT, a national strategy should be worked out to encourage home ownership.

"Quite apart from the socio-political repercussions, there is the problem of curtailing the contribution to the economy made by the construction industry."

Some gains from VAT to go to black business

(320)

THEO RAWANA

GOVERNMENT would channel some of the gains from Value Added Tax (VAT) towards black economic empowerment, Deputy Finance Minister Org Marais said in Soweto yesterday.

Marais was addressing a seminar on VAT, organised for black businessmen by Sowetan Business newspaper.

Saying GST had to be phased out because it had too many distortions, Marais said exemptions on such items as food resulted in the rich benefiting, with the benefit-targeted poor people receiving nothing.

"Government spent R2,4bn in 1989 financing GST exemptions, and R420m of this went to the exemption of food, which, because the system was not foolproof, went to finance the rich."

Asked by one businessman if government would use the savings gained from VAT, Marais said: "We wish to bring black business into the economic mainstream, and if we have to use money for that, we will."

Marais invited blacks to join VATCOM, a committee comprising members from the public and private sectors, to which interested parties could make submissions on VAT. "I am prepared to talk to all interested groups, be they ANC, PAC or Inkatha," he said.

VAT was a tax imposed on all goods and services which would be broadly-based and would address GST's two main shortcomings: tax evasion and double taxation, Marais said.

Government intended to introduce VAT at 12%, yet the same amount as under GST would be taken "provided exemptions are kept to a minimum".

The Department of Inland Revenue would embark on a R4m VAT information and training programme, directed at business people and the man in the street. Training seminars for people, organisations and professions closely involved in the implementation of VAT would be embarked on.

Condemning the GST's "cascading" double-taxation effect, Marais said the intention of food exemption was to assist the needy.

To redress the inequalities that stemmed from double taxation, government intended allowing manufacturers a credit for tax paid on capital goods.

"To discourage, however, the postponement of capital goods purchases, a tax on capital goods will be introduced for a limited period.

"In the case of intermediate goods (consumables), a credit will be granted for any tax paid after the introduction date of VAT," he said.

No change in retirement annuities tax

LINDA ENSOR

THE prospects of retirement annuities being incorporated into the system of withholding tax on interest — an inclusion the life industry is lobbying for — seems unlikely at this stage.

However, Deputy Finance Minister Org Marais said he was open to persuasion on the issue and invited representatives of the life industry to present their views.

Marais said he had held discussions with banks and building societies on the issue of withholding tax on interest and life assurers, fearing discrimination, had asked to be included in the talks.

He said he found it "difficult to understand" the case for the application of the withholding tax on interest to retirement annuities.

Firstly, premiums on retirement annuities were allowed to be deducted before tax and secondly, Marais said, he could not see how assurers could pay out withholding tax every quarter — as was normally the case — instead of at the maturation date of the annuity.

He said the purpose of the withholding tax was to stimulate savings and to this extent, were life assurers to be excluded, it would level the playing fields between them and banks and building societies by attracting deposits to the latter institutions.

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"If they can come in on the basis of no tax advantage we would consider their suggestions," Marais said.

Aspects under investigation at present included how to deal with small amounts in the hands of banks. Also, under examination was how to close possible loopholes which would make tax evasion possible.

"If we want to close the loopholes then we must limit the amount of interest which can be deducted as tax," Marais said.

A technical committee was investigating the system and Marais said he hoped to meet banks and building societies before the end of August.

BDay 27/7/90

F/M 27/7/90 (320)

WITHHOLDING TAX

Out of the frying pan . . .

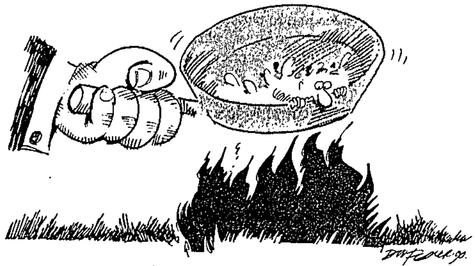
A proposal relating to tax on interest income earned on bank and building society savings, to be introduced in next year's Budget, treats neither payers nor players alike.

Replacing the existing tax (usually at the top marginal rate of 44%) on interest received by individuals with a withholding tax possibly as low as 10%-12% is sound in principle (see box).

Deputy Finance Minister Org Marais estimates there will be no reduction in the tax take. With interest taxed at source, the flow to the Exchequer will not be eroded by tax evasion. But the honest taxpayer will pay substantially less. There will be losers — pensioners and low-income earners who previously paid no tax — but Marais says ways are being sought to compensate them.

Nevertheless, the scheme as conceived is seriously flawed. By distinguishing between individual and other taxpayers, the changes may create as many problems as they solve. The scheme again skews the flow of funds — this time away from life offices — and deprives, for instance, holders of annuities with a fixed investment component of tax benefits enjoyed by short-term savers.

Further, says Deloitte Haskins & Sells' Clive Sharwood, it allows businesses which are treated for tax purposes as individuals to arbitrage their tax: by selling assets, using the proceeds to invest in savings, borrowing to repurchase the assets, and deducting the interest payment from taxable income.



In the absence of a draft, financial institutions are not sure what the authorities are considering. So despite the relatively short time before its scheduled introduction, they can't identify flaws and suggest ways to remedy them.

Deposit-taking institutions and life offices are both concerned on this score.

Says Life Offices Association chairman Dorian Wharton-Hood: "We were told a draft would be made available. When we heard nothing further, we assumed no progress had been made. Then we learnt from a press report that plans were proceeding.

"This could have serious consequences for us. We would like the opportunity to put our views." In the absence of a draft, the association has commented on oral proposals.

Standard Bank MD Mike Vosloo says it will be to no one's advantage if the new dispensation creates the incentive and opportunity for flexible definitions to interest income. "We are not looking for short-term benefits. We would like a stable and permanent system considered equitable by all."

Both fear potential trouble spots may take longer to eliminate than Pretoria expects.

Marais has no anxieties. "This scheme has been introduced in several countries, including the UK and New Zealand, where it is applied only to deposit-taking institutions. Nowhere have there been any problems."

But SA has far higher inflation than those countries. This has stimulated the business of life offices. So the consequences of such a move may not be identical.

Moreover, there seems no good reason why the scheme should not be extended to all taxpayers, including life offices, particularly as government accepts the trustee principle, which implies that life assurers should be taxed the same way as individuals.

Marais says the limited introduction is because of the administrative burden, though eventually the scheme may be extended to include all interest income.

This may be valid in relation to interest on gilts — Eskom, for instance, may not able to deduct interest at source. But if the tax is confined to deposit-taking institutions and uniformly applied to all taxpayers, it should create no additional problems.

Once banks have the administrative systems, it will surely be simpler to treat all interest payments alike than to distinguish between them.

It seems that the proposals as known are over-simplified. And that the authorities underestimate the task ahead.

Marais denies this. He is prepared to talk to all interest groups. "If we can't get something acceptable, workable and efficient we will wait another year. Ultimately, I will take it to the tax advisory committee."

The first useful step in what may be a complicated process would be to turn oral proposals, which Marais says he has been working on for years, into draft form. Concerned parties would then know precisely what they are expected to comment on.

Ethel Hazelhurst

SKEWING THE FLOW OF FUNDS

High inflation over the past 15 years and tax on interest income have combined to make traditional savings an unpopular investment. The measure of the distortion in savings is reflected in households' financial flows.

Rand Merchant Bank economist Rudolf Gouws calculates that between 1977-1988 compound annual growth in net personal saving was 1,4% but in contractual savings a massive 25,1%. The apparent anomaly, in which the part is more than the whole, is explained by discretionary dissaving of more than R19m.

One banker estimates retail deposits have shrunk from 85% of banks' funding at the start of the Eighties to 40% now. Investors have systematically channelled savings into life offices which can offer better real returns because:

☐ They may invest a large proportion of funds in equities which, in an inflationary environment, have outperformed all other investments. Deposit-takers as financial intermediaries invest in loans and advances, which do not offer capital appreciation but are subject to stringent capital requirements; and

☐ Deposit-takers must hold cash and liquid assets against liabilities, which assurers do not because their cash inflows are contractual and their liabilities long term. This is likely to continue — despite a hasty addendum to the last draft of the Deposit-taking Institutions Bill which implies it will apply to life assurers six months after it becomes law. However, Finance Minister Barend du Plessis has told the Life Offices Association that the industry will not fall under this Act, says chairman Dorian Wharton-Hood.

The proposed withholding tax of 10%-12% on interest income is intended to make traditional savings more attractive.

The authorities believe the spin-off will mean that more funds will become available for housing loans and production capacity, rather than being routed through assurers into financial investment.

F/M 27/7/90 (320)

'VAT may cost small retailers a packet'

MELANIE SERGEANT

PROPOSED new value added tax (VAT) legislation, which will replace GST next year, could cost small owner-operated retail stores in SA more than R1,5bn.

This could be the price of new computer hardware and software needed by the estimated 40 000 operators in this part of the market, says MD of M & PD subsidiary Zytron Computer Peripherals Kelvin Reynolds. B Day 27/7/90

"The mass-manufactored 'calculator-type' cash drawer or till commonly used by this sector of the retail market will have to make way for more specialised, integrated computer systems like networks and distributed processing systems. (320)

"These link point of sale to advanced 'back office' inventory control, accounting and administration systems," he says.

The reports required by government for controlling VAT will make many more administrative demands on retailers who will have to hold more detailed, accurate information.

Reynolds said the situation could be seen as an opportunity for a local systems house to develop a low-cost, entry-level package targeted at this market.

Business organisations differ on VAT implementation

WMail 27/7 - 2/8/1990

(320)

For this, the last of three articles on VAT, **ALAN HIRSCH** *spoke to representatives of organised business and labour for their views on VAT, and their plans to respond to the government's proposals*

THE economic policy process is beginning to change. Before he introduced Value Added Tax to the public, Deputy Fiance Minister Org Marais not only consulted organised business and the parliamentary parties, but he called in the African National Congress, the Pan Africanist Congress, the National African Federated Chamber of Commerce (Nafcoc), and the Congress of South African Trade Unions (Cosatu) to explain the government's proposals, and to ask them to contribute to the legislative process.

Not surprisingly, Cosatu, Nafcoc and the South African Chamber of Business (Sacob), have very different views on the proposed VAT system.

But the representatives of white and black business, and the major trade union federation, are in the process of formulating considered and, sometimes, creative responses to the proposed tax.

Sacob chief economist Ben van Rensburg told *The Weekly Mail* that Sacob approved, in principle, of VAT. "It is a more efficient tax than GST," he said, "in the way that it influences the economy, and in its collection process. But South Africa presents special problems in the implementation of VAT."

Van Rensburg was particularly concerned about the effects of the tax on small business. It was not satisfactory to allow small businesses to be exempt from charging VAT, because they would still be paying VAT on their supplies. This would put them at a disadvantage in their relationship with bigger businesses.

For example, if a business not registered in terms of the VAT law competed with a registered vendor for a contract, the smaller business would have the extra cost of VAT paid on supplies, but not reclaimed like the bigger company that could get credit on VAT paid.

Small businesses should therefore be encouraged to join the VAT system. The system needed to be made sufficiently attractive to bring them in.

One possible model was the German system in which small businesses were "zero-rated". In other words, small businesses could claim credit on VAT paid on their inputs, but did not need to charge VAT on their products.

The difficulty in implementing this system in South Africa was that the small businesses would have to develop sufficiently sophisticated book-keeping systems to persuade the tax authorities of the size of their turnover.

Zero-rating is to be applied to exported products. Together with the fact that investment and intermediate goods were not taxable in terms of the VAT system proposed, zero-rated exports should make South African exporters significantly more competitive.

Nafcoc president Sam Motsuenyane was also worried about the implications of VAT for small businesses. But he reiterated Nafcoc's position that any tax that blacks did not have a full democratic right to determine and spend was unjustified.

Nafcoc had not yet worked properly through the Bill. A sub-committee was preparing a brief for the organisation to consider, he said.

In the meantime, Motsuenyane said, he was concerned that if some trader operated outside the system, others who had to charge VAT would be at a disadvantage.

"The spaza shops escape the system, but the man on the corner is not overlooked by the tax collector," said Motsuenyane.

He said Nafcoc was very disturbed by a spate of summonses which had been dished out to black traders in recent months in connection with the non-payment of GST. A very large number of black traders faced bankruptcy, because the onus was on them to prove that they did not owe the taxman the amounts for which they had been assessed.

One good thing about the VAT legislation was that the "independent" homelands were forced to adopt the same VAT system by provisions in South African legislation. This meant shopkeepers in Soshanguve, for example, no longer faced unfair competition from across the border in Bophuthatswana.

Cosatu objected to VAT in principle as it opposed any regressive taxation, said Bernie Fanaroff of the organisation's living wage committee. He said Cosatu had, however, accepted that VAT was a "fait accompli".

Like Nafcoc and Sacob, Cosatu was invited by Marais to sit on Vatcom, the committee that would assess submissions from the public on VAT, and make recommendations to the deputy minister. Cosatu had not yet ruled out the idea of participating, but was reluctant to sit on Vatcom because of what it saw as the unrepresentative structure of the proposed committee.

In their preliminary meeting with Marais, Cosatu and the other organisations present were assured that the additional funds collected by VAT, through the extension of the system and the elimination of evasion, would be diverted to socially urgent projects.

Fanaroff said he had no objection in principle to the idea that the additional taxes would be distributed towards the needy, but he had two reservations. Firstly, the way the needy had been defined in discussions so far excluded the poorly paid sections of the employed population. Poorly paid workers would also be hit by VAT and should be included in the dispensation.

Secondly, Fanaroff doubted that the government had the machinery to effectively deliver the goods and services promised to the needy. Government delivery systems were already very inefficient, and organisations like Operation Hunger, for example, would have to be greatly expanded if they were to serve the purpose.

Though Cosatu probably would not sit on Vatcom, the living wage committee was considering making an alternative proposal to the government. It might propose that a committee be set up that was truly representative of South African society, and not constructed on the basis of group rights, to administer the VAT revenue earmarked for social expenditure.

In the meantime, Cosatu would be requesting another meeting with Marais at which the various options could be explored at greater depth.

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Interest tax good for all in long run

S/Times 29/7/90 (320)

PROPOSED changes to the way in which interest is taxed raise many possibilities.

Of great concern is the effect that the chance of earning a decent risk-free return from interest will have on share prices.

In a market like the present one, few people would risk their capital by buying expensive shares when they can earn, say, 16% after tax without endangering their nest-eggs.

The official rate of inflation has been trimmed to below 14%. One of the primary reasons for investing in equities has been their ability to outpace the effects of inflation in the long term.

Azar Jammine, chief economist at Econometrix, gave me his views on the proposed moves. He says the withholding tax is a healthy development, and puts forward three ideas on its potential effect.

DIAGONAL STREET

By Julie Walker

A really real return

The first suggests that it will have a negative effect on the JSE, which has been too lopsided in the past 10 years or so, with a growing discrepancy between equity investments and fixed or other deposits.

Theory

In short, more money than necessary has been channelled into the JSE.

That the stock market outperforms inflation almost becomes self-fulfilling. Shares are bought because nothing else can compete with them, therefore the prices rise, therefore the JSE outperforms and so on.

Traditionally, the JSE has been shunned on two counts when interest rates are high. Companies with borrowings have to meet high financing costs, thus impeding bottom-line growth. As earnings fall, so do share prices.

The second reason is that there is lower risk in keeping one's own investment capital in the bank rather than in a stilted equity market. In theory, as share demand falls, so do share prices.

The wheel turns when savers save, borrowings cease and interest rates ease. Then the equity market starts to buck up and offer growth prospects.

Dr Jammine's second argument is that share prices will not fall through the floor. More than 85% of trade is conducted among institutions, which will not be subject to the withholding tax. Shares have also been helped by the scrapping of tax on dividends.

Countering this view is the fact that institutional funds are made up of the combined money of the people. If investments in, for instance, unit trusts and retirement annuities which deal primarily in shares are curtailed, the institution's buying power is lessened.

The degree will be small.

The R120-billion infrastructure of our institutions and their current income of, who knows, R20-billion a year through existing investments and repeat business, is enough to keep them going without worrying much about the loss of new individual contributions.

Flaws

The Reserve Bank desires real rates of interest — that is, the ability to earn more in interest than the rate at which capital is eroded by the rising cost of living.

This argument has always been flawed by the tax payable on interest earned. Anything earned as interest above R2 000 a year is subject to marginal rates of tax.

But under the new scenario of a broadly applied, low-level withholding tax, the return will be really real. Stockbrokers are worried that the already battered private-client market will dwindle further.

However, small savers earning less than the existing tax-free limit of R2 000 a year in interest could be prejudiced by the introduction of a withholding tax. Their interest is tax free now.

Pensioners and others who rely on interest income would be worse off, and some mechanism for their protection seems likely.

Dr Jammine believes the proposed withholding tax will have a negative impact on the JSE in the short term, but its potential should not be exaggerated. In the longer term, the proposed tax is an important structural improvement to benefit the entire economy.

Long, long trail nears th

S/Times 29/7/9

MINORITIES in Manserv, the cash shell worth R15-million plus interest, have had a long wait for their money. But there may be hope.

Control of the cash shell was held by the Map consortium after the Manserv assets were stripped out into Cashworths, now named Colfin. Map sold its 90% stake for 105c a share cash in February.

Since then, minorities have heard nothing. They cannot sell their shares on the JSE because cash shells are supended pending the acquisition of assets. The JSE allows six months for something to be injected, otherwise a shell is delisted.

Six months and a bit have passed since Manserv was suspended.

It would not be in the minorities' interest if steps were taken to delist the shell as long as no offer has been extended to them.

The JSE says it is trying to resolve matters.

I spoke to Colfin, which told me a few weeks ago that it was preparing documentation on behalf of the new controlling shareholder, represented by Naas Ferreira.

Colfin's Chris Shone says the paperwork is almost done, and will be sent for comments by the sponsoring broker and others so that a clean copy can be presented to the JSE within the next two weeks.

Reasons

He tells me that an offer of 105c a share will be made to minorities without disclosing details of the assets to be injected into Manserv.

The reasons are that a long time has elapsed, and the potential delisting is always in the background.

"Judging from the minorities we have spoken to, they will be happy to get their money back."

It looks as though an interest component will not be included to compensate minorities for the long time between the dates on which the controlling shareholder got its capital back and the date on which they will get theirs. This is a separate issue, complicating an already difficult position.

Mr Ferreira says he is not a shareholder and is merely acting for the new shareholder. Manserv's new assets will comprise:

- 20% of Osprey mine, which issued a warning recently.
- 25% of Lanchem "which is in a troubled stable" at the moment, according to Mr Ferreira. He says there will be a rights issue of R20-million in Lanchem, which is to become a granite producer.
- 80% of current cash shell Meters Systems, which will buy "one of SA's largest engineering concerns". Mr

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VAT offers new opportunities

B/Day 30/11/90 (320) (456)

LESLEY LAMBERT

CAPE TOWN — The introduction of VAT next year would affect all companies' cash flow and profitability but it would also present new opportunities, delegates were told at a VAT seminar arranged by accounting firm Price Waterhouse last week.

One of the most important considerations would be to evaluate the effect of VAT on cash flows and to review and improve working capital and cashflow management systems. These measures could enhance profitability, Brian Schiff of P-E Corporate Services told delegates.

Schiff advised managers to assess the overall impact of the new tax system on their operations and to start preparing for the changes immediately so they could adapt their computer systems and have their staff trained by at least July next year.

He said companies would have to ensure that they avoided errors, like overpaying VAT, underclaiming input tax credits or incorrectly costing their supplies, which could affect their competitiveness and profitability.

They would also have to review and adapt their computer systems.

The effect on cash flow would differ from one company to another, depending on debtor and creditor payment periods and tax periods, he said.

But, as a general rule, companies which sold for cash on short period credit but who paid creditors over longer periods — supermarkets, for example — would be in a more favourable position under VAT than under GST.

Because vendors were entitled to an input tax credit when they received a tax invoice — before payment was made — they would only have to account for the tax collected at a later date.

Those which sold on extended credit but had to pay their creditors sooner would probably be the worst off once VAT was introduced.

As the tax would have to be accounted for when an invoice was issued for the supply of goods and services, and not when payment was received, this category of vendors — furniture retailers, for example, — would have to account for VAT before they received payment. Thus, under VAT they would have the burden of accounting for tax on their purchases.

"Companies whose annual turnovers were below R18m would also be in a favourable position as they would be entitled to operate on a two month tax period.

Withholding tax has long-term benefits

Star 30/7/90 (320)

By Derek Tommey

The Johannesburg Stock Exchange should not be seriously affected in the short term by the proposed changes in the taxing of personal savings, and should benefit in the long run, says Econometrix, an economic research organisation which analyses economic and business trends.

The Government is proposing putting a 10 percent to 15 percent withholding tax on interest paid to individuals by building societies and banks.

This will replace the present system of taxing these payments in the hands of the recipients and should result in considerable tax savings for most savers.

It is expected to lead to a slowdown in the amount of funds being invested in life insurance policies, shares and unit trusts.

Econometrix says the potential diversion of funds from equity-related investments to bank or building society savings accounts as a result of this new form of tax is an unknown factor.

But it could possibly be substantial in the case of new investment.

It points out that the financial institutions are responsible for 85 percent to 90 percent of equity investment.

Moreover, most of these funds are not derived from new contractual investments, but from cash flows generated by their vast assets. These will not be affected by a withholding tax.

The diversion of savings from equity-linked investments to the banks and building societies will help redress the imbalance in the savings structure, says Econometrix.

This imbalance has diverted savings from vital fixed investment and social projects such as housing, construction and plant and machinery.

This has been detrimental to the real economy and job creation.

By restoring the savings balance, the economy's overall growth might be enhanced and assist rather than harm the life assurance industry and the JSE in the long term.

Land Acts likely to be scrapped

Sowetan 30/7/90

(320)

By JOSHUA RABOROKO

THE Land Acts were likely to be scrapped at next year's parliamentary session, the Deputy Minister of Finance, Dr Org Marais, said in Soweto last week.

He was responding to a question on the plight of squatters who were given land far away from metrolopitan areas and their places of employment.

He said the Government was distancing itself from the policies of the late Dr Hendrik Verwoerd, the architect of modern day apartheid.

Marais also said the Government was prepared to consult with the ANC/PAC and other organisations before introducing the proposed Value Added Tax (VAT) next year. He was speaking at a VAT seminar organised by *Sowetan Business.*

Other seminars are planned for Pretoria and the Vaal complex.

The seminar attended by businessmen and women was also addressed by the editor of the *Sowetan*, Aggrey Klaaste, the chief director of Inland Revenue, Mr Trevor van Heerden, and two tax consultants, Mr Matsheru Matsheru and Mr Ian Chambers of Fisher Hoffman Stride.

Dr ORG MARAIS

Sceptical

Many delegates were sceptical about the proposed tax system, while others said they feared that time was not yet ripe for South Africa to introduce VAT while the Government was still negotiation a new future for the country.

One speaker said that the situation could be worsened by the fact that the majority of the people, especially blacks, did not understand General Sales Tax, and added that VAT might confuse them further.

However, the Minister told delegates that his department had tabled a draft Bill regarding VAT in Parliament, and organisations and individuals were invited to make contributions before the proposed tax was implemented in October next year.

He said the Government proposed VAT after conducting research in both Africa and overseas. It was found that most developing countries found the system fair and was a boom to their economies.

"South Africa has discovered that GST is full of distortions and millions of rands are lost as people dodge the tax," he said.

It was hoped that VAT would help to increase the Gross Domestic Product by about 1,4 percent and create jobs for more than 70 000 unemployed people, the majority of whom were blacks.

Referring to the informal sector, he said that it was the intention of the Government to help develop small business through the new tax system.

Courses in bookkeeping and accountancy would be given for their benefit.

The man-in-the-street and the poor would also be helped as the Government was prepared to bring down the interest rates depending on the price of gold on the international forums.

Strategy

The Government would embark on a strategy of building more housing for low income people, and perhaps that would alleviate the growing shortage of homes.

Inflation could also drop and the private sector would be consulted to help in that regard.

The Government would also consider to exempting food and other products from VAT for the benefit of the poor.

Through the privatisation of certain hospitals, medical assistance would also be offered.

Taxpayers flush with cash as government pays back about R500m

B Day 31/7/90 (320)

GRETA STEYN and
GERALD REILLY

TAXPAYERS are a few hundred million rand richer this month after government's repayment of tax overcharged during the first three months of the fiscal year, when new tax rates became effective.

Substantial relief on fiscal drag, announced in the Budget, has only just been implemented although it became effective in April. Because of the delay, many taxpayers got a "double-whammy" on their salaries at the end of July as they started paying tax at a lower rate that month — while at the same time getting back the tax they had overpaid in April-June.

"There will be a little bit more disposable income around," a finance spokesman said last night.

The finance spokesman said it was impossible to provide exact figures on the benefit to taxpayers at the end of July. Not all had benefited — provisional taxpayers' relief would only come through later. Estimates of R500m were conceivably in the right ballpark, he said.

Economists said the effect of the tax bonus at the end of July, combined with the loosening of higher purchase conditions and reduction of surcharges on imports, amounted to an easing of fiscal policy.

Given the recession, the moderate easing in policy was appropriate. The mini-bonus at the end of July would probably be used to reduce debt rather than on big-ticket spending, they added.

Meanwhile, government was still flush with cash in the first quarter of the new fiscal year before the tax reduction came into effect. An Inland Revenue spokesman said April-June collections amounted to a record for a quarter of R7,425bn, compared with R5,742bn for the first quarter last year — an increase of 29,3%.

Volkskas chief economist At Engelbrecht said the big increase could be attributed mainly to wage and salary earner increases pushing taxpayers into higher tax brackets.

However, the Revenue spokesman said the lower tax tables which became effective from July would see a substantial decrease in collections for the rest of the financial year.

GST collections for the three months mirror the downturn in the economy and the fact that consumers are spending significantly less than at the same time last year, say economists.

April-June GST collections amounted to R4,246bn compared with R3,9bn in the first quarter last year.

This is an increase of 8,9%, or about 5% below the inflation rate.

Engelbrecht agreed that a decelerating business tempo was mainly responsible for the relatively small increase in GST collections.

Mining industry tax concessions examined

B/Day 31/7/90

320

ROBERT GENTLE

REMARKS by Finance Minister Barend du Plessis suggest that a host of tax concessions for the mining industry, in areas from housing to new mine development, are being examined.

Speaking at the opening last week of Loucas Pouroulis's Goudini Chrome, Du Plessis said capital expenditure write-offs, surcharges and housing and infrastructure allowances were "in the process of change".

He also spoke about ring-fencing, the restriction whereby capital expenditure on a new mine may not be set off against the taxable income from an existing mine.

"We are looking at the 25% capex write-off for new mines from the tax base of existing mines," he said.

Du Plessis was referring to the partial lifting of ring-fencing announced in the recent Budget which means 25% of a new mine's development can be written off against an existing mine's tax base, provided both are property of the same taxpayer.

On the costs of electricity and transportation, he said there was room for improvement in the fee structure to provide "a stimulus".

Du Plessis conceded tax concessions to one particular sector were contrary to both government's policy of broadening the tax base and prevailing international wisdom.

However, given the role of the mining industry in terms of jobs and foreign exchange earnings, there was "no way" government could overlook its importance as the major engine of economic growth.

Simpson McKie gold mining analyst Rodney Yaldwin said that while tax exemptions on say, housing — which constitute about 20% of a new mine's cost — were not to be sniffed at, the crucial issue was ring-fencing.

"It is common knowledge in the industry that the concession on ring-fencing announced in the recent Budget fell far short of what was needed to bring new mines into production."

Analysts believe the money which would be released upon the scrapping of ring-fencing could see the creation of up to a dozen new gold mines.

Deputy Director General of Finance Estian Calitz said yesterday that he was not aware of any imminent change in ring-fencing.

Wider tax net for married women

B Day 31/7/90 (320)

NEIL YORKE SMITH

ANY married woman earning income from sources other than remuneration would have to register as a provisional taxpayer, Inland Revenue announced on Friday.

Included in the definition of the conditions under which married women should register as such taxpayers were directors of private companies or members of close corporations, the statement said.

From the 1991 year of assessment, all income of a married woman (except from investments and annuities not paid to her by a pension or retirement fund) is taxable in her hands.

Married women whose net income exceeded R40 000 (previously R20 000) a year should register as taxpayers and, where necessary, as provisional taxpayers, it said.

However, investment income and annuities which accrued to married women were still taxable in their husbands' hands.

But rental income which accrued to a married woman was taxable in her hands, it said.

In accordance with the current year's budget announcements, dividends (excluding building society dividends) were exempt from tax with effect from the 1991 tax year.

Married women of more than 65 years old would enjoy the same conditions regarding exemption from payments of provisional tax which currently applied to single people over 65, the announcement said.

An Inland Revenue spokesman said it was unlikely further changes would be made in the short term.

He said the definitions followed recent legislation allowing separate taxation for married people.

The first provisional tax payment is due on August 31.

TAXATION — 1990

Aug – DEC

VAT

Throwing out an inefficient system

Magnus Heystek

October 1 1991 will be a red-letter day for South African business people and consumers: the current system of General Sales Tax (GST) will be replaced by the proposed Value-Added Tax (VAT), a system in operation in many countries around the world.

It is not said officially, but the reason for the change-over is that the GST-system is not working as efficiently as it should. It's neither fair not equitable and a great deal of money is lost between the GST payer and the Receiver of Revenue.

The GST-net is not wide enough, while fraud and dodging has become something of a national sport. This costs the fiscus money while the honest GST payer has to pay more to make up for revenue lost by unscrupulous dealers and vendors.

Some years ago, Justice Cecil Margo, chairman of the Margo Commission of Inquiry into tax affairs, estimated that between R4 and R7 billion then was lost by GST-evasion. Today, this figure is ostensibly much higher.

Inflationary

While the revenue collected from GST has risen sharply in recent years, Government has also recognised that this increase cannot be expected to continue. At 13 percent, GST is high by world standards and any move to increase it would be counter-productive.

According to world-wide experience, any increase in GST to above current levels leads to a greater degree of siphonage — and is inflationary.

Government has also recognised that the demands on the Treasury are set to rise almost exponentially in the future, especially with regards to housing, the creation of infra-structure, education and primary health care. More money is needed from a wider base.

In official publications VAT is described as a "modern taxation system" which has been successfully employed worldwide as an alternative to GST. But, as more information on VAT becomes available, several spokesman have pointed out the complexity of the system will place an inordinate administrative burden on smaller businesses, especially new ones in the so-called third world sector of the economy.

Accountants are aghast at the amount of paperwork that will have to be done by businesses already struggling under mountains of paperwork, while many computer systems will have to be updated to keep track of the new system.

Fears have also been expressed that the introduction of VAT will be highly inflationary. Studies on this in other countrys that have made the change recently are inconclusive.

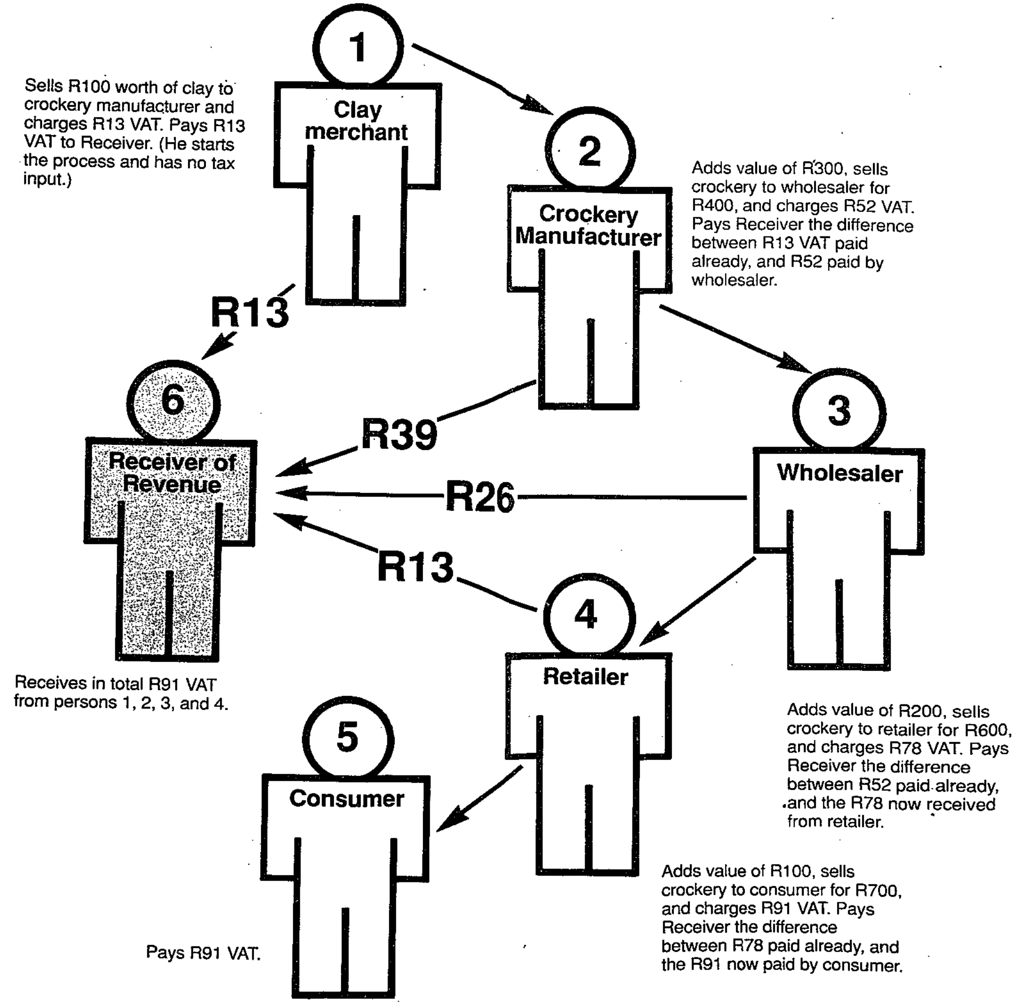
Unlike GST, VAT will be a broad-based tax imposed on all goods and services in country, with few exemptions. According to official documentation, VAT will enable the Government to encourage exports, curtail tax evasion and double-taxation and reduce the cost of manufacturing and merchandising. Ultimately, it will benefit the less privileged sectors of the community.

Government has indicated that VAT will be introduced at a lower rate than the current 13 percent GST. VAT will also do away with most forms of exemptions. In theory this is laudable, but in practice this (like the exemption of GST on foodstuffs) does not achieve its primary objectives.

On the whole, one can agree with Government that the introduction of VAT is likely to have wide-ranging positive economic effects, but it is bound to be a bumpy ride for some years until the system beds down.

● *The draft legislation on VAT was gazetted on June 18 this year. Interested parties have until the end of next month to make recommendations to a committee, known as Vatcom, of people from the public and private sectors.*

Changes to the proposed legislation will be considered by the Minister of Finance and, where necessary, incorporated in a Bill to be tabled in Parliament next year. The address of Vatcom is Box 402, Pretoria, 0001.



How VAT works

This illustration of the production/sales chain from clay merchant to consumer, shows how each link in the chain must pay VAT. Tax evasion becomes almost impossible. The retailer (4), for instance, cannot 'pocket' the R91 VAT which the consumer has paid, because the wholesaler (3) has already informed the Receiver (6) of the transaction. Likewise, the wholesaler cannot 'pinch' the R78 VAT which he receives, because the manufacturer (2) has already informed the Receiver. (For the sake of simplicity, this illustration assumes a VAT rate similar to the current 13 percent GST).

Value Added Tax — A Star feature

New method should reduce hidden tax caused by GST

Finance Staff

Value-Added Tax will reduce hidden taxes and should help to curb inflation, say tax consultants.

VAT specialists Karin Marks and David Clegg of Ernst & Young said VAT would eliminate the effects of double taxation caused by GST, thereby reducing the cost of manufacturing and merchandising.

Ms Marks said extra GST was hidden in the cost of most goods and services supplied to consumers.

The reason for this, she said, was that GST was levied on a wide range of products and services used by manufacturers in the process of production.

"For example, if a clothing manufacturer produces a garment, the amount of GST which the manufacturer has to pay on the purchase price of his sewing machines is simply built into the price of the garment when it is sold to the retailer.

"When the garment is sold to the consumer the price has been inflated to recover all the amounts of GST which have been paid by the manufacturer and the retailer.

"This means that the consumer is then paying GST of 13 percent on a purchase price which includes hidden amounts of GST — tax on tax."

It was this hidden tax which had increased inflation and made South African goods uncompetitive compared to goods from the rest of the world, said Ms Marks.

She predicted that VAT would ultimately lower the costs of most consumer goods.

Accounting changes needed

The changeover to the VAT system is going to create a major administrative burden for registered businesses in regard to record keeping and the issuing of tax invoices, debit and credit notes.

It will be essential for the business to modify its accounting system to enable it to identify, capture and collate all the information required for the preparation of VAT returns and for any subsequent audits by the VAT inspectors, including:

● **Outputs**

— Taxable supplies and output tax charged, including normal supplies of goods or services, sales of fixed assets, certain employee fringe benefits, special supply agreements and royalty agreements and inter-company supplies which may only be re-[illegible] vices acquired wholly or mainly for the making of taxable supplies, but then used wholly or partially for making of exempt supplies.

● **Inputs**

— Taxable supplies in respect of which input tax credit may be claimed, together with supporting tax invoices.

— Taxable supplies in respect of which input tax credit may not be claimed.

— Zero-rated inputs.

— Exempt inputs.

— Imported goods and input tax paid.

— Purchases of second hand goods in respect of which a deemed input tax credit may be claimed.

— Applications of goods or services acquired wholly or mainly [illegible]

— Zero-rated supplies such as export sales and service agreements.
— Exempt supplies such as financial services.
— Applications of goods or services partially for the making of taxable supplies.
● Other adjustments
— Bad debts in respect of which output tax was previously accounted for.

Some reports in this supplement have been written with the technical assistance of tax partners Ian McKenzie and Sally de Boor of accountancy firm Ernst and Young.

Property industry comes under the hammer

When Deputy Minister Org Marais unveiled the draft VAT proposals, he announced that the tax would be introduced at a rate less than that of existing GST.

Because of technical differences between VAT and GST, many commentators had believed that the rate would have to be higher to collect the same amount of tax and were intrigued to understand how it could be reduced.

One part of the puzzle, of course, was the re-imposition of tax on foodstuffs and the other part has now become apparent from an examination of the draft legislation itself.

The commercial construction and sale of land and buildings — including residential property — is to be subject to VAT.

It is understandable that this political bombshell was not dropped directly by the deputy Minister in his press release, but it must have been a hard political decision for the Cabinet to take.

On the other hand, the taxation of land and buildings under VAT is completely normal internationally and applies in New Zealand, the United Kingdom and most of Europe.

What exactly is the position as outlined in the draft legislation? Essentially it can be summarised as follows:

● The sale of land and buildings between private individuals (for example their private residences) will not be subject to VAT.

● All construction and sales of buildings and land (including sectional title units and shares in shareblock companies and timesharing interests) made by enterprises registered for VAT, will be subject to the tax.

● Because a credit will be granted for input tax paid by those purchasers who are registered for VAT, the major impact from the inclusion of construction and sales will be on private individuals purchasing new residential property from developers and who are unable to claim the input VAT as a credit.

And on organisations exempt from VAT which similarly will be unable to claim input VAT as a credit.

So far as the commercial developer of land and buildings is concerned, he will be charged VAT by his building contractor and will claim an imput VAT credit against the VAT charged on the sales of his developed properties or rentals charged by him on the letting of those developed properties to commercial (i.e. not private residential) users.

Where the developer is letting the completed property for private residential purposes, he will not be entitled to an imput VAT credit and the rentals will be tax-free.

All the above applies to second-hand buildings as much as to new developments.

Obviously, there is enormous detail in the draft legislation which runs to more than 200 pages — far more than the equivalent sales tax legislation — and various subleties not immediately apparent from the wording may yet be uncovered.

One thing is certain — the property industry has homework to do!

It may become a political football – Chait

The VAT system in its present form is likely to mean higher costs in home building and less for the seller from the proceeds of a property transaction.

VAT and its effects were major talking points at the annual convention of the Institute of Estate Agents after a speech by Antony Chait, tax partner of a Johannesburg accountancy group, Fisher Hoffman Stride, earlier this month.

Giving an example of how the seller could be hit, Mr Chait said: "The commission paid to an agent will now attract VAT.

"Taking a R100 000 residential deal, the agent's commission might be six percent or R6 000.

"Attracting VAT at, say, 13 percent, the seller will receive R600 to R700 less because the agent will charge the seller that additional amount in respect of VAT and which is paid to the Government."

The end price of a new home must inevitably rise too for, whereas previously the builder was taxed on materials used, the home — the finished product — was not subject to sales tax.

Mr Chait questions whether VAT will come into force as the proposals stand.

"The introduction of VAT should also be seen against the dramatic changes taking place in the country," says Mr Chait.

"The Government and the ANC have got round the table to find a negotiating climate suitable to all concerned.

"They have not yet touched on the nitty gritty of social amenities and VAT could well turn out to be a real political football."

Antony Chait: 'An agent's commission will now attract VAT.'

Golfers in a bunker over VAT attack

While it was always clear that the successful implementation of VAT would depend on a wide base with a few exemptions, businessmen may be surprised to hear that the Bill attacks even their Sanctum Sanctorum — the Golf Club.

The definition of service is wide enough to cover services rendered by clubs. The fact that clubs are non-profit making organisations is irrelevant. Thus, Golf Club subscriptions and green fees will be subject to VAT. Caddy fees will not be taxable since in most Golf Clubs the caddies are not employees of the club but are freelance and their turnover would be less than R50 000 a year.

Squash players and snooker experts will fare little better as even the money for electricity meters to light the court or table will be subject to VAT.

Club secretaries and treasurers should now be giving some thought as to how they will implement VAT, says Ken Walton from Ernst and Young.

Tax invoices: a vital area of planning

For any registered enterprise the most important area of VAT planning is ensuring that all allowable input tax credits are claimed and are so claimed at the earliest opportunity.

Any input tax credit not claimed means a direct additional tax cost for the business and a delay in claiming a credit will obviously give rise to a cash flow disadvantage.

Apart from a few special cases (for example where the purchase price is less than R20 or where the Commissioner specifically agrees in the case of particular transactions), the input tax credit cannot be claimed unless or until the business is physically in possession of a "tax invoice".

Even if it can prove through other documentation that input tax has been paid to a supplier, the lack of a tax invoice will prevent the business from claiming the credit.

A tax invoice is not very different from an ordinary invoice, but it must have the words "tax invoice" prominently displayed and must reflect the name, address and VAT registration number of the supplier, the name and address of the purchaser, the description and quantity of the goods, the selling price, VAT charged and total consideration.

All businesses selling goods or services to other registered businesses will have to be able to produce tax invoices within 28 days of a request by a customer.

Prior to implementation of VAT all registered businesses should ensure their suppliers are able to produce tax invoices and should request that they are produced timeously preferably at the time the goods are delivered.

If goods are purchased and delivered on the last day of a tax period, the tax invoice must be received before the 20th of the following month to enable the input credit to be claimed in that VAT return.

System demands new involvement for professionals

Over the last 12 years, professionals such as architects, engineers, accountants and attorneys have not had to pay much attention to GST. Their outputs (fees charged to clients) have not been subject to GST, but they have had to pay GST on all purchases of materials and taxable services relative to their activities.

When VAT is introduced these professionals will have to become far more involved in the question of indirect taxes. As with all services, (other than those of medical practitioners and educational institutions), their activities will fall within the tax net. They will have to:

● Register as vendors with the Receiver of Revenue.

● Include VAT at the designed rate on all their fees to clients (output tax).

● Continue to pay VAT (instead of GST) on all purchases of goods and services (input tax).

● Obtain tax invoices from all their suppliers in order to claim input tax credits in respect of VAT paid on their purchases.

● Submit VAT returns every two months

● Prepare and maintain records of all the above.

● Issue tax invoices to any of their claims who are themselves registered.

Some answers to common questions which are asked about VAT

Will small businesses have to register for VAT?

● Where annual turnover of taxable supplies is less than R50 000, the business will not have to be registered as an enterprise. As a result it will not have the same adminitrative burden as a registered enterprise.

It will pay VAT on all its inputs, but will not charge VAT onits sales of goods or services to customers. It will not have to submit VAT returns.

However the small business may voluntarily register as an enterprise provided it satisfies the Commission that it has a fixed place of business, keeps proper accounting records and has a bank or building society account.

Once registered the business will be subject to all the requirements and responsibilities of the VAT Bill (see next paragraph). A small business will generally only elect for voluntar registration where many of its customers are registered businesses.

● All other businesses will have to register as vendors and will have to keep sufficient books, ecors and documents to enable Revenue to verify the information on VAT returns.

A registered business will pay VAT on all its inputs and will have to ensure it receives "tax invoices" from all its suppliers so as to be able to claim an imput tax credit.

It will have to identify, record and keep copies available of all tax invoices in respect of wich input credit may be claimed. It will have to charge VAT on all its sales of goods or services and capture details of all such output tax charged.

Every two months it will have to submit a VAT return setting out details of all output tax charged and creditable input tax and either pay in the difference or claim a refund.

What are the cash flow implications for businesses?

● The impact of VAT on a business' cash flow will depend on:

— Whether it has a one-month or two-month tax period; and

— The relative periods over which the business pays its creditors and receives payment from its customers.

● Generally the tax period for all businesses will be two months, but where the annual turnover of taxable supplies exceeds R18 million the business will have to use a one-month period.

Any other business may elect to have a one-month period, which it would generally only do if its input tax regularly exceeds its output tax, as in the case of an exporter.

● In a cash business the cash flow advantages will be substantial, as shown in the following example:

a) During month one of a two-month period:

— Total purchases R100 000 on which input tax is R10 000.

— Total sales R150 000 on which output tax is R15 000.

b) All sales are for cash, but creditors are paid 60 days from statement.

c) Tax cash flow:

— Month 1: output tax from customers R15 000.

— Month 2: no tax flow.

— Month 3: 20th — pay Receiver net output tax R5 000; 30th — pay input tax to creditors R10 000.

● But where the business has to pay its suppliers on 30 days and only receives payment from customers after 60 days, it will have a substantial cash flow disadvantage:

a) During month 1 of a two month tax period:

— Total purchases R100 000 on which input tax is R10 000.

— Total sales R150 000 on which output tax is R15 000.

b) Tax cash flow:

— Month 1: no tax cash flow.

— Month 2: 30th - pay input tax to creditors R10 000.

— Month 3: 20th - pay Receiver net output tax R5 000; 30th — output tax from customers R15 000.

Will VAT be payable on capital goods?

● All purchases of capital goods will constitute taxable supplies and therefore input tax will be payable by the purchaser to the supplier.

● Where the purchaser is a registered enterprise and acquires the capital goods wholly or mainly for the purpose of making taxable supplies it will be able to claim an input credit in its first VAT return after the date of purchase. It will not therefore bear any VAT cost on its purchase.

This will apply to all plant, machinery, computers, delivery vehicles and office furniture and equipment used in a registered business whose outputs constitute taxable supplies.

Where the business buys a car it will not be entitled to claim an input credit in respect of the tax paid to the supplier and will therefore bear the tax cost on this purchase.

● Sales tax is currently payable on all purchases of capital goods, so in order to avoid an immediate reduction in the tax base (through the granting of input credit as above) and an economic distortion of capital expenditure during the transition period, the above general rules may be varied for a few years by:

— Allowing only a partial input credit on capital goods; or

— Imposing a separate tax (probably at a lower rate) on all purchases of capital goods.

The final position will not be known until VATCOM makes it report and the final legislation is drafted. This makes it difficult to plan ahead for capital expenditure.

Must trading stock be sold and output tax charged before the business can claim an input tax credit in respect of its purchases?

The only requirements for the claiming of the input tax credit are that the business must be registered as a vendor, must be in possession of a tax invoice in respect of the particular purchase and the goods or services must be purchased for the purposes of making taxable supplies ie sales of goods or services in respect of which output tax is charged to customers.

There is no requirement for the matching in any way of inputs and outputs so the business will not have to finance any tax on its stockholding.

In the case of a business which carries a large stock of goods its input and output taxes could be as follows:

Tax period 1:

— Total purchases of stock and other business expenses R200 000.

— Input tax payable, is payable to suppliers R20 000.

— Total sales to customers R150 000.

Output tax charge to customers R15 000.

— Refund claimable on VAT return R5 000.

Tax period 2:

— Total purchases of stock and other business expenses R100 000.

— Input tax payable, is payable to suppliers R10 000.

— Total sales to customers R200 000.

— Output tax charged to customers R20 000.

— Net tax payable with VAT return R10 000.

Withholding tax stands to affect bottom lines

01044 1/8/90 (320)

NEIL YORKE SMITH

PROPOSED withholding taxes on interest income could seriously affect bottom-line earnings of companies which receive such income.

Ernst & Young tax partner Ian MacKenzie said yesterday: "The full effects will only be seen when legislation is actually drafted; until then we can only speculate."

The most important factors were the extent to which companies would be treated in the same way as individual taxpayers, and whether or not any withholding tax would be a final tax.

"At present the general feeling is that companies will be treated differently to individuals," Mackenzie said.

A withholding tax was expected to become applicable from the March 1991 Budget. Speculation was that the tax rate would be between 10% and 15% of interest income. This was much lower than the current company tax rate of 50% and the top marginal rate of 44%.

Tax advisory committee chairman Michael Katz was unable to comment yesterday on whether the proposals would affect companies and individuals differently.

"The whole issue is still being investigated and it would be improper to comment until our investigation is complete," Katz said.

First National Bank MD Barry Swart said yesterday that except for a few cases, the current proposals seemed to apply to all bodies earning interest revenue.

"However, there may be moves to include only individuals in the legislation," Swart said.

But different structures for different entities would be hazardous, experts warned.

KPMG Aiken & Peat's Alister MacKenzie said: "Differentiation would allow great scope for arbitrage transactions."

Manipulation

Arbitrage could occur where investments were financed by borrowing. Interest expenses might be tax deductible, but revenue might be taxed at a lower rate, thus benefiting sophisticated investors.

Fisher Hoffman Stride tax partner Anthony Chait warned that by differentiating between companies and individuals, the authorities would make the system vulnerable to manipulation.

"I hope the withholding tax applies equally to all. If not, individuals and companies could manoeuvre so as to ensure they benefited from any loopholes."

He said an example could be an individual forming a close corporation if this would make the legislation more advantageous to him.

Taxman goes after taximen

(320)

THE Receiver of Revenue has appointed a team of experts to investigate the black minibus taxi industry, as they believe that they are collecting cash revenue of about R1,8 billion without paying income tax.

Sowetan 1/8/90

Some estimates claim that revenue totalling about R500 million is lost every year as a result of non-payment of income tax by the minibus operators.

South African Black Taxi Association president Mr James Ngcoya said in Durban yesterday that he was aware of the move to tax the minibus industry and said that his association had asked the Receiver for an extension of time to educate their members on tax matters.

He said, however, it was not true that minibus taxis made a lot of money.

"These vehicles are so expensive that by the time the owner makes a profit his vehicle is worn out. Also, the conception that single owners have fleets

● To Page 2

Taxman after taximen

● From Page 1

of minibuses is not true. Most minibus taxis are owned by individuals.

"We are currently educating our members so that we can put a number of aspects straight and will prove that the vast majority of our members earn so little that their income is below the taxable fringe and that by the end of the day their income will be below the taxable amount.

"We are on the point of proving to the Receiver that minibus taxi owners are honest people who are not running away from their tax obligations," said Ngcoya. (332)

Estimates of the taxable revenue generated by the minibus taxi industry vary widely, but transport consultants put the figure at a minimum of R1,8 billion. About half the 100 000-odd taxi operators are members of Sabta. (320)

Estimates of nett income vary widely and was put by one transport consultant at about R3 000 a month after expenses.

BACKGROUND

Now to fix VAT — at 10 or 12 pc?

With the deadline for the introduction of VAT now set at October 1 1991, and with most broad principles of operation agreed, the burning issue still be to resolved is the precise rate at which the new sales tax should be levied. MICHAEL CHESTER reports.

The Econometrix think-tank has stirred new waves in the debate about the switchover from GST to VAT with arguments that the new value-added tax rate needs to be fixed at no higher than 10 percent.

With the deadline for the introduction of VAT now set at October 1 1991, and with most broad principles of operation agreed, the burning issue still be to resolved is the precise rate at which the new sales tax should be levied.

The Department of Finance, anxious to win popular support for the new scheme, has dangled the promise of a rate at least somewhere below the GST 13 percent mark.

Insiders, however, hint that Government thinking is revolving around proposals of no more than a marginal trim to 12 percent.

Dr Azar Jammine, director of the Econometrix research unit, has forced a re-think with estimates that VAT can be pegged as low as 10 percent.

In fact, he argues, in theory the current rate of 13 percent under the GST system could be pulled down all the way to only 7 percent under VAT if all loopholes are sealed, with no loss to revenue.

From studies carried out on VAT he regards a 10 percent rate as a practical level that could cope with a realistic allowance for leakages, and still bring in the R18,5 billion which the 1990 Budget set as a target for sales tax collections in the current 12 months.

Deputy Finance Minister Org Marais, at the helm of the sales tax exercise, has set the end of next month as the deadline for all submissions about the ideal shape of the VAT system before proposals are taken up by Parliament.

Following suit

By now, the vast majority of businessmen have come to agree that South Africa is well advised to follow a growing list of overseas countries that have already VAT.

The whole of Western Europe has adopted it. So has Canada. So has New Zealand. And more are considering following suit, though the United States and Japan appear hesitant to alter their present tax systems.

VAT in South Africa is now regarded as a fait accompli, with only the finer details to be settled. In business, the main chores are sorting out new accountancy systems to cope with all the extra paper work and a rigmarole of technical exemptions.

At personal level, especially among low-income families, the main concern is how the Government proposes to deal with the inclusion of the entire food basket inside the VAT net after getting used to the exclusion of at least basic fresh food items from GST bills.

Hints have already been dropped about various alternatives, including the possibility of food coupons and community feeding schemes.

What rate?

But the issue yet to be settled is at what rate VAT should be levied compared with the flat 13 percent charged under GST.

The South African Chamber of Business (Sacob), whose views are influential, is still in the middle of a chain of special meetings called to examine all the aspects and agree on a reasonable rate.

Already though, there are whispers that Sacob is likely to settle for between 10 and 12 percent.

Sacob will set out proposals about a more precise figure when it has waded through the problems of balancing all the extra revenue to be collected from a sales tax on all food items against the drain on revenue likely to be caused by giving manufacturers an escape route out of paying VAT on all capital goods used in the pipeline of the supply of products and services.

The equation runs into billions and also needs to take into account how effective VAT will prove in actual practice in plugging all the loopholes with which the GST system has been riddled.

"Whatever else," argues Dr Jammine, "what the public needs to ensure is that it does not end up paying more tax under VAT than previously under GST.

"Theoretically, if one assumes that no leakage of tax payments takes place under VAT, the R18,5 billion which the Government hopes to receive this year from GST could as well be collected by a 7 percent rate of VAT with R18,5 billion as a percentage of projected gross domestic product of R270 billion.

"In practice, of course, there is indeed likely to be some leakage of VAT payments. Nevertheless, even taking into account the possibility of a 30 percent leakage, it should still be possible for the Government to raise the R18,5 billion with a 10 percent rate of VAT.

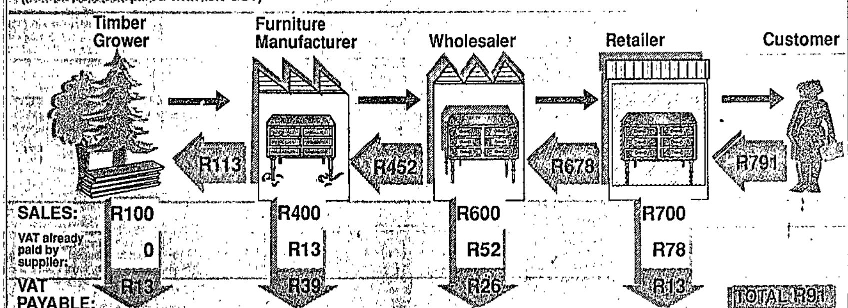
Lot of sense

"Indeed, from a practical point of view, a decimal of 10 percent would make a lot of sense administratively."

Dr Jammine goes on: "The only circumstances in which VAT should be retained at 13 percent, or even be introduced at 15 percent if necessary, is if the additional R5 billion or so raised in this way were to be used to reduce direct personal income tax by 25 percent of the current level of R20 billion.

"This would go a long way towards shifting the tax burden away from direct to indirect sources of revenue as recommended by the Margo Commission," he said.

How VAT works
(VAT at 13% compared with 13% GST)



Graphic by Liz Warder

How the value-added tax works — all along the pipeline from raw material to the finished product.

To make matters easier, let's say VAT is set at 13 percent — equal to the current GST rate.

Under GST, sales tax is collected direct from the end consumer. The retailer fixes a selling price at the end of the production track — and slams on GST.

Under VAT, it is still the ultimate buyer of the finished product who foots the bill — but at least he or she can be assured no one in the chain of production has escaped the tax net.

Everyone in the pipeline has had to contribute a share. In theory, no one has been able to manipulate one of the loopholes that have drained billions of rands out of the GST system — because of a reliance on tax credits to cover VAT already paid by others in the chain.

The graphic follows what happens from the time a tree is felled to the time it is sold as a new chest of drawers:

1. The timber merchant runs the felled tree through the chain saws and produces logs and planks of wood ready for the next process. His selling price for a load of planks: R100. VAT, at 13 percent, adds R13 — passed on to the buyer ... with an invoice showing the R13 can be claimed back.
2. The furniture manufacturer pays R113 for the timber and sets his carpenters to work to transform the raw planks into a chest of drawers. Production costs boost the value of the timber to R400. VAT on R400 is R52.

The furniture producer can deduct the R13 already paid by the timber merchant and so pays only the balance of R39 — passed on to the next buyer ... with an invoice showing it can be claimed back.

3. The wholesaler buys the chest of drawers for R452 to add to his warehouse and sets a selling price of R600, covering the cost of his own operations as a depot and distribution centre. VAT on R600 is R78.

The wholesale company can deduct the R52 tax already paid by the timber merchant and furniture manufacturer and so pays only the balance of R26 — passed on to the next buyer ... with an invoice showing it can be claimed back.

4. The retailer on Main Street buys the chest of drawers for R678, adds the cost of running his business — store space, display expenses, labour bills — and fixes a selling price of R700. VAT on R700 is R91.

The store can deduct the R78 already paid by the timber merchant, furniture manufacturer and wholesaler and so pays only the balance of R13 — passed on to the end buyer.

The ultimate buyer now sees a final price tag of R791 — VAT included. It works out at precisely the same as a more familiar price tag of R700 plus GST.

VAT won't add to Admin problems

Sowetan 2/8/90 (320)

Matsheru Matsheru concludes his series on Value Added Tax.

UNDER VAT the responsibility for collecting VAT lies with each business in the production\merchand ising chain.

Whenever a link in the chain sells an item, it has to levy VAT from the purchaser (ie, the wholesaler, the retailer or the consumer and pay it to the Receiver of Revenue.

One might say this is adding an administrative burden to business; but strictly speaking, only those businesses whose accounting methods and disciplines are shoddy, need worry.

Cash management and credit control skills are important under VAT. A business which is careless in handling its cash flow and its accounting record, could get into trouble in terms of thie VAT system.

A very positive aspect of VAT is the trouble the Government is taking to education public and business alike. Advertisements are appearing in the media, many articles are being published, the Department of Inland Revenue has held a series of VAT seminars, much literature is being published by Inland Revenue, and soon they will embark on an extensive training programme for Receiver of Revenue staff to enable them, in turn, to inform and educate people countrywide.

This is good news compared with 1978, when GST was introduced.

Initially, confusion reigned. It took a long time before business and the public properly understood GST.

VAT has its own language. It is important for business to begin to understand the terminology of VAT.

Input

For example, Input Tax. Whenever a business buys something and pays tax on it, it is called input tax. Whenever the business processes that item or adds value to it in any form whatever, and sells it again to another business or to the consumer, the tax it adds to the selling price is called OutPut Tax.

Normally, a business' output tax would be larger than its input tax. The difference between output and input tax is the amount that the business will pay to the Receiver in the form of VAT.

This means that the manufacturer will buy his raw materials from a source and pay VAT on it, but will recover the VAT thus paid once he sells to the wholesaler.

The wholesaler in turn, pays VAT to the manufacturer (who passes the tax on to the Receiver), but when the wholesaler sells to the retailer, he again charges VAT and thus manages to recover what he has already paid to the manufacturer.

Also the wholesaler pays this amount over to the Receiver. The retailer, in turn, pays VAT to the wholesaler, but gets it back from the consumer when he finally sells the product.

Output

Like everyone before him in the chain, the retailer deducts his input tax from his output tax, and pays the difference to the Receiver.

If you add it all up, it means that the VAT is really paid by the consumer (just like GST), whose tax money goes back to the retailer, the wholesaler and the manufacturer, all of whom have already prepaid the consumer's portion to the Receiver.

In introducing VAT, South Africa is following in the footsteps of 44 countries that have been using VAT with great success.

It is interesting to note that whilst the VAT concept was developed in America in 1911, it was an African country, Senegal, that first employed VAT as we know it today (a form of VAT had been in use in France since 1948). Soon thereafter, Senegal was followed by the Ivory Coast, and then Europe started using VAT in a big way.

Should VAT succeed in South Africa, it will be valuable economic exercise. Should it fail, we will have missed an opportunity of simplifying and improving indirect tax in this country.

Double prize for July shares contest winner

By GILLIAN COUNIHAN

WHO's going to be the lucky winner of July's shares competition? It could be YOU. All you have to do is to fill in the form, listing July's shares in order of performance.

To remind you, the shares we chose for July were Sasol, which is found in the Chemical and Oils sector, Lion Match in Tobacco and Match, Foschini in Retailers, Morkels in the Furniture sector, and Malbak in Industrial Holding.

The prize for the first correct entry drawn is 200 Malbak shares which is worth R1 320. The prize is usually only 100 shares, but because there was no winner in June's contest, this months's win is doubly good.

Overall the JSE was stronger in July largely because the gold price went up. But the volume of trade remained small, and on many days about 80 percent of the share were unchanged.

Of our five shares, four went up and only one was unchanged. Giant oil producer Sasol rose from 1 250c at the end of June to 1 360c on July 31. Lion Match also recorded a gain, up from 235c to 260c. Morkels stayed the same at 80c. Malbak nudged up from 640c to 660c and Foschini rose from 7 200c to 7 300c.

Work out which share made the biggest gain in rands and cents, and that one would take position No 1. Put the best performer on slot No 2, and so on until you've completed the form, send in the coupon soonest to Sowetan, PO Box 6663, Johannesburg, and you could well be R1 320 richer.

August's share competition is now underway, and the five chosen companies are Cadbury Schweppes which is called Cadswep in the Food Sector, Highveld Steel and Vanadian Corporation in the Steel sector, Tongaat, the Natal-based company listed in Sugar, Score found in retailers and wholesalers and Randex in mining exploration.

Using *Finance week* share price pages as your guide, you will find all these shares listed each week in their particular sectors. The prices of the shares at the end of July were: Cadswep 2 000c, Hiveld 1 610c, Tongaat 1 570c, Score 600c, and Randex 275c. Make a note of these prices and keep an eye on how the shares perform during August, you could win 100 Genbel shares worth R685.

COMPANY NAME	SHARE PRICE 01-07-90	SHARE PRICE 31-07-90
1.		
2.		
3.		
4.		
5.		

UNIT TRUSTS

GENERAL EQUITY FUNDS	Buyers	Sellers	Yield
Allegro	105,96	98,45	N/A
BOE Growth	N/A	N/A	N/A
Grdbnk Gr	1 949,63	1 818,16	4,76
Momentum	185,66	173,36	6,37
Metfund	153,69	143,35	5,49
NBS Hallmrk	776,77	722,04	6,90
Nrwch NBS	312,11	290,12	7,09
O Mut Inv	2 359,07	2 191,55	4,82
Sage	1 904,14	1 768,20	6,01
Safegro	100,24	102,31	N/A
Sanlam	1 354,51	1 263,08	4,66
Sanlam Idx	1 099,02	1023,63	4,04
S Equity	157,68	146,68	4,94
Standard	937,57	877,39	7,06
Syfrets Growth	198,34	185,42	4,51
UAL	1 740,19	1 623,95	5,46
SPECIALIST EQUITY FUNDS			
Grdbnk Res	149,62	139,56	6,41
Sage Res	124,61	115,60	6,13
Sanlam Ind	662,83	617,69	4,71
Sanlam Min	328,58	305,91	5,23
Sanlam Div	332,55	309,46	6,40
South Min	157,39	146,56	5,38
Std Gold	232,61	217,09	6,33
UAL M & Res	401,29	373,61	4,58
UAL Sel Op	1 275,52	1 185,39	5,26
O Mut Min	303,72	281,75	5,79
O Mut GF	174,00	161,52	N/A
O Mut Ind	237,25	220,33	N/A
INCOME/GILT FUNDS			
Corbank	102,67	101,56	17,70
Grdbnk In	109,17	108,02	16,96
Old Mut In	107,52	105,29	14,92
Senbnk HY	97,44	96,42	14,50
Senbnk G	97,16	96,14	14,66
Std E Inc	89,49	88,46	15,63
Syfrets Inc	105,20	104,21	15,66
UAL Gilt	1 111,68	1 100,74	15,85

Business Diary

By JOSHUA RABOROKO and WALTER LUKHULENI

* Business Challenge will hold a seminar at the Johannesburg City Hall on Saturday at 10am aimed at putting people into different distribution ventures linked to the big operations. Products to distributed include stoves, fridges and gas appliances. Interested people should contact Mpho at (011) 233466 or (011) 234968 during office hours. Business Challenge's Chief Executive will also give a talk on his overseas experiences.

* The Institute of Personnel Management (IPM) will hold a five-day workshop aimed at the construction, implementation and validation of an assessment centre at its Johannesburg offices from Monday to Friday. The objective of the programme is to provide participants with a complete understanding of assessment centres and with the opportunity to practice writting key documents.

* The Minister of Transport and Public Works and Land Affairs, Mr George Bartlett, will open this year's five-day Annual Transportation Convention, to be held in the CSIR conference centre starting in Pretoria on Monday. Controversial topics to be discussed include conflict in the minibus taxi industry; taxi associations; the effects of transportation on the environment; motor cars of the future; toll roads; the consequences of inadequate and unstable funding of roads; and the personality of the reckless driver.

* First Financial Futures will be launching its first equity trust at 3rd Floor, MBM Building, Sandgate Park, Kramerville, Johannesburg on Tuesday, starting at 8.30am.

* The deputy Minister of Trade Industries and Tourism, Dr Theo Alant, will deliver a keynote address at a symposium of the South African Association of consulting Engineers in Johannesburg on August 9.

* The Southern Africa Black Taxi Association (Sabta) is to hold a series of workshops aimed at explaining to members how to enter and take part in the "Taxi Driver Of The Year" competition. The first of these will start in Pietermaritzburg today. The rest will be held at the following venues: Empangeni August 3, Umtata August 10, East London August 16, Port Elizabeth August 17 and Cape Town on August 20.

* The Soweto Independent Traders Association (Soinsa) will hold a crucial meeting at the Jabulani Standard Bank Hall on Wednesday (August 8) at noon to discuss the killing of black businessmen.

* The Human Science Research Council (HSRC) will hold a seminar on corporate image-building in Pretoria next Thursday (August 9). The theme is "Image communication in an emerging South Africa". Speakers include Professor Nikos Metallinos, an American visual communication expert, Mr Eldridge Mathebula, executive director of the Consumer Institute for Research and Promotion, Mr Mike Maisela, managing member of Village Communications. For more information contact Mrs Marianne Crocker at (012) 2022021 or Mrs Marieke van der Merwe at (012) 2022234.

* The South Africa Tours (Satour) will be holding a series of seminars on Rural Tourism around the country starting at Allemanskraal Dam in the Orange Free State on August 23. Farmers concerned with this segment are expected to attend.

* The National Black Consumer Union (NBCU) will hold a workshop on the Value Added Tax on August 11 at Funda Centre, in Soweto. The meeting will be addressed by the Chief Director of Inland Revenue and Soweto's tax expert, Mr Matsheru Matsheru.

* The 12th International South African Building and Construction Exhibition will be held at Nasrec, Johannesburg from 20 to 23 August.

* The annual general meeting of the Ukhamba Liquor Association, which was scheduled to take place between August 12 and 15, has been postponed indefinitely. Coordinator Suzette Mafuna, said there was a problem of a venue. She apologised to members who have already received invitations.

* The Vaal Triangle Boycott Committee and the Mass Democratic Movement will hold a meeting in Vereeniging today to decide on whether to continue the protest action against the Vereeniging traders following a decision by the town council to grant permission to march in the town.

* The Foundation for African Business and Consumer services is to hold a one-day seminar entitled "Fabcos on Fabcos Translating Black economic Empowerment into Reality" at the World Trade Centre, Johannesburg, on August 20.

* Three well-known international experts on strategic innovation and change will take part in a panel discussion at a business workshop to be held at the Anglo American Corporation Central Training Unit and the Riviera Hotel, in Vereeniging tomorrow. The panel will consist of Professor Mike Tushman of Colombia University, Mr Charles O'Reiley of the University of Califonia in Berkley and Mr Jeffrey Pfeffer of Stanford University.

Tax loophole in housing subsidy scheme is closed

B/Day 21/8/90 (320)

CHARLOTTE MATHEWS

PEOPLE who have been enjoying benefits of employer housing subsidy schemes on a reduced tax formula by buying their houses through a trust have been dealt a blow by legislation gazetted on July 11.

Deloittes, Haskins & Sells (DHS) personal financial planning division associate director Trevor McGlashan said that until July there had been a loophole in the Seventh Schedule to the Income Tax Act.

Previously, under the Act an employee was taxed on a formula basis on the fringe benefit of having housing provided for him by his employer unless he, his wife or his child owned the property directly or indirectly through a company or close corporation.

The Act did not include owning the property by means of a trust.

As a result, an individual could buy property in the name of a trust, rent it from the trust and his employer could pay the rental to the trust.

The employee would then be taxed on a formula basis on the benefit.

Under the changes to the Act, where the employee, his wife or child is in any way a beneficiary of the trust which owns the property, the formula no longer applies and he is to be taxed on the actual rental paid to the trust.

The legislation is retroactive to March 1.

McGlashan said: "For example, if the formula-based tax value was, say, R500 a month and the actual rental paid to the trust R1 500, the employee's monthly income has now risen retroactively by R1 000 and the tax due to be levied on this could be as high as R440 a month."

It will be acceptable for the employer to spread the extra back tax for the four months from March to June over the next eight months.

"This means in the example given that the employee would pay an extra R660 a month in tax until the end of February 1991 — R440 for the current month and half of that amount for back tax," he said.

This puts a heavy administrative burden on the employer who has to recalculate his payroll so the correct balances are reflected at the end of the year.

He has to recalculate the taxation of employees affected who have resigned in the interim period.

If these employees cannot be traced an IT3(a) form will be forwarded to the Receiver's office and put on the computer so the extra tax due can be charged to the individual on submitting his 1991 return.

"Unfortunately the end result will be more angry taxpayers, extra administrative work for employers and more hostility between Receivers and the general public," McGlashan said.

VALUE-ADDED TAX (320)

Son of 103

FM 3/8/90

The draft VAT Bill includes a strongly worded anti-avoidance provision, section 72, which goes significantly further than the equivalent Section 103 in the Income Tax Act. It empowers the Commissioner of Inland Revenue to determine liability for VAT and the amount of tax, as though a scheme of avoidance has not been entered into. He may ignore the scheme or impose tax as he deems appropriate.

However, the commissioner's decision will be subject to objection and appeal. If it is proved an avoidance scheme results in a tax benefit, it will be presumed the scheme was entered into for that purpose, though the taxpayer is entitled to prove the contrary.

An avoidance scheme is defined to include "any transaction, operation, scheme or understanding and all the steps and transactions whereby it is achieved." The scheme need not be enforceable. Pieter Malan, national tax manager, Price Waterhouse, Johannesburg, speculates on what might constitute an unenforceable scheme.

Oral agreements or "side-letters" are enforceable in law, but what of a situation where two companies involved in a transaction have common control and are evidently

FM 3/8/90 (320)

intent on following — without an agreement — a specific course of action with tax implications?

Section 72(2) provides that these provisions will apply if the purpose of a scheme is to avoid any tax, duty or levy imposed by the VAT legislation or any other law administered by the commissioner.

Malan says the most interesting difference between Section 72 of the Bill and Section 103 of the Act is the incorporation of a "business purpose test." Section 72(1)(b)(i) in effect defines an avoidance scheme as one entered into or carried out in a manner which would not normally be employed for bona fide business purposes other than obtaining a tax benefit.

It is generally accepted that the business purpose test, as formulated by UK counts, does not form part of SA tax law in relation to Section 103.

Malan notes Section 72(1)(b) also allows the commissioner to consider the substance of a scheme as opposed to its legal format. He says the SA courts have consistently disregarded the legal form in which an agreement is couched and judged a transaction on its substance where there is disparity.

But Arthur Andersen partner Pierre du Toit cites a recent Australian case which held that most "substance over form" cases have been wrongly decided, being in reality situations where there was a finding on the facts against the taxpayer. Australian cases have persuasive authority in SA courts because our tax law has been modelled on Australia's.

Malan also says Section 72(1)(c) requires the scheme must have been entered into or carried out solely or mainly for the purpose of obtaining a tax benefit. This seems to give added strength to the bona fide business purpose test.

Finally, he says, the provisions of Section 72 are retroactive in that they will apply even to schemes entered into before the commencement of VAT legislation. This will have the startling effect that a scheme entered into years ago to avoid another tax, such as income tax, but which also has the unintended effect of saving VAT, will be vulnerable!

For example, some plantation schemes, not subject to GST, but entered into in order to save income tax, could well be attacked in future under section 72. *Robin Friedland*

Soaring costs cut hotel expansion

BDay 3/8/90

GERALD REILLY

PRETORIA — Soaring costs are undermining the country's hotel industry at a time when it should be expanding to cope with the expected sharp rise in foreign visitors, Fedhasa executive director Fred Thermann said yesterday.

● THERMANN

This was dramatically illustrated by the latest profit performances and other statistics affecting the hotel industry. According to the Central Statistical Service the net profit of hotels throughout the country increased by 16,7% in the first quarter of the year to R37,023m compared with January-March last year.

Thermann said when inflation of at least 15% was taken into account the figures represented a virtual standstill in the hotel trade.

However during the three months there was a spectacular increase in capital spending by hotel groups.

This increased from R28,394m in 1989 to R51m in 1990.

This, Thermann said, had been spent mostly by the big hotel groups on refurbishing and upgrading programmes. Lesser amounts had been spent on extensions to one- and two-star establishments.

To remain competitive in a highly competitive market the three-, four- and five-star hotels had to spend continously on interior replacements and improvements.

A major cost factor in the industry was labour and continual pay increases for staff members.

"This is if productivity rises in proportion, but it is the experience of the industry that this does not often happen, if ever.

"Building costs, too, rose sharply in recent years at a rate of at least 20% a year."

On top of this high interest rates made big inroads into profits.

Another indicator of the struggle of the industry to maintain standards and at the same time turn in a reasonable profit was the amount spent on rentals of buildings and machinery.

In the first quarter last year this amounted to R19,816m compared with R27,644m in January-March.

Receiver has several VAT problems

GERALD REILLY

PRETORIA — Procedures and problems associated with the introduction of VAT were discussed at a top level meeting of Receivers of Revenue at Warmbaths earlier this week, Inland Revenue commissioner J W Hattingh said.

The staffing problem associated with switching GST to VAT was also on the agenda. BDay 3/8/90

However, not discussed was the black taxi tax drain which, according to authorities' estimates, is costing the country several hundred-million rands a year, he said.

Hattingh said his directorate was looking closely at the problem. He declined further comment. (320)

Other sources said the number of black taxis plying between townships and work areas was between 50 000 and 70 000.

It is estimated that gross earnings of the industry exceed R2bn.

However, the SA Black Taxi Association (Sabta) claims the tax loss is exaggerated and that the high costs of maintenance of vehicles, as well as their initial cost, has not been taken into account.

Sabta also claims that the majority of black taxi operators have income falling below the taxable level.

SATURDAY AUGUST 4 1990

Individual tax burden doubles

w/k
NBW
4/8/90
320

From ROY COKAYNE

PRETORIA: Inland Revenue estimates for the five years from 1987 to 1991 indicate that the income tax burden on individuals will have soared by 101 percent.

A tax rise of almost 162 percent is forecast for non-mining companies while direct income tax paid by mining companies is estimated to drop by about 38 percent.

Revised estimates by Inland Revenue show that direct income tax paid by individuals will rise by almost 30 percent this year.

The increase for non-mining companies will amount to more than 40 percent.

By contrast, direct income tax paid by mining companies will slump by almost 11 percent.

Income tax paid by individuals next year will rise to almost 36 percent of the total, mining companies' contribution will still amount to less than 4 percent, and the direct tax paid by non-mining companies will constitute 23 percent of the total.

The rate of increase in the amount of taxation by these three groupings also indicates a shift away from mining towards individuals and non-mining companies.

In the past few years the tax burden on individuals has remained virtually constant.

The emphasis is continuing to shift away from mining companies towards non-mining companies, according to statistics released by Inland Revenue.

In 1987 direct income tax from individuals constituted 31 percent of the total tax collected, while the tax from mining companies amounted to almost 11 percent and that of non-mining companies 15,5 percent.

Between 1988 and 1989 direct tax collected from individuals constituted around 34 percent of the total, while the direct tax from mining companies was 8 percent and 6 percent respectively.

By contrast, direct tax obtained from non-mining companies rose to 16,5 percent in 1988 and almost 18 percent of the total in 1989.

Estimates by Inland Revenue indicate that this year direct tax from individuals will make up 32,5 percent of the total, but mining companies' contribution will fall to below 4 percent while that of non-mining companies will rise to 18,5 percent of the total collected.

Between 1988 and 1989 direct income tax collected from individuals rose by about 17 percent while non-mining companies' contributions shot up by 30,5 percent and direct taxes paid by the mining industry dropped by 10 percent.

Provisional estimates indicate that the shift of the tax burden towards non-mining companies will become even more pronounced next year.

Direct income tax paid by individuals will rise by 9 percent next year, compared to the about 27 percent rise in tax paid by non-mining companies.

Direct taxes paid by the mining industry will continue to show a downward trend, dropping by almost 6 percent in the same period.

The statistics also disclose that the growth of total collections is heading downwards.

You're still paying the bulk of the tax

Star 4/8/90 (320)

ROY COKAYNE

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Up 30 percent

Revised estimates by Inland Revenue indicate that direct income tax paid by individuals will rise by almost 30 percent this year, while the increase for non-mining companies will amount to more than 40 percent in the same period.

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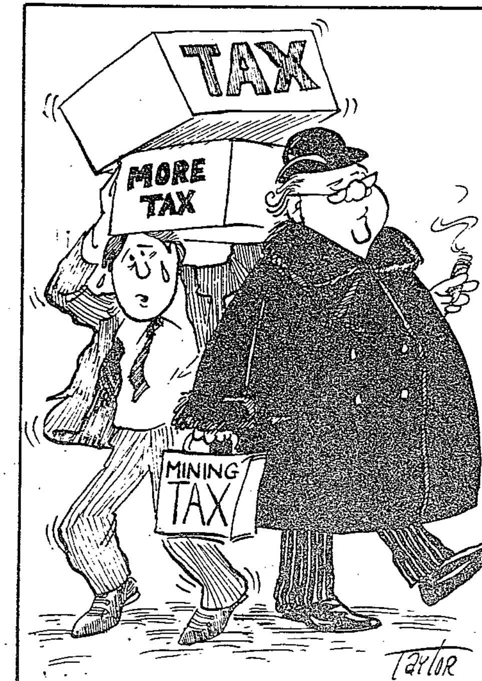
Direct taxes paid by the mining industry will continue to show a downward trend, dropping by almost 6 percent in the same period.

The provisional estimate for the five year period between 1987 and 1991 is that direct income tax on individuals will have risen by 101 percent compared with almost 162 percent for non-mining companies.

In the same five-year period, direct income tax paid by mining companies is estimated to drop by about 38 percent.

Although about 60 percent of all the tax collected since 1986 has been direct tax, the increase in the value of indirect tax collected has been marked. Total indirect tax collected rose by 16,1 percent in 1988; by almost 25 percent last year, and is estimated to rise by almost 29 percent this year.

However, the provisional estimate is that indirect tax collected will rise by only 7,2 percent next year, which is indicative of the slowdown in the economy



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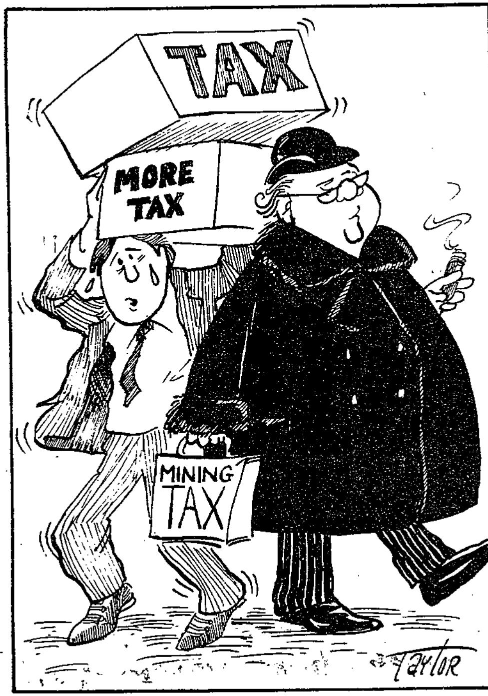

VALUE ADDED TAX

St Times 5/8/90

320

Longer, stronger arms for Receiver's police

A TAX system is only as good as the people who administer it.

VAT's success will be judged largely on the efficiency of the Receiver and his men. Fears have already been expressed about the hard-pressed administration's ability to meet the extra demand.

That VAT will have to be collected from a much larger number of vendors — which is "taxpayer" in VAT-speak — will place a huge burden on the department.

KPMG Aiken & Peak tax consultant Andre Meyburgh says: "The Receiver will have to increase the number of inspectors. He will have to pay market-related salaries to attract more qualified inspectors and to keep those he already has happy."

The draft Bill stipulates that the Department of Inland Revenue will have to pay interest on reclaimed tax not refunded within 21 working days — adding speed to the constant demand for accuracy, which is essential if too many appeals are not to be made.

But Inland Revenue is confident it will have the resources to handle the additional workload by the time VAT comes into force.

"We have an infrastructure to handle sales tax," says Trevor van Heerden, chief director of tax policy development in the Department of Inland Revenue.

"By the date of implementation of VAT at least 70% of the sales tax infrastructure — staff and equipment — will be used to implement the new tax. Planning for the introduction of VAT has been done in several areas."

The department has completed a study of the extra staff needed and 800 additional posts have been filled.

"This has had the welcome effect of allowing us to scrutinise more vendors to ensure that they continue to comply with the requirements under the Sales Tax Act. It has also allowed us to improve internal administration," says Mr Van Heerden.

New and existing staff members are also being trained and more than 800 have attended in-house seminars.

The first phase of VAT introduction will be registration of vendors, and about a third of Inland Revenue staff have had formal training in this process.

"A detailed programme for other training has been worked out and there is every confidence that our goals will be achieved," says Mr Van Heerden.

The working requirements for VAT have been designed to operate with existing computer equipment. A software system is being developed and will be ready for operational testing early next year.

It is planned to reduce routine manual administration tasks and provide a user-friendly system.

The improvement and expansion of local offices has not been neglected.

"These up-grades will contribute to the effective and efficient administration of VAT," says Mr Van Heerden. "Audit selection will be done on a system designed to make possible early detection of deviations from standard."

[redacted]

More in your pocket—if it goes to plan

S| Times 5|8|90 (320)

By IAN SMITH

Value added tax (VAT) will replace general sales tax (GST) in October next year. Vatcom is asking the public for written opinions. How will this new tax system affect the corporate sector and the private consumer and trader? Is the Government geared to administer its collection? Will VAT lessen tax avoidance and evasion? What will it mean to the small trader? Business Times writers investigate these and other issues in this feature on VAT.

THE debate about the wisdom of VAT is over — the new indirect tax system will be introduced in October next year.

Many fears about its effect on business and consumers probably stem from the rushed introduction of forerunner GST in July 1978. Memories of prolonged problems over the collection of GST are still vivid.

This time the Government has given itself time for the largest public education programme of its type ever implemented.

In spite of protests from various sectors of the economy and the uproar over the intention to extend the tax to food, considered opinion is coming around to the belief that VAT will be good in the long term.

Fiscal

Experts prefer VAT to income tax because it is levied on spending, not saving. Income tax also penalises income that is not spent. VAT is more directly targeted on consumption and is thus a better means of implementing fiscal policy.

Although the rate is the same for all, the rich still pay more. Still, the tax burden is more widely spread.

VAT is arguably more equitable than income tax. (Of course it's all very well to weigh the merits of one type of tax against the other in theory. Regrettably, in practice in SA, taxpayers are afflicted with both types of tax.)

Because it is generally levied at a low rate, attempts to evade VAT are not as strenuous as those to avoid income tax. It is also harder to evade VAT than income tax or GST.

VAT is invoice based. Tax is collected at each point in the manufacturing and distribution chain, according to the value that has been added. This is the major difference from GST where all tax is collected when a product is bought by the end user or consumer.

A person or enterprise (the vendor) will pay VAT on goods and services introduced, bought or used (the added value, or "input") in the course of a production or distribution transaction.

VAT's biggest advantages are that it will extend the tax-gathering base more widely and be less susceptible to evasion than GST.

Experts say that once tax levels hit 10% the temptation to evade payment increases under GST where the final seller can benefit from the full amount if he risks the Receiver's wrath and hangs on to the money. Evasion under GST is estimated at between 15% and 30% — a huge loss of revenue.

The temptation to evade paying much smaller amounts under VAT is reduced. In any event, with an "input" and an "output" tax at each stage the system is to some extent self-policing.

A better audit trail and the absence of exemption certificates also make it easier to track offenders.

The other major benefit of VAT is that it will eliminate "tax cascading", or double taxation — an import feature of GST.

Export

This arises from the fact that GST is hidden in the cost of all goods and services. Companies pay sales tax on a huge range of inputs and services and these are built into the final selling price of their products. Finally, at the retail level GST is levied again at the full rate.

This inhibits SA's export drive and increases domestic prices.

Strong fears have nevertheless been expressed about VAT's effect on the cost of living.

But Trevor van Heerden, chief director of tax policy development in the Department of Inland Revenue, says VAT is not designed to raise more money than GST, and it should not be inflationary.

The fact that it should do so by eliminating evasion must augur well for the maintenance of a stable VAT rate.

Mr Van Heerden concedes that business could increase prices unduly as a hedge against the unknown. But the education programme for businessmen could eliminate the fear.

Fast

Costing will be critical for businessmen. KPMG Aiken & Peat tax consultant Andre Meyburgh says one of VAT's biggest disadvantages is the greater administrative burden on business.

Mr Meyburgh says businesses will have to introduce more comprehensive accounting systems to make sure both input and output taxes are correctly processed each month. Fast recovery is vital for cash flow and to avoid paying more tax than necessary.

The upside is that every business will have a better grip on its income statement. But trying to control cash flow and prevent VAT overpayments will probably add to overheads because more staff or better accounting computer software will be necessary.

It will be critical to avoid incorrect pricing. Under VAT wrong pricing causes a form of double tax that advances right through the chain to the consumer — and nobody but the Receiver benefits.

Broader

Mr Meyburgh says: "The broader base created by bringing professional and transport services, deliveries, construction activities and some local authorities into the indirect tax net for the first time will help to keep the percentage tax rate low."

The Government has said the tax rate will be below GST's 13%, provided exemptions are kept to a minimum. But more efficient revenue collection over the broader base will make a lowering of the tax rate more likely than under GST.

"If Government spending is kept to reasonable levels at the same time, the tax rate could be lower."

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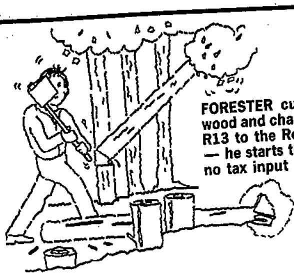
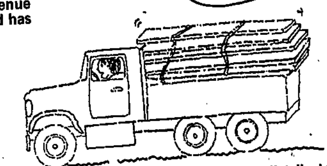


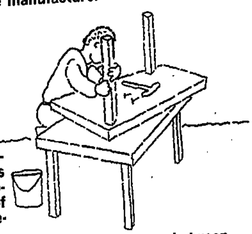
FORESTER cuts R100 worth of wood and charges R13 VAT. Pays R13 to the Receiver of Revenue — he starts the process and has no tax input



R13

WOOD WHOLESALER transports and distributes planks to furniture manufacturer. He adds value of R300 to the wood bought from the forester, sells it to a manufacturer for R400 and charges R52 VAT. Pays the Receiver the difference between R13 VAT paid already and R52 received from the manufacturer

R39

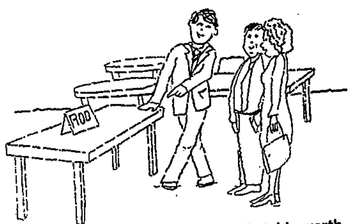


R26

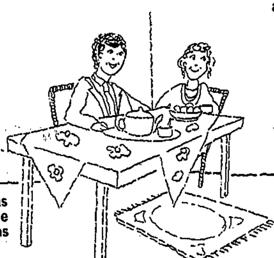
FURNITURE MANUFACTURER makes table and, in the process, adds value of R200. Sells to the retailer for R600, and charges R78 VAT. Pays Receiver the difference between R52 paid already and the R78 now received from the retailer

RECEIVER OF REVENUE receives in total R91 VAT from the forester, wholesaler, manufacturer and retailer, which they in turn recover from the consumer

R13



RETAILER adds value of R100, sells table worth R700 to the consumer and charges R91 VAT. Pays Receiver the difference between R78 paid already and the R91 now received from the consumer



CONSUMER has bought the table for R700, has paid R91 VAT

FOR THE sake of simplicity, this illustration assumes a VAT rate similar to the present 13% GST. The illustration demonstrates the production/sales chain from forester to consumer, and indicates how each link in the chain pays VAT. Tax evasion becomes almost impossible. The retailer, for instance, cannot pocket the R91 VAT which the consumer has paid because the manufacturer has already informed the Receiver of the transaction. Likewise, the manufacturer cannot pinch the R78 VAT which he collects because the wholesaler has already informed the Receiver of the transaction

The beginnings of a love affair

S/Times 5/8/90 (320)

By JULIE WALKER

LOVE triangles have never worked to the satisfaction of all three parties, but VAT will improve the relationship between the Receiver of Revenue, the businessman and his client.

This is how Willem Cronje, partner at Deloitte Haskins & Sells and a tax fundi of 20 years' standing, explains the concept of VAT.

Mr Cronje was an adviser to the Margo Commission and backs value-added tax.

GST regulations often leave a businessman vulnerable. Take a simplified example of a the customer who enters a hardware store to buy a drill, and presents the shopkeeper with a GST exemption certificate.

The shopkeeper is faced with a problem. If he doubts the certificate's validity (perhaps it is for his brother's greengrocery — who can tell?) and he is an honest trader, he has to turn down the sale.

The customer goes to a less vigilant store where GST is not levied. The Receiver loses out, so does the first shopkeeper.

GST has introduced stress into the businessman-client relationship and caused untold damage to the economy.

Under VAT there can be no quibbling. Let's assume the shopkeeper is representative of all small businesses. He buys from his suppliers and sells to his customers. At present he acts as a GST collection point on the goods sold.

Simple

From the date of introduction, he will pay VAT to his suppliers and collect it from his customers. The subjective matter of whether or not the customer is liable to pay a sales levy falls away — everyone pays.

A bit of simple arithmetic to keep the books is all that is required when VAT returns are made on the 20th of the month. Our small man's turnover is less than R18-million a year — the level at which monthly returns are required. So he need make a return only every two months.

All the VAT paid is subtracted from all that collected (usually the larger) and the balance is sent to the Receiver. VAT refunds are claimed on the same forms as the amount paid is declared.

Average his point of collections and payments to 30 days (half of two months) and add the 20 days into the next month by which the returns must be submitted, and some conclusions can be drawn.

- The shopkeeper can sit on the Government's money for an average of 50 days for free — unless his own terms of selling to his customers exceed 50 days.
- On the flip side, if he pays his creditor within 50 days, he loses by paying VAT up front. In the long run, it all balances out.

Retailers — already part of the GST system — stand to gain considerably by raking in VAT and keeping it for an extra 20 days.

Abuse

The two-sided accountability of VAT for middlemen, rather than the end-point collection of GST by them, will reduce the opportunity for the kind of abuse the existing system is subject to.

The tripartite system will be replaced by a bipartite one.

VAT is coming of age throughout the world. Mr Cronje says that if half of South America, much of South East Asia, many European countries and Madagascar can successfully operate VAT, surely South Africa can.

It is inherently simpler than GST, but does require extra bookkeeping. SA is a land of many people with some skills, but short of highly skilled workers. The administration of VAT can be managed easily by less-qualified staff.

Mr Cronje says policing of the system will need to be thorough and it is to be hoped that the Receiver of Revenue's office is accorded, and afforded, the opportunity to employ competent staff to monitor VAT returns. It would be cheap at the price to beef up the staff.

Snags that may upset cycle

ST Times 5/8/90

(320)

By JULIE WALKER

ALL being well, VAT will replace GST on October 1, 1991.

It will be an overnight transition from the old system to the new. Retailers, already part of the GST system, will simply apply VAT to the goods they sell.

An important change for retailers is that they will pay VAT on their own purchases from the date of introduction.

Wholesalers and manufacturers will join the system as any two-way trader would by paying VAT on their input materials and collecting it on disposal of goods.

Major

The long lead time to VAT's introduction gives companies enough opportunity to plan for the transition.

The deferment of major purchases could cause problems to the economic cycle. For example, input VAT could be paid and credited instead of paying non-refundable GST on capital items or stationery.

But VAT can be avoided if new construction is completed before its introduction.

Willem Cronje, partner at Deloitte Haskins & Sells, says tax credits on purchases made before VAT's introduction have been granted in some, but not all, of the 45 countries operating the system.

VAT paid on capital items will be reclaimable from October 1991, but GST is never refundable.

So it is almost certain that a special excise tax will be introduced on the purchases of fixed assets after October 1, 1991. Otherwise, people would simply stop buying assets until after VAT's introduction.

Either credits could be given on fixed-asset purchases beforehand, or those after the introduction date could be penalised.

Immense

No policy decision has been made, but something is needed to prevent or minimise the disruption to the business cycle. The consequences could otherwise be immense.

Germany imposed an excise duty on capital goods when it introduced VAT. It was phased out after five years.

The big debate in SA would be the length of the phasing-out period after VAT's introduction.

It's a blow below the belt for the poor

ST Times 5/8/90 (320)

By MELANIE SERGEANT

IN spite of research showing that GST exemption on basic food has proved ineffective and mostly unhelpful to the people it should help, some argue that VAT is not the answer.

National Black Consumer Union managing director Johnny Dladla says his organisation has studied the effect of VAT on food, housing and services.

"We are unhappy about VAT being imposed on staple foods. We believe the move will increase the cost of living of the least fortunate. There will need to be a corresponding increase in salaries. The move will drastically affect the unemployed."

Mr Dladla bemoans the fact that new-house prices will also be hit by VAT because the tax will be imposed on all building materials.

"This will lead to more shacks being built by people who cannot afford conventional homes. With the recent drop in subsidies for first-time house buyers, VAT will come at a bad time. The squatting problem will worsen because only the rich will be able to afford homes.

"It will be shocking if VAT is imposed on electricity and water."

The cost of VAT will be borne by consumers. Suppliers can reclaim, but consumers cannot.

National African Federated Chamber of Commerce & Industry's Mofasi Lekota says in a provisional report to Manco that Nafcoc's tax committee has identified some objectionable contents of the proposals.

They include the imposition of VAT on land and buildings. This will burden blacks, the biggest buyers in the future.

"Second, because black businesses do not have access to capital, VAT will devastate their cash flow.

"Indirect tax hurts the majority and not the rich. Indirect tax is not an effective distributive mechanism."

Mr Lekota says the imposition of VAT on food and medical services will further impoverish the black community. The disposable income of low-income earners will be reduced by the general non-exemption of VAT.

Nafcoc's tax committee believes that soup kitchens, suggested as a means to alleviate problems of the impoverished, are unacceptable because they will lead to dependency. It is better to teach people to feed themselves than to feed them.

"The VAT system is designed to collect money from blacks where the Government has its greatest problems. It instead protects exporters, financial institutions and others who have resources.

"Administrative problems will plague black business if VAT is implemented."

Only a few to fall outside the new net

S/Times 5/8/90 (320)

THE fewer exemptions granted on VAT, the lower the rate will need to be, says the Receiver of Revenue.

However, no decision has been made about what will be exempt from VAT. Vatcom has been set up to hear representations until the end of September and make recommendations to the Minister of Finance.

VAT, as outlined in the draft Bill, uses several specialised terms. The word "supply", for instance, is used to describe all transactions which may be considered for VAT, whether taxable or exempt.

An Ernst & Young analysis of VAT based on the draft legislation says the word's basic meaning is "embarrassingly vague".

By CHARMAIN NAIDOO

"Goods and services" is another term to cover virtually everything capable of being dealt with in a commercial transaction — and not limited to goods and services in everyday terms.

The Ernst & Young handbook defines "goods" to include "corporeal moveable and immoveable (land and buildings) property, sectional title units, share-blocks and timesharing interests".

"It also includes real rights; for example, usufruct in all of the above. It includes postage stamps, but excludes revenue stamps and money.

Consequence

"The only real rights in property which are excluded are mortgage bonds and pledges," says the handbook.

"Services" include anything done or to be done, including making available any facility or advantage — for example, the rental of property and the granting of fringe benefits.

Ernst & Young says: "Many of the interpretational and practical problems arising in VAT depend on an understanding of what constitutes an exempt supply and the consequence to an organisation of making such supplies.

"An organisation which makes exempt supplies is not an enterprise and is not registered for VAT.

"It does not charge VAT on those supplies and is not entitled to an input VAT credit in respect of any VAT paid on supplies made to it and used wholly or mainly for the purpose of making the exempt supply."

Exempt supplies include:

● Financial services — except to the extent that they would be zero rated. The handbook says the full definition is complex and must be studied, but in essence includes agreeing, arranging or actually giving effect to:

□ The exchange of money whether by way of crediting and debiting of accounts or otherwise.

□ The renewal, issue, transfer, payment, underwriting, guaranteeing of and similar activities in relation to cheques, debts, futures contracts on a futures exchange and corporate and unit trust shares and interests.

□ Provision and transfer of life assurance and superannuation policies and schemes.

□ Payment or collection of dividends and interest or principal of any debt or any other financial contract as above.

Advertising on any of them is NOT exempt.

School

Residential rentals — other than in a hotel, boarding house or such establishment — but including the rental of leasehold land for the erection of a dwelling is exempt from VAT. "This provision reduces the VAT attributable to new dwellings in many black townships," says Ernst & Young.

Also exempt is the supply of services by a body corporate or shareblock company unless otherwise elected.

The Government has stated its intention to exempt education from VAT. This, however, covers only school and boarding fees and does not include books and uniforms.

The draft Bill says educational services supplied by the State, including any provincial administration, or any institution of a public character

Religious

They include:

● Primary or secondary school education.

● Education supplied by certain technikons and similar institutions and universities.

● Permanent institutions — approved by the Minister of Finance — for the promotion of adult education, vocational training and technical education; that promote the education and training of religious or social workers and for the education or training of physically or mentally handicapped persons.

Everything related to the supply of these educational services — including board and lodging — is also exempt.

The supply of medical, dental, homeopathic, physiotherapy and similar services — including hospital and clinic services (but not accommodation and meals) — is exempt.

Any incidental goods supplied, except for prescribed medicines, spectacles or contact lenses, are exempt from tax.

"Non-prescriptive medicines supplied incidentally to the above services are apparently exempt as are those prescribed medicines used at the time of consultation."

Exhaustive

Also exempt is the supply of certain goods and services by any religious institution or other association not for gain and whose constitution restricts its activities to the furtherance of its aims and the payment of reasonable remuneration to its officers and employees.

"The definition is exhaustive and will not include any transaction which might be seen by the parties as essentially financial in nature if it in fact does not fall into one of the categories mentioned above."

GST dodgers snared

(320)

By MELANIE SERGEANT

GST is highly unpopular and there is evidence of rampant evasion and avoidance.

GST is a single-stage tax collected at retail level, so there is opportunity for evasion.

VAT is collected on all transactions at every stage of production and distribution in domestic commerce. It is thus widely held that VAT will have more impact than GST.

The draft VAT legislation has a built-in system to force businessmen to police it and so limit tax evasion and avoidance.

It envisages that the name of every offender be published as a "tax evader" in the Government Gazette, a provision unique to SA tax law and one that would act as a considerable deterrent.

Strict

Andre Meyburgh, tax consultant at KPMG Aiken & Peat, says misuse of GST certificates and retention of payments are the most pernicious forms of tax evasion.

"Any person or enterprise can register as a vendor for sales tax by completing a declaration. The sales tax certificate can be used to buy anything free of tax.

"The other method is to claim GST and not pay it. Because the tax is collected from the end user, a dishonest retailer or enterprise can chance his arm against investigation by the Receiver of Revenue and pocket the money."

VAT will close these loopholes. First, there is no provision for an exemption certificate; and tax is collected upfront all along the production and distribution chain. Enterprises will be forced to apply strict accounting methods to their input and output tax payments if they do not want to end up paying full VAT themselves.

"If businessmen or enterprises want to claim input tax payments, they must be able to produce invoices relating to input taxes paid up front.

"Because one business's outputs are another's inputs, and money will be paid up front to the taxman, every business will demand a tax invoice to prove the input tax has been paid on every deal or transaction so it can be claimed as a credit against output tax payments.

"It would be stupid not to force the issue of a tax invoice. Otherwise a business would pay almost all the VAT."

Penalty

This "self-regulatory" device apart, the VAT legislation envisages anti-avoidance measures with real teeth. The legislation anticipates that people will try to enter schemes to postpone VAT payments.

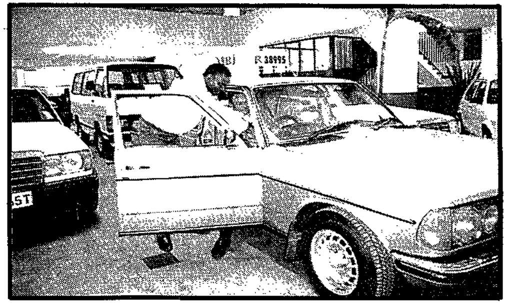
If, for example, a way is found to push up monthly input tax liability and the output tax liability is kept as low as possible and cash is retained in the system instead of being paid up-front to the taxman, the Commissioner for Inland Revenue may determine tax liability as if the scheme did not exist.

Mr Meyburgh says this could mean additional tax of up to 100% and a 10% penalty for late payment.

"There is, in any case, a 2,5% penalty for every month or part of a month incurred for late payments if paid longer than a month after due date."

Mr Meyburgh says apart from putting corner cafe-type businesses under cash-flow pressures, VAT will curb dishonest small retailers.

Under GST, small businessmen did not pay sales tax when buying stock. They could hold GST for up to 20 days before paying it, enhancing cash flow.



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A dealer does not pay VAT when purchasing a car from a private individual, but VAT is charged when the dealer resells the car to a customer

VAT will put pressure on small businesses to adopt better accounting methods. One source says replacing calculator-type cash registers with networked systems could cost 40 000 small retailers about R1,5-billion in the next two years.

Mr Meyburgh says that under GST small businesses do not worry about accounting. As long as they can calculate sales at the monthend, they are happy.

"With VAT they will have to account for both 'input' and 'output' sides of transactions within a certain time. The general rule is that a tax invoice must be issued before a credit is granted against the 'output' payment.

Qualify

"These businesses will have to determine precisely what inputs are in a particular tax period compared with outputs and set one off against the other."

Other expenses like rent, electricity, lights and water, rates and phones must also be properly accounted for because they qualify for an input tax.

Poor accounting for these could endanger cash flow and cause businesses to claim less than they are entitled to.

Many say VAT will compel one-man or small professional close corporations which fall under the indirect tax system to introduce monthly accounting to ensure accurate VAT returns.

Probe into taxis, tax evasion

ARGUS 7/8/90 (320)

The Argus Correspondent

DURBAN. — The Receiver of Revenue has appointed a team of experts to investigate the black minibus taxi industry, as they believe that they are collecting cash revenue of about R1,8 billion without paying income tax.

Some estimates claim that revenue totalling about R500 million is lost every year as a result of non-payment of income tax by the minibus operators.

The South African Black Taxi Association (Sabta) president, Mr James Ngcoya, said he was aware of the move to tax the minibus industry and said that his association had asked the receiver for extra time to educate their members on tax matters.

He said it was not true, however, that minibus taxis made a lot of money.

"These vehicles are so expensive and by the time the owner makes a profit his vehicle is worn out.

"Also, the conception that single owners have fleets of minibuses is also not true. Most minibus taxis are owned by individuals.

"We are educating our members so that we can put a number of aspects straight and will prove that the vast majority of our members earn so little that their income is below the taxable fringe and that by the end of the day their income will be below the taxable amount.

"We are on the point of proving to the Receiver that minibus taxi-owners are honest people who are not running away from their tax obligations," said Mr Ngcoya.

Estimates of the taxable revenue generated by the minibus taxi industry vary widely, but transport consultants put the figure at a minimum of R1,8 billion. About half the 100 000-odd taxi operators are members of Sabta.

Estimates of net income vary widely and were put by one transport consultant at about R3 000 a month after expenses.

Sabta's official journal, Sithuta Isizwe, said there were two options open to the taxman: to talk and negotiate with Sabta and reach a compromise, or to take action against taxi operators, in which case Sabta would not be prepared to help.

Airport tax to be levied

(320)

Star 7/8/90

By John Millar and Sapa

The Minister of Transport, George Bartlett, said yesterday he intended levying charges for departing passengers at national airports.

Opening the annual Transportation Convention in Pretoria, Mr Bartlett said the step would create the necessary climate for the commercialisation of airport operations and the upgrading of South African airports.

Members of the travel and airline industries said they were in favour of the new airport tax if the money were used solely to upgrade South Africa's major airports.

Passengers to pay airport departure tax

BiDay 7/8/90

GERALD REILLY and
MATTHEW CURTIN

PRETORIA — Air passengers will have to pay departure tax when leaving SA's state-run airports, Transport and Public Works Minister George Bartlett said yesterday.

Speaking at the National Transportation Convention in Pretoria, he said the charges were necessary to compensate for declining government funding.

The 'user pays' principle would create the necessary climate for commercialisation of airport operations and generate funds to finance needed capital spending.

Bartlett said deregulation of air services had got closer with the passing of the Air Services Licensing Act.

This provided for the deregulation of the domestic air transport market, which went hand in hand with the commercialisation and self financing of state airports.

These were running at a loss and funds from government were declining.

Association of SA Travel Agents (Asata) president Rupert Lawlor said yesterday he was only in favour of the taxes if they were levied only on foreign travellers at the international sections of airports, and only if the funds raised were earmarked for the upgrading of SA's airports.

See Page 3

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Companies face testing times over tax returns

320 Star 8/8/90

By Derek Tommey

Companies submitting tax returns under the new self-assessment system must make sure that their returns are properly completed otherwise they could face extensive penalities, says Ian Mackenzie, tax partner at Ernst and Young.

He told a tax seminar in Johannesburg last night that under the new ruling a company would have to accept total responsibility for its own assessment.

Any errors could lead to an audit by tax inspectors.

Figures from the assessment would be fed into a computer and compared with certain parameters drawn up by Revenue officials.

If the figures fell outside the parameters, the company would be 'red-flagged'.

"Too many 'red flags' and the company will face a field audit, with the inspectors going into everything in tremendous detail."

Mr Mackenzie said that no excuses would be accepted.

Therefore it was up to companies to do their returns properly.

Companies could apply to the Receiver for guidance on difficult points and would geta ruling to enable them to submit correct returns.

He said companies would probably get an automatic tax extension of 12 to 15 months initially, but this was likely to be phased out over the second and third years of the scheme's operation.

Extensions

If, despite automatic extensions, companies submitted late returns, they were likely to be penalised, even if no tax was payable.

Mr Mackenzie said that Inland Revenue was determined to get a more efficient system going, which would enable senior people to spend more time doing desk and field audits.

Companies would still need to give all the information they now provided, such as schedules of repairs and maintenance.

They would need to produce this information in the event of any queries.

Inland Revenue would take into account differences in the size of operations and look at returns on a more practical basis.

Discussing the abolition of tax on dividends, Mr Mackenzie said that it was not known how long dividends would remain exempt.

He believed there was pressure on the Government to alter the system and it was quite possible it could change in two years' time.

He suggested that because of this, companies should pay out as dividends what they could of their distributable reserves.

"However, it is no good putting this money into shareholders' loan accounts as the interest paid on these accounts will be taxable."

He said companies should not rush into distributing reserves, but should plan and do it properly so that they got the greatest flexibility in the future.

The seminar was told that Inland Revenue would like to have the withholding tax on savings in operation from the 1991 tax year.

But Inland Revenue still had to study the measure and there were doubts whether it could be introduced by 1991.

VAT planning

Mr Mackenzie said it was absolutely vital that companies begin their planning for VAT now.

It was not just a matter of telling the computer programmer to make a few alterations.

VAT would affect many areas of a company.

Computer programmers would be extremely busy for the next 16 to 18 months, he warned.

Many firms which have been updating their systems since GST was first introduced were likely to take advantage of the changeover to install a completely new system, he said.

Higher taxes seen for housing backlog

CPT TIMES 9/8/90 (320)

By AUDREY D'ANGELO, Business Editor

TAXES will have to rise by "at least 10%" if the taxpayer has to meet the cost of catching up with the backlog in black housing and education, Attie de Vries, professor of economics at the Stellenbosch Graduate School of Business, warned yesterday.

He suggested that business, which was "paying lip service and nothing more", to the need for redistribution of wealth should make a bigger contribution.

Tito Mboweni, head of the ANC department of economics and planning, said that huge savings would be made by dismantling the independent homelands and that "we will shift the emphasis of taxation towards the major corporations".

Both were speaking at the annual congress of the Institute of Life and Pensions Advisers (Ilpa) at the Cape Sun.

Mboweni said that although it would probably be necessary to use anti-trust or anti-monopoly legislation, there would still be private enterprise. The ANC favoured a mixed economy, but its orientation would change to benefit the people as a whole.

Although an integrated plan would be drawn up for the best use of SA's resources it would not be communist-style state planning. It would be "indicative planning" after discussion with the people involved.

It would be vital for SA to become competitive in world markets, and to attract substantial foreign investment, said Mboweni.

There would probably still be a modified form of exchange control, but "we are aware that we shall have to fight very hard to secure foreign investment, particularly in view of developments in Europe."

Both De Vries and Mboweni stressed that black housing and education would have to be improved and past injustices addressed.

But De Vries warned that it would be impossible for any government to meet "the explosion of expectations" without causing South American-style inflation.

He did not believe nationalisation would come about, in spite of the repeated calls for it.

"But we shall have to address inequalities and do more about the redistribution of wealth. The private sector can do much more than it has so far."

The new SA was coming into being "impoverished, inflationary, with a weak rand and high unemployment" as a result of past economic mismanagement.

Population growth was far too high. As a result of this, the demand for more schools was immensely high. Although 15 new classrooms were being built every day for black pupils, the need was for 40, De Vries continued.

And 3,7m blacks were living in shacks not more than 9 m² in size, each containing an average of six people.

"We are spending about 3% of gross domestic product (GDP) on (black) housing. We need at least to double that," said De Vries..

It was his opinion that the best way to tackle the education crisis would be to give identical state education to all races up to the level of standard five. Education after that would have to be privatised.

This would be an opportunity for business to make a meaningful contribution.

De Vries said the redistribution of wealth should not be viewed in a negative way, but as an opportunity. "It will be an opportunity for the private sector, in particular, to go into new, untapped markets."

But, he warned: "It will not be the same pattern. You people will have to start thinking in a completely different way. Otherwise your existence will be in jeopardy."

● Tom Boardman, executive director of the Board of Executors, said in an interview at the congress that business people had told him they would gladly give up a portion of their income or company profits to ensure a peaceful future for SA.

He thought the government had lost an opportunity to raise money for black housing and education by lifting the ceiling below which interest income is tax free from R1 000 to R2 000.

VAT will push up home building prices

Soweten 9/8/90

The VAT system in its present form, and which is due to be introduced in South Africa in October 1991, is likely to have an adverse impact on the residential property market.

Its effect is likely to mean still higher costs in home building and less for the seller.

VAT and its effects were major talking points at the opening of the annual convention of the Institute of Estate Agents in Sun City following a speech by Antony Chait, tax partner of Johannesburg accountancy group Fisher Hoffman Stride.

Giving an example of how the seller could be hit, Chait said: "The commission paid to an agent will now attract VAT. Taking a R100 000 residential deal, the agent's commission might be six percent or R6 000.

Agent

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"Attracting VAT at, say, 13 percent the seller will receive R600 to R700 less because the agent will charge the seller that additional amount in respect of VAT."

The end price of a new home must inevitably rise, too, for, whereas previously, the builder was taxed on materials used and the home - the finished product - was not subject to sales tax.

This will now change under VAT as the builder will charge the new home buyer to the extent that VAT will now be payable also on the labour content of the building operation.

Spouses no help for married women in offsetting losses

B/Day 9/8/90 NEIL YORKE SMITH (320)

MARRIED women will not be able to offset assessed losses against their spouses' income from the 1991 tax year.

Speakers at yesterday's Ernst & Young tax update seminar said this was in line with amendments to the Income Tax Act which ensured spouses would be separately taxed.

The change would benefit both spouses when both had taxable incomes — but if one derived an assessed loss the couple would be worse off from a tax point of view.

Under the previous joint tax system spouses could offset losses and income against each other to arrive at a figure for net taxable income.

Another amendment to the Income Tax Act was likely significantly to affect directors of private companies, speakers said.

Previously directors of private companies enjoyed cashflow benefits as they did not deduct PAYE from their remuneration. As provisional taxpayers they paid tax in staggered instalments.

The logic behind this benefit was that directors (in many cases also shareholders) traditionally made drawings from the company as they were needed and when the company could afford them.

This practice will end on March 1 next year when the Income Tax Act is amended. After the amendment directors will be subject to PAYE on all remuneration and advances they receive.

Only a directive from the commissioner — issued in exceptional circumstances — would alter this situation.

Clegg to talk on VAT tax

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CAPE TIMES 13/8/90

SEEFF BREAKFAST CLUB

IN ASSOCIATION WITH THE

Cape Times

David Clegg

NO ONE, in any type of business, can afford not to understand the implications of the draft value added tax (VAT) legislation.

To prevent unforeseen snags when the new tax replaces general sales tax (GST) the Revenue Department is calling now for objections and constructive suggestions from individuals and companies as well as from organised commerce.

One of the foremost tax authorities in the country and a sought-after speaker — David Clegg, a partner in accounting firm Ernst & Young and technical director of its tax services — will explain the draft legislation fully at the next meeting of the Seeff-Cape Times Executive Breakfast Club at the Rotunda, Camps Bay, on Thursday, August 30.

Everyone will receive a copy of Ernst & Young's guide to VAT, as a handy future reference.

The meeting starts at 7.15am and Clegg will start speaking promptly at 7.30am. Breakfast will be served after his talk.

Booking is essential, through Jackie Harper of the Seeff Property Organisation by phoning 419-0920, and the cost of R40 is payable in advance.

The Seeff-Cape Times Executive Breakfast Club is a non-profitmaking organisation formed to give business people an opportunity to hear interesting speakers without breaking into their working day. Meetings are usually over by 9am.

Law foils fringe tax avoidance schemes

NEIL YORKE SMITH

LEGISLATION in this year's Budget has wiped out tax schemes designed to avoid fringe benefits tax, say tax experts. (320)

Motor vehicle and accommodation schemes were especially targeted by Inland Revenue, said Price Waterhouse tax specialist Peter Botha. BDay 14/8/90

"It was previously possible for an individual to let his own car to the company, which paid all running and maintenance costs and gave the car back to the employee as a company car." Employees were thus taxed on a lower amount than had they claimed a travel allowance. Amending legislation meant the total amount paid by a company was regarded as a travel allowance.

Previously, a residential property could be registered to a trust or company of which the employee, who occupied the house, was not a beneficiary or shareholder with a controlling interest. The employer allowed the employee to pay nominal rent, and he was taxed on this benefit according to a generous formula set out in the Income Tax Act.

The Act now excluded the formula where an employee had an interest in the accommodation. This was deemed so where the employee, spouse or child was a shareholder or beneficiary of the company or trust owning the accommodation, and where any increase in the value of the accommodation accrued for his benefit.

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BUSINESS DAY, Tuesday, August 14 1990 3

Taxation of emigrants' interest to be delayed

GRETA STEYN

THE taxation of emigrants' interest earnings would be delayed pending the outcome of an investigation, Receiver of Revenue Hannes Hattingh said yesterday.

Hattingh was asked to comment on speculation that the implementation of tax changes, gazetted in June, would only take place next year. It was initially thought that they would be implemented as soon as possible.

Amending legislation was published to deny tax exemption on interest paid on government stock held by emigrants, unless the stock had been paid for directly or indirectly in the currency of a foreign country.

Syfrets tax expert Dale Lippstreu said yesterday uncertainty existed as to the extent to which non-resident investors in gilts and semi-gilts would in future have to pay tax on interest earned from their investments.

Lippstreu noted indications were now that exemption would continue until a withholding tax on interest had been implemented in 1991.

Hattingh said it was premature to conclude that the issue would be addressed together with the withholding tax, but said that a date of implementation would be announced once the amounts involved were known.

"The intention to impose the tax remains," he said.

Lippstreu urged investors to refrain from taking any action on their investments before greater clarity was obtained. He said it was questionable whether the tax would apply to all emigrants.

Heirs

"Given the fact that not all emigrants' funds are blocked in terms of the exchange controls — where the emigrant has inherited from an SA estate after the date of his emigration — it seems logical to assume that in cases where the investor has freedom to transfer his funds abroad, he can "wash" them by temporarily exporting them — converting them to a foreign currency and then re-introducing them."

He further suggested that non-resident heirs of SA estates would also conceivably be affected by the amendment, but could presumably take the same steps to avoid its impact.

He said it remained to be seen whether Revenue would require this to be done to qualify for the tax exemption.

Directors' shareholdings

Star 20/8/90

Bottom Line

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MICHAEL MENOF

In three annual reports I found directors either controlled the share capital or were aiming to exceed 50 percent. Is this wise or should investors avoid these companies?

In my opinion, even if it means directors are entrenched, minorities have certain protection and might even enjoy the ride.

On the other hand, if directors mess up they can always make the company private once they have dissipated the rest of shareholders' funds.

My advice is to evaluate the chairman and CEO. If they have a proven track record, they have my vote. But most important, what does the annual report reveal?

Where a group has divisions, does it report sales and profit contributions from each? Does it highlight problem areas and what corrective action was taken?

How is it controlling debt and can the operating profit cover the interest expense? What do the assets consist of and where is the intangible asset goodwill reflected?

If goodwill is not written off, are there sufficient distributable reserves to cover it?

The most significant partner in the income statement is the taxman looking for his 50 percent of taxable income. But past tax losses and generous allowances usually result in tax being low or non-existent.

So beware, the bottom line might look artificially positive. With the above in mind consider the salient features in these annual reports.

NO TAX SAVES TIME: Chairman Colin Hibbert and his directors control 52 percent of Time Holdings which is engaged in properties, housing and life insurance.

While the core business was hurt by the ailing economy and high interest rates, the results were saved by an abnormally favourable tax situation. Past losses and partial write-back of deferred tax resulted in a tax credit. The housing division received a contract (no amount specified) to provide housing for all Mossgas permanent employees.

A UK office was opened to seek joint venture partners for the insurance and property sectors. But Time needs funds and is seeking to raise R10 million convertible, redeemable 14 percent shares via a rights issue.

The property division acquired RM McCarthy (Pty) from IGI in 1989, which was paid with five million convertible, six percent redeemable preference shares — what a low rate! With no divisional results, the bottom line looked good.

Sales of R231 million (1988: R183 million) produced sharply lower net operating income of only R8,3 million (1988: R11,6 million). With a tax credit of R78 000 (1988: full tax R,5 million), attributable earnings improved to R8,96 million (1988: R8,03 million).

Shareholders' funds were R22,35 million (1988: R17,9 million) after deducting goodwill of R13,23 million (1988: R6,98 million). The reserves were insufficient to write off the goodwill.

Debt, including project finance, has risen to R35,2 million (1988: R16,6 million) and guarantees to bankers totalled R18,7 million at end-December 1989. With a net asset value of 59c a share, the current JSE price of 70c seems fair.

TEMP WORKERS SET TO HELP TECHNIHIRE: This group is resurfacing after its sale to Columbia's highfliers and subsequent buy-back by chairman Jack Eliasov who, with his co-directors, controls 75 percent of the shares.

The group hires out experienced draughtsmen, engineers, skilled artisans and technicians and has a professional placements division and computerised collection of debts.

The income statement for the 14 months to March 1990 showed sales were R6,85 million, operating income R2,61 million and interest expense only R220 000.

Full tax of R1,26 million resulted in a bottom line of R1,36 million, giving earnings per share of 11c and dividends of 3c. Shareholders' equity of R2,67 million was reduced by R450 000 goodwill. Debt was R1,46 million.

With a net asset value of 18c and a current JSE price of 23c, the directors know how to stick to the knitting.

BOYMANS BATTENING DOWN THE HATCHES: Despite trading under some of the oldest and finest names including John Orrs and Levisons, the 59 specialty clothing stores produced sharply lower earnings for the 14 months to February 1990.

But with chairman Eric Ellerine and joint MDs Abe Brodkin and Hynie Regenbaum raising their shareholdings from 43,9 to 47 percent and buying a further 42 000 shares after year-end, they certainly are confident.

This is not surprising. With a net asset value of R2,45 a share and a JSE price of R1,40, they are buying at a discount. Sales for the 14 months rose to R188 million (1988: 12 months R132 million). Operating profit was R12,2 million (1988: R10,3 million), with interest paid sharply higher at R7,5 million (1988: R3,2 million).

Tax was at the full rate, leaving the bottom line sharply lower at R2,48 million (1988: R4,13 million). The final dividend was halved to 6,5c.

Ordinary shareholders' funds barely increased to R26,4 million (1988: R24,6 million) at end-February 1990 and debt rose to R46,4 million (1988: R27,4 million).

Mr Ellerine warns that 1991's results will be hard-pressed to equal 1990's reduced earnings. The group could be a good take-over target.

These annual reports reflect able management braving a poor economy. Close examination of the numbers shows them coping.

Moderate tax relief forecast

Star 21/8/90

(320)

Finance Staff

Dr Roger Gidlow, economic adviser to the Reserve Bank, says that Government spending policies in the fiscal year to March 1991 may provide more of a stimulus than envisaged in the Budget.

He said at a credit seminar held by Information Trust Corporation in Durban the present adjustments and policy disciplines were not without pain.

Unemployment, housing repossesions, summonses and debt judgements had increased though large closures of firms on the 1984-85 scale had been avoided.

For the present, business and consumer confidence appeared to have waned so far this year in the face of labour unrest, consumer boycotts and a lower gold price.

Benefits of the current economic restraint should begin to bear fruit next year. Domestic interest rates could start to ease with lower inflation and there could be moderate tax relief in next year's Budget.

New constitution should place limit on tax levels

By Maggie Rowley

A new constitution for South Africa would need not only to protect individual's political rights and personal freedom but also against any over-taxation, says Advocate Louis Pienaar, former administrator of Namibia.

He told the 23rd annual convention of the South African Property Owners Association (SAPOA) one of two mechanisms could be used to redistribute wealth.

The first was through a free market economy which had a high productivity, kept unemployment within bearable limits and ensured reasonable incomes. The extent to which reasonable incomes gave workers security guaranteed the success of this redistribution.

The classical method, on the other hand, was the use of income taxation for the advancement of social and welfare services for underpriviledged groups.

"However, the imposing of taxes has its limits. Too high taxation for social ends can be self destructive. It dampens entrepreneurial initiative and leaves too little money over for capital growth which is necessary for job creation.

"In addition it is questionable whether the first world segment of the population could ever deliver sufficient taxes to satisfy the Third World sector's needs," he said.

Advocate Pienaar said the redistribution of taxed income in South Africa under a Third World government would result in less state funding being available to maintain the standard of services to which the First World was accustomed.

"A Third World government will be expected to undertake large scale social programmes in their own communities which could result in higher taxes with damaging side effects.

"It follows that constitutional mechanisms must be thought about to limit the State's ability to tax.

"This may sound radical but it is actually ironic that statements of fundamental rights and constitutions are established to protect the personal and political freedoms of individuals but not to protect against an unsympathetic power to overtax."

He said when a government drew up a budget the decisions about taxation were made according to the will of the majority. "And this majority will be Third World.

"What we are seeking is a clause in the new constition assuring that no one will be taxed over a certain percentage, say 35c to 45c in the rand.

"This step will not only give South African entrepreneurs confidence but also that of foreign investors and industrialists who have become cautious of Africa's socialism.

"Such a step will also leave an extra few cents in the pockets of the First World which will enable them, over and above their contribution to the State, to make their own contributions for the maintenance of services such as health services and education — which after the Namibian experience I believe should to a large extent be privatised.

"If we don't protect against overtaxation in the constitution the First World Community will never be able to play its role to the benefit of the entire population," he said.

Tailoring accident tax benefits

(320)

F/M 24/8/90

Ray Eskinazi is a tax partner at Ernst & Young.

Few employees (or employers, for that matter) are aware of the income tax consequences of insurance payments under group life or personal accident schemes.

The employee often mistakenly assumes that the proceeds to which his nominated beneficiary will become entitled, like those of personal life policies, will accrue tax-free and so tailors his personal assurance portfolio accordingly. The employer assumes any benefit accruing to him under a policy will automatically qualify for a deduction when paid to the employee (or his beneficiaries.)

Many employers arrange personal accident insurance for dependants in the event of an employee's accidental death. The group personal accident policy, as it is commonly called, is usually employer-owned and takes the form of annually renewable term insurance which provides a lump sum in the event of death (and sometimes permanent disablement) of an employee. It is not easy to structure such an arrangement to achieve tax-efficient funding of both the premiums and payment to the employee's beneficiary or estate.

Section 2(w) of the Income Tax Act grants a deduction for any premium paid by an employer on a policy on the life of an employee. Various conditions must be satisfied, one being that no person other than the employer may be entitled to any benefits. On the death of an employee the policy proceeds constitute "gross income" of the employer who is, accordingly, subject to tax.

There is no necessary link between the taxability of the amount received by the employer and the deductibility of the amount paid the employee. A contractual payment is usually deductible for the employer, whether paid to the employee's estate or beneficiaries in a lump sum or instalments. A voluntary payment also qualifies for deduction if the employer can show that the payment was designed to promote settled conditions of employment.

This would be the case where, for example, there is an establishment practice of making such payments on death or disablement, known to and appreciated by existing and new staff. It would be desirable for the employer to pass a board resolution to prove the existence of such a practice.

The deceased employee's nominated beneficiaries will be particularly interested in the tax status of the compensation they receive. Though they would like to take the view that the amount is tax-free, as it relates not to services rendered but to accidental death, Inland Revenue will almost certainly seek to tax them on the basis that, firstly, the amount is closely linked to the rendering of services and, secondly, because the employer has secured a deduction.

Is there any way for the employer to guarantee a tax-free receipt for the beneficiaries without prejudicing his own tax advantages? It is apparently Revenue's practice not to tax the beneficiary of a group personal accident policy where he or she is the direct recipient. This is on the basis that the payment relates to an accident and not to services rendered (a fine distinction indeed!) However, the employer will not be able to claim premiums paid as a deduction because someone else is entitled to the benefits.

If the policy is not owned by the employer and is payable direct to the beneficiaries, premiums paid by the employer, though deductable by him as salary under section 11(a), will be taxed as remuneration in the employee's hands. The proceeds will, however, be tax-free to the beneficiaries.

VALUE-ADDED TAX 320

Allocation mystery

As the business community and its professional advisers ponder the draft VAT proposals, more potential problems emerge. One arises when an enterprise renders services which are partly taxable and partly exempt supplies. The question then, says Ernst & Young tax partner Charles MacKenzie, is the allocation of the input tax credit.

The enterprise will have to go through the following steps: FIM 24/8/90

- ☐ Identify all input tax for the tax period;
- ☐ Determine whether that tax is attributable directly to taxable or exempt supplies;
- ☐ Adjust for input tax which may not be claimed (such as on entertainment, motor cars, or subscriptions for membership of any sporting, social or recreational club); and
- ☐ Apportion input tax not directly attributable to either a taxable or exempt supply.

The basis of apportionment is likely to create the greatest problem in determining the creditable input tax. Government has not yet spelt out the rules. The draft legislation makes provision for apportionment on the acquisition of capital assets costing less than R40 000 — it refers to a "formula basis," but details are still unknown.

It is likely that, for capital assets costing more than R40 000, the so-called "depreciation basis" will be applied.

For example, assume an enterprise sells motor vehicles on suspensive sale and buys a computer for R96 000 on which 10% VAT is paid.

Assume also that taxable supplies (sales of motor vehicles) amount to 60% of the business; the remainder is interest on the suspensive sale (an exempt supply).

As the asset is used mainly to render taxable supplies, the full input VAT paid on acquisition of the computer would be creditable. It would then be necessary to pay VAT on the computer equivalent to the 40% not used for rendering taxable supplies.

Assuming the computer's agreed useful life is four years, then one twelfth of 40% of annual wear-and-tear would represent the value of that portion not used to render taxable supplies — in this example, R800 a month. VAT would be payable on that R800.

Difficulties would be experienced if the ratio of taxable supplies to exempt supplies changed, as that would affect the VAT payable.

Revenue will have tremendous difficulty determining the basis for apportionment.

Taxpayers will aim for the most favourable basis and may argue the correct basis is turnover. But many other bases may be appropriate, such as number of people employed, floor space occupied by different activities, or profit from different activities.

Revenue will have to confirm that the appropriate basis is used. Unless such rulings are made public a taxpayer dealing with one Receiver could well be treated more leniently than someone making returns to another. Revenue has been reluctant to publish rulings. MacKenzie argues it will now have to, in the interest of equity.

MacKenzie says the draft legislation could cause major dislocation to some businesses, notably firms renting cars long term — typically, on full maintenance leasing.

It is clear that, where a motor car is "supplied" to someone, VAT is payable on the acquisition and not subject to relief by way of an input tax credit.

A full maintenance rental effectively has three elements: amortisation of the asset, the finance charge and the full maintenance consideration. A full maintenance lessor would have to charge VAT on finance charges and the full maintenance consideration. If the lessee had bought the vehicle outright by HP, no VAT would be charged on the finance charge element and an input credit would be claimed for the maintenance costs.

The obligation to pay VAT on this comprehensive basis could make full maintenance leasing unprofitable. Revenue should think carefully about these implications. ■

FOREIGN TRADE FIM 24/8/90

Import surprise

Since the beginning of the year economists have been predicting a downward trend in imports — a clear sign of a cooling economy and a prerequisite for lower interest rates. But after holding steady in the second quarter, latest Customs & Excise figures show a revival. Imports rose R640m to just over

ARGUS 24/8/90

Millions lost in tax refunds cheque racket

(320)

By DALE KNEEN, Crime Reporter

BUSINESSMEN are losing millions of rands in a national fraud scheme in which tax refunds are intercepted.

Taxpayers are also missing out on rebates when they do not inform the Receiver of Revenue of cheques not delivered to them.

The sophisticated fraud scheme has been discovered in Cape Town, Johannesburg, Durban, Pretoria and Port Elizabeth.

Police fraud units throughout the country have been notified and are attempting to discover how thieves were obtaining the cheques.

Last month tax refund cheques worth R366 000 were used in about 400 fraudulent transactions, according to the Department of Inland Revenue's director of fiscal processing, Mr Gilbert Barkhuizen.

This was lower than earlier this year when about 2 000 cases were discovered each month, leading to a loss of R8,8 million in the 1988-89 financial year.

CASH OR GOODS

Apparently thieves intercept the Reserve Bank cheques after they are signed by officials from the Receiver of Revenue.

The thieves present the crossed cheques to businessmen and counter-sign them in exchange for cash or goods.

Often identity documents have been forged so that the name on the cheque coincides with the one in the book.

The tax return cheque is cancelled by the bank after it is discovered the cheque never reached the taxpayer.

In Cape Town alone, traders based primarily in Sea Point and Claremont have lost up to R15 000 each.

Sometimes, however, the businessmen get the money owed to them if the taxpayer does not inform the Receiver of Revenue when the cheque is not received.

Mr Barkhuizen said the Department of Inland Revenue had taken steps to eradicate the fraudulent scheme.

- Refunds were being sent to taxpayers in certain areas by registered post and it was planned to extend this nationally.
- Warnings were being printed on the back of the reserve bank cheques to discourage businessmen from accepting them.
- Taxpayers were being encouraged to place their bank account numbers on tax return forms so that refunds could be paid electronically instead of being posted.

Mr Barkhuizen said taxpayers should report not receiving cheques to the nearest office of the Receiver of Revenue if the rebates are not delivered within three weeks of receipt of an assessment.

Traders were taking risks when accepting cheques and should "think carefully" before doing so, said Dr Pierre Groenewald of the Reserve Bank.

A spokesman for the Department of Posts and Telecommunications said it was "highly unlikely" the cheques were being stolen at post offices.

"The cheques are sorted electronically and it would be very difficult for thieves to pick out only those from the Receiver of Revenue," he said.

Businessman Mr Anthony Joffe, who had been given eight fraudulent cheques, said banks should send out circulars to warn traders of the fraud.

Doctors would escape VAT, say accountants

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By KATHY STRACHAN

DOCTORS have been listed as one professional service that would escape VAT (Value Added Tax) — but there is a sting, say accountants Aitken and Peat. W/Mail 24/8 - 26/8/90

The services of doctors, which are not taxable under the present sales tax system, would remain untaxed under the VAT system, said tax consultant André Meyburgh. However, under VAT, doctors would have to pay start paying taxes on inputs such as water and electricity, rent, rates and telephone bills — thus lowering their overall income.

Meyburgh said the proposed VAT legislation provides for the supply of most professional services to be taxed excluding those used in the services of doctors, homeopaths, naturopaths, nurses and similar professions.

The services rendered by these professionals are some of the few exemptions in terms of the Draft VAT legislation, he added.

"This means that any goods or services applied by a doctor during consultation will not be taxed. Any goods or medicines prescribed by a doctor for use after consultation will, however, be taxed," said Meyburgh.

Millions lost in tax scam

Sowetan 27/8/90

(320)

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Warnings were being printed on the back of the Reserve Bank cheques to discourage businessmen from accepting them.- *Sowetan Correspondent*

VAT committee members named

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PRETORIA — The names of Vatcom members — a committee that will consider suggestions about value added tax (VAT) — were announced in Pretoria yesterday.

Deputy Finance Minister Org Marais, who will be chairman of the committee consisting of both the public and private sectors, said it would hold its first meeting on September 27. B/Day 29/8/90

Some of the members are: Les Abrahams, E Calitz, J W Hattingh, Frans Jacobsz, M Lekota, M Maponya, P Molota, K Moodley, J R P Morris, O Motsepe, Harry Schwarz, Casper Uys, T F van Heerden and P Whitfield. — Sapa.

Seek protection from VAT, charities told

(320) Star 30/8/90

By Michael Chester

Charities have been warned by a leading firm of chartered accountants that they run the risk of being trapped in the new value-added tax net unless they take defensive steps.

Aiken & Peat tax consultant Andre Meyburgh said yesterday that under the complex draft legislation covering the proposed introduction to VAT from October 1 next year, even old-age homes and orphanages would be exposed to VAT in a bracket that currently sets charities alongside sports clubs and social clubs.

He advised them to seek special protection from VAT in the same way they had been allowed exclusion from the current general sales tax system.

As proposals stood at the moment, most charities would have to foot the VAT burden on all goods and services used in their operations — meaning the possibility of new financial hardship for pensioners and handicapped people who relied on them, Mr Meyburgh said.

The snag was that most charities had been grouped in a status that barred them from recovering the VAT content of bills coming in from suppliers, because their activities did not classify them as "vendors" in the new tax brackets.

The answer, argued Mr Meyburgh, was the creation of a special "charitable institution" status that allowed them to operate on a zero-rate basis of taxation.

Without changes in the tax rules, old-age homes, as an example, were bound to be forced to increase tariffs because of the tax load on everything from accommodation to domestic and possible medical services.

"The bottom line would be an increase in operating costs based on the tax being paid on all expenses," he said.

However, he felt sure the Commissioner of Inland Revenue would support claims for zero-rate tax status for charities if fully informed of the impact of VAT — unless present pro-posals were amended.

Private VAT proposals pour in ahead of deadline

320

B1009 30/8/90

GILLIAN HAYNE

GOVERNMENT will be inundated with proposals to change the VAT draft legislation when the deadline for suggestions expires tomorrow.

The Inland Revenue Department invited organised commerce and industry, consumer organisations and the general public six months ago to submit their VAT suggestions to the department.

A senior departmental official said about 500 submissions had been received, mainly from individuals.

"Although Vatcom — the committee established to consider representations and suggestions concerning VAT — will look at all suggestions, it is relying on the strong, detailed comments expected from the organised commercial sector," he said.

Although commerce was under pressure to submit detailed proposals, the deadline would not be extended.

Tax experts have many queries. There are definitions of terms which need clarification, administrative procedures which need detailing, as well as sections which experts believe should be changed completely.

One of the problem definitions for KPMG Aiken and Peat tax partner Franco Vignazia involved "imported services". Should a company employ an overseas consultant, the imported technical knowledge he provided would be taxable under VAT as an imported service.

Too low

However, should the company then manufacture goods based on that knowledge — paying an annual royalty overseas in respect of a royalty agreement — the draft legislation did not specify if the royalty payments would be considered an imported service or not.

Another detail experts believe should be changed concerns the registration, for VAT purposes, of companies with a turnover of more than R50 000. The R50 000 level is too low, they believe, because informal sector enterprises could be caught in the net. Experts suggest the level should be increased to R100 000.

Administrative clarification has been requested for the transitional period between phasing out GST and bringing in VAT. For example, tax experts want an explanation on how the purchase of plant and machinery before and after the introduction of VAT will be handled.

Vignazia stressed the major problem facing government was educating the public to understand VAT was a non-inflationary tax.

Many political persuasions are included on Vatcom, while businesses are not widely represented. However, Vatcom is to form a number of study groups composed of representatives from organised commerce and industry, consumer bodies, welfare organisations and other interest groups.

Reduced tax rate lifts JCI earnings

320 Star 30/8/80

By Magnus Heystek,
Finance Editor

A substantially lower tax rate boosted the attributable earnings of Johannesburg Consolidated Investments (JCI) by a respectable 18,2 percent in the year to July.

According to the unaudited consolidated figures released yesterday, attributable taxed income amounted to R429,6 million (R363,4 million) after a reduction in tax payable from R42 million to R21,7 million.

Earnings per share rose 18,2 percent from 246c to 291c per share.

The final dividend has been increased from 75c to 90c to bring the total to 132c, a rise of 20 percent.

On an equity-accounted basis, the growth in earnings was more pedestrian, reflecting the sharp downturn in profitability, mainly from platinum and gold.

This was counteracted by a solid increase in earnings from the group's industrial interests, mainly Premier and Bevcon.

Equity-accounted earnings rose 5,6 percent from R596,7 million to R601,6 million, which amounts to earnings per share (before extraordinary items) of 408c (386c).

Investment income was up 16,8 percent to R355 million(R294,3 million), while attributable earnings from operating subsidiaries rose 37 percent to R59,6 million (R43,1 million).

The share of retained earnings of associated companies was down from R206,3 million to R172,0 million.

An analysis of the group's equity-accounted earnings shows that earnings from platinum, the single largest source of income, was down 9,5 percent to R180,1 million.

Gold's contribution was down 22 percent from R24,5 to R18,9 million.

Earnings from diamonds were up 8,5 percent to R81,4 million.

Coal was the sparkler in the mining sector, with its contribution rising 67 percent to R33,8 million.

This is largely attributable to the acquisition of 40 percent of the Middelburg mine.

As a whole, earnings from the mining sector were up a marginal 2,8 percent to R332,4 million.

Industrial interests were more buoyant, rising 22 percent to R165,2 million, and contributing 27,5 percent of group equity earnings, compared with 23,6 percent in the previous financial year.

Earnings from the group's ferrochrome interests were down as well, dropping from R50,2 million to R35,5 million as a result of the sharp decline in the price of ferrochrome alloy.

Property development chipped in with R5,9 percent, an increase of 96 percent.

According to a statement by JCI, Premier and Bevcon were the main contributors to the increase of 22,7 percent in earnings from the group's industrial investments.

Charities may be hit by VAT burden

Sowetan 30/8/90

CHARITIES have been warned by a leading firm of chartered accountants that they run the risk of being trapped in the new VAT net unless they link forces to put pressure on the Government to allow them an escape route.

KPMG Aiken and Peat tax consultant Andre Meyburgh said yesterday that under the complex draft legislation covering the proposed introduction to Value-Added Tax from October 1 next year, even old-age homes and orphanages would be exposed to VAT in a bracket that set charities longside sports and social clubs.

He advised them to seek special protection from VAT in the same way they had been allowed exclusion from the current general sales tax system.

As proposals stood at the moment, most charities would have to foot the VAT burden on all goods and services used in their operations - meaning the possibility of new financial hardship for pensioners and handicapped people who relied on them.

The snag was that most charities had been grouped in a status that barred them from recovering the VAT content of bills coming in from suppliers, because their activities did not classify them as "vendors" in the new tax brackets.

Even if they were able to operate on a tax-exempt status themselves, they would still have to carry the full tax load paid out by their suppliers and passed on in bills for everything from food and telephones to water and electricity.

(320)

The answer, argued Meyburgh, was the creation of a special "charitable institution" status that allowed them to operate on a zero-rate basis of taxation.

Tax collections on course — Receiver

320

B Day 31/8/90

GERALD REILLY

PRETORIA — Income tax and GST collections for the first four months of the financial year were on target and in line with government expectations, the Department of Inland Revenue said yesterday.

In the April-July period, income tax collections reached a record R11,8bn.

This is against a Budget expectation for the whole of the financial year of R35,8bn.

The four-month figure is based on the tax rates applicable in the 1989/90 tax year.

The rates were amended downwards for 1990, but these were applied only from July.

The subsequent reduced collections will be reflected in returns only from August onwards.

July collections amounted to R4,6bn.

GST collections are on course, too, according to a spokesman.

In the four months they amounted to R5,8bn, and in July to R1,5bn. The estimate for the year is R18,5bn.

In arriving at the estimate, the spokesman said, the expected downturn in the economy was taken into account, as well as the expected slowdown in consumer spending.

The spokesman said 430 000 taxpayers had so far neglected to submit their returns.

He warned that final demands would go out next month. Where there was no response, taxpayers would be prosecuted.

~~Proof/To appear in B/Day, Transvaal on 31/8/90 Disc T2~~

Committee to hear VAT representations named

Sowetan 31/8/90

(320)

By JOSHUA RABOROKO

THE deputy Minister of Finance, Dr Org Marais, this week announced the names of the VAT Committee which will consider representations and suggestions on VAT, the new tax which will be implemented next year.

The committee, which will be headed by Dr Marais, has members from the public and private sectors, as well as Parliament.

The VATCOM members are Marais, MP (chairman); Mr L C Abrahams, MP; Dr E Calitz; Mr J W Hattingh; Dr F P Jacobsz, MP; Mr M Lekota; Mrs M Maponya; Mr P Moloto; Mr K Moodley, MP; Professor J R P Morris; Mr O Motsepe; Mr G Negota; Mr H H Schwartz, MP; Mr C Uys, MP; Mr T F van Heerden; and Mr P Whitfield.

The Government announced in June its intention of replacing GST, with VAT, in October next year.

At the same time it was announced that VATCOM would be formed to give all interested parties an opportunity of commenting on the draft legislation.

The first meeting of Vatcom will be on September 27 and will consider written proposals and comment received by August 31.

It will hear oral evidence and representations by a number of interested groups.

Groups

Marais has also announced that VATCOM will form a number of study groups to concentrate on specific aspects of VAT and its implications.

The study groups will co-opt representatives from organised commerce and industry, consumer bodies, welfare organisations and other interested groups.

He said an interdepartmental committee was already functioning and was considering the implications of VAT on the activities falling under the jurisdiction of various state departments.

It is anticipated that VATCOM will hear representations for several weeks until well into November this year. Several organisations will be informed this week about the dates and times set aside for them to put their proposals to VATCOM.

A Bill enabling the change-over from GST to VAT is likely to be introduced into Parliament early next year.

Partial tax method helps raise attributable earnings

BIDOM 3/9/90

320

GILLIAN HAYNE

THE recent change by several listed companies from the comprehensive method of deferring taxation to the partial method has been responsible for softening many bad results and inflating the good ones.

Companies which have implemented the partial method of taxation have received the short term benefits of posting attributable earnings higher than would have been achieved under the comprehensive method, analysts say.

For example, this week Consol posted a 48% increase in attributable earnings, whereas without the benefit of the change to the partial method, earnings would have increased by only 25,5%.

Looking at cement company Blue Circle's results for the year ended December 1989, an analyst said earnings a share were 94,3c higher than if the taxation policy had not changed. This computed to an increase in earnings a share of 7,9% compared with 3,5% if the the comprehensive method had been used.

Under the comprehensive method, companies have to make provision for timing difference deductions which could be reversed — that is become payable — in the future, and found their comprehensive liability continually increasing.

The attraction of the partial method, analysts say, is that companies no longer have to make provision for timing differences which they believe will never be reversed.

The result is a decrease in the liability figure posted on the balance sheet, which then computes to an increase in attributable earnings. Some analysts feared the change would lead to investor confusion as many people do not take cognisance of the effect of accounting policy changes.

Forecasts

Deloitte Pim Goldby partner Pat Smit preferred to concentrate on the potential problems for companies using the partial deferred tax method.

"In a volatile economy and an environment where tax law is prone to change at short notice, forecasting future tax liabilities is difficult.

"The partial method of deferred taxation depends on reasonably reliable forecasts on timing differences. SA is prone to a boom or bust economy and companies could find themselves facing reversing timing differences which they did not expect. It could result in companies having to charge the tax against current income rather than taking it out of liability provisions."

Ernst & Young, in its magazine In Touch, warned against declaring increased dividends after changing to the partial basis.

"Companies reporting higher earnings because they have changed to the partial basis should be aware of the fact that the higher earnings are not normally represented by increased cash resources available for dividend," it said.

Thus companies who have a set dividend cover policy should be careful of increasing the dividend if the cash resources are not available.

The difficulty of comparing companies using different tax methods has worried analysts. However, one specialist said the key was that despite the move to the partial method, companies were not absolved from maintaining records on the comprehensive basis because if there was a reversal in the future they would still need all the calculations.

However, they all agreed that the comprehensive basis of deferred taxation was the more prudent method.

VAT will have varied impact on companies

Star 5/9/90 (320)

By Ann Crotty

The introduction of VAT represents the most significant and far-reaching change to the SA tax system in recent years.

In theory, as Mark Badenhorst of Price Waterhouse points out, the switch from GST to VAT will be neutral to most companies' income statements — VAT will be a balance sheet-only tax.

At each link in the chain a manufacturer, wholesaler or retailer will pay VAT on all purchased materials and services and charge VAT on the value that it adds to those materials and services.

The burden of VAT will fall largely on consumers as the tax on goods bought by business is rebated. This means that the only costs associated with VAT are the administrative costs and the cash-flow costs between the time of paying the VAT on inputs and receipt from the Receiver of this reclaimed amount.

So, in theory, the major cause for apprehension should only be the additional administrative hassle associated with this much more comprehensive taxing system.

However, in practice, from a JSE investor's point of view, the switch to VAT is likely to favour some corporate sectors over others — for one of two reasons.

The cash flow implications in some instances will be quite significant, with different companies falling into different VAT categories.

With regard to the latter, companies that fall into the "exempt" category will be worse off under the VAT system.

From a JSE investor's point of view the most significant companies in this category are financial service companies such as banks and long-term insurance companies.

Other exempt services include medical and educational services, the sale of land and improvements situated outside SA and the supply of donated goods and services by charities.

SA construction and engineering companies that have moved to neighbouring countries because of the slowdown in local business will fall outside the VAT net.

Unlike GST, which has a relatively narrow base, VAT will be charged on all materials and services bought.

Companies in the exempt category will have to pay VAT on inputs, but they will not be able to charge VAT on their outputs and will not be able to reclaim the VAT they paid on inputs.

To the extent that VAT covers a wider number of inputs than GST, exempt companies will be that much poorer off.

By contrast "taxable" companies will be better off to the extent that they can reclaim what they are currently paying in the form of GST.

According to Mr Badenhorst, some 30 percent of the revenue from GST is earned on capital and intermediate goods. "Taxable" companies and "zero-rated" companies will be able to claim back this cost.

On a micro level, he suggests that about five percent of a companies' cost of goods relates to GST charges.

How much of that saving gets passed on to the next link in the chain will probably depend on the competitive pressures facing a company.

But it does indicate that far from being inflationary, the VAT system has some scope for price reductions at intermediate stages of the production chain.

"Zero-rated" companies do not charge VAT on what they sell, but can reclaim the VAT they have paid on inputs. Companies that produce for the export market will be "zero-rated" to the extent of the export business.

Mr Badenhorst says because five percent of costs can be reclaimed under VAT, SA goods should be more competitive on international markets.

Mr Badenhorst outlines the mechanics for determining the amount of VAT a taxable business must remit to — or recover from — the Government. Three steps are involved:

- Add X percent to the selling price of the goods or services.
- Add all the VAT paid by the business to suppliers for both operating and capital expenditures.
- For a tax period (usually a month), subtract the sum of the VAT amounts calculated in step two from the sum of the VAT amounts in step one and remit that net amount to the Government. If a negative amount is obtained, request a refund from the Government.

These steps give some indication of the cash-flow impact of implementing the VAT system.

Many companies which are intermediaries in the chain will be collecting VAT for the first time. Interest earned on the temporary investment of these funds until paid over to the authorities will supplement cash flow.

The VAT due to the suppliers of inputs will be retained until the creditor is paid and the VAT payable to the Receiver could be invested for up to two months and 20 days.

In general, the cash flow of business below the retail level will be improved and the cash flow of retailers will benefit significantly if they sell for cash and buy on extended credit terms.

Retailers selling on extended credit terms are likely to experience a negative effect on their cash flows as they will be required to pay over to the Receiver any VAT charged on their sales before they receive payment from their customers.

Disruption to businesses predicted in switch to VAT

320

GILLIAN HAYNE

THE implementation of VAT will undoubtedly cause disruption in the smooth running of businesses, Kessel Feinstein tax partner Ernest Mazansky warned.

In the latest edition of The Tax Line, Mazansky says disruption is inevitable but, as with any new event, participants will quickly learn to adapt to and cope with the new circumstances.

He believes, however, there is still plenty of time to review the consequences of VAT and modify existing systems before the possible implementation date of October 1991.

Because there could be significant differences between the draft legislation and the final Act by Parliament there is "by no means any necessity to rush into intensive investigations and modifications of accounting and operating systems".

Final legislation is not expected before early next year. BDay 5/9/90

One source of confusion is the difference between a tax exemption and a zero-rating. With a VAT exemption a company will still have to pay tax on incoming goods, that is pay input tax. The exemption will only allow the company to supply goods or services to a customer without charging VAT (output tax).

"Such a person is not entitled to claim the input tax credit in respect of VAT paid by him to his suppliers. VAT now becomes a cost to his business."

However, in the case of zero-rated supplies VAT will still be charged, but at 0% and the vendor will be entitled to claim as a deduction all his input tax paid to his suppliers.

Govt to dig deeper into effect of VAT

B'Day 6/9/90 (320)

GRETA STEYN

GOVERNMENT would do further studies on the effect of the implementation of VAT on the inflation rate once it had a clear idea of the tax base, tax policy chief director Trevor van Heerden said yesterday.

Research on the effects in other countries had been done and government was drawing heavily on an IMF report on the issue. The IMF found that in 31 countries that implemented VAT, inflationary pressure had emerged in only five. Sweden was similar to SA in that it had changed from GST to VAT; the Swedish inflation rate had risen by less than 0,5 percentage points after the change.

Van Heerden said if well managed, VAT need not have an effect on the inflation rate. Educating firms about the new tax was vital, so that they knew how to price their goods. "A once-off impact on inflation cannot be ruled out but hopefully this will be contained by our education campaign."

Positive effects on some prices should result from the removal of double taxation on capital and intermediate goods. Negative effects would come from the implementation of VAT on goods currently exempt from GST.

It was not, however, possible to quantify the size of any once-off uptick in inflation before the size of the tax base was known, he said.

The rate at which VAT will be charged has not yet been fixed but the Finance Department has indicated it will be below the GST rate of 13%.

A study on the effect of VAT on inflation could not be done without also taking into account monetary policy and whether the new tax will take more cash out of the economy than GST did. The intention was for a neutral effect so that the tax paid would remain the same.

Food coupons could ease VAT burden

(320)

THE SA Chamber of Business yesterday urged the Government to spell out what special social aid packages it intends to introduce for low-income families to cope with basic food bills and medical services when prices are hit by the proposed new VAT tax system.

The advice came in the countdown to the dramatic switch-over from GST to VAT on October 1 next year.

Sacob is concerned about the impact on low-income groups such as pensioners and poorer black families when essentials such as basic food baskets, house rents and medical services lose the tax-free status they have enjoyed under the current GST rules and all bills become liable to the new VAT. Sowetan 7/9/90

The introduction of special food coupons is one of many ideas under intense debate as VAT moves closer.

Parliament is expected to seal the final version of the new tax regulations in the next few months.

Poorer black families and pensioners in particular have until now been able to escape the addition of the 13 percent GST load on many basic essentials.

But under its draft proposals, the Government intends to end the special exemption clauses when VAT is introduced. - *Sowetan Reporter*

Company tax may be cut

B Day 6/9/90

GREETA STEYN

GOVERNMENT was examining the possibility of reducing company tax rates as part of a programme of structural change, Deputy Finance Minister Org Marais said this week.

Addressing West German businessmen in Munich, Marais said SA's medium to longer term economic future lay in industrial development. His speech provided a broad outline of government's programme to restructure the economy.

The architect of the plan, Administration and Economic Co-Ordination Minister Wim de Villiers, is adding the finishing touches before the full package is unveiled in about a month. (320)

Marais said the manufacturing industry offered the best opportunity for job creation. The industrial policy of import replacement had not provided the impetus needed for employment growth. In the period 1980 to 1988 the non-agricultural sector contributed to only 422 000 additional formal job opportunities. The lack of focus on export markets in the 1980s contributed to economic growth in the manufacturing sector falling to an average low

☐ To Page 2

Company tax

(320) ☐ From Page 1

of 0,6%. B Day 6/9/90

"The SA government has drawn up an action plan which is aimed at stimulating manufacturers to enter the export markets as well as encouraging existing exporters to expand their markets."

Forming part of this plan was the new export incentive scheme and the Industrial Development Corporation's soft loans to manufacturers working multi-shifts.

"This should boost productivity and provide more jobs. A recent SA survey revealed that the country's productive capacity stood idle for up to 16 hours a day."

He reiterated government's wish to do away with protection against imports. Import tariffs had distorted the price structure in the manufacturing sector.

The programme of restructuring the economy was also aimed at increasing the majority of South Africans' participation in the mainstream of the economy.

VAT must have few exemptions, says Sacob

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B/Day 7/9/90

GILLIAN HAYNE

VAT must be introduced at the lowest possible rate and be levied on the broadest possible base with minimum exemptions, SA Chamber of Business (Sacob) chief economist Ben van Rensburg said at a briefing yesterday.

In its recent submissions to the government-appointed committee on VAT (Vatcom), Sacob urged government to introduce a pure VAT which complied with the classical canons of taxation, namely those of equity, certainty, convenience and economy.

"There is no point in swapping a crippled GST with a crippled VAT system," Sacob chairman Raymond Parsons insisted.

Sacob emphasised the VAT system should be non-discriminatory with respect to personal and individual business circumstances which could be catered for more efficiently outside the tax system.

Van Rensburg noted that the inclusion of all services and foodstuffs was essential but said it was "imperative the state should ... give a very clear and definitive indication of the methods to be used to alleviate the resulting increased burden on the needy".

Addressing the concern many had that VAT would add to the inflationary pressures, Sacob said it recognised the introduction of VAT would have a one-off influence on goods and services exempt from GST.

However, it believed the upward pressure would be relatively short-lived and should be off-set to a major extent by the elimination of double taxation through exemption of capital goods and intermediate goods.

Sacob considered the proposed CIF (cost, insurance and freight) valuation for imports on goods inappropriate. He strongly recommended that the basis of valuation for VAT purposes should be the value for customs purposes plus customs and excise duties.

If government should decide to introduce a valuation formula, similar to the current one, there should be only one formula.

Levies

Commenting on the limit for compulsory registration, Sacob said the proposed limit of R50 000 should be raised to a turnover of R500 000 a year, with those under that limit having the option to register. It maintained the loss to Revenue would not be great and it would also reduce the administration burden.

Levies on fuel such as petrol, diesel fuel and power paraffin should be treated the same as other products.

Sacob supported the inclusion of land and buildings in the VAT base but it specified transfer duties on the sale of property should be removed.

In line with the belief that there should be the minimum of exemptions, Sacob submitted that residential rentals as well as business rentals should be included.

No VAT exclusions — Sacob

W/Mail 7/9 - 13/9/90

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By REG RUMNEY

MAKING people pay Value Added Tax on medical services and basic foodstuffs could be political hurdles — but they are vital for VAT's success.

This, broadly is the feeling the voice of organised business, the South African Chamber of Business (Sacob). Sacob fears emotional appeals will force the government to exempt or "zero rate" too many goods and services, and so damage VAT as it thinks GST has been damaged.

Sacob wants VAT levied on the broadest base possible, with few exemptions. The result it believes would be twofold.

VAT could be introduced at the lowest possible rate and administrative problems which might arise from zero rating of certain categories of consumer spending would be avoided.

However, Sacob agrees with the principle of avoiding double tax and cost escalation through making capital goods fully deductible.

This week Sacob published its submissions the government-appointed committee of experts.

At a Press conference Sacob stressed the political implication of putting VAT on food and medical services.

"The inclusion of medical services and basic foodstuffs in the VAT base," the organisation said in a statement, "makes it imperative that the State should at this stage give a very clear and definitive indication of the methods to be used to alleviate the resulting increased burden on the needy.

"These methods of compensatory social assistance should be clearly spelled out and be acceptable to all target groups."

It is understood the government has considered bumping up social pensions to equal levels as one means of countering the hardship that paying VAT on things like foodstuffs will mean for the poor.

Sacob vice-president Raymond Parsons pointed out that the problem with such general forms of assistance is that they do not neutralise the criticism.

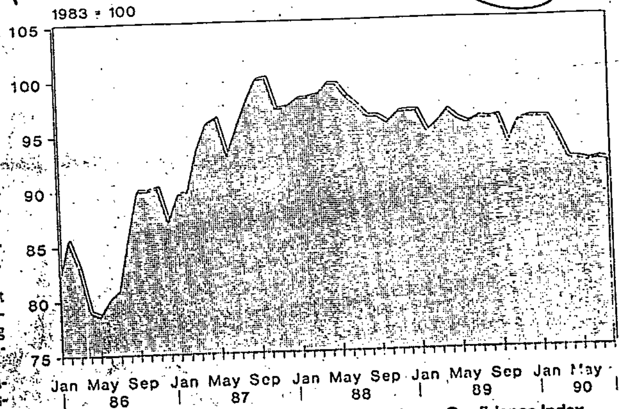
The aid, he said, must be in some visible way help those whom the tax hurts.

Also, thinking in the government now is to move away from subsidies, because of the way these distort markets.

So the solutions are far from obvious, but a suggestion was made which will be welcomed by consumer organisations and various political groups. "The government needs to consult with the groups who are likely to be affected by this," advocated Sacob chief economist Ben van Rensburg.

Other points made by Sacob:

- VAT will mean increased administrative costs and this, because of the shortage of skilled manpower will put pressure on skilled people and entrepreneurs. Exemptions and zero rating will result in increased administrative complications and costs, so these must be avoided
- VAT will add a one-off boost to inflation, when goods and services now not taxed under GST have VAT levied on them. But Sacob argues the upward blip in the Consumer Price Index will be short-lived and the elimination of double tax through exemption of capital goods will counteract this in the long term.



There was a small decline in August in the Business Confidence Index compiled by the SA Chamber of Business (Sacob). The index dropped from 92,0 to 91,8. The business mood is likely to be volatile in the next few months due to the violence levels in South Africa and the Middle East crisis

VAT: State urged to spell out social aid packages

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W/C News 8/9/90

From MICHAEL CHESTER

JOHANNESBURG. — The South African Chamber of Business has urged the government to spell out what special social aid packages it intends to introduce for low-income families to cope with basic food bills and medical services when prices are hit by the proposed new VAT sales tax system.

The advice came in the countdown to the dramatic switch-over from GST to VAT on October 1 next year.

Sacob is concerned about the impact on low-income groups such as pensioners and poorer black families when essentials such as basic food baskets, house rents and medical services lose the tax-free status they have enjoyed under the current general sales tax rules and all bills become liable to the new value-added tax.

The introduction of special food coupons is one of many ideas under intense debate as VAT moves closer.

Parliament is expected to seal the final version of the new tax regulations in the next few months.

Poorer black families and pensioners in particular have until now been able to escape the addition of the 13 percent GST load on many basic essentials. But under its draft proposals, the government intends to end the special exemption clauses when VAT is introduced.

Sacob this week made plain it fully supports the proposal to keep exemptions to an absolute minimum — with the proviso that VAT comes in at as low a rate as possible and ideally well below the present GST 13 percent level.

But it has added in formal submissions to the special Vatcom committee created to consider a final draft of new VAT rules.

"Clear statements at this stage are imperative if a comprehensive VAT regime is to be acceptable to the people as a whole.

"If there are to be no exclusions in respect of such supplies as food, medical services, residential rentals, education and financial services, the ground must now be prepared for acceptance of these aspects, where necessary with the assistance of State-financed aid to needy groups."

In principle, all food items and medical services should be included in the new tax base. If certain foods and medical services were excluded from VAT there would be enormous problems with administration and definitions and tax evasion dodges.

However, it was imperative that the State should spell out the precise details that it had in mind about what social assistance would be made available to the needy groups of the population.

BUSINESS DAY, Monday, September 10 1990

The problem in applying tax laws on futures

BDay 10/9/90

(320)

GILLIAN HAYNE

FINANCIAL market participants are experiencing problems in interpreting the current income tax legislation on futures and options and also differ from one another in their approach.

Many have been dealing with the issue in a manner consistent with their individual accounting policies.

"The general principles are there but the application is difficult because the Act does not cater for the sophistication and complexity of the instruments," Rand Merchant Bank's Josias de Kock explained.

Query

Many corporations have been in contact with the Receiver to try to iron out the difficulties, and brokers said they had been expecting "at least" a clarifying directive on various definitions.

The main query players would like answered is whether the Receiver assumes all trades are speculative and taxable, or could firms argue their positions were only hedges matched to their portfolio.

In the face of unclear legislation Ernst & Young tax partner Michael Polley suggested the majority of cases would be considered on revenue account.

Further confusion, participants emphasised, surrounded the premiums paid on options and the possible tax deductions on open options at year end.

Under the present legislation, if the options were treated as trading stock a deduction would be allowed, said one expert.

But should the Receiver argue the value of the option at year end to be the premium, the benefit of the deduction could be neutralised with the write back to income for closing stock purposes.

If the Receiver decided the option was not trading stock the premium could be interpreted as a goodwill deposit and not a deductible expense as it had not been "actually incurred".

Conversely, for the writer of the option the trading stock provision could not apply as the legislation did not cater for an ability to sell something not yet purchased, he said.

In addition, further deficiencies existed because premium income received would automatically be included as taxable income with the Act being unable to take cognisance of the contingency liability existent on a written option.

On the question of unrealised profits, players expressed concern that the Receiver could either claim tax on the mark to market value, or allow the potential loss or profit to roll over to the following tax year.

Futures did not present the same problems as they were marked to market on a daily basis by Safex, and therefore had a definitive value, explained one broker.

The Discount House of SA financial manager Richard Hayne said in the final analysis, a successful firm had to be tax efficient, which would be difficult until the Receiver clarified the tax position on the derivative market.

(320) Star 10/9/90

BACKGROUND

VAT may bring substantial cut in sales tax

By MICHAEL CHESTER

New studies by the South African Chamber of Business have prompted optimism that a significant cut in sales tax should be on the cards when South Africa makes the switch from GST to VAT on October 1 next year.

Sacob's economic researchers have estimated that all R15,7 billion of the revenue pouring in last year from the 13 percent load of GST could help VAT start at a rate as low as 8,5 percent.

Sacob recommends that the VAT net should be cast as wide as possible in order to broaden the tax base.

Elaborate calculations have been set out in formal submissions to Vatcom, the special committee created by the Department of Finance.

Sacob is using the equation to prove that the new VAT rate should be set as low as possible — not only to win support for the system but also to cushion an inevitable wave of price increases when VAT comes in.

One of the chief concerns was that VAT would have an inflationary impact, at least in its early phase.

Benefits

The inclusion of basic foodstuffs and services which have been exempt from sales tax under GST was bound to lead to an initial round of price increases.

Better news was that the spate of increases should be short-lived — offset to a major extent by the benefits stemming from the elimination of double-taxation quirks that producers and suppliers had to shoulder under GST.

Longer-term benefits should also be in the pipeline because of the decision to allow new capital investments to escape the tax net — meaning lower costs for companies in the supplier chain to consumers.

It was unlikely that lower production costs would be passed on immediately.

Also to be considered was that in the initial phase of VAT, though companies would in time recover various tax payments, many of them would hit cash-flow problems in temporarily footing tax bills.

Impact

Sacob concludes that higher consumer prices look inevitable in the early days of VAT — perhaps leading to higher wage demands that could in turn mean a new round of price/wage inflation, though not on a major scale.

That reinforced its argument that the success of the new system depended very much on the precise rate at which VAT was set.

"If the VAT rate is significantly lower than the current GST rate," the Sacob submissions say, "the net impact on the disposable income of consumers would be minimal, despite the inclusion of items which are exempt under GST."

Nevertheless, it was crucial that the Government made urgent moves to spell out what social aid schemes it intended to introduce to cushion the blow to the poorer section of the population — such as pensioners and low-income black families.

On the overall economic impact, Sacob is thankful that the date set for the introduction of VAT — 12 months or so from now — should coincide with first signals of recovery from the current recession.

Better business trends would soften the impact of heavier administrative costs faced by companies that needed to create special new operations to cope with tax paperwork.

Longer term, the tax proposals flashed positive signals because they would encourage a much-needed boost to the pace of new fixed investment.

This was because investment in capital goods, which until now had been burdened with GST, would escape VAT and thus make investment a far more attractive proposition.

New injections of capital were vital to reverse a slide that had pulled down the level of new fixed investment to as much as 16 percent lower than even a decade ago.

It was the slowdown in investment that was largely to blame for the technological backlog that blighted the South African industrial sector in meeting competition on international export markets.

Constraints on production capacity had also served to increase inflationary pressures.

The exclusion of capital goods from the VAT base, plus the exemption of intermediate inputs, was bound to have a big influence on the risk/reward judgment of investors.

The ultimate result was that South African cost structures should be brought more into line with those of overseas competitors — meaning more exports and fewer imports.

The Government still needed to regard substantial cuts in company tax and individual tax rates as absolutely imperative.

The bigger flow of revenue from indirect taxes should leave room to lower not only the current 50 percent rate of company tax but also personal tax rates.

Anger over VAT on municipal rates

Star 13/9/90

By Michael Chester

Thousands of ratepayers are up in arms to discover that the Government proposes to cast its VAT net even as far as municipal rates when the new tax system is introduced on October 1 next year.

In Johannesburg alone the extra burden to be shared by ratepayers could amount to more than R25 million a year.

Rebellion against the payment of value-added tax on bills for rates is being led by the Northern Area Group of Ratepayers Associations (NAP), claiming to represent 18 suburbs stretching from Melville to Bramley and to the northern limits of the Johannesburg municipal area.

Chairman Tony Challenger said yesterday that proposals to impose VAT on municipal rates amounted to "tax on tax — a ridiculous situation".

He added: "It's the sort of double taxation that the Government had promised to avoid in the new system."

Formal appeals had been made to Finance Minister Barend du Plessis to allow municipal rates an escape clause.

"There's a big difference between payment of VAT on services and payment on rates," Mr Challenger said. "VAT on basic services such as electricity and water supplies already threatens to be a considerable increase in household costs.

"VAT on rates would be the last straw, especially since municipal rates constitute a form of property tax already because they are imposed only on property owners rather than all users of municipal services.

"It is nonsense to even suggest there should be tax on taxes already paid."

Representatives of all 18 ratepayers' associations in the NAP had been called to a special meeting to be held at Emmarentia next week to formulate a united stand.

"We were first alerted to the VAT threat on municipal rates by the Benoni Ratepayers Association, which unearthed the proposal in the fine print of draft legislation in the Government Gazette.

"First we were shocked. Now we're furious. We expect strong support for our objections from all ratepayers."

Johannesburg city treasurer Willie Siebert confirmed that at the moment there were about 150 000 private and business ratepayers in the municipal area. Between them they were paying about R267 million in rates assessments.

"The Government has yet to settle the precise rate at which VAT will be introduced. But one can expect ratepayers to be apprehensive," Mr Siebert said.

Though the Government has not so far announced a VAT rate, hints have been dropped that it should be a shade below the current 13 percent charged under general sales tax.

Insiders suggest it will be fixed between 10 and 12 percent. At 10 percent, it would add R26,7 million to ratepayer bills in Johannesburg.

The SA Chamber of Business is staying on the sidelines of the argument.

Sacob director-general Raymond Parsons commented: "We must keep exemptions to an absolute minimum if we are not going to cripple the new system."

Govt 'cannot afford to cut tax on firms without new income'

B\Day 13/7/98

(320)

GILLIAN HAYNE

THE problem facing government in decreasing the company tax rate was how to make up for the loss in revenue, tax experts said.

The fiscus was already under pressure because of the increase in violence around the country.

It was also facing other socio-economic demands so it could not afford to cut the tax rate without funding the loss through other channels.

"It is a question of affordability," Income Tax Reporter co-editor Michael Stein said.

One problem which government had been addressing was closing the gap between the effective tax rate, which had been quoted as low as 20%, and the book rate of 50%.

High tax rates had destroyed the faith companies and individuals had in government which had led to lost incentive and increasing tax avoidance, Deloitte Pim Goldby's Trevor McGlashan said.

The average effective tax rate had been low because even those who did not need the incentive had been entitled to claim allowances through the Income Tax Act.

In effect, companies had been paying a much lower real rate which did not equate to their final net profits.

Although the use of direct cash subsidies was more efficient and accurate in monitoring those who needed assistance, government had not been able to afford the increased cash demands, McGlashan said.

"The government had been prepared to borrow money on the short-term to finance direct subsidisation with the understanding that the resultant increase in economic activity would increase the taxable revenue in the medium-term".

SA Chamber of Business tax committee chairman Bob Wood said tax rate increases in the past were to finance increased government spending.

The only way government could afford to cut the tax rate would be to "prune" government expenses, particularly in administration.

Other experts believed government would follow the international trend by cutting direct taxes in favour of spreading the tax burden through indirect taxes.

Benefits to be had in VAT

(320)

NEIL YORKE SMITH

THE VAT system could persuade larger informal businesses to enter the tax system, says a tax expert.

KPMG Aiken & Peat tax consultant Andre Meyburgh said: "Proposed VAT legislation could well persuade many informal sector enterprises, especially the black taxi industry, to voluntarily enter the indirect tax system." B Day 13/9/90

Under VAT, the dividing line between formal and informal small businesses will be annual turnover of taxable supplies of R50 000. Only if turnover exceeds R50 000 will a business be compelled to register as a vendor with the Receiver of Revenue.

Only registered vendors will be able to claim credit for VAT payments on goods and services against VAT payments. However, businesses with turnovers of less than R50 000 a year may register voluntarily. Voluntary registration could mean valuable benefits for many businesses, Meyburgh said.

Insurers still divided on approach to VAT

(3.20)

B1004 11/9/90

GILLIAN HAYNE

DISAGREEMENT regarding the effect of VAT continues in the insurance industry, with reinsurers and direct insurers unable to present a unified front.

In the draft VAT legislation, currently under scrutiny by Vatcom — the committee appointed by government to examine submissions on the proposed VAT system — life insurers has been exempt from VAT while the rest of the insurance industry has been given a standard rating.

The reinsurance players have put in a submission for a tax exemption, but the short-term participants have yet to agree on an approach. An extension has been granted until the end of September.

KPMG Aiken and Peat tax partner Pat McGurk, responsible for compiling an overall short-term insurers' submission, said the main problem was that the advantages and disadvantages of VAT differed depending on the client mix.

"If the majority of the clientele are registered vendors, VAT will not create a burden as the vendor can claim input tax. However, the non-vendors, or individuals, would have to bear the burden as they would not be entitled to input tax credits."

Munich Reinsurance chief accountant Albert Mokoena said: "If short-term insurance transactions are not exempt from VAT then the added burden of the cost of insurance could fall on the general public."

However, the Receiver is unlikely to look favourably on any submissions which will have a negative effect on the fiscus coffers, tax experts believe.

Deloitte Pim Goldby tax consultant Rob Collins was approached by short-term insurers who cited administrative problems as a reason for requesting an exemption.

Collins believes the industry would be better off with the envisaged standard-rated classification "as it could deduct the majority of all the input taxes incurred in the furtherance of the enterprise".

Reinsurers, however, could possibly warrant a tax exemption as they do not add value or provide a service per se, but rather spread risk, Collins said.

2 SUNDAY TIMES, Business Times, September 16, 1990

State's tax take rises and all's well

Business Times Reporter

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GOVERNMENT funding is in good shape after four months of the fiscal year.

The Director-General of Finance, Gerhard Croeser, told a seminar of the Association of Business Management this week that he was relaxed about income and outgoings for the first time in years.

Mr Croeser said income-tax receipts for April to July rose by 28,6% to R11,8-billion. General sales tax receipts rose 11,7% to R5,8-billion and customs and excise takings were up 1,9% to R3,8-billion in spite of a lower import surcharge.

The grand total of R20,6-billion was up 18,1%. Disbursements by the Treasury rose by only 6,4% to R22,8-billion. The deficit before borrowing was thus R2,2-billion. A loan of R2-billion was redeemed, making the financing requirement R4,2-billion.

Government securities worth R5,6-billion were sold, leaving a surplus after four months of R1,4-billion.

Mr Croeser said the position was unlikely to be so rosy by the end of the year, even though August and February were the best tax months. Revised estimates for the year were that tax received by Inland Revenue would yield R57,5-billion — R500-million more than budgeted. Customs and excise should bring in R8,0-billion, making a total of R65,5-billion, instead of the budgeted R64,9-billion.

Largely because of pay increases for policemen, nurses and certain low-income people, spending estimates had risen by 12,9% to R74,1-billion (R72,9-billion).

The deficit before borrowing was projected to rise from R8-billion to R8,6-billion, or from 2,8% to 3,1% of gross domestic product.

The total financing requirement had risen from a budgeted R11,8-billion to R12,4-billion. Of that R7,7-billion has already been raised, leaving an outstanding requirement of R4,7-billion. The Public Investment Commissioner would contribute R3,9-billion.

Mr Croeser said the State needed to sell gilts of only R830-million.

That will be a relief to the gilt market, which expected much heavier borrowing from the State. Interest rates have already softened on these figures.

Mr Croeser said the Government was deadly serious about its monetary and fiscal discipline and the real rise in State spending was about 1%. In effect, SA had obtained a new government since President De Klerk took over.

Fiscal policy was part of the process of economic restructuring. Curbing inflation enjoyed high priority. But there was no intention to be drastic or to cause disruption.

GERHARD CROESER ... relaxed at last

But it cuts its own spending

S I Times 16/9/90

Priority

Mr Croeser said capital deployment would take into account job creation. Part of strategy was to encourage a responsible wage policy. Large pay rises won by certain unions had set back this objective, but generous increases had helped to swell the amount of tax from individuals.

Another priority was to make the economy more competitive internationally, to reduce taxation rates on companies and individuals, and at the same time to get rid of concessions. The State wanted to eliminate its own dissaving, but it would take time, he said.

Rethink VAT proposals, group urges

320

By Michael Chester

Warning was issued yesterday that the introduction of value added tax next year threatens to cause serious problems for thousands of small businesses as Government proposals stand at the moment.

The warning came from the Sunnyside Group, an influential business lobby that has been in the vanguard of campaigns to persuade the Government to cut the red tape and regulations that hamper the development of the informal sector.

The group said VAT, as planned, would badly damage the growth of small businesses in general unless more-appropriate proposals were worked out to cover small enterprises.

Most small businessmen and informal-sector entrepreneurs would have serious difficulties in understanding and complying with the requirements as spelt out in draft legislation.

Even hawkers and other mini-business enterprises would need to hire clerical staff, print tax invoices and credit notes, and buy accounting books and storage cabinets to cope with all the paperwork.

VAT would also have an immediate effect on the cash flow of small businesses because of tax levies on such items as rentals and service charges, which GST did not cover.

The requirements, the group argued, were hopelessly unrealistic. The inevitable result would be the circumvention of all the VAT laws.

"The Sunnyside Group also believes the cost to the State in trying to collect hundreds of thousands of rands of very small amounts of VAT from small and informal businesses will be uneconomical," said a statement.

"At the end of the day it is the consumer who will suffer."

The group recommended to Government that businesses with a gross turnover of less than R500 000 a year be exempt from complying with VAT legislation.

It also suggested that non-compliance penalties should be reviewed, because in their present form they could result in criminal action being taken against people who had no chance of complying.

Right timing in futures and options can help cut tax bills

B/Day 19/7/99

NEIL YORKE SMITH

CLEVER use of futures and options can substantially reduce tax bills, according to leading players in the derivitive market.

"By timing transactions around the end of the tax year, clients can use the instruments to offset their tax liabilities," said one.

He described various futures market schemes where clients could take equal and opposite positions — thus eliminating risk — and structure transactions so losses and transaction costs could be written off against taxable income.

A similar scheme using options could be used, he said. In such a case clients paid a big premium for an option which was "deep in the money", he said.

The clients could write the premium off as an expense and in the new financial year realise profits on the transaction.

"In theory such transactions could be done every year, giving people effective roll-overs on their tax liabilities."

People in the industry said many such schemes were the result of ignorance and indecision on the part of local tax authorities. They bemoaned the fact that there was still little clarity regarding taxation of derivitive instruments.

It was vital that the authorities kept up to date with changes in the industry and that they ensured tax rules were amended to match industry developments in the shortest possible time, they said.

One of the biggest problems was indecision regarding the taxing of serious investors who used the market to hedge their positions in underlying instruments, as opposed to short-term speculators, they added.

"This market is a complete farce if there is no clarity regarding taxation," said a derivitive market expert.

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Volumes

He warned that if the Receiver of Revenue decided a person or company was contravening Section 103 of the Income Tax Act and deliberately avoiding tax payment, severe fines could be imposed.

Similar schemes were used in the overseas derivitive markets, resulting in surprisingly high volumes at the end of each tax year — and irate tax authorities, he said. But it was the authorities who had the last laugh. Some players had to pay out big sums in back taxes to make up for all the payments they had missed.

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19 1990

VAT 'can threaten small businessman'

BDay 19/9/90. (320)

GILLIAN HAYNE

THE sophistication of VAT legislation could seriously damage the growth of small businesses in SA, says the Sunnyside Group.

In its submission to Vatcom, the group recommended that businesses with a gross turnover of less than R500 000 a year should be exempt from complying with VAT legislation. It also suggested that non-compliance penalties be reviewed.

Sunnyside Group, a lobbying group, was formed to help solve over-regulation of small enterprises and the informal sector.

Illiterate

As such it represents more than 150 000 of an estimated 750 000 small enterprise owners.

The current draft legislation states that every enterprise owner must register when taxable supplies reach a level of R50 000 a year. This equates to any enterprise with a turnover of R1 000 a week, which would affect many small and informal sector businesses.

The group noted that half the present adult population in SA were illiterate, and of those who were literate the majority had not reached matriculation level education. It maintained that the VAT legislation "could not be digested and understood by anybody with less than a matric level of education, which means that it cannot be digested and understood by most small enterprise and informal sector business owners".

With this background in mind, the group proposed that all threshold levels for registration, invoicing and the like be increased by a factor of 10. "Thus the threshold level for registration would be when taxable supplies reached a level of R500 000 per annum".

It also suggested the final Act should make provision for an annual amendment for all monetary figures mentioned to take account of inflation, and that compliance costs for smaller businesses should be compensated.

"Proposed non-compliance penalties should be reviewed. It offends ordinary concepts of justice for a citizen to be penalised for non-compliance with statutory requirements beyond his capabilities."

To help overcome the problem, it was suggested the Department of Finance launch a massive educational exercise and offer administrative assistance.

4x 20/9/90 (320) 10

Deposits in banks to get tax benefits

Finance Staff

Measures could be announced later this year to rectify the imbalance in tax benefits offered by insurance companies as opposed to banks and building societies.

Deputy Minister of Finance Dr Org Marais told the annual meeting of the Northern Transvaal branch of the South African Property Owner's Association this announcement could be expected in November.

He said there was a good chance that in future interest on money invested with banks and building societies for five years or longer could be tax free. This he felt could improve this imbalance.

It was also investigating encouraging private saving even further by taxing financial institutions and reducing taxes on interest. This policy could already be seen by the fact that at present the first R2 000 of interest on saving was tax free.

The government would continue to move away from property development and this would be left to an even larger extent to private initiative and funding.

SOUND ECONOMY

To effect the intended political change, the government needed a sound economy and would therefore not drop the bond interest rate below the inflation rate.

This monetary policy had already helped to improve the economy, proof of which was the increase in the balance of payments and the foreign exhange and gold reserves.

Plans were also afoot for a devalution of taxes to local authorities in alignment with a proposed federal system.

Tax expert says VAT may lift house prices

HOUSE prices could rise next year after the imposition of VAT — despite private sales not being taxable under VAT, Ernst and Young tax partner David Clegg said recently.

In the latest issue of the firm's In Touch publication, Clegg warned overall property prices would increase in sympathy with the cost of new construction, the rise being linked to the element of the construction costs not currently subject to GST.

Draft VAT legislation defined the sale, rental or construction of land and/or buildings by an enterprise as a taxable supply, even if it was not part of the mainstream of an enterprise's business or constituted the disposal of a capital asset. As such it was subject to VAT.

The only exemptions were long term residential rentals and sales by private individuals not constituting an "enterprise".

In effect the increase in tax would come from VAT on labour and contractor and developer profits which were not taxable under GST, Clegg said.

However, due to the intrinsic nature of the VAT system, the increase in VAT did not translate into an increased tax burden for enterprises as they could claim, in most cases, an input tax credit.

"Every purchaser of property from a developer will be charged VAT irrespective of the nature of the property, whether private residential, commercial or industrial. The only variable is whether the purchaser can himself treat the VAT paid as a deductible 'input tax' in his own business," Clegg explained.

In the case of a private individual no

GILLIAN HAYNE

credit could be claimed.

Looking at the effect of VAT on the different types of property transactions, Clegg noted the cost of property developed for business rental would reduce, by virtue of VAT, credit granted at all stages.

"The GST formerly paid on building materials as an absolute cost of construction falls away through the credit system under VAT."

However, the cost of property developed for private individuals, financial institutions, schools and landlords of blocks of flats and other long term residential accommodation would increase. "None of these bodies is entitled to VAT credit."

3 20 Total

Yesterday Deputy Finance Minister Org Marais reiterated that for VAT to be successful it must remain a broad-based tax with as few exemptions as possible.

Speaking at a luncheon of the Women's Bureau of SA, Marais said government would prefer to address the problem of the tax burden on lower income groups in terms of total government spending rather than through exemptions.

"Tax exemptions are an uncontrolled way of assisting those who need it, which is why government would prefer to provide direct assistance instead of changing the tax structures," Marais said.

Although Marais did not have any firm ideas on what form the government assistance would take, he said Vatcom was studying all the suggestions put forward.

FUTURES & OPTIONS (320)

TAX RULING URGENT

FIM 21/9/90

"Uncertainty about the tax treatment of transactions in futures, options and similar instruments is seriously restricting the growth of our financial markets," claims Henk Rossouw, Arthur Andersen's tax division manager. He raised the issue last week at the SA Futures Industry Association conference on financial markets regulation.

But he holds out little hope of an early solution and says: "Legislation is urgently required to clarify the position to prevent lengthy and costly court battles."

Chief Director Legislation of Inland Revenue Hennie Smit says: "We see no need now to make special rules for futures and options and think the provisions in the Income Tax Act cover these sufficiently."

However, he says he is not aware of any problems the industry faces on this score. "I have received no official representation nor complaint so am no longer looking at the issue. If something is amiss with the Act people must draw our attention to it."

SA Futures Exchange's Bob Power says "because of the urgency of the matter the tax

FIM 21/9/90 (320)

and legal divisions have merged under the chairmanship of Michael Katz to research this."

Perhaps the quickest solution would be for the industry to communicate all this to the authorities.

Rossouw says the SA Income Tax Act does not refer specifically to derivative transactions, "so each transaction must be examined according to general principles based on the Act and the interpretations of our courts."

The issues are:

☐ Capital vs revenue: would the gain or loss realised from a specific transaction be taxable or tax deductible?;

☐ The timing of a receipt or accrual arising from a futures or options contract; and

☐ Trading stock: can futures and options be classified as trading stock?

Under SA law, capital profits are not taxable and capital losses not deductible. Conversely, revenue profits are taxable and revenue losses are deductible. But the distinction is far from clear, he says, and many of the tests SA courts apply to determine the capital or revenue nature of an amount are not flexible enough to be applied to today's sophisticated financial instruments.

One test is taxpayer's intention (as distinct from motive). Though the motive behind a hedging transaction may be to reduce the risk arising from the underlying transaction, the intention of the hedger is to sell at a profit. So, strictly, many derivative transactions could attract tax.

Rossouw says the transaction rather than the participant should be considered. Derivatives can be traded for speculation, investment and hedging.

Briefly, speculators who hope to profit in the short term will be taxed on profits and be able to deduct losses. Investors are generally not taxed on the proceeds of their investments, since their intention usually is to derive income from the investment. However, futures do not produce income and it is, therefore, possible that all investments in futures could attract tax.

But hedging is giving the biggest headaches, says Rossouw. Should the hedging transaction be seen as separate from the acquisition of the underlying investment, or should the two transactions be regarded as one for income tax purposes?

Rossouw gives the nod to the latter and says this is what is implied in the Statement of Practice issued by UK Inland Revenue in 1988: if a transaction relates directly to an underlying asset or transaction, the tax treatment of the derivative product follows that of the underlying transaction.

KPMG's Aiken & Peat partner John Louw concurs. He adds it will be extremely difficult to differentiate a hedge from a speculative transaction in practice.

Establishing when the proceeds should be taxed is crucial "in a market where a profit today could turn into a loss tomorrow."

Finally, an important decision for traders is whether options and futures constitute trading stock. Rossouw states no futures and few options can be considered as such and here disagrees with the Stals Committee. "It accepted the Commissioner for Inland Revenue's opinion that the position of a derivatives trader is similar to that of a spot trader who buys and sells physical assets," he says.

If accepted as trading stock, valuation becomes a problem as the cost of acquisition on an option is the premium, but a futures contract costs nothing as the margin payments are simply deposits. A cost would be involved only if further contributions are required to top up margins in the event of futures losses.

Jacquie Bullard

SALES TAX F/M 21/9/90 (320)

PLUGGING HOLES

Until now, goods exported to the TBVC states have been treated in the same way as exports generally (that is, exempted from GST). This arrangement has led to widespread evasion through misrepresentation that goods were destined for TBVC. And the problem is particularly acute with Bophuthatswana, which does not impose a sales tax of its own.

Now, Inland Revenue has gazetted a complete revision of the rules for exports to TBVC, to take effect from October 1, which should have a major impact on evasion.

There is a technical difference of treatment between exports to Transkei, Ciskei and Venda, which have sales taxes of their own, and those to Bophuthatswana. Bophuthatswana is important in relation to evasion for another reason: its ragged borders and proximity to major population centres in SA.

In future, exports to vendors registered in Transkei, Venda and Ciskei will be subject to payment of GST. So will all exports to Bophuthatswana, for the obvious reason that there cannot be any vendors registered there.

Where vendors in SA have acquired goods in Transkei, Venda or Ciskei, they will be allowed to offset the input tax incurred by claiming a credit against their output tax payable to SA Inland Revenue. This provision will make it necessary to set up a clearing house for sales tax receipts between SA and Transkei, Venda and Ciskei — which is the intention of the governments concerned.

The change, which should block large-scale evasion of GST in SA based on misrepresentation by the purchaser that the goods are destined for export to the TBVC, will impose important additional management and accounting requirements on traders.

In particular, invoices and analysis systems will have to record the destination of sales; there will have to be a new method of completing the monthly GST return (VB5); and invoices will have to be split to differentiate foodstuffs and other non-taxable items, to enable the clearing house to distribute sales tax receipts among the states.

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There is special treatment for items such as vehicles and guns which require registration into the name of a new owner under other legislation. As registration in Transkei, Venda or Ciskei requires proof that local sales tax has been paid, export of these goods to those countries will still proceed free of GST. But the export of registerable goods to Bophuthatswana will be subjected to GST. ■

VALUE-ADDED TAX

FIM 2/9/90 (320)

SACOB SPEAKS

The SA Chamber of Business (Sacob) submission to Vatcom on the draft VAT Bill draws particular attention to its implications for capital investment.

Subjecting capital goods to VAT will be beneficial. Now, manufacturers buy capital goods cum-GST. Once VAT is fully implemented, they will be able to deduct an input

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tax credit (ITC), achieving a major reduction in cost. Availability of an ITC on various intermediate inputs (now subject to GST) will work in the same direction.

Sacob points out that a VAT ITC will be deducted only on net outlays on capital goods because depreciation provisions on capital equipment are themselves part of the value added and will be subject to VAT.

It argues that any phasing in of VAT on capital goods should not exceed 12 months and be only to prevent temporary distortion of capital outlays in the transitional period, not for State revenue reasons.

Sacob suggests two possible but diametrically opposed rules for leased capital goods: either the lessor should get full credit for the tax on the goods on purchase, while the lessee receives phased-in credit, or vice versa. In the first case, the user would presumably not enjoy an immediate full credit of the tax on the input of the capital goods.

Furthermore, Sacob sees no good reason why businesses should be denied an ITC on business expenditure on entertainment or the purchase, lease or rental of company cars.

Sacob argues that the 1989 GST yield of R15,7bn at a rate of 13% could be matched with VAT at 8,5%, if the base is not eroded by concessions (see table). The yield could be even more, taking account of the reduction in evasion which Sacob thinks possible.

Including foods, residential rentals, medical, education and financial services in the base will require paying urgent attention to State assistance to needy groups. On the other hand, Sacob believes that zero-rating some foods would create huge administrative problems and open the door to considerable evasion.

ECONOMY & FINANCE FIM 21/9/90 (320)

A LARGE BARREL

Estimate of the Potential VAT Base as it could have been in 1989.

Item	Amount Rbn
Gross domestic expenditure (less than GDP)	220,3
Less gross domestic fixed investment	**48,1**
	172,2
Less favourable external current account balance	**3,1**
	169,1
Plus business expenditure on purchase of motor cars (estimate)	**5,0**
	174,1
Plus business expenditure on entertainment (estimate)	**1,0**
	175,1
Plus sales of land to persons other than registered vendors (not part of GDE: estimated from 1989 transfer duty yield)	**10,0**
	185,1

On this basis, the 13% GST yield of R15,7 billion in 1989 could theoretically have been produced by a VAT rate of 8,5%.

Another important submission, with particular bearing on black small business, is that the turnover level for compulsory registration be raised from the draft R50 000 a year to R500 000. Those with turnover below R500 000 should have the option to register.

There will be serious transitional problems in some industries. In cases such as building and construction, GST is payable on input goods but not output goods or services. VAT will create a new situation, argues Sacob, as there will be no ongoing provision in margins for payment of the new VAT output tax.

A special provision is called for, whereby GST on input goods or services already acquired should be deductible from the new output tax in such industries. "The amounts involved could be large."

If land and buildings are included in VAT, transfer duties should be removed. VAT paid on sales of land and buildings should be fully creditable for a registered purchaser, not subject to any phasing-in. Including land sales will significantly widen the VAT base and help keep the rate low.

In a crucial caveat, Sacob may reconsider its approval of VAT if the authorities conclude that political considerations make it impossible to introduce a system with proper ITC provisions "and with a very large base at the lowest possible rate." ■

VALUE-ADDED TAX

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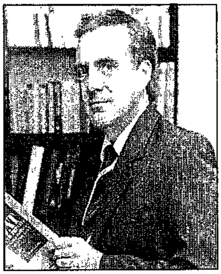
STILL TIME TO RECONSIDER?

THE ANTI-VAT LOBBY IS FAR FROM CONCEDING DEFEAT

Government and enthusiasts in the private sector would have us believe the introduction of VAT, planned for October 1991, is irreversible. But a recalcitrant private-sector lobby is still not ready to concede, even at this stage, that everything is signed, sealed and due to be delivered. Even if these people are deluding themselves, the specific objections they raise cannot simply be ignored.



Ian MacKenzie

Nearly everyone would concede that VAT is theoretically a better indirect tax than our present GST and largely self-policing through the system of input tax credits.

Thus, Ian MacKenzie, a tax partner at Ernst & Young, believes that VAT should be pushed through if politically possible; if we attain the goal of a "pure" VAT system without special concessions, the result will be a much better indirect tax system. This conclusion stands even within the context of the high conversion costs, both in changing systems and in education, to be borne primarily by the private sector. However, if this goal proves elusive for political reasons, SA may be forced to the second best approach of radical revision of the Sales Tax Act.

Alister MacKenzie, a tax partner at Aiken & Peat, agrees that SA should switch to VAT despite the difficulties, because of its superior collection efficiencies.

Reservations concerning the introduction of VAT fall into two broad categories: the belief that this is politically the wrong time to switch to an intrinsically more regressive tax (one which bears relatively more heavily on lower-income groups); and the view that GST works, however imperfectly, and its worst shortcomings could be overcome without the major disruption of a switch to VAT.

It can also be argued that VAT enthusiasts have overstated the benefits and understated the risks and difficulties associated with the switch. One last effort at patching up GST would still leave the door open to going over to VAT if the results are disappointing. But a move to VAT is irreversible and carries the risk that our last state will be worse than our first.

For a start, says the anti-VAT lobby, it is naive to argue that the switch will easily camouflage the extension of the tax base to foodstuffs and other important basic services such as transport and housing. VAT will attract the attention of radical political groupings. Indeed, the *FM* understands that the ANC is already applying critical scrutiny to the proposals.

To recapitulate a major argument for VAT: while exempting foodstuffs from GST has served its intended purpose of assisting the lower-income groups, the price has been high. First, it has subsidised the higher-income groups, who do not need it. Second, the exemption has opened a gaping hole for tax evasion, enabling retailers to misrepresent the nature of turnover.

But if food is brought into the VAT base, the change will impose hardship on the poor at a bad time. The same goes for transport costs. And while house rentals are exempt, imposition of VAT on construction, points out Deloitte Pim Goldby tax manager Ken Boggis, will still be factored into rentals through its effect on construction costs.

Deloitte Pim Goldby partner Willem Cronje argues that the regressive nature of VAT on foodstuffs can be simply set off through issuing food stamps to the lower-income groups. But how easily could a system of food stamps be set up in the present civil disorder, political animosity and administrative weakness? And this doesn't help transport and housing.

In effect, VAT will be introduced without sight of the package of social benefits which will compensate the poor. Government should let us see something of its thinking on this vital part of the package, so that these proposals can be subject to debate and scrutiny at the same time as the technical tax details already unveiled.

The GST lobby also argues that small traders will find the administrative burden of VAT compliance higher and more burdensome than the pro-VAT lobby believes. Cronje says small traders will simply have to learn how to apply VAT. He says there are sound precedents in other underdeveloped countries such as Mexico and Madagascar.

A major weakness of GST has been the opportunity for evasion offered by the treatment as exports of sales to the TBVC states. Inland Revenue is taking steps to amend the law to deprive sales there of export status. Though the clearing house system will ensure the final destination of revenues is unchanged, so that SA does not gain revenue at the expense of the TBVC, the loophole for evasion will be closed (See *Economy*).

On the one hand, this measure can be represented as a step towards VAT, because a clearing house with the TBVC states will be needed to implement VAT. But it could be argued with equal logic, say anti-VAT thinkers, that the change will bolster the revenue-producing capabilities of GST and so make VAT less necessary.

One important point on which supporters of VAT and the GST lobby appear to converge is turnover. The GST lobby argues that many of the worst weaknesses of GST could easily be remedied by raising the threshold for registration as a GST vendor from R50 000 to R500 000 a year, without incurring the risks of a switch to VAT.

Sacob (see *Economy*) argues that the

DON'T MISS NEXT WEEK'S SURVEY ON THE ANC!

What does the ANC stand for and who does it represent? Months after the organisation's unbanning, these are increasingly valid questions. Its apparent impotence in the face of unrest and failure to turn liberation slogans into coherent political and economic policies have raised doubts about its ability to govern its own supporters, let alone a future SA.

Next week, in a journalistic coup, the *FM* will offer considerable insights into the ANC's workings and how it sees SA's future. Nelson Mandela and other ANC leaders have co-operated with the *FM* to produce a fascinating special survey.

The survey looks at the ANC's problems in meeting real needs in an uncomfortably real world; its views on negotiations and a just constitution; its clinging to outdated socialist visions; land redistribution; how it will address the problems of SA's unschooled millions; its ties with the SA Communist Party; its attitude to the security forces; whether unions' role will be downgraded in a post-apartheid SA; and the ANC's attitude to international sporting links.

Critical but balanced

Not everything the *FM* has to say will find favour with the ANC. In typical *FM* style, the survey is a critical but balanced look at an organisation which has been at the forefront of world news and now holds much of SA's future in its hands. It is not to be missed.

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compulsory turnover threshold for VAT registration should be R500 000, with an option to register by businesses with a lesser turnover. The Sunnyside Group, a coalition of interests supporting small business, also argues for a R500 000 threshold, as well as a tenfold increase in other VAT thresholds.

Rob Collins, a senior manager with Deloitte Pim Goldby, also argues for a turnover threshold of R500 000, with a possible exception for pure service industries, whose ratio between input costs and turnover is different. For pure service industries he suggests a threshold of, say, R250 000.

In fact, says Collins, Margo acknowledged that R50 000 is too low and, therefore, administratively inefficient.

The chart, compiled by the Commissioner of Inland Revenue's office, shows the structure of business turnovers for 1988. Businesses with turnover below R50 000 a year by then no longer had to register for GST, so figures for businesses with lesser turnover were arrived at indirectly. In particular, figures for GST paid were arrived at through considering the GST those businesses would have paid on purchases for which they were treated as final consumers.

There were 45 000 businesses with turnover between R50 000-R500 000 a year, against some 50 000 that stayed in the GST net by turning over R500 000-plus.

So a tenfold increase in the threshold could eliminate a large proportion of GST (or VAT) returns to be processed, even if government accepts Sacob's idea that traders with turnover below the threshold should still have the option to register.

There is a hidden bonus in raising the turnover threshold: eliminating abuse of registration certificates by small traders who, in many cases, buy personal consumption goods without paying GST. Not to mention further evasion at the retail level by outright suppression of turnover or misrepresenting taxable turnover as foodstuffs.

Larger firms simply cannot indulge these types of fraud nearly as easily, though the exact level of turnover at which "family" trading is supplanted by corporate-type operations might be a matter for debate.

The GST lobby also argues that it is naive to suppose that VAT is evasion-proof. The existence of numerous copies of invoices, for example, opens the door to all sorts of fraud in the hands of sophisticated traders.

This leads inevitably to the question of the adequacy of Inland Revenue's administrative resources to run what is acknowledged to be a more complex tax than GST. The loss of half the time of the "army worms" (young accountants doing national service in Revenue offices) has already hurt Revenue. Other plans for tax reform will make at least an initial demand on administrative manpower — notably the intention to move to self-assessment by companies.

Fears concerning the sufficiency of manpower at Inland Revenue are shared by Pat McGurk, a tax partner at Aiken & Peat, who raises the specific issue of the administrative demands which will be imposed on Revenue by the obligation to make VAT refunds within 21 days.

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Britain has over 8 000 VAT inspectors, whose time is cut out to make VAT work there. Though SA has a smaller economy, Britons on average are better educated, so it is fair to assume the general understanding of VAT bookkeeping is higher and inspectors' task easier than it would be locally.

The anti-VAT lobby says countries which introduced it experienced a wave of inflation — the last thing SA wants. This argument requires an answer from economists as well as from tax collectors.

It is argued by the VAT lobby that the switch will be anti-inflationary, through the removal of all sorts of double impositions of GST on business inputs. But there is room for a healthy scepticism about the likelihood of businesses reducing prices when the cost of inputs drops.

In one important example, the eventual availability of input tax credits on capital goods would take a long time to filter through into the prices of manufacturers, even without the lengthy phasing-in period now proposed and even if manufacturers do pass on the benefit.

As in any polemic debate, the anti-VAT lobby is obviously stating its case as forcibly as possible — maybe even to excess. But the problems raised are real enough and suggest that — not for the first time — government may have made a far-reaching policy decision without fully appreciating all the practical ramifications. Stay with GST or switch to VAT, the issues will not go away. ■

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MINISTER OF FINANCE FOR *FM* CONFERENCE

FM 21/9/90

Taking a line on government's economic policy options is becoming increasingly difficult with the growing clamour from competing interest groups.

Basically, however, economic planning for the new SA has to focus increasingly on how to reconcile the needs of SA's Third-World majority with the economics needed to encourage the sophisticated First-World sector. Government realises this and has already mooted the possibility of the ANC participating in the economic planning process ahead of next year's Budget.

But if that is the case, does SA's economic planning face the risk of becoming bogged down in sterile political haggling? And what's the outlook if our access to foreign capital remains restricted by sanctions or fears over our country's long-term stability?

Barend du Plessis, the minister of finance, will discuss these and other issues in his keynote address at the *FM*'s Annual Investment Conference this year.

Du Plessis needs no introduction to most South Africans. His political stature has grown significantly in the six years since his appointment as minister of finance. And it is sufficient to say he will be one of the key figures in determining the economic structure of post-apartheid SA.

☐ The conference will be held at the Carlton Hotel, Johannesburg, on November 1-2. The fee is R1 100 a delegate, reducing to R980 for each additional delegate from the same company.

Bookings are rising and it is advisable to book soon through conference manager Brigitte Petty on (011) 497-2135.

SMALL BUSINESS CONTRIBUTION TO GST REVENUE

December 1988

No	Category of annual turnover	Firms No	Firms Total %	Turnover Amount Rm	Turnover Total %	GST paid Amount Rm	GST paid Total %
1	0 — 9 999	6 000	35,76	64	0,01	4	0,03
2	10 000 — 14 999	3 600	1,48	44	0,01	3	0,02
3	15 000 — 19 999	3 100	1,27	53	0,01	3	0,03
4	20 000 — 29 999	5 500	2,27	133	0,03	9	0,07
5	30 000 — 39 999	5 500	2,08	174	0,04	11	0,08
6	40 000 — 49 999	5 000	2,04	222	0,05	15	0,11
7	50 000 — 99 999	2 230	9,22	1 640	0,34	108	0,81
8	100 000 — 199 999	27 700	11,44	3 993	0,84	255	1,92
9	200 000 — 299 999	15 600	6,45	3 839	0,80	237	1,78
10	300 000 — 399 999	10 100	4,18	3 505	0,73	207	1,56
11	400 000 — 499 999	7 200	2,98	3 223	0,68	188	1,41
12	500 000 — 999 999	18 400	7,59	13 011	2,73	689	5,18
13	1 000 000 — 1 999 999	12 900	5,33	18 173	3,81	838	6,31
14	2 000 000 — 4 999 999	9 900	4,08	30 521	6,40	1 176	8,84
15	500 000 — 9 999 999	4 100	1,69	28 649	6,00	977	7,35
16	10 000 000 +	5 200	2,16	369 956	77,53	8 574	64,50

320 Star 21/9/90

Taxation of married women

Two types of annuities

The third in a series on taxation by Justin Cowley, tax consultant at Ernst & Young

There is a clear distinction between so-called purchased annuities and compulsory annuities.

Compulsory annuities are those on which a tax deduction was claimed when the sums were paid into the retirement annuity fund.

In this case the resultant annuity is specifically defined as net remuneration and therefore subject to both SITE and PAYE. The income would not be taxed in conjunction with that of the husband.

Income derived from annuities resulting from retirement would, for instance, also fall into this category.

In contrast, a purchased annuity is regarded as investment income, an insurance company having entered into a contract with the individual to pay a fixed capital amount together with a specified income return over a period in recognition of an initial contribution.

No tax deduction would have been claimed for the initial contribution and the capital portion received by the invidual is tax free. The income, being investment income, is clearly not from a trade and would consequently be taxed with the income of the husband.

Retirement annuity contributions are deductible in the following way.

Taxpayers other than a married woman: The greatest of R3 500, less pension fund contributions, or R1 750, or 15 percent of non-retirement funding income. Reinstatement premiums are deductible to the extent of R1 800 a year.

In the case of a married woman half of these limits apply: R1 750, less pension fund contributions, or R875, or 15 percent of non-retirement funding income. Reinstatment premiums are deductible up to R900.

It clearly emerges that, although a married woman may be taxed separately, she is not taxed on a basis equal to her husband.

Difficulties may arise in situations where a retirement annuity in a wife's name is claimed as a deduction against the taxable income of the husband.

However, Revenue has indicated that it will continue to allow the wife to elect in whose name the deduction is claimed, as the husband may still be subject to tax on certain of the wife's income, such as investment and excessive income.

Thus to some extent the husband may still be a representative taxpayer for the married couple.

This concession may disappear if in future the wife's investment income is taxed entirely separately from her husband's income.

It should be noted that great benefits can result on retirement by a husband buying retirement annuities in his wife's name. This will have the effect of bringing down the average rate at which his lump sums are taxed.

In addition, it will generate a future income stream in the hands of his wife which may be taxed at a significantly lower marginal rate than that applied to her husband.

MONDAY: Joint ownership.

Tax relief needed to encourage exploration

(320) Star 21/9/90

The long-term challenge to the SA gold mining industry is to replace some 430 annual tons of gold which is more than the current combined annual production of the West Wits Line and the OFS Goldfield, says Southern Prospecting managing director CI von Christierson.

"This is an enormous challenge which could only partially be met from extensions in areas such as the Potchefstroom and Bothaville Gaps, and would require the discovery of major new goldfields.

"It is a challenge that can be met if exploration is given tax relief of the proportions Canadian exploration was given in the 1980's when flow-through funding was introduced."

Mr Christierson said at the seminar that the present state of the gold mining industry could be described as one of sharp decline.

South African gold production had fallen 40 percent in the past two decades and its share of Western world production had more than halved over the period.

"To put this decline of some 400 tons of annual production in perspective, it is equivalent to closing down the West Wits Line and the Free State Goldfield, or 2 medium sized gold mines each year, over the 20 year period."

Challenge

He said the immediate production challenge must be to replace short life and marginal production within 10 years.

"It is evident that there exist 13 potential new mines of varying sizes with more than sufficient proven reserves in the ground (700 million tons) to replace in the 1990s existing short term and marginal production of some 110 tons of gold per annum."

The leading issue was whether in fact this potential new production would become a reality.

"Mining taxation was one of the most important controllable factors currently influencing th viability of new mines, and i particular the policy of rin fencing."

Mr Christierson said the Stat had much to gain in the lon term by lifting ring fencing, st mulating new production an thereby securing a long terr source of additional revenue.

"By abolishing ring fencin some 8 new gold mines out of 1 potential new mines would b come viable at a gold price c R1100/oz"— Sapa.

Govt rethink on tax-free savings

320 22/9/90

DEREK TOMMEY

THE drive by the Government to encourage people to save showed signs of moving in a new direction this week when the Deputy Minister of Finance, Dr Org Marais, raised the possibility that savers might be able to invest in five-year tax free investments.

Elaborating on this matter yesterday Dr Marais said a similar scheme had been investigated in Britain where it had been estimated that it could produce an extra £20 billion (R100 billion) in savings for the Government.

If such a scheme is introduced here the money will go into a five-year sinking fund for financing Government expenditure. At the end of five years the saver would receive back his capital together with a tax-free interest payment.

The scheme would have a great deal in common with the tax-free subscription share schemes that the building societies used to run.

TAX-FREE: Savers may soon score on their investments

Attraction

Investors in these schemes were paid out their capital and interest after three years. The big attraction of these shares was that it enabled a saver to receive a regular monthly or quarterly tax free income.

The saver would spread his investment over the three year period. As the shares matured the saver would receive a steady stream of income and also of capital which the building societies would automatically re-invest.

At one time savers were investing and did invest hundreds of thousands of rands — equal to millions of rands in today's money — in tax-free subscription shares.

With inflation running at around three percent and investors getting six percent on their money, savers using the subscription share scheme enjoyed a stable income in both money and real terms.

However, finance ministers, hungry for additional revenue and appalled at the thought of the "wealthy" evading tax, slowly reduced the amount of money that could be invested in tax-free deposits — and from this year have started lowering the percentage of interest that is free of tax.

Dr Marais said the committee investigating the introduction of low level withholding tax as the only tax on interest from savings was making progress. Belgium had operated a similar scheme successfully for several years and the committee would look at the Belgian scheme as soon as it received details of how it worked.

Dr Marais said there was an impression around that the withholding tax had been proposed so as to undermine the insurance companies. Nothing could be further from the truth, he said. The Government's aim was to increase all types of savings. But it did want a level playing field.

Some people argue that reducing taxes on savings is unfair to the ordinary man having to pay a considerable tax on income. But economists argue that in today's conditions any tax revenues lost through encouraging savings with tax cuts, would be made good many times by the great many benefits that would arise from an increase in savings.

One of the more obvious benefits from an increase in personal savings is that the Government would need to pay out less on old age pensions and on looking after the sick and elderly.

Benefits

Another result would be a lower interest rates and lower inflation. A further benefit from higher personal saving is that it would reduce South Africa's dependence on imported capital. This would mean that less money would have to be sent abroad as interest on foreign capital, the balance of payments would be healthier, the rand would be more stable and imported inflation greatly reduced.

All these developments would encourage new investment and job creation and greatly stimulate the economy.

No VAT likely on low-cost housing

Star 24/10/91

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MAGNUS HEYSTEK

Several changes are currently being made to the draft bill on Value Added Tax (VAT), Dr Org Marais, deputy Minister of Finance, said this week.

While he would not elaborate on all proposed changes, he said a method had been found for low-cost housing to be exempt from VAT.

Dr Marais has just returned from a two-week trip abroad during which his delegation visited various countries in Europe to study the practical effects of a changeover from GST to VAT.

"Although the cut-off date for representations to the VAT Advisory Committee has already passed, we would still be prepared to listen sympathetically to appeals from various sectors of the community," he said.

Dr Marais, however, said exemptions from VAT, which comes into effect in October next year, would be kept to a minimum.

"We will not allow the integrity of the VAT system to be undermined by an increasing number of exemptions.

"This would erode the tax base, as happened in the case of GST, which meant a higher rate of tax in general."

He dispelled fears that the introduction of VAT would boost inflation.

Experience in most other countries that had made the transition showed that the inflationary effect was at worst minimal.

What might happen, as in the case of Ireland in recent years, was that government income could rise substantially in the first year of the change-over.

Hopefully, the same would happen in South Africa, he said.

One major impact of the VAT system was that capital equipment would be tax-exempt, thus reducing the cost of capital by as much as four percent, he said.

Dr Marais said he intended embarking on a major publicity campaign in order to force manufacturers who would benefit from the exemption to pass on reduced costs to consumers.

"I am even prepared to publish a list of all the companies and manufacturers who stand to gain from this exemption in order to force them to pass on the savings," he said.

Inside Out

ANN CROTTY

Ann Crotty hung up the "Gone fishing" sign this week but will resume her Inside Out column next week.

(320) (284)

Taxation of married women

Joint ownership complications

Complications arise in situations where a property is owned jointly by husband and wife.

A typical example of joint ownership is a couple married in community of property who rent out a property. In this instance it would be necessary to prepare accounts (in effect partnership accounts), which both parties would be required to submit with their tax returns.

Each would then be taxed on half of the net income resulting from the trade.

Married couples wishing to acquire investment properties for rental income may consider doing so in the hands of the spouse who has the lower marginal rate of tax.

As yet, provided no stipulation exists entitling the husband to re-acquire the property from the wife on the happening of a specified event, there is no provision that deems such net income to be that of the husband, even if the purchase of the property is funded by an interest-free loan between husband and wife.

It is also as well to remember that donations tax does not apply to donations made between spouses.

The fourth in a series on taxation by Justin Cowley, tax consultant at Ernst & Young

Income from trade

All income of a married woman received from trade, including rental income, is now taxable in her hands.

Interest on funds earned from trade and put in a bank account as part of the operation of the trade is also taxed in her hands.

However, the following types of income are still taxed in the hands of her husband:

- Interest earned from investments, such as loan interest, or interest earned from surplus funds invested in a financial institution.
- Income received or accrued from a trade she carries on in partnership or association with her husband, if that income is considered excessive in relation to the extent of her services rendered to the trade. Only the amount in excess of the reasonable amount is taxable in her husband's hands.
- Any income received by a married woman whose husband has annual gross income of not more than R10 000, is taxed jointly with that of her husband.

Royalties

No clear rules can be determined for the taxation of royalty income.

It could arise from trade carried out by the married woman where, for instance, she is an authoress in her own right and earns royalties from use of the copyright vested in her publications.

In contrast, the reverse situation could apply where the royalty arises from the design or invention of the husband and the tangible asset is simply registered in the wife's name.

This is unlikely to be considered income derived from a trade and will consequently still be taxed with that of the husband.

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GILLIAN HAYNE

VAT an issue at travel agents' talks

THE effect of VAT on the travel industry is one of the topics under discussion at the Association of Southern African Travel Agents (Asata) 31st Congress in Windhoek this week.

The congress, which opened yesterday and ends on Thursday, serves to provide a platform for travel agents to debate the relevant, and often controversial, subjects that affect their industry.

One of this year's "hot potatoes" is the effect VAT will have on domestic travel.

Under draft legislation, VAT will be payable on domestic airline tickets, but has been exempt from international travel, in line with the VAT policy in New Zealand.

Asata president Rupert Lawlor said although it had submitted its views to Vatcom on its concern for the cost spiral which VAT could promote, the association did not expect government to change its policy.

Among the speakers will be Trevor van Heerden, the chief director of tax policy for the Department of Finance who will address the congress on the VAT issue.

COMPANIES

VAT fuels debate on car perks

GILLIAN HAYNE

B Day 24/9/90

THE debate on the advantages of the company car against a car allowance, or vice versa, has been fuelled by the added complication of VAT, say experts.

KPMG Aiken & Peat tax partner Pat McGurk explained that in the VAT draft legislation, the cost of buying a company car — the capital cost of the car — did not qualify for an input tax credit. But factors such as insurance, fuel, and maintenance did. The running cost of the car was deemed to be a supply by the company to the employee and as such the company would have to pay the Receiver a specified amount.

On the the other hand, for the employee, a car allowance would not be subject to VAT in itself but the individual would still pay VAT on the initial purchase price and the running costs. "In other words, both would pay tax but in a different way," McGurk said.

Ernst & Young tax partner Ian MacKenzie noted that with company cars, the companies would be in the same position under VAT as GST with regard to the acquisition of the car, while the individual would be slightly better off because should he purchase the car from the company, he would not have to pay a further tax.

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But a problem was that although the company would pay tax on the purchase of the vehicle, the individual would still have to pay fringe benefit tax — in effect, double taxation.

As a rough guide McGurk said an employee travelling more than 30 000km a year would probably find the car allowance scheme more attractive because of the immediate cashflow advantage of not being subject to PAYE and because the car would ultimately belong to him.

With an allowance, where a low level of mileage was covered, although the deduction available to an employee would be lower, the value of the car would be greater at the end of the period, he said.

VAT could cut cost of exports by 5%

(320) BDay 24/9/90

ZILLA EFRAT

THE introduction of the VAT system, under which exports will be zero rated, could enable exporters to drop their prices by 5%, says Department of Finance chief director of tax policy development Trevor van Heerden.

Speaking at a Safto seminar last week on VAT and exports, Van Heerden said the Margo Commission estimated that under the GST system, double and hidden taxation had a 5% accross-the-board impact on export prices. And the impact on some products could be higher.

By zero rating export transactions, this incidence of double taxation would be removed, allowing SA goods and services to improve their competitiveness in world markets.

Van Heerden stressed that zero rating was the most beneficial treatment for exports because exporters did not have to charge VAT on their exports sales and could be credited for the VAT they paid on their purchases. Merely exempting exports from VAT would not allow for such credits.

He also pointed out that for VAT purposes, export transactions would include consignments and services rendered to Botswana, Lesotho and Swaziland, although such transactions are not included for other export incentives. However, sales to Transkei, Ciskei, Bophuthatswana and Venda would not be export transactions and would be subject to VAT. International transport services would also be zero rated.

An important concession proposed by the Department of Inland Revenue was that export companies would be allowed to submit monthly VAT returns, instead of the two-monthly returns, to further improve their cash flow position.

Price Waterhouse national tax partner Chris Frame advised exporters to study the VAT systems that applied in their foreign markets.

He pointed out that while their export sales would be zero rated for SA VAT, they would be subject to the VAT applied in the foreign country.

Because countries differed in their application of VAT to sales, rentals, leases and royalties, it might be more cost-effective to structure an export transaction other than as a direct sale.

Bifsa says that VAT must not exceed eight percent

Star 25/9/90 (320)

By Maggie Rowley

If the VAT system of taxation was introduced at above eight percent it would fuel inflation and could do irreparable damage to the building industry, says Mr Neil Fraser, executive director of the Building Industries Federation of South Africa.

In an interview, Mr Fraser said the building industry was extremely concerned at what levels VAT would be introduced.

"We have worked out that an eight percent VAT level is equivalent to the present level of GST. Anything higher will fuel inflation and push up construction costs to the detriment of the country.

"It would have a disastrous effect on housing and intensify present concomittant social problems."

He said the construction and allied industries had formed a special construction committee (Concom) to study the draft regulations which were released two months ago.

This committee, which had been convened by Bifsa, had made a full response and put forward recommendation to the government's VAT committee.

Mr Fraser said that in all other countries where VAT had been introduced there were certain exceptions and areas which had been given a lower rating.

"While we understand that the government would be inundated with exception requests if they did not apply a blanket cover, we think it is crazy that they are not picking out susceptible areas in the economy, such as housing, to give them a lower rating," he said.

The industry, he said, was also concerned about the huge administration burden VAT would impose. The cost of which, would have to be born by the consumer, he said.

Pc
27/9
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(320)

The Star
Finance

Taxation of married women

When a husband employs his wife

In the past if a wife worked in association with her husband (as an employee of a company in which he was the sole or principal shareholder or a director or member of a partnership, etc), her income was taxed together with his.

No special wife's earnings allowances were granted.

It is now possible to pay a wife a salary in such circumstances and for her to be taxed separately. Separate taxation may bring considerable advantages under an income split.

However, one must satisfy Revenue that the wife's earnings are reasonable, taking into account all the circumstances of the employment.

Revenue may often query this reasonability. Although no proper guidance is provided as to what will be regarded as reasonable in all circumstances, provided services are genuinely rendered and the amount paid is not clearly excessive, it should be possible to contest any challenge.

The fifth in a series on taxation by Justin Cowley, tax consultant at Ernst & Young

Where Revenue successfully disputes the amount paid to the wife, the excess over what is "reasonable" will be taxed in the husband's hands at his marginal rate.

Such treatment creates difficulties as the calculation of the retirement annuity fund contribution deduction depends on income and in whose hands it is taxed.

TOMORROW — Part Six: Tax history.

Sept. '90

(320)

The Star
Finance

Builders fear VAT will drive up costs

The building industry views the value added tax system with grave concern not only from the point of view of rising costs but also its effect on the vital sectors of the industry, particularly lower income housing.

An editorial in the latest issue of the industry's journal, SA Builder, says: "Our products will become more costly as the direct result of VAT and initial estimates reflect an increase of seven to eight percent.

"The recovery of resultant increased administrative costs will further add to the inflationary construction spiral as these costs cannot just be absorbed in an industry that operates with the slenderest of margins."

SA Builder is also critical of the administrative burden of recording and making returns so as to meet "ideological legislative requirements" which it sees as having added absolutely no intrinsic value to the industry's products.

"We face this new assault with grave concern," it says.

Informal sector

The journal expresses serious doubt in regard to the tax collection from the informal sector, which is "already heavily subsidised by an over-regulated formal sector.

"If one examines the application of VAT in other countries, one finds that its imposition has been treated with intelligence in regard to sensitive areas of the economy.

"No real consultation preceded the VAT draft legislation nor was there any meaningful research into the effect on the industry and on the consumer."

Viewing the "utterances of Ministers regarding their commitment to deregulation" with cynicism, the journal believes it will be tragic if the vision, courage and determination of the State President in creating a new South Africa is destroyed by an economy rendered impotent through the "seeming disin terest of his lieutenants".

Taxation of married women

Creating a tax history

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Star 24/9/90

The sixth in a series on taxation by Justin Cowley, tax consultant at Ernst & Young

A specific provision has been introduced to give the married woman a "tax history".

In effect the provision stipulates that the past trading history of a married woman be carried forward into her future tax returns.

So, to the extent that an assessed loss generated by the wife was carried forward in the husband's tax return for the 1990 tax year, it will be available to her in the 1991 tax year.

So, much of the assessed loss reflected on the joint assessment and attributable to the wife's business, will be carried forward to a separate 1991 assessment and not be available to offset against her husband's taxable income.

However, a concession has been granted in that, if the wife does not continue her trade or business in 1991, the assessed loss will continue to be available to the husband.

The tax history also applies to recoupments and wear and tear.

Where an asset was previously, used by a married woman for trade and is still so used, it will be subject to wear and tear allowances on the same basis as previously, and a further write-down or additional write-off based on the current market value of the asset may not be created.

She will take over the tax history that her husband had through her previous trading activities.

In addition, recoupments of expenditure previously deducted in his hands — be it wear and tear or any other category of expenditure — will be subject to recoupment in her hands.

It should also be noted that the tax-free gratuity of R30 000 per taxpayer is now available in full to the married woman.

Where she previously received a gratuity which was exempt in her husband's hands, it will be deemed to have been received by her husband.

In addition, to determine the taxable portion of lump sum receipts on death or retirements from pension, provident and retirement annuity funds, any lump sum previously received by or accrued to a married woman shall be regarded as having been received by or accrued to her husband.

In these respects she therefore starts the 1991 tax year with a clean sheet.

Breadwinner

A married woman is regarded as the sole breadwinner if her husband earns gross income of less than R10 000 in the tax year.

This gross income is not defined in the normal way, but rather as an amount which would have been gross income had it been derived from a source within South Africa.

The fiscus was somewhat alarmed at the number of sole breadwinners in the 1989 and 1990 tax years, word quickly having spread that if one declared oneself a sole breadwinner on the return of personal particulars, the effective tax payment would be substantially reduced.

As a result, a married woman may now be taxed as a sole breadwinner only where she first obtains a directive from Revenue, which takes responsibility for determining the accuracy of her claim, as opposed to it being at the discretion of her employer.

In such circumstances the woman must include her income with that of her husband and a joint return must be submitted.

Despite the scrapping of the wife's earnings allowance which would have applied in the 1990 tax year, the couple would be worse off if taxed separately in the 1991 tax year.

End of GST exemptions causes homelands 'panic'

B/Day 26/9/90

GILLIAN HAYNE

THE recently gazetted October 1 suspension of GST exemptions for independent homelands has caused panic among traders.

From next week GST exemptions will not apply to any exports to Bophuthatswana, while for Transkei, Ciskei and Venda (TVC) all enterprises, except those involved in manufacturing and farming, will also have to pay GST.

Deloitte Pim Goldby senior tax manager Rob Collins said at a tax workshop yesterday the regulations were very positive in that they would stamp out evasion, but they would also cause administrative problems and would be punitive to certain types of industries.

At the workshop it was reiterated that for the TVC countries the effect of this unprecedented and unexpected change would not be so dramatic, as the vendors would be able to claim an input tax credit of 13% in their own country for the GST paid on goods from SA.

However, Bophuthatswana has no such advantage, as it does not have a sales tax system similar to that in SA.

The result is that all purchasers in Bophuthatswana will have to bear the cost of GST on all imports from October 1.

"The consequences are enormous," Collins said.

"Every single item from SA that was previously exempt, through the use of a GST exemption certificate, a delivery or consignment note, or the use of a VB52 form, proving the final destination to be outside SA's borders, will now be taxable, thereby increasing the cost to all Bophuthatswana businesses and individuals."

Many traders at the workshop stipulated they received their raw materials from SA, manufactured the goods in Bophuthatswana because of the labour benefits and tax advantages, and then exported their goods to SA.

The new amendment will, in effect, create a double tax scenario because the raw materials and other inputs will be subject to GST, as will the finished product when sold ultimately by the SA company.

Deloitte Pim Goldby associate director Ken Boggis said "car dealers are concerned that they may be out of business on October 1. Because they will have to pay sales tax on the acquisition of the vehicle from SA, and because 60% of sales are back into SA, an effective double taxation exists."

Setting aside the consequences of increased costs, the other major worry for traders is that their administrative systems will be unable to generate the information required by the Receiver in the new VB5 form.

From October 1 traders will have to split their turnover into different types of transactions; specify which transactions refer to which TBVC country; provide a determination of input taxes in respect of liquor and other goods — separately; and specify which goods are exempt and which are not exempt from sales tax.

Curfew in place in seven townships

Business Day Reporter

A CURFEW came into operation in seven Rand townships last night amid indications that it would be defied by a number of political organisations.

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Pretoria police liaison officer Maj ~~Rex~~ Maree said yesterday evening roadblocks were already in place in Soweto and East Rand townships. He said police Casspir patrols would continue throughout the night.

B/Day 26/9/90

Law and Order Minister Adriaan Vlok announced the 9pm to 4am curfew last week as part of government's efforts to clamp down on township violence.

The ANC, Cosatu and affiliates called on supporters to defy the curfew, which the ANC said would give police licence to "hunt people as if they were game".

Sapa reports that the SA Black Taxi Association (Sabta) has asked Vlok for an exemption from the curfew. Sabta spokesman Fanayana Shiburi said the organisation's members would start a door-to-door drop-off operation of all passengers on local and long-distance routes.

● Picture: Page 2

Taxation of married women

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Provisional tax

SEr 27/9/90

If a married woman receives income from sources other than remuneration, or is a director of a private company or a member of a close corporation, she is now regarded as a provisional taxpayer.

The Commissioner may also notify a married woman that she is regarded as a provisional taxpayer.

The 1990 Income Tax Act makes it obligatory for a person who is required to register as a provisional taxpayer to do so within 30 days.

The Commissioner has announced that the first provisional tax payment for married women will be due on Feburary 28 1991. However, applications for registration should be made immediately to avoid late registration.

In estimating the taxable income for her first provisional tax payment, a married woman

The last in a series on taxation by Justin Cowley, tax consultant at Ernst & Young

must take into account only the portion of her joint income with her husband as shown in their latest joint assessment, issued not less than 14 days before the date on which it is due.

The husband will also be entitled to reduce his taxable income by the portion ascribed to the wife.

Taxable income for the second provisional tax payment should not be less than 90 percent of the amount determined in the current year of assessment or a portion of her taxable income previously included in her husband's latest assessment, issued within 14 days of the date on which such estimate is due.

A married woman receives only one rebate of R700. No other rebates are available to her.

Any provisional taxpayer is advised to ask for IRP12 tables from the nearest Receiver's office for full details of the procedure to be followed by provisional taxpayers, or to consult his or her accountant, lawyer or tax adviser.

A REMINDER: A married woman earning net remuneration of more than R40 000 must register as a taxpayer and submit a tax return for all income, including all other income she may receive from any trade she may carry out with the exception of investment income.

Investment income comprises interest and annuties not paid to her by a pension or retirement annuity fund. Interest and such annuities are to be included in the income of her husband.

It is expected that this special treatment of investment income is only for the tax year from March 1 1990 to February 28 1991.

An amendment to the Income Tax Act providing for a withholding tax from investment income by the financial institution is expected to be introduced early in 1991.

FM 28/9/90 (320)

SELF-ASSESSMENT

FIRST STEPS

As a first stage towards self-assessment for companies and close corporations (CCs), the 1990 IT 14 return has been amended with a new Part 8, to source information needed for a data base to be used to develop a Revenue tax audit programme, a necessary complement to self-assessment.

David van der Merwe, an accountant on national service in Revenue's Johannesburg office, explains there are several objectives in both self-assessment and the preliminary steps towards it (such as the new Part 8 of IT 14). Notably, Revenue wants to increase taxpayer awareness of the importance of information required in the return, as part of the process of making taxpayers responsible for correct completion of the return and accurate supply of information.

Revenue believes self-assessment will make administration more efficient through better use of scarce manpower, for example, by speeding up assessments and refunds. It is envisaged that once self-assessment is implemented, all assessments and refunds will be returned to taxpayers within 30 days.

Steps towards self-assessment flow from the Margo Commission findings and should be seen in the context of successful implementation of self-assessment systems in major Western countries. Self-assessment will not only free limited skilled resources but also make tax collectors more visible.

Self-assessment carries with it many important changes to tax arrangements. Thus, requests for extensions as they now operate will fall away. Instead, all taxpayers will have a fixed period in which to submit returns. Twelve months is being considered.

Late rendition will automatically attract a penalty, even if the taxpayer is not actually liable for tax. This does not imply any changes to requirements for provisional tax. A wrongly completed self-assessment form will be rejected and returned to the taxpayer.

Once self-assessment is fully implemented it will be necessary to submit only IT 14 and a copy of annual financial statements. Other schedules required by IT 14 will still have to be prepared and retained, in case they are needed for a tax audit. Criteria for tax audits have not yet been determined.

The assessment (IT 34) will change in format and take the form of a statement of account. It is hoped this will be more informative. Thus, it will outline movements on the taxpayer's account in more detail.

Self-assessment was inevitable, says Van der Merwe, but will not be implemented until interested parties have been fully informed and given the opportunity to comment. ■

RAND'S PRICE

Sep 25 1990	R1 equals	One foreign unit equals (R)
SDR	0,279	3,589
	0,288	3,469
ECU	0,294	3,399
	0,336	2,983
UK £	0,207	4,837
	0,225	4,453
US $	0,390	2,564
	0,363	2,758
Canada $	0,447	2,237
	0,426	2,347
Switzerland Fr	0,503	1,988
	0,599	1,669
France Fr	2,028	0,493
	2,340	0,427
Germany DM	0,605	1,653
	0,690	1,449
Japan Yen	53,250	0,019
	51,725	0,019
Italy Lira	452,890	0,002
	498,565	0,002
Zimbabwe $	0,990	1,010
	0,791	1,264
Austria Schil	4,270	0,234
	4,860	0,206
Holland Guilder	0,682	1,466
	0,780	1,282
US $ value of SDR	1,264	1,398
US $ value of ECU	1,089	1,318
Financial Rand		
Cost per US $	4,020	3,885
Discount (%)	31,405	33,590

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.

Star 28/9/90

R10-m to promote VAT

(320)

Pretoria Correspondent

The Government is to spend R10 million on an advertising campaign and training programme before the implementation of value-added tax in October next year.

At the first meeting in Pretoria yesterday of Vatcom — the committee established to consider representations on the VAT proposals — Deputy Minister of Finance Dr Org Marais said R7 million had already been spent on the advertising campaign.

This included newspaper and TV adverts as well as pamphlets explaining the VAT system in detail.

Another R3 million is earmarked for a training project aimed at people playing a part in the administration of the proposed system.

Dr Marais said Vatcom would submit its report and recommendations to the Cabinet in December.

Change

The draft Bill enabling the change-over from general sales tax to VAT would be submitted to Parliament in February next year.

More than 700 written representations on VAT from various parties are currently being considered by Vatcom.

Dr Marais said between 30 and 40 interested parties would make oral representations to the committee.

A number of study groups and subcommittees would be established to concentrate on specific aspects of VAT and its implications for specific industries.

The study groups would co-opt representatives from organised commerce and industry, consumer bodies, welfare organisations and other interest groups, Dr Marais said.

GENERAL SALES TAX (320)

CORNERING BOP

FM 28/9/90

Full implications of the extension of GST on exports to the TBVC countries (*Economy* September 21) are becoming apparent.

FM 28/9/90 (320)

Manufacturers who relocated to Bophuthatswana but remain heavily dependent on imports from SA — while exporting their finished products to that destination — appear particularly vulnerable.

Sally de Boor, a tax partner at Ernst & Young, says the amendment again demonstrates Inland Revenue's lack of concern for the practical and commercial implications of attempts to curb what is perceived to be evasion.

She sees the measure as aimed particularly at Bophuthatswana to induce that country to introduce a similar form of indirect tax, thereby eliminating the present level of evasion of SA GST.

Berick Croome, a tax partner at Kessel, Feinstein, says it is surprising that amendments of this nature are being passed at this time since the intention is to introduce VAT in October 1991. The general impression had been that substantial amendments would not be made to the Sales Tax Act in the light of its impending repeal.

One serious problem raised by the amendment, says De Boor, is the case of existing contracts of supply to purchasers in Bophuthatswana. A vendor in SA might have quoted a price free of GST; he is now saddled with an obligation under the General Sales Tax Act to pay the tax from October 1.

As Pretoria can never enforce such an obligation on a foreign purchaser, the amendments will impose a direct cost on the local supplier unless a specific clause has been included in the contract to transfer the cost to the purchaser.

Deloitte Pim Goldby tax manager Rob Collins says the legislation will be worst for the commercial, hotel, printing and publishing, fishing and mining industries. Only farming and manufacturing in Transkei, Venda and Ciskei — which already impose sales taxes — will be able to acquire goods free of GST from SA.

Thus, all packaging and wrapping materials used by vendors will be subject to GST. In Bophuthatswana, construction material will be brought into line with the situation in SA and will become subject to the tax. Not only manufacturers in Bophuthatswana but also mines will have to pay GST on all their inputs.

De Boor says that sales to any resident or enterprise in Bophuthatswana will be subject to GST, but only sales to enterprise in Transkei, Venda and Ciskei will be subjected — provided the vendor in SA meets requirements under the definition of exports in the Act.

That is, the goods must be sold and delivered or sold and consigned to an address in Transkei, Venda and Ciskei.

 FM 28/9/90

The vendor in SA will not be obliged to collect GST from purchasers in Transkei, Venda and Ciskei if the purchaser carries on a manufacturing or farming enterprise, and provided the goods fall into certain exempted categories such as seeds, fertiliser or spare parts. But, in such cases, the SA vendor will have to obtain the sales tax registration number of the purchaser. (320)

De Boor says if a company operates on a basis of sale and installation, supplying an export customer, then the change renders the transaction subject to South African GST.

Collins also points out that the proposed clearing house system to operate between SA and Transkei, Venda and Ciskei has not yet been set up. That system is intended to give purchasers credits for GST paid in SA. ■

Municipalities still in the dark over VAT on services

8 Day 28/9/90.

GILLIAN HAYNE

MUNICIPALITIES, like everyone else, have had since June to examine the VAT draft legislation, but many are still unaware of the situation as it applies to local authorities, tax experts say.

While confusion exists over whether VAT will apply to municipalities, KPMG Aiken and Peat tax consultant Andre Meyburgh confirmed that the draft legislation specified all local authorities would be defined as enterprises, and as such would have to register as vendors for VAT.

In effect they would have to charge VAT on all their services — rates, taxes, water, electricity, garbage removal and the like — while paying VAT on expenses. However, input tax credits could be claimed.

Ignorant

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Rates are considered by many to be a form of taxation, so that VAT would be "tax on tax".

Deloitte Pim Goldby associate director Ken Boggis said the tragedy was that if local authorities were ignorant, the man in the street could hardly be expected to know more.

"The government's education plan was to generate interest so that comment could be submitted to Vatcom by August 31. The plan has fallen completely flat as far as many sectors of the community are concerned.

"What is needed is a further education programme, and another submission date for enlightened sectors to forward their comments," Boggis said.

Vatcom held its first meeting in Pretoria yesterday. Apart from studying the written submissions, Deputy Finance Minister Org Marais stated that Vatcom would hear evidence and representations by a number of interest groups until well into November.

The study groups which would concentrate on specific aspects of VAT and its implications were still to be formed, but an interdepartmental committee was already functioning.

Time running out for traders on 'new' GST

B/Day 28/9/90 (320)

GILLIAN HAYNE

TIME is running out for traders to implement the administrative procedures required by the new GST regulation on exports to the independent homelands.

From October 1, all enterprises within SA will be expected to maintain detailed records of all trade with Transkei, Ciskei and Venda (TVC), and Bophuthatswana, for their monthly sales tax returns (VB5) to the Receiver of Revenue.

Deloitte Pim Goldby associate director Ken Boggis confirms that the first issue for an enterprise to determine is from which TBVC country the customer hails. If from Bophuthatswana, GST must be charged on all goods to all purchasers. However, for the TVC states, only enterprises — except farming and manufacturing concerns which have an exemption certificate — have to pay sales tax.

A further classification means liquor and motor vehicles must be kept separate from all other goods for purposes of the VB5 form.

By the same token, tax will also be payable on imports from TVC countries, credits for which can be claimed from the SA Receiver.

"The problem being experienced by traders is the time constraint in devising and implementing the system, and administrative changes required by the new dispensation" Boggis said.

However, a Commissioner of Inland Revenue spokesman argued there were no major problems with the new regulation. Traders had possibly blown the change out of proportion, because of the suddenness of its implementation.

He said VB52 forms — the old declaration that the goods would be exported — were now invalid. This would take a huge burden off the shoulders of traders, and the new requirements were relatively simple.

The reason for the lack of warning given by the Receiver was to prevent distortion to the economy by the spate of buying and selling, such as preceded the change in the rate of GST in 1984, he said.

SA Chamber of Business (Sacob) chief economist Ben van Rensburg said Sacob regretted the lack of consultation and the government's unnecessary haste in putting the regulation in place.

Dispensation

He said the major problem concerned businesses with fixed price contracts. For TVC countries the 13% increase in costs would create a cash flow problem until the relevant input tax credits could be claimed. However, for Bophuthatswana the permanent burden would impose strain on a large number of businesses which would need to re-orientate their trading agreements.

Van Rensburg said it was easy to understand the reason for the new dispensation, which he believed was devised in anticipation of the VAT system, but not enough attention had been given to the necessary large-scale new administrative measures.

The Bophuthatswana Commissioner for Inland Revenue confirmed the regulation had come unexpectedly, but was unable to comment further except to say the move was obviously politically motivated.

Govt rethink on GST for exports

(320)

B/Day 1/10/90

GILLIAN HAYNE

GOVERNMENT has postponed until November 1 the general sales tax (GST) amendment on exports to the independent homelands, after pressure from organised commerce and industry.

The new dispensation was to have come into effect today.

An announcement said: "The postponement is deemed to be necessary in order to afford more time for traders to effect adjustments to their systems or programmes and to give further attention to the impact of the regulations in so far as they affect commercial and industrial establishments in Bophuthatswana and to investigate any possible relief with regard thereto."

Not competitive

Chief director for sales tax in the office of the Commissioner for Inland Revenue Fanie van Niekerk admitted government had not foreseen the difficulties which had arisen from the new regulation.

"When we introduced the sales tax on liquor there were no problems, so we approached this extension to the dispensation in the same way" he said.

However, government had been made aware that because most goods manufactured in Bophuthatswana were then resold in SA, those companies involved in such manufacture would, under the new system, no longer be competitive.

"Our aim was to protect SA's tax base, but we had not recognised the impact to Bophuthatswana" Van Niekerk said.

SA Chamber of Business chief economist Ben van Rensburg said Sacob was pleased with the announcement.

"Not only will it give businesses time to effect the necessary administrative changes but also time to consult each other and the authorities to plan a workable system.

"The second, important dimension is that the move shows a new attitude of cooperation between SA and the independent homelands. It may be the first move towards tax harmonisation — an important step before the implementation of VAT (value added tax)."

Deloitte Pim Goldby associate director Ken Boggis also expressed his pleasure at the announcement which, he said, identified the main problems.

"The important principle is that these things should not be done without consultation and full business community involvement."

Sapa reports that President Lucas Mangope of Bophuthatswana has warned against any unilateral introduction of GST in his country by the SA government.

Mangope, in a statement at the weekend, said no agreements on the collection of GST could be entered into between the governments of the two countries because no GST was levied in Bophuthatswana.

Bid to exempt papers, magazines from VAT

GILLIAN HAYNES (320)

THE Newspaper Press Union (NPU) has taken up the opportunity presented by government's open door policy on VAT suggestions to call for a zero rating on newspaper and magazine cover prices.

Failing this, it requested a reduced rate in its submission to Vatcom. BDay 2/10/90

The argument used to motivate the zero rating — effectively a tax exemption on the sales price while maintaining the right to claim input tax credits — is that with VAT being a value-added tax, VAT on the cover price would be a charge on knowledge.

Deloitte Pim Goldby's Rob Collins, who put the submission together, admitted that although the industry had accepted the GST charge on the cover price, the introduction of VAT was an ideal opportunity to punt for the written word to be more affordable.

Similarly, the cover price could not be held to represent only the value added by editorials and news to the newspaper. With formal education only a long-term possibility because of the massive costs involved, newspapers could provide an easily accessible, cheap, and less formal means of education.

Differences of opinion have emerged in the industry over a further suggestion in the submission paper that should either the zero or reduced rating suggestions not be accepted, an exempt rating would be preferable to the standard rating.

BUSINESS DAY, Tuesday, October 2 1990

Few changes to takeover code expected — Margo

(320)

B Day 2/10/90

NEIL YORKE SMITH

OCTOBER 7 was the last day to suggest amendments to the takeover code as drafted by the Securities Regulation Panel (SRP) last month, panel chairman Mr Justice Cecil Margo said yesterday.

"We are not expecting many calls for changes to the proposals, mainly because the whole securities industry was marshalled into the panel and assisted in drafting the proposals."

The SRP is represented by the spectrum of SA finance including merchant banks, clearing houses, JSE, the Competition Board and the Registrar of Companies.

"We decided self-regulation was best and the rules have been widely discussed," he said.

Once the draft was accepted it would be offered for ministerial approval before being officially gazetted.

The proposals — largely based on the City of London's Takeover Code — clearly define rules regarding takeovers and mergers in SA.

The fact that they would be legally enforceable should dissuade undesirables from operating in the financial markets, industry players said.

In general the proposals had been favourably received by the financial community, they said. They welcomed the move towards a disciplined and regulated SA financial market.

"The code will facilitate more hostile takeovers which previously were very difficult to achieve in SA," Ernst & Young Corporate Advisory Services MD Claire Herbst said. "This is a move in line with the standards of most developed countries."

The JSE has won wide support for its moves to get the SRP off the ground. A spokesman said the JSE was pleased with the draft which, because of its clarity, would make it far easier to regulate takeover proposals.

At a Press conference held at the JSE last week, key members of the panel — including Mr Justice Margo and JSE president Tony Norton — reassured the financial community that the panel would not be a bureaucratic edifice aimed at stifling mergers and acquisitions.

It would work towards faciliating the process, and had deliberately gone for a flexible approach to the many ways in which the legislation could be interpreted.

BUSINESS DAY, Wednesday, October 3 1990

Import tariffs created 71% 'tax' on exports, study finds

GRETA STEYN

IMPORT tariff protection — due for a major overhaul soon — created a bias towards producing for the local market amounting to an effective 71% "tax" on exports, a study by Natal University dean of economics Merle Holden has found.

The study, focusing on relative prices, came to the conclusion that the export sector had to bear the cost to the economy of import protection. Economic resources were attracted to the protected industries rather than to exports. The "tax" came about because protected industries became more attractive than the export sector, creating a bias towards producing for the local market. Furthermore, tariff protection drove up the cost of locally produced goods used as inputs for export.

"Over the period 1974 to 1986, the structure of protection imposed an implicit export tax of 71% on all exportable goods. When gold is excluded, this tax falls to 34%."

The results showed that the gold mining industry had been heavily penalised by the policy of import substitution. The latter had also offset export incentives for the manufacturing sector. (320)

"Over the years the protection of the domestic market has also proceeded in an ad hoc fashion with widely varying effective rates of protection for the manufacturing industry," Holden said.

These varied from 143,2% protection for plastics to 4% for "other" transport equipment.

"It is questionable whether domestic manufacturers should continue to enjoy the benefits of such ongoing protection. Is it not time that these infant industries grew up so that consumers could have the advantage of lower-priced consumer goods?"

New homeland tax rules 'could be illegal'

GILLIAN HAYNE

THE new GST regulation on exports to the independent homelands could be illegal, tax experts said yesterday.

The regulation, which removed the sales tax exemptions on all goods to Bophuthatswana, may have gone beyond the ambit of a regulation in terms of the Sales Tax Act.

Experts maintained the Act required that where such an exemption no longer applied, the vendor should be allowed relief either by way of a credit against tax or in any other manner provided in the regulation. This has not been achieved regarding Bophuthatswana.

One source said the Bophuthatswana government had been advised by an advocate in SA that the dispensation was *ultra vires* and therefore void.

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Ernst and Young tax partner David Clegg said the regulation had gone beyond the mandate because the government was dealing with non-residents. The use of the word "enterprise", which by definition should be a business carried on in SA, was confusing because the regulation affected vendors outside SA.

"For this reason even if valid, the regulation is arguably meaningless."

A Benoni Receiver's office spokesman confirmed that it had not been given a final ruling on the implications of the dispensation. It had only got the letter sent to all vendors.

Deloitte Pim Goldby senior tax manager Rob Collins said that some of his clients had been given incorrect advice by Receiver's offices.

The point of contention was the transfer of goods to a branch in Bophuthatswana. Rulings were given that an inter-branch transfer did not constitute a sale, and as such would be free of sales tax, which Collins confirmed was correct.

However, the vendors were not told that in such instances the GST exemption enjoyed by the SA branch on the purchase of those goods would no longer be applicable.

Life assurers meet tax men

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GRETA STEYN

LIFE assurers' bid to stave off tax clamps and other measures that could be included in plans to restructure the economy will feature in discussions between them and senior monetary and tax officials today.

Life assurers' representatives will meet Finance special adviser Japie Jacobs — who is conducting a special investigation into the industry — as well as tax advisory committee chairman Michael Katz and Reserve Bank officials in Pretoria today.

There is no agenda for the meeting but life assurance sources said they expected tax to be an important topic of discussion.

The building societies are lobbying Katz and Jacobs to subject the life assurers to higher effective tax rates. The life offices have already submitted written responses to the societies' arguments.

Today's meeting comes as government is poised to announce a comprehensive economic restructuring plan. Part of the plan will be a move to encourage discretionary savings rather than contractual savings (marketed by the life offices).

The plan's main architect, Administration and Economic Co-Ordination Minister Wim de Villiers, is understood to have looked at tax life offices' earnings and their investment returns as a way to encourage greater flow of savings to banks.

Imposing punitive banking legislation on life products that could be compared directly to banking business is also a possibility.

Industry sources, however, expect De Villiers to wait for Jacobs's report on the life assurance industry before any final decision on specifics is taken, confirming expectations that only fragments of the plan will be announced soon.

BDay 4/10/90

TAXATION FM 5/10/90 (320)

THE VAT MAN COMETH

It appears that when it comes to the implications of value added tax on property transactions, there is more to it than meets the eye.

Initially, the main concern was that VAT would be payable on all property sales. Those fears have subsequently been allayed — it is payable on all newly built properties but not on the resale of exisiting residential properties (*Property* June 29). That, however, is only the tip of the iceberg.

The taxman's receipts from property will be larger and from a much broader base than was originally thought. Not only will some sales of real estate be subject to VAT, but so too will be estate agents' commissions and municipal rates on property.

It now emerges that estate agents are asking for the legislation to be amended to make VAT collection more tolerable for them. The Institute of Estate Agents (IEA), which claims broad support from the industry's 25 000-30 000 registered agents, has delivered a comprehensive report to Vatcom identifying problem areas and suggesting practical solutions.

The document, signed by past IEA president Dave Miller, is not seen as a criticism of VAT. Instead, it is a practical attempt to iron out anomalies in the draft VAT Bill which is expected to be considered by parliament in February for implementation next October.

The IEA report identifies as potential problem areas:

- Agents commissions;
- Predicting commissions and sales targets;
- The effects of VAT on both affordable housing and first time home buyers;
- The complexity of legislation related to the property management ceiling of R500 000 a year;
- VAT problems for lessors collecting rentals and debt write-offs in non-residential management where receipts exceed R500 000 a year;
- Apportioning input credits between VAT chargeable levies and VAT exempt levies in the administration of sectional title-controlled properties; and
- The problem of issuing only one tax invoice for each transaction when agents and their principals traditionally share commission as well as certain overhead costs incurred when selling property.

Miller's submission advocates adjusting certain aspects of the legislation and delaying its implementation until March 1992 to give a more realistic time for agents' education ahead of its application.

The report notes that agents' sales commission is earned only on results. While established enterprises should be capable of making reasonable forecasts, many individual agents and new enterprises established in the course of a year will be disadvantaged if they cannot register for VAT because they are unable to come up with an accurate forecast of earnings.

"Business fluctuations and the conclusion of transactions are influenced by many things such as interest rate changes, fiscal policies and availability of bonds," says the IEA.

Furthermore, to a far greater extent than others, the sealing of most real estate deals depends on certain suspensive conditions being met. These include qualification of the buyer for a mortgage, the availability of finance and the successful sale of other properties in the chain.

The report also points out that the draft legislation requires VAT to be charged on the earlier date of invoice or payment for property. However, IEA's widely used deed of sale agreement registers sales commission with signature of the deed. But the commission is only paid once transfer is completed — sometimes six months later.

Because of this, the institute argues that some agents will experience serious cash flow problems if forced to remit VAT payments based on invoice rather than transfer dates.

The IEA also believes that the proposed VAT legislation for property management by agents is "far too complicated and will increase administration and paper work out of all proportion."

Also, the institute says many lessors of non-residential property experience difficulties in recovering rentals from tenants. However, as a bookkeeping measure, they regularly invoice the lessees — though with little prospect of the tenant paying the arrears. But, in terms of the VAT Bill, lessors must wait until the debt is written off before VAT paid can be reclaimed.

The institute would like to see either the introduction of a debtor's allowance, or for VAT to be made payable only when rents have been paid.

With the advantage of viewing VAT across industry boundaries, David Clegg of Ernst & Young, points out that while the IEA's submission is "an honest attempt" to identify and resolve problems, he believes the organisation is over-optimistic if it believes it will get anywhere.

On specific issues he says: "While individual agents will be unable to get VAT credit on expenses unless they register, they're in the same boat as thousands of other semi-independent employees or commission agents. Every rep on the road has the same kind of argument. The result is that Revenue will probably, eventually, rule that these people are employees and not independent estate agents."

He also questions the delays in agents' earning commission, but stresses that this problem is not unique to the property market — it applies to every other credit seller.

The bottom line is that there will be difficulties. It is up to estate agents to adjust the way they do business rather than the Department of Inland Revenue bending the rules to meet the needs of the property industry. ■

RESIDENTIAL — 1

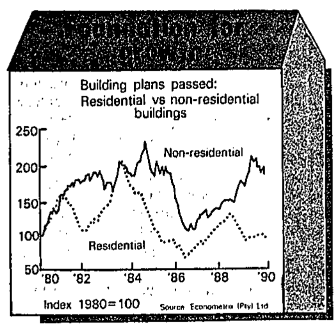
SEARCHING FOR SIGNS

History has taught residential property investors that nothing depresses house prices quite as quickly as civil unrest.

This time around could be different — particularly in the middle- and upper-end markets.

Econometrix forecaster Azar Jamine goes out on a limb to suggest that demand for homes, and consequently prices, will rise despite high interest rates and a sluggish economy. He even doubts the recent township violence will change the trend.

But the housing boom he predicts — if it comes — is still about 18 months away.



Jamine says critical elements needed to turn the market upwards are a drop in interest rates, even a small one, and a narrowing of the gap between the prices of new and existing houses.

He concedes that past periods of unrest (1976 and 1984) precipitated a slump in housing demand but says there is a fundamental difference in events this time.

"Previously, political upheaval followed boom periods when home building activity peaked. The uncertainty brought by the turmoil slowed growth and investment and re-

TRANSFER PRICING UNDER THREAT

FM 5/10/90

Pierre du Toit is a senior tax partner with Arthur Andersen.

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For tax authorities around the world, intra-group pricing across national borders (transfer pricing) has always resembled the classical measuring of a piece of string. However, they are discovering increasingly that measuring the string from both ends helps, while better rulers are also being designed.

The US is extending its arrangements for simultaneous pricing investigations with other authorities. South Korea has just joined the UK, France, Germany, Italy, Japan and several other countries with which such arrangements already exist.

The Europeans are not far behind. In April, the European Commission encouraged member states to conduct simultaneous tax checks and started an inventory of pricing techniques and anti-avoidance measures. On June 21, they signed a supra-national agreement on transfer pricing.

In SA, too, pressure is mounting. Barend du Plessis' August announcement limiting the uses of the financial rand carried the significant requirement that importation of plant and equipment through this medium will involve valuation of the items by a valuer acceptable to the Reserve Bank.

The SA authorities' defence against unrealistic transfer pricing is spotty. Our Customs legislation has valuation standards, but they are not very successfully enforced.

On the income tax front, things don't look too bad for the authorities on the expenditure side. Section 23(g) of the Income Tax Act permits denials of deductions; cost base denials for tax allowance purposes; denial of deductions under the discretionary Section 11(b); and recharacterisation of excessive expenditure as dividends. With under-invoicing, which reduces income declared — despite assistance from exchange control — the authorities have a much tougher time.

An income tax provision lets the taxman adjust artificial pricing for determining tax liability, but this applies only to commodities and then only in tandem with an appropriate Tax Treaty provision. This measure is virtually never used. We do not have a general imputed income measure as do the Americans, British or Germans.

The Margo Commission strongly recommended an imputed income measure. The White Paper noted this "for early attention." It can't be far off. The present position, whereby enforcement through exchange control regulations is made inefficient among other reasons by dependence on an overburdened Customs administration, also will not (and should not) continue.

Where does this leave business? We must watch international trends and expect to follow. One of the surest ways to effective double taxation is through price adjustments by Inland Revenue in one of the trading countries. We must continually capture and then preserve defensive pricing information.

In short, we must know that transfer pricing is becoming a danger area: sooner or later the length of the string will be measured and then we'd better not be found to have cut it too short or too long.

At last! Big boo

S/Times 7/10/90 (320)

MP&F WILL SOLDIER ON

By DAVID CARTE

EYEBROWS rose this week when it was announced that 10 "senior" members of the staff of stock broker Max Pollack & Freemantle had been put on early retirement.

Celebrating its centenary this year, MP&F is one of the JSE's oldest and most venerable firms. But certain well-publicised setbacks have given the impression to outsiders that it is shrinking.

The first suggestion of a problem was a story five years ago that there had been a palace revolution, in which former senior partner and JSE president, Chris Freemantle, was ousted.

The story was dismissed as "malicious gossip by rivals" and Mr Freemantle's early retirement ascribed to a desire to pursue personal interests.

TEA AND EMPATHY FOR TWO . . . Archie and David Shapiro say the firm is in great shape Picture: STEVE GREEN

Rumour

Other setbacks were the emigration of one of MP&F's brightest young stars, Harold Shapiro, to Australia in 1986 and the departure of highly rated investment analysts, Des Myers and Eric Levine.

Then, in 1987 MP&F was caught holding the scrip of a number of firms whose listings it sponsored in the great 1986-87 listings boom.

Rumour had it that the loss was large but today's senior partner, David Shapiro says the loss was R1,5-million — "a fraction of that year's listing profits".

Finally, there was a bust up last year in which senior partner John McIvor walked out.

"I'm not surprised you get an impression of decline," laughs an unfazed David Shapiro, "but don't get us wrong.

"First of all, the 'senior' people who have just left were senior only in terms of age. JSE turnovers are low. We have to cut overheads. The nature of the business has changed and in the past several years we have had to go through a process of adjustment.

"We are still one of the major firms on the JSE and our private client base is one of the biggest."

Archie Shapiro, father of David and departed Harold (who incidentally is unemployed in Australia) reports that the firm is in excellent shape even though numbers have been reduced from 200 to 150.

Says David Shapiro: "In the 1960s and 1970s, we were the biggest arbitrage brokers. We had a bank of telex machines connected to London and New York that was the envy of the JSE. Telephone technology rendered it obsolete.

Bright

"Today anyone can phone or fax anywhere in the globe and of course foreigners are no longer such big players in this market.

"We were also better known for our dealing skills and our private client service than we were for our research and for our relations with institutions. Now the market is so institutional, we have had to adjust and push the research side very hard.

"The research team, with John Reynders, Martine Hickman, De Beers expert James Picton, formerly of Martin & Co, and a number of bright youngsters, is very strong today. The gilt operation under Laurence Rosenberg is also highly rated."

Mr Shapiro says MP&F will be in the front of the queue to subscribe to I-Net, the screen-based news and financial information service launched recently by rival stock broker Ivor Jones Roy and Co Inc and Times Media

Altech's French connection

S/Times 7/10/90

By DIRK TIEMANN

IN A SHARE swop arrangement, Fulman SA — a member of French company Alcatel — will aquire a 5,9% interest in Altech.

Virtually simultaneously, Fiat of Italy and CGE of France, holding company of Alcatel, have announced a share and director swop. Altech thus acquires a relationship with Fiat, one of the biggest companies in Europe.

Altech will aquire Fulman's 12,5% stake in Standard Telephones and Cables (STC) so that STC becomes wholly owned. In return, Fulman will purchase 621 000 new ordinary shares in Altech at R70 a share.

The transaction is equivalent to an aggregate consideration of R43m. STC will become a wholly owned subsidiary of Altech, but net asset value and earnings a share are not affected.

Alcatel is a world leader in telecommunications and electronics. Chairman Pierre Guichet has been appointed to the Altron board.

Alcatel is the world leader in public switching, with 15% of the global market and 33% of the European market. It also has major shares in transmission systems, with 12% worldwide and 20% in Europe. This gives the company third place globally.

Alcatel ranks first in telecommunications and power cables. Altech executive chairman Don Sneddon says he is delighted that Alcatel will retain its close affiliation with STC while increasing its involvement in the Altech group.

Mr Sneddon says Alcatel is introducing a wide range of new products which will also benefit Altech by bringing efficient, cost-effective solutions to the SA electronics industry. This investment will open opportunities for the Altech group in the professional electronics field. (191)

On Friday, Fiat and CGE announced an exchange of shares. In a R1-billion transaction, Fiat will acquire 6% of CGE and CGE will acquire 3% of Fiat. The companies will place directors on each other's boards.

In the telecommunications field, Alcatel subsidiary Alcatel Face and Telettra, which is 90% controlled by Fiat, will merge. Altech, through STC, is already tied to technology and shareholding agreements.

In addition, STC/Altech own 60% of Telettra SA.

The merging of CGE and Fiat will strengthen their positions as world leaders in their technologies. "This has important benefits for South Africa and particularly the electronics industry," says an Altech spokesman. "It significantly strengthens Altech's position in Africa."

Black unions about face

Business Times Reporter

AN about face by two large black unions is expected to avert the virtual collapse of the Industrial Council for the Building Industry in the Transvaal. S/Times 7/10/90

The council gave notice last month that it would not represent unskilled workers in the industry after September 3, largely because the major black unions — the Building Construction and Allied Workers' Union (BCAWU) and the Construction and Allied Workers' Union (CAWU) — rejected central collective bargaining on major issues.

Nearly 45 000 unskilled workers were threatened with loss of many of the benefits from a R400-million pension fund, a sick benefit fund and a holiday fund.

But this week CAWU, which has 11 500 members, applied to rejoin the council and was accepted. BCAWU, with about 15 000 members, has called a national conference today to discuss the issue.

A CORNERSTONE of the Government's new economic blueprint is expected to be the encouragement of private saving.

Advised by Administration Minister Wim de Villiers, the Government has drawn up a detailed economic blueprint which represents a complete break with the National Party's socialist, interventionist past.

The new path is supply side economics, which has brought high growth and low inflation to many industrial countries. It implies less of a government role in the economy, lower taxation, more free enterprise — and every inducement to save and invest.

Finance Minister Barend du Plessis told Business Times: "I said in my Budget speech that we need to address the manner of savings. It is not only flows to the life offices that count, but also the total level of savings. Returns for savers have not been satisfactory."

Recent speeches Mr Du Plessis and Privatisation Minister Wim de Villiers, various White papers and the Margo Commission of Inquiry suggest that an important aim of policy is to ensure positive returns for savers — after tax and inflation.

A number of spokesmen have stressed that private savings should be encouraged to flow into real job-creating investment. They have contended that life companies and pension funds are not equipped to invest in risk capital.

POSITIVE

The authorities have identified low real interest rates, high inflation and high taxation as the reasons for some of the lowest levels of private savings in the world.

- To encourage savers, the Reserve Bank will maintain positive real rates of interest.
- In addition, a withholding tax of 10% levied on the interest paid out by banks is likely to be the only tax payable on interest to individuals.

The new policy is expected to aim directly at reducing the dominance of institutions in private savings.

The authorities have viewed the channelling of contractual savings into existing shares and the increasing economic concentration caused by institutional hegemony in savings with concern.

CLARITY

To encourage investment by individuals, tax on dividends in the hands of private investors has already been scrapped.

- The Margo Commission recommended that clarity be given on the question of capital gains tax. The new programme is expected to recommend that no tax be levied on capital gains or share dealing profits.

Other proposals expected are:

- Lower personal tax rates — indeed, a smaller part of the tax burden being shouldered by individuals.

By DAVID G...

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boost for savers

S/Times 7/10/90

(320)

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New blueprint may lower personal tax

BAREND du PLESSIS ... 'Returns for savers have not been satisfactory'

By DAVID CARTE

- The phasing in over several years of lower nominal rates of company taxation. Relief for companies is expected to be offset by reduced depreciation, investment and other tax allowances.

In addition, minimum tax rates are said to be proposed for companies. The net effect will be that a larger part of the total burden of tax will in future be carried by companies.

- Taxation of life companies as ordinary companies and higher standards of financial disclosure by life offices.
- Industry and exporters will be assisted by lower import surcharges and suppressed electricity and rail tariffs.

Removal of the fear of capital gains tax on share dealing will free up the supply of shares on the JSE and, other things being equal, is expected to reduce share prices across the board. Brokers will benefit, as share dealing volumes are expected to rocket.

Share prices of life companies could suffer under the new dispensation because many of the factors which led to their domination of savings and thus their phenomenal growth will be nullified by the new proposals.

Analysts reckon life company cash flows are not likely to fall. They will be underpinned by pension fund inflows. But cash flow growth of 25% a year, as happened during the 80s, is likely to end.

STRATEGY

It is a moot point whether the Government will be able to implement all its intentions. Not only could extraneous shocks — such as oil price rises or gold price falls — intervene but compromise in political negotiations could sideline many of today's proposals.

Company earnings are likely to benefit in a strong growth, low inflation scenario proposed by the blueprint.

In such an environment, PEs are likely to increase as well, suggesting strong upside for shares.

But possible negatives are a higher total burden of tax and easier liquidity.

According to President De Klerk, the Government's strategy is to underpin the rand but not to let it prejudice exporters.

If the rand is merely held steady, rand hedge stocks and financial rand shares could be strained.

JCI STALLS ON ITS MEGA-MINE

By JULIE WALKER

SOUTH DEEP could become SA's next big gold mine. But a decision on whether to go ahead with the R2,2-billion project will not be taken before 1992.

Even if the go-ahead is given, shareholders will have to wait nine years or more before the maiden dividend is likely to be paid, according to a presentation to investment analysts by management company JCI.

The proposed lease area — to the south of the existing Western Areas gold mine on the West Rand — contains plenty of tons of reef at a less-than-appealing grade for the depth involved.

JCI previously rejected in-house feasibility studies and focused on the higher grade areas and a new positioning of the shaft. It has now identified 116-million tons of ore at an average in situ grade of 9g/t and a recovered amount of 7,8g/t.

The depth for the first 10 years will not exceed 2 750m — not mega-deep by today's standards. The initial grade will exceed 10,5g/t.

The estimated capital expenditure is R2,2-billion in July 1990 terms, of which R400-million will be recouped early by the mining out of shaft-pillar ore through access from Western Areas' 95 level.

The decision to defer the green light — which really looks inevitable as more than R80-million has already been spent and a further R170-million is earmarked for 1991 — is stock market related. "This is hardly the market to raise more than R2-billion," says one analyst.

JCI's reason for the delay is that it wants to be super-sure before going ahead with the project.

It forecasts working costs of R139 a ton, or R17 900 a kg of gold produced, putting South Deep very much in the low-cost bracket. This is possible because of new refrigeration and ore-handling techniques.

Risks

The reefs, known as the Elsberg Massives, lend themselves to mechanised mining, says gold division boss Kennedy Maxwell.

JCI estimates the yield on the project, using a gold price of R34/gram, at 8,3%. Most mining houses require a 7% real return for a new gold mine investment before it will be considered. The current gold price is closer to R32/gram.

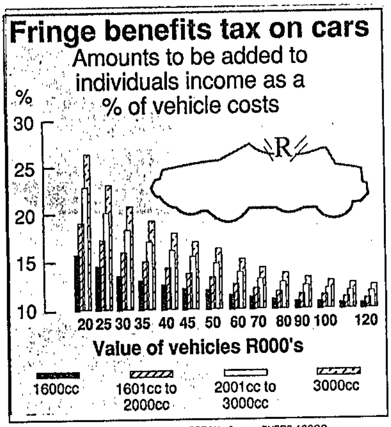
The risks of new mines are high, and the parameters for South Deep might be too demanding for the cautious to accept. The mood was one of "lower risk elsewhere".

POLITICS

The taxing question of cars as fringe benefits

320

BDay 9/10/90



Graphic: LEE EMERTON Source: BYERS ASSOC

BRENT MELVILLE

THE issue of fringe benefit taxation on company cars has driven a longstanding wedge between the motor industry and government.

Technically, the use of a company car for private purposes has always been taxable, but where this private use was declared, it was taxed at a negligible level.

This changed in 1986 when the Receiver of Revenue, watching all that potential income turn into so much exhaust smoke, came up with a formula designed to encourage the payment of employees in cash rather than "perks".

After protestations that the tax discriminated against manufacturers of luxury vehicles, the formula was modified and a set of tables was drawn up including both price and engine capacity of the vehicle.

For instance, in terms of the most recently drafted valuation table, the amount added to taxable income varies between R260 a month for a 1600cc car valued at less than R20 000, to R1 469 a month for a 3000cc car valued at R140 001/R150 000, and R80 for each completed amount of R10 000 above R150 000.

A maximum of R162 is reduced off these values if the employee bears the fuel and maintenance costs of the vehicle.

The system, according to The SA Motor Industry in Perspective — an independent report on the industry by management consultant Ian Byers — flies in the face of three tenets of fringe benefits tax application commented upon in the Margo Commission's report, namely:

- It is desirable for employees to be paid in cash rather than in fringe benefits;

Inequitable

- Fringe benefits should be taxed at levels related to the real value of the benefit and not at a lower level;
- Not to tax certain benefits at their real value creates undesirable distortions in the overall taxation of fringe benefits.

The attitude of the motor industry as a whole is not that fringe benefits should not be taxed, but that the taxation is computed on a highly inequitable basis and at too high a rate.

In fact, with the budget's 50% hike in perks tax on company cars this year, lobbying by representative bodies of the motor industry — particularly by the National Association of Automobile Manufacturers of SA (Naamsa) — intensified. This led Finance Minister Barend du Plessis to direct the Commissioner for Inland Revenue to review the present basis upon which the deemed values were determined.

Originally, small car manufacturers were not that concerned about the new tax structure.

"The problem now," says Byers, "is that small car producers are being potentially hit harder than their luxury car counterparts."

He argues there is a distortion which benefits the user of the more expensive car, whereby the user of the less expensive car pays a much higher percentage of the vehicle's value in tax than does the user of the more expensive vehicle.

The accompanying graph illustrates the relationship between the value of a car and the amount of income added to the taxable income of the recipient of the benefit, taking one year's benefit (monthly figure from the Receiver's tables multiplied by 12) and expressed as a percentage of the value of the vehicle.

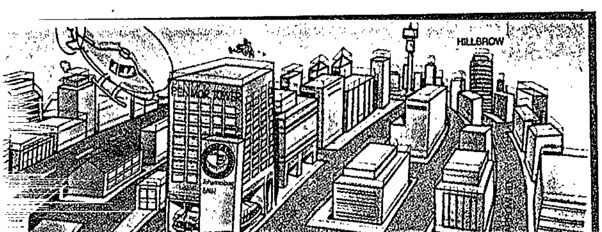
Naamsa CE Nico Vermeulen says: "Technically Byers is correct. But the counter argument would be that the person who has R1 171 a month added to his salary (assuming he drives a car with a determined value between R110 001 / R120 000 with an engine capacity between 2 001cc / 3 000cc), would in all likelihood be at a maximum marginal tax rate.

"One would obviously have to incorporate the marginal tax levels of the users into the ratios," Vermeulen says.

Conceptually, the present format holds a lot of merit.

"However, distortions have crept in since the original values were put in place due to the arbitrary increases on the perks tax by government."

"Therefore the new valuation framework is no longer neutral in its impact and it is anticipated that there is likely to be a substantial swing from company owned car schemes to car allowance schemes," Vermeulen says.



Overhaul may end 'tax war'

GRETA STEYN

A MAJOR overhaul of the tax system for financial services is on the cards as part of government's move to level the playing fields between the different institutions.

A new basis of taxation for life offices would accompany the implementation of a withholding tax on interest on savings at banks and building societies, a senior life industry source said yesterday.

The overhaul could bring to an end the years-long tax war waged by the building societies, with UBS CEO Piet Liebenberg at the forefront, against the life offices. The societies claim the life offices' "unfair tax advantage" is an important reason why the public chooses to save with these institutions rather than the banking sector.

The societies appeared to have won the first round in the war, a source said, as government seemed likely to tax the life assurers' previously free reserves at the company tax rate.

But whether they will actually end up paying more tax depends on how a new dispensation is implemented.

Their reserves — the surplus of their assets over their liabilities to policyholders — run into billions of rands and have been the subject of debate for years. The life offices have argued that their surplus cannot be viewed as profit.

Policyholders' funds would be taxed at the same rate applicable to savings at banks — the withholding tax rate, expected to be 10%.

However, a senior life industry source said the issue was not clear cut — everything hinged on the definitions of reserves versus policyholders' funds, and also on the nature of transfers between them.

Discussions between the life industry and the authorities were focusing on this issue. (320)

The outcome would determine whether the life offices would be worse off under a new tax dispensation.

More clarity is expected when Finance special adviser Japie Jacobs reports on his investigation into the life industry, probably before the end of this year.

Bday 13/10/90

Govt reining in its spending

320 Star 11/10/90

By Derek Tommey

The Government is making a serious attempt to curb its growth in spending next year.

It is doing so possibly because it does not expect much growth in income in the present recessionary climate and possibly because it would like to cut income and other taxes.

State President FW de Klerk said in Vereeniging three weeks ago that the matter of high tax rates had to be addressed.

And having raised the matter, it is to be expected that he intends doing something about it in the not too distant future.

It could be one of the reasons why the Treasury, after allocating budgets to government departments, has asked them to suggest ways of reducing their 1991-2 budgets by five percent.

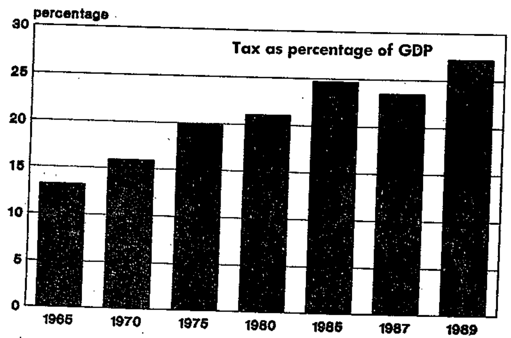
The Director-General, Finance, Gerhard Croeser, says the intention is not to force a five percent budget cut on state departments, but to identify where money can be saved and provide a list of choices.

Another indication that the Government is considering ways of lightening the tax burden is to be found in remarks by Minister of Finance Barend du Plessis at the IMF meeting in Washington recently that South Africa stood to benefit from a "peace dividend".

Mr Croeser says that South Africa has already enjoyed something of a peace dividend.

Keeping the defence budget last year at R10 billion and not allowing it to rise in line with inflation has probably saved the taxpayer about R1,5 billion.

Similarly, if the defence budget can again be held at R10 billion this year, this would represent another R1,5 billion worth of savings for the taxpayer.



The Government has been taking an increasing portion of SA's wealth, as the graph shows. The figures were compiled by Marius van Blerck, editor of Juta's Foreign Tax Review. The increase in tax represented by these figures has borne heavily on the private sector and on the private individual.

Economists say that the Government's spending and tax plans will play an important role in what happens next year.

With the Reserve Bank showing all the signs of maintaining its tough anti-inflationary stance, which means a continuatio of high interest rates, the economic outlook appears somewhat bleak for 1991.

This has led some economists to forecast that the business recession will last until the second quarter of 1992.

However, if there are significant tax cuts in next year's Budget, these forecasts will no longer be valid.

By reducing tax the Government would put more spending money into people's pockets. This would help boost both consumer spending and consumer saving — and help get the Government off the hook of high mortgage rates.

Cutting taxes would also help reduce the burden of high mortgage repayments.

Not everyone would welcome lower taxes next year, as this could mean a reduction in Government spending on which some companies are heavily dependent.

But most firms that have relied on state contracts in the past are increasingly aware that this source of funds could easily dry up and have been preparing for some time for this situation.

This can clearly be seen in the civil engineering industry, whose profitability is closely linked to the level of government spending.

In recent years it has greatly reduced its dependence on government contracts by diversifying and by seeking business beyond South Africa's borders where "the margins are better than in South Africa", as one company said recently.

These new policies have enabled most listed civil engineering companies to hope at least to maintain their profits and not to fear a further cut in government spending.

The way therefore seems wide open for any savings in government expenditure to be passed on to the public — and this it seems is what might well emerge from next year's Budget.

...s that under- nesses". ...ns, however, skill and productivity differences can only be reduced with improvements in black education ... should be postponed until it is clear that there is budgetary room to meet that cost".

Attacked conductor kills man

Cape Times 11/10/90

Crime Reporter

AN armed train conductor shot dead a middle-aged man — thought be a bystander — on Hazendal station while defending himself from about 30 knife-wielding passengers who refused to buy tickets yesterday morning.

Police said the dead man, who had not yet been identified, "was probably a bystander who got caught in the fire".

He was hit in the leg and bled to death on the platform.

The conductor, Mr Andries van Zyl, 24, was treated for bruises and a stab wound in the leg.

Police said violence erupted at Hazendal station in Athlone at 8am after Mr Van Zyl approached about 30 men who had boarded the train at Pinelands without having bought tickets.

The men pushed him off the train, then attacked him with knives.

Mr Van Zyl fired two shots in self-defence.

ANC proposes tax on white properties

Cape Times 11/10/90 320

Own Correspondent

JOHANNESBURG. — The ANC proposed a windfall profits tax on residents of exclusive white suburbs as well as a punitive tax on under-utilised property in low-density residential areas to recompense people whose land was dispossessed under apartheid legislation.

The "proposals and not hard-core policies" were put by ANC land commission member Ms Bongiwe Njobe to the Building Industry Federation of SA (Bifsa's) National Association of Homebuilders housing-issues workshop held on Tuesday.

Ms Njobe said strategies had to be put into action which would end the duality between exclusive white suburbs and their poorer neighbouring black townships and result in the establishment of non-racial democratic municipalities.

"At the moment there is vast under-utilisation of property in the exclusively white urban areas," she said.

"There should be a tax on this property as it would provide an incentive for land-owners to build cottages on their property which they could use for stimulating the rent market," Ms Njobe said.

While the ANC would not be able to nationalise urban land, some sort of compensation fund would have to be set up and be paid for by those who "unjustly benefited" from dealing with land dispossessed under the apartheid laws, she said.

Township infrastructure and services desperately needed to be upgraded and this should be carried out at the expense of white residents who enjoy the privilege of established infrastructures and services in exclusive residential areas, she added.

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ANC moots tax on white property deals

(320)

LINDEN BIRNS

THE ANC has proposed a windfall profits tax on property deals in white suburbs to recompense people "dispossessed" of their land under apartheid legislation.

It has also suggested a punitive tax on underutilised property in low density residential areas. B|Day 11/10/90

The "proposals and not hard-core policies" were read out by ANC land commission member Bongiwe Njobe at a Building Industry Federation of SA (Bifsa) housing issues workshop in Midrand on Tuesday.

The workshop was attended by representatives of government, the TPA, the UDF, financial institutions, builders and allied companies, economists, academics and building union officials.

Njobe said the windfall tax would be levied on whites who made profits from selling property that had originally been occupied by blacks. She said this could be extended to all residential property deals involving whites, but did not give details.

Njobe said there had to be strategies to end the disparity between exclusive white suburbs and their poorer neighbouring black townships, to result in the establishment of democratic municipalities.

These should also include concentration on the better utilisation of property in white urban areas, Njobe said.

"There should be a tax on this property as it would provide an incentive for landowners to build cottages on their property which they could use for stimulating the rent market," Njobe said.

She also expressed the ANC's reservations about the continued availability of urban land on the free market.

"This would mean that people in outlying rural areas would still be unable to afford metropolitan urban serviced sites and would be forced to continue squatting and building shacks," Njobe said.

Township infrastructure and services desperately need to be upgraded and this should be done at the expense of whites who enjoyed the privilege of established infrastructures and services, she said.

● See Page 4
● Comment: Page 12

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Cape Times, Friday, October 12 1990 5

Land tax: Proposal 'not policy'

By PIETER COETZEE
Financial Editor

THE ANC yesterday dismissed its own proposal of a tax on exclusive white suburbs as "merely a proposal and not hard-core policy".

ANC land commission member Ms Bongiwe Nijobe proposed the tax on monied white suburbs — as well as a punitive tax on under-utilised property in low-density residential areas — earlier this week at a Building Industries' Federation workshop.

But yesterday ANC media relations officer Mr Saki Macozoma told the Cape Times that the tax was not part of ANC policy.

"The proposal was made only to throw open different options on the debate on redistribution of wealth and nationalisation," he said. "There are different ways of the restribution of wealth of which land is but one."

Mr Gary Eaves of tax firm KPMG Aitken & Peat said nothing would be achieved by punitive tax measures on under-utilised property in low-density residential areas.

"What is needed is that money must be generated and therefore wealth created on a broad spectrum so that everybody can reap the benefits.

"Nothing can be achieved by breaking down on the one hand and then rebuilding on the other hand.

"The free market system has been proven to work and by penalising certain sectors of the population you do not create wealth."

DP slates land tax proposals as 'racist, wrong'

By ANTHONY JOHNSON
Poltical Correspondent

HOUGHTON DP MP Mr Tony Leon yesterday called the ANC's proposal for a windfall property tax on house sales in white areas "racist in tone and intent".

Mr Leon, the DP spokesman on local government, said the ANC's proposals were "wrong and misdirected" and, if implemented, would lead to the collapse in the property market.

Mr Leon questioned what treatment would be meted out to the "many blacks" who were daily buying property in his Houghton constituency.

"If the ANC is serious about non-racialism and this windfall property tax, how are black persons increasingly resident in so-called 'white' suburbs going to avoid being hit by this tax, when they choose to sell their properties in a few months time, at a profit?"

Mr Leon said that contrary to "popular mythology", most whites were not possessed of numerous sources of income and investment and their single most important investment was generally a home.

"To threaten such an investment is simply to create insecurity, instability and to encourage a skills and capital flight out of the country at a time when South Africa can least afford it."

Mr Leon said the ANC's proposals would lead to a "massive" exchange of household properties between whites themselves or to fictitious close corportations prior to the implementation of the tax.

Thereafter there would be a collapse in the property market, he said.

ANC tax plan frankly racist says DP's Leon

Star 12/10/90 (320)

By Peter Fabricius
Political Correspondent

The Democratic Party MP for Houghton, Tony Leon, says the proposal by the African National Congress of a windfall tax on whites who make profits from selling property is "frankly racist".

He was commenting yesterday on the proposal made on Wednesday by Mrs B Njobe of the ANC Land Commission.

The intention of Mrs Njobe's proposal was to end disparity between exclusive white suburbs and black neighbouring townships.

Mr Leon said: "What about the many blacks who are daily buying property in my constituency, particularly in the Kew, Lyndhurst and Bramley suburbs?"

"It is quite wrong to visit the sins of previous generations of racist dispossessors of land on the current generation of home-owners.

"Contrary to popular mythology, the average white is not possessed of numerous sources of income and investment.

"For most whites — as with other property owners — the residential home is the single most significant investment he or she possesses.

"To threaten such an investment is simply to create insecurity, instability and to encourage a skills and capital flight out of the country, at a time when South Africa can least afford it," he said.

Mr Leon said the plan would lead to a huge exchange of household properties among whites or to the creation of fictitious close corporations before the tax was implemented, and thereafter would lead to the collapse of the property market.

Leon slams ANC's 'racist' tax proposal

PETER DELMAR

DP HOUGHTON MP Tony Leon yesterday accused the ANC of making racist proposals for special taxes on white property owners. B/Day 12/10/90

He was reacting to suggestions by ANC land commission member Bongiwe Njobe that taxes be imposed on windfall profits made by selling property previously owned by blacks and a punitive tax on undeveloped properties in white areas.

Such proposals, Leon said, were "wrong and misdirected".

He added that blacks, who were buying property in white areas, would also be subject to the tax.

(320)

It was a popular myth, he said, that most whites had numerous sources of income. The threatened tax would create insecurity, instability and encourage the skills and capital flight from SA.

"The proposals would lead to a massive exchange of household properties between whites themselves, or to fictitious close corporations prior to the implementation of the tax, and thereafter would result in the collapse of the property market".

Growing need to increase tax burden on life offices'

320 Star 13/10/90

FINANCE STAFF

THERE is substantial scope — and even a growing need — to increase the tax burden on life offices.

With the advent of the new Deposit taking Institutions Bill and levelling of the playing fields between life offices and other deposit-taking institutions, the emphasis will be on finding the right balance on taxes for both discretionary and contractual savings.

Deloitte Pim Goldby's Mark Ingham says that to ensure the country's longer term economic health, there's an urgent need to shift the tax burden on saving and encourage the public to put more into discretionary savings.

"Such moves have been encouraged in several other countries, and it has helped create funds for several social projects; this has not happened here, because we have a far greater proportion of savings moving to life offices", he says.

The man-in-the-street can't be blamed for moving to contractual savings during the 1990s, because interest rates and inflation meant negative real returns from other savings instruments.

Indeed, the tax burden on the middle-class has doubled in the last decade. We have moved from being a low to a high tax paying country for these people, so contratual savings have become more popular.

Increasing contributions flow to retirement funding and related areas such as retirement annuities and endowments.

A recent study by the Bank of Lisbon underscores the divergence in the flow of funds between building societies in particular and life insurers.

In 1981 total assets of building societies amounted to R13,8 billion. By 1989 this had grown to R30,3 billion.

Life insurers, on the other hand, saw their assets grow over the same period from R15 billion to R75 billion by the end-1989.

The life assurance industry has become more sophisticated and has enjoyed relatively lenient tax treatment.

"Tax rules have been changed in recent years and personal deductions to contributions have fallen in real terms in a bid to bring life office's products in line with those offered by banks and building societies, but the life offices still attract the lion's share of savings."

For example, self-employed people can contribute 15 percent of earnings to life assurance products if they're not contributing to a company pension fund. All this has contributed to a large build-up of funds in life related business, and a real decrease in the amount of funds flowing to building societies and banks.

Ingham says this has created a mythical capital shortage, because substantial life office investments move into shares or real estate. These are unproductive avenues and not liquid funds.

"It's understandable that government is keen to access such funds for low income housing and other infrastructural developments, and thus want to see funds channeled from contractual to discretionary savings.

"Because the country needs such developments, the concept of increasing tax on life assurers has merit. If not done in the right way, however, it could also cause untold long-term damage."

In the last Budget, Mr Ingham says the percentage tax on life offices was unchanged as opposed to a drop in tax burdens for private individuals. "The net tax burden being paid by life offices is not as great as many would like the public to believe, so there is scope to increase their taxes to encourage more discretionary savings.

(320)

STAR 13/10/90

MARK INGHAM: Urgent need to shift the tax burden.

As in the controversy about nationalisation, the mere mentioning of an economic idea — land tax — by an African National Congress spokesman this week set the alarm bells ringing in some business, academic and political circles. Weekend Argus Political Correspondent FRANS ESTERHUYSE speaks to people close to the big debate about the reshaping of South Africa's economic system.

ANC's taxing attempt at a balancing act

W/E ARGUS 13/10/90 320

Zac de Beer ... taking from the rich to give to the poor doesn't work.

Attie de Vries ... some form of redistribution of wealth is essential.

THE African National Congress has hastened to explain that its suggested land and property taxes are not part of its policy — not at this stage, anyway. The assurance comes in the wake of concern and dismay in some circles.

An ANC spokesman, Mr Saki Macozoma, has explained that the proposal was put forward only for debating purposes — to open different options in the debate on nationalisation and the redistribution of wealth.

Even so, the suggestion has shown once more how jittery many people are about the ANC's economic vision.

The proposals, as put forward by ANC land commission member Ms Bongiwe Njobe this week, are for a punitive tax on under-used property in exclusively white residential areas and a "windfall tax" on property sales in white areas.

AN economist, Professor Attie de Vries of the University of Stellenbosch Business School, says there appears to be consensus over a wide spectrum of opinion that a redistribution of income and wealth is necessary. The big issues to be resolved are the methods and the timetable.

Professor De Vries believes the distribution is so distorted that some form of redistribution is essential.

He is not in favour of "punitive" taxes. He fears that taxes of this nature would lead to a massive brain drain of highly skilled people "who happen to be white".

Another drawback of these taxes would be that only a small proportion of the population would be affected, so they would not yield as much revenue as taxes paid by all.

"Even if redistribution is done very harshly, you will only redistribute poverty and drive people out of the country."

ESSENTIAL to redistribution, says Professor De Vries, are equality of opportunity and education and serious moves to eliminate backlogs.

However, the economy's ability to redistribute wealth is limited, he sayd.

His biggest fear is that the present "explosion of expectations" will lead to demands that go way beyond the capacity of the country's economy. In spite of this fear, he sees "hopeful" signs that the ANC is scaling down some of its original economic ideas. It seems to be moving away from nationalisation, for example — "but not far enough".

Democratic Party leader Dr Zac de Beer says he has not had an opportunity to study the ANC's proposals in detail.

However, he believes discriminatory taxes directed at specific sections of the community are "thoroughly undesirable".

SPEAKING by telephone from Maritzburg this week, Dr De Beer said: "Once the principle of victimisation is introduced into the tax structure, anything can happen.

"Municipal property must certainly be taxed and the rate paid can, of course, be at a level that will discourage the under-utilisation of land. But tax must surely apply equally to all."

On the question of helping deprived sections of the community with housing, Dr De Beer believes a direct subsidy is a much better method than punitive taxes.

On the redistribution of wealth and income, he says the narrowing and ultimate elimination of the gap must be the top priority of economic policy. However, the wealth necessary to achieve this does not exist and must be created.

In other words, the redistribution of wealth should follow economic growth.

THE urgent steps necessary to create wealth include improving the quality of education, which will lead to the creation of more jobs.

One area where the red lights have flashed at the mere mention of the ANC's suggested taxes is the property market.

Mr Viv Morris, president of the Institute of Estate Agents of South Africa, says the ANC remarks have been "to say the least, ill-considered". A capital gains tax would have to be carried through the entire economic structure and should not apply only to one section.

What about losses? Will it be only whites whose losses — whether on property or the stock exchange — will not qualify, Mr Morris asks.

He notes that to some extent a punitive tax on under-used properties is already in place. Undeveloped residential erven do not qualify for a reduction in assessment rates in terms of the rating ordinance.

"It appears to me to be a great pity that in the New South Africa laws applicable to one colour group — in this case the 'whites' — are in the thought process. Perhaps we should recall what President Abraham Lincoln said: 'You cannot strengthen the weak by weakening the stronger'."

PROFESSOR Robert Davies, who has been involved in planning ANC economic policy, says that, to his knowledge, there is as yet no firm ANC policy on taxation.

Such proposals as property taxation are merely part of the ANC's thinking through possible methods in pursuing certain objectives — for example, releasing more land for housing and taking specific measures to benefit those disadvantaged under apartheid.

A basic principle in ANC thinking is to correct imbalances, not to take revenge.

It is in this context that taxation is being considered as a method of releasing under-used land. Affordable land is essential to a housing programme.

Professor Davies, a co-director of the Centre for Southern African Studies at the University of the Western Cape, presented a position paper on ANC economic thinking at a major Idasa conference in Germany earlier this year.

POINTS he made included:

■ The ANC was not seeking to take "punitive action" against property-owners and its policies were not motivated by revenge. Instead, the watchword of its policy was "affirmative action". It was seeking to change the orientation of the economy so that "for the first time in our history it serves the interests of those who have been economically as well as politically disenfranchised by apartheid".

■ The ANC had repeatedly expressed its opposition to the government's privatisation programme. It saw this as aimed partly at tying the hands of a democratic, non-racial government by denying it access to important levers of power. It also saw this as "selling off the family silver at knock-down prices" and had said publicly that any enterprise that had been privatised would be renationalised.

PROFESSOR Davies says there are essentially two options for South Africans:

■ They may continue debating how the economy should be restructured to meet the needs of all its people and discuss the role each can play in economic development; or

■ They may continue "along the path of mutual suspicion, backed up by preparations for hostile and damaging action by both sides".

Then Professor Davies gives this warning: "If we choose to follow the latter path there is a high probability that we will all in the end be losers."

A BUSINESS TIMES FEATURE

New parties can select best tax system

S/Times 14/10/90.

(320)

By RAY ESKINAZI

THERE is no doubt that the concept of a single market in Europe is attracting increasing attention from South African business as 1992 approaches.

Unlike Value Added Tax and customs duties where a substantial degree of harmonisation has taken place, little progress has been made towards the harmonisation of the varied systems which presently exist in each member state for direct taxes (both corporate and personal income taxes).

The message to the South African businessman, therefore, is that tax considerations are, and will remain for the foreseeable future, an important factor in locating in Europe.

Basic

The lack of progress towards tax harmonisation presents the South African businessman with the opportunity to choose the most favourable location, legal form and structure for establishing and financing operations in the EC.

There is no one location or structure which is best for all enterprises or even for enterprises conducting a particular type of business.

In an effort to make best use of local expertise and market knowledge, South African business should consider pursuing expansion into the EC by way of a joint venture with a local partner.

Selecting the form of organisation for the joint venture is the most crucial step in determining its taxation.

In the United Kingdom, for example, there is a basic choice between a company or a partnership — although the latter may be limited. In Germany, however, there are numerous partnership forms, each with differing tax consequences.

Legislation introducing an entity known as the European Economic Interest Grouping, which provides a legal form for cross border partnerships with the EC, is currently being introduced into the domestic company law of each member state.

An EEIG must comprise at least two enterprises which carry out their principal activities in different member states. The purpose of an EEIG is to facilitate the economic activities of its members and to improve the results of those activitiies — not to make profits for itself.

Common

If a business is interested in international co-operation and pooling resources to mutual advantage, the EEIG may well be the appropriate vehicle. However, it does not offer participants a way round the various tax regimes that exist in the EC member states, so they must still comply with more than one set of tax rules for determining taxable profits or losses attributable to members.

It would now appear that it would be virtually impossible to set a single rate of corporate tax throughout the EC and instead recent measures — which are intended to come into force on January 1, 1992 — have been agreed upon by member states to exempt EC companies from the additional taxes they currently suffer when doing business in more than one member state. These measures include:

- A directive concerning a common system of taxation applicable to mergers and transfer of assets between companies from different member states. The directive will defer the payment of tax on capital gains arising from these activities until the gains are actually realised.
- A directive exempting from withholding tax dividends distributed by a subsidiary in one member state to a parent company in another. Likewise, the parent company will not be taxed on the dividend received from its subsidiary in another member state. The rate of withholding tax on dividends currently levied by the member states ranges from 0% to 35%, depending on the particular country.

Slow

- A convention providing for the introduction of an arbitration procedure to eliminate double taxation of transfers of profits between associated enterprises. Some multinational companies currently suffer from double taxation because national tax authorities adjust transfer prices between subsidiaries in the group without a corresponding adjustment by the other relevant taxing authority. The objective is to eliminate such cases of double taxation within the EC.
- A proposed directive which would allow all companies to take into account, at the level of the parent company, the losses incurred by subsidiaries or permanent establishments — including branches — in another member state.

As plans for the harmonisation of direct taxes in the EC are making slow progress and a number of member states are themselves presently in the process of domestic tax reform, tax planning will remain an important consideration for the prospective South African entrant into the EC for some considerable time to come.

Vast

There can also be little doubt that the vast discrepancies in corporate taxation betwen the member states — rates vary from 35% in the United Kingdom to 46% in Italy, including local taxes, and 60% in Germany, including the trade tax — will still play an important role in influencing investment decisions.

Ray Eskinazi is a tax partner in Ernst & Young.

BACK-UP

ally a sine qua non for exports to
back-up system outside the SA

lty had to be something coming
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panies which have 0157 accredi-
Most are on the Reef, though 40
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Make land pay our tax

SiTimes 14/10/90

14/10/90

(320)

DO away with all taxes, say the authors of a book to be released this week.

In The Trial of Chaka Dlamini, Stephen Meintjies and Michael Jacques maintain that a user charge on natural resources — land and raw materials — should replace tax.

Their hero is trundled out before a people's court and through 110 pages of brilliant argument persuades the comrades that this, rather than socialist confiscation, is the real way to liberation as it enables labour and capital to keep the full fruit of their labours.

Chaka introduces his proposal thus: "We must free ourselves from the whole rotten mess of taxes, which prevent many of us from finding work and which penalise all who work...

Value

"Instead, we must pay and our government must collect the natural rent on land. Everyone who has land, whether peasant or panelbeater, mining magnate or manufacturer, shopkeeper or shoemaker, must pay an annual rate according to the value of his or her land.

"If it is land with gold, perhaps he will have to pay millions; if it is land in Eloff Street, perhaps hundreds of thousands, if his land is in the platteland or the homelands, perhaps he will pay nothing.

"Remember, it is the people of South Africa, black and white, who over the centuries have given to every square inch of the country the value that it now has.

"The man who works well and hard on good land will make more than the man who works equally well on poor land. That 'more' is the people's because it is the natural rent arising out of the difference in the value of the land."

By DAVID CARTE

IDEA ... Michael Jacques and Stephen Meintjies have an alternative to tax Picture: SUE KRAMER

Dlamini, the economic philosopher, is at first misunderstood by fellow-blacks as a collaborator with white capitalists and by whites as a revolutionary socialist.

He puts them right: "So you see, my friends the capitalists say that capital is the most important thing for a business and therefore the man who owns the capital must own and control the business.

"The socialists say no, labour is more important and therefore labour must control the means of production. And while these two dogs are fighting over the bone, the landowner comes in quietly and takes the bone for himself.

Factor

"You see land is so obvious that everyone ignores it. But it is fundamental to man's basic right, the right to live. And to live a man must work and work must be based on land.

"It is truly the first factor of production because everything we have comes from the earth and is modified by labour with the help of capital."

In an interview, the authors said a number of economists over several centuries had advocated user charges for land rather than taxes, starting with Anne Robert Jacques Turgot in pre-revolutionary France.

His ideas had not been followed, leading to revolution and 200 years of political instability and economic under-performance. Turgot's ideas were revived by American economist Henry George in the 19th Century. The authors claim that Winston Churchill and the British Liberal Party in 1910 were keen on the idea.

Leo Tolstoy is alleged to have proposed the system to the Czar, who rejected it and perished in the Bolshevik revolution of 1917.

History

The Chinese philosopher Sun Yat-Sen and the post-war Chinese nationalist leader Chiang Kai-shek were other believers in rent rather than taxes.

The authors reckon ideas such as these have been tried successfully in a number of countries at different junctures of history.

Stephen Meintjies, a Rhodes scholar and managing director of the investment arm of AA Life, and Michael Jacques, a chartered accountant and management consultant, say the system they propose will necessitate a Domesday Book-type valuation survey of all land in SA, based on what it produces.

Depending on the amount needed by the fiscus for essential government services, the user charge would be levied as a percentage of the value of the land every year. The authors reckon a charge of 10% a year would yield the equivalent of the present Budget.

"Every time there is a property transaction, there would be a three-week hiatus, during which anyone can tender a higher user charge. The highest bid secures use of the land.

"The values at which land changes hands would be fed into a computer daily. These values would be used to update the value of untraded property every three years."

The authors contend that the system would penalise those who "hoard" land and do not use it efficiently, inducing them to sell, thus reducing land prices.

And unproductive land would not be taxed at all. The system would tend to redistribute land from those who do not use or need it to those who do. It would help stop the depopulation of the platteland.

Under the radical system proposed, the rich, being the major landowners, would pay more into State coffers. There would be no GST, no petrol tax and no PAYE.

There would be three duties on those occupying land: "He must keep his land in good condition, must not disturb his neighbours' enjoyment of their land and he must pay the rent. The authorities' duties are that they must keep unoccupied land in good condition, they must make unoccupied land available to anyone who wishes to use it and finally, they must collect the rent."

The book is an extended dialogue that cuts back and forth between a dozen characters in different locations in Soweto and the northern suburbs of Johannesburg.

The protagonist, Chaka Dlamini, is a paragon of reason, a courageous, humble, articulate philosopher, an intellectual giant.

Alternative

Messrs Meintjies and Jacques have come up with an idea worthy of consideration. They really might have an alternative to the laissez faire capitalism advocated by most whites and socialism/communism apparently preferred by most blacks. The difficulty they face is that the ideas are radical and perhaps impracticable and that inertia is a very real force.

The Trial Of Chaka Dlamini — An Economic Scenario For The New SA, will be available in book stores from this week. It is published by Amagi Books.

Most airlines may adopt SAA method of adding tax to fares

EDYTH BULBRING

PRETORIA — Most independent airlines will follow SAA's example by including the R3 tax for domestic departures from state airports in airfares when new increases are announced this week.

The R3 departure tax on domestic flights, which comes into effect today, will be absorbed by SAA until fare increases come into effect.

At the weekend, airline sources said they expected an SAA increase in the region of 8% to 10% to be announced this week when the aviation fuel price is announced.

Comair MD Peter van Hoven said the airline would pay the departure tax for its passengers until the airline was forced to increase its airfares.

The departure tax would then be added to the new fare. Van Hoven could not say when new fares would be announced.

Safair chairman Piet van Aswegen said the airline was looking at increasing its fares within the next few weeks and the airline would pay the departure tax until it could be included in the new fares.

He said it would be cheaper for the Airline to carry the cost for a few weeks rather than create a new structure to administer the tax.

Safair had increased its fares by 7% since the Gulf crisis began and Van Aswegen said the new increase would probably be in line with SAA's hike, although much depended on the new fuel price.

([redacted]) (320)

Link Airways marketing general manager Des Collins said the Airline would review the departure tax situation in two weeks time.

Link Airways passengers would pay the R3 departure tax but the Airline reserved the right to revert to an "add-in system" after a re-evaluation, Collins said.

This add-in system would result in an increase in air fares, he said. Link Airways had increaed its airfares twice, each time by 4%, since the Gulf crisis began.

The increase in aviation fuel has hit all other airlines, which have increased airfares.

15/10/90

Huge VAT shortfall feared

(320)

GILLIAN HAYNE

GOVERNMENT expected a shortfall of R1,7bn in tax revenue with the introduction of VAT, Deputy Finance Minister Org Marais said yesterday.

This was based on the total revenue the fiscus was likely to receive at a tax rate of 12%, against that collected under GST.

Marais, who is also the chairman of Vatcom, the government-appointed committee investigating VAT, said, however, thatas VAT was a more efficient system for making collections, this would make up the shortfall.

"Tax evasion will be minimised."

Vatcom had received more than 700 submissions from industry and other interest groups, and had heard verbal submissions from the major players in the market, Marais said.

A major source of concern was how VAT would affect the underprivileged. Marais said his "nightmare" was trying to find the most efficient solution for the unemployed, the destitute and pensioners. Committees were studying the problem and suggestions would be put to Vatcom, he said.

Tax experts yesterday expressed concern that the loss would be much greater because, through the system of providing input tax credits, government would lose tax previously collected from industries

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☐ From Page 1

such as computers, office automation, mining, capital equipment, advertising and petrol — quoted at R8bn by some experts.

Marais said input tax credits should mean a loss of between R4bn to R6bn, but this would be made up by taxing food and professional services.

Experts said that because of the sophistication of the VAT system, tax evasion would probably move from being "blue-collared crime to white-collared crime", with the result becoming more a case of fraud than theft, but the loss to Revenue would still continue, they said.

KMPG Aiken & Peat tax partner Pat McGurk said although the amount lost was difficult to calculate, it was not unreasonable to assume a decrease in evasion would cover the 10% shortfall.

Hearings by Vatcom on more specialised subjects will continue on October 25.

CP aiming to instigate massive tax revolt

BDay 17/10/90

Political Staff

ILLOVO — The CP hopes to get at least a million South Africans to stage a tax revolt and TV licence boycott as part of a comprehensive "resistance" strategy to force government to hold another white election.

Announcing the moves at the end of a day of fighting talk and fiery rhetoric at the CP's national congress, deputy leader Ferdi Hartzenberg said the party would soon begin a probe to assess the viability of such pressure tactics on government.

He said CP MPs would be prepared to go to jail for participation in such defiance actions if enough people agreed to take part in a mass disobedience programme.

Earlier, CP leader Andries Treurnicht told about 300 delegates that government suggestions that there would never again be a white election were placing the party's preference for constitutional means of freedom struggle "under much pressure".

He said to loud applause: "If the constitutional path is closed to the party it will still be committed to our nation's freedom struggle and will then use other methods to obtain this goal."

On a resolution censuring government for declaring its reform policy "irreversible", he said: "We will turn (President) F W de Klerk and his party upside down if they talk about irreversibility."

Hartzenberg, speaking in a hall festooned with protest posters, said: "We want an election.

"White people are seeking a guarantee that their rights will be protected."

Turning to a proposal that CP members pay their taxes into a CP trust account until government had agreed to a white election, Hartzenberg said such a move "must be investigated to see if it is viable".

CP chief information officer and MP for Overvaal Koos van der Merwe received a standing ovation for demanding government's immediate resignation.

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We'll stop paying taxes, CP threatens

Star 17/10/90 (320)

By Peter Fabricius
Political Correspondent

ILLOVO (Natal) — The Conservative Party leadership is considering taking up a strategy of civil disobedience by withholding taxes and television licence fees in protest against Government reform and alleged SABC bias.

The proposals were made in Illovo yesterday by a delegate to the CP's national congress, which is wrestling with the problem of how to counter the Government's reform moves.

On the first day of the congress yesterday, cracks began to appear in the party's unity, between hardliners and "verligtes", on the issues of negotiations and the boundaries of a white state.

A verligte faction led by Overvaal MP Koos van der Merwe is pushing for a more flexible approach to partition, in which whites demand a white state but do not prescribe to other groups what they should do with the rest of the country.

This faction is also prepared to negotiate the boundaries of a white state, which opens up the distant possibility of the CP coming into mainstream negotiations if the chief players accept the idea of white self-determination.

Pressure

Others, including deputy leader Ferdi Hartzenberg, made it clear yesterday that white South Africa would remain where it was at present and the country's boundaries were not negotiable.

The congress loudly applauded a fervent appeal from Dr Hartzenberg to step up the pressure on Mr de Klerk to call a white general election.

However, CP leader Dr Andries Treurnicht warned that the Government had created the impression that there would never be another white election. If the constitutional path were closed, the CP would use "other methods" to achieve its goal.

A proposal to withhold income tax and place it in a trust for CP use was welcomed by Dr Hartzenberg.

He said the party leadership would consider implementing the proposal if the Government refused to call another white election.

The Star Thursday October 18 1990

Barend slates CP tax threat

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Political Staff

Finance Minister Barend du Plessis has warned Conservative Party members they would be breaking the law by refusing to pay taxes.

"Any person, regardless of his party affiliation, is according to law obliged to pay tax," he said yesterday in response to an idea raised at the CP's national congress at Illovo.

The suggestion from the congress floor was welcomed by CP deputy leader Ferdi Hartzenberg as a measure to force President de Klerk to call a general election for whites. Party members should be prepared to go to jail on this issue.

Mr du Plessis noted that those failing to pay tax remained liable for both the tax and interest. "If they still refuse, there are ways and means of dealing with them through the courts.

"It is an infantile reaction by a political party realising that it has indeed missed a window of opportunity that history has provided it," he said.

On CP threats to disrupt the National Party's public meetings, Mr du Plessis said it would not stop the NP from getting its basic message through to the voters.

He claimed the CP was petrified of voters hearing what the NP had to say.

Mr du Plessis asked how Dr Hartzenberg reconciled his disruption strategy with CP leader Andries Treurnicht's statement on open debate with the NP.

"Surely Dr Hartzenberg's statement about disrupting public meetings makes nonsense of Dr Treurnicht's plea for a public debate with President de Klerk?

"Public meetings form part of that public debate," he said.

● Resistance campaign confirmed — Page 12.

Direct tax haul of R3bn a month 'beyond expectations'

B/Day 18/10/90

GERALD REILLY

PRETORIA — Direct tax collections, including individual income tax and company tax, were running ahead of expectations in the first five months of the year.

On average, about R3bn a month was collected in April through to August, Inland Revenue says.

The total was R14,536bn, more than 25% up on collections for the same five months last year.

Budget expectations for direct tax revenue for the whole of the 1990/91 financial year were R35,865bn.

Inland Revenue chief director Schalk Albertyn said the five months' collections reflected a more efficient tax gathering machine, supported by an enhanced inspectorate.

He also said SITE and PAYE payments had increased in tune with substantial pay hikes.

Meanwhile, GST collections for the five months are on target — R7,383bn compared with R6,601bn for April-August last year.

However, economists have warned GST collections could take a dive in the second half of the year because of constraints in consumer spending.

Sacob economist Bill Lacey said that under the recessionary conditions belt-tightening was bound to affect seasonal spending at year-end.

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TECHNOLOGY

VAT 'may disrupt equipment sales'

BDay 18/10/90

320

PRIOR to the introduction of VAT, significant numbers of companies could hold back spending on capital equipment including computers.

Reports by MELANIE SERGEANT

Tax experts say this would be because of the system of providing input tax credits. Econometrix director Tony Twine says a number of organisations have made representations to Vatcom on this issue.

"They have said that in order to avoid disruption to the capital goods market — because no one would buy capital goods before the introduction of VAT and then buy huge amounts after VAT is introduced — VAT on capital goods should be phased in. Another option would be to allow capital goods to be zero-rated in order to dampen the disruption which could take place during the transition period from GST to VAT.

"Capital goods are zero-rated in Germany and in many other countries with VAT."

However, Twine says it will be unlikely that SA will allow them to be zero-rated because at the time of the Margo Commission of inquiry into the tax system, the Treasury estimated that 40% of GST receipts emanated from capital equipment. "It is unlikely that the Treasury will give up this income with the introduction of VAT, a tax which is supposed to broaden the country's overall tax base," he says.

"The big question is whether Vatcom will allow the zero-rating on capital goods like computers. With this rating, the VAT rate is deemed to be zero, so if one buys a computer, one would pay no VAT and there would be no input tax credit.

"In essence, the Receiver would be giving up a chunk of revenue in exchange for not creating a huge disturbance in the market place," he explains.

Regardless of this, the Business Equipment Association's Les Wood says that many companies will be forced to spend huge amounts on computer equipment prior to VAT's introduction.

Killing

"VAT will place a massive administrative burden on the private sector — and especially on many smaller and less sophisticated businesses.

"The computer industry stands to make a killing because many systems now being used will need changing or even replacing. This involves accounting systems through to cash registers," he says.

Price Waterhouse partner Michael Venter says business needs to have its modified computerised accounting systems in place three or four months prior to VAT's introduction.

He says existing accounting software and systems do not necessarily have to be thrown out, but can be adjusted.

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Minister warns CP about tax

Sowetan 18/10/90

FINANCE Minister Barend du Plessis yesterday warned the Conservative Party it would be breaking the law by refusing to pay taxes.

"Any person, regardless of his party affiliation, is according to law obliged to pay tax," he said in response to an idea raised at the CP's national congress in Natal.

The suggestion from the congress floor was welcomed by CP deputy leader Dr Ferdi Hartzenberg, who said party members should be prepared to go to jail.

Sun International recently gave support to three schools for deaf and dumb children in the Odi region. Sister Irene Jagwer, left, received a cheque for R20 000 on behalf of St Christopher Centre and Mrs C Matseke of Runotsuel Special School and Sister AR Murphy of the Dominican School for the Deaf each received a minibus at a presentation at the Morula Sun hotel.

Parents call for probe on infant deaths

Sowetan 18/10/90

EMBITTERED parents who lost their babies at the Park Lane and Morningside clinics yesterday met and supported a bid to have a judicial commission of inquiry into the deaths conducted by the Department of Health and Welfare Services.

At a meeting in Johannesburg yesterday, 10 couples told legal consultant Mr Peter Soller their babies had died of a bacterial infection in the clinics.

Soller proposed that before any litigation, the facts of the circumstances surrounding the babies' deaths should be fully established through a commission of inquiry by the Department of Health and Welfare Services.

Meanwhile, the full impact that a contaminated sterilised pro... clinics and hospitals countrywide would be known by the end of the week, Government health officials said on Tuesday.

In addition, findings of an in-depth investigation conducted by the product manufacturer, Sabax, were expected to be released late yesterday.

Report

A Department of Health Services and Welfare spokesman said an official Press report would be made this week following investigations by the Department of National Health and Population Development.

At least 15 babies have died from a bacterial infection apparently picked up while being treated with a Sabax manufactured drip.

All but one of these infants died at the Park Lane and Morningside clinics. One baby had been transferred to the Johannesburg Hospital from Park Lane.

Several clinics and hospitals contacted this week - including Johannesburg Hospital, Baragwanath Hospital, Hillbrow Hospital and Sandton Clinic - said they knew of no babies dying as a result of an infection from a sterilised drip.

At Garankuwa Hospital, a judicial commission of inquiry is underway to investigate the death of babies in April.

A spokesman said he could not say how many babies were involved and what treatment they had received.

It is understood that several babies have also died at Kalafong Hospital near Pretoria.

The superintendent, Dr JA Kunzmann, said the deaths could not at this stage be linked to the product. - *Sowetan Correspondent.*

VAT ON BUILDING

SHAKY FOUNDATIONS

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FM 19/10/90

Already ravaged by inflation and high interest rates, the effectiveness of renewed efforts to solve the country's chronic housing problem through a plethora of low-cost housing schemes, could finally be scuppered by government's value added tax (VAT) proposals.

To many at the bottom end of the housing market, R20 000 to R30 000 is about as much as they can afford to invest in a home. To impose an additional 12%, or R2 400-R3 600 to the price in terms of VAT collections, could drive them out of the market.

In a desperate bid to keep the existing low-cost housing initiatives alive, a specialist pressure group formed by building, housing and professional organisations, this week joined the growing throng of those looking for special treatment when government begins collecting VAT next year. Others include organisations like the Institute of Estate Agents and ratepayers' associations (*Property* October 5).

The group, known as Concom, has handed a report to Vatcom, the government committee investigating comments and complaints concerning the proposed VAT legislation.

In it, Concom, comprising representatives of Building Industries Federation of SA (Bifsa), the Association of SA Quantity Surveyors, the National Association of Home Builders, the SA Association of Consulting Engineers, the SA Federation of Civil Engineering Contractors and the Specialist Engineering Contractors' Committee, used the implications for low-cost housing as the main thrust of its argument. It wants to ensure that the VAT levied will not exceed 6% of the building industry's turnover.

This, according to committee chairman and Bifsa economist Charles Martin, is slightly more than the industry's 5,8% of turnover GST contribution last year, but half the 12% standard rate of VAT collection envisaged once the legislation comes into force this time next year (October 1).

Martin argues that VAT on construction should be nowhere near 12%. "Anything more than 6% will increase construction costs unnecessarily and create affordability problems, particularly in the area of low-cost housing."

He says a standard VAT rate of 12% on the construction industry will have serious national, economic and strategic consequences. It will increase inflation, aggravate poverty and unemployment and almost cripple the entire construction industry, which turned over R22bn in 1989 and formally employed 450 000 people.

Concom, he says, would like concessions similar to those envisaged for exports, which will be given a zero VAT rating. It feels that by increasing the tax burden of the construction industry, which will have to be passed on to its clients, the State will open a Pandora's box, which will include reducing the disposable income of most, particularly low-income earners, have a negative effect on the affordability of accommodation, lead to increased wage demands, and to industrial unrest due to employers' inability to meet those demands.

The construction industry, he maintains, is a high turnover/low profit industry. It can't afford more taxes. Before taxation in 1976, it recorded an average net profit of 5,4%. That level of profitability remained fairly constant until 1980. The industry experienced one of its best years ever when net profit rose to 6,2% in 1982. But during the 1985 recession it dropped to 4,1%.

In its submission to Vatcom, Concom also raised several business-related problems contained in the draft VAT Bill.

One was allowing a contractor an input credit for the lease of construction plant, but not allowing him a full input credit if he buys plant. Another, also concerning plant, is that the industry already possess a large quantity of plant and other assets on which it has paid GST. It wants government to permit a notional tax on the value of these assets to be phased in over a mutually agreed period.

If this isn't done, says Martin, it will give those who buy plant after October 1 1991 a competitive advantage, because that plant will qualify for a limited input credit.

As far as work in progress on the date of implementation is concerned, Concom feels VAT should not be charged on work done and material already fixed in position, the cost of the land, or even on retention money for work outstanding on that date.

P.T.O

BUCKING THE TREND

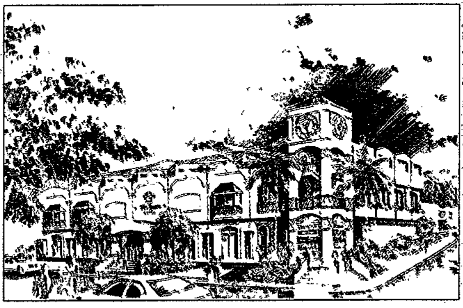
When the going gets tough, the tough go shopping. Just how accurate this maxim is, is being tested at Plettenberg Bay where developer Delkor Technik is sinking R6m into a new shop and office development.

There's no question that Plettenberg Bay is a favourite playground of SA's rich and famous. Not in dispute either is the fact that they like to go shopping.

Put the two together and you have an ideal location for an upmarket shopping environment. The problem is Plettenberg's short-lived season has tended to frighten off all but the most hardy of developers. A municipal official confirms that holidaymakers swell the town's population from 11 000 to about 40 000 each summer.

The high season has traditionally been short — from December to late February — but Delkor's Ian Todd believes the pattern is changing and that the season now lasts for up to eight months of the year.

If Todd is correct he could be on a winner. Most of Delkor's new centre, The Square, at the intersection of Main and Church streets, will be devoted to retail. Of the 4 000 m² of shop space provided, at least 33% will be taken by the Cape-based Hyperette supermarket chain and a bottle store.



The Hyperette will have a bakery (the first in Plettenberg Bay) and deli. The centre will also have 12 line shops letting at R30/m². Asking rentals for the 400 m² of offices, with excellent sea views, will be R20/m².

Todd says the retail and restaurant segments should be open for trading before Christmas.

Local estate agents say impact of the new supermarket is already being felt. Spar supermarket is extending its trading hours in anticipation of the competition.

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Martin points out that it is proposed that VAT should be levied on all construction undertaken in the TBVC states, unless contractors operate through branches permanently located in those states. Concom, he says, wants to avoid giving TBVC contractors an unfair advantage and thus advocates that no VAT should be charged on work being carried out in neighbouring states.

The concern over the impact of VAT on low-cost housing is emphasised by Johan Nel of the SA Housing Trust. However, he feels that though the Concom document represents a majority view, the construction of low-cost housing *should* be fully taxable.

Nel elaborates: "To offset the tax, a subsidy, managed by a single non-political body, should be introduced. In that way, VAT would be applied to low-cost housing and those who merit it would be subsidised from the expense side of the government budget."

But Ron Schloss, professor of building science at the University of the Witwatersrand, believes the overridingly negative impact of VAT on construction will push up construction costs and drive customers away.

"Affordability is always a problem, but it is worsened by the state of the economy and high bond rates. I can't see the authorities exempting low cost housing, where the effect of VAT will be felt most." ■

WHAT PRICE LUXURY?

At around R2m each the four, ultra-luxury houses to be built at Clifton in Cape Town are not your average holiday homes.

Nevertheless, developer Vega Property Group believes there's a good chance they'll all be snapped up soon after construction commences next month and, with property price inflation, be worth considerably more by the time they're ready for occupation towards the end of next year.

Though outrageously high prices have become a hallmark of Clifton and Bantry Bay properties, the new development, The Villas, is testing the outer edge of the market — which could be risky in a rapidly cooling economy.

Vega's Rob Dickie is not unduly concerned. Higher prices, he notes, are still being achieved on existing pròperties in the area. There is also considerable interest from investors looking to get into quality developments at the start so they can sell on for a profit once the project is completed. He believes this type of stagging will remain profitable as long as developers are realistic about the returns they expect.

Building costs in Clifton are extremely high because the steep sites between Victoria and Kloof roads necessitate extensive civil engineering work to pin structures to the hillside.

Each villa will have 240 m² of accommodation on two levels, including three bedrooms with en suite bathrooms, two garages, a private cable car, a pool on a 60 m² sun deck, staff accommodation, marble flooring and access from either Victoria or Kloof roads. Each will have separate title. ■

INDUSTRIAL

HIGHWAY TO RICHES

With rentals still at a premium — and hardly any flat land left for light industrial development in greater Durban — attention is now switching to the Old North Coast Road.

It was one of the first areas to assume a light industrial and commercial character but has never really taken off. It has, with the possible exception of the DIY hardware industry, been stagnating.

Yet it is close to the city and just over the hill from Durban North, the Berea and La Lucia which make up the largest band of affluent residential suburbs in Durban.

What seems to have sparked the renewed interest is the expansion of Old North Coast Road — which used to be the major link between the city and North Coast — from a deteriorating, winding, single-lane road to a new six-lane highway.

The work should be completed in three years. This, according to Chris Winter, of the Industrial & Commercial Property Group, should be enough to revitalise the industrial belt between the Umgeni River and KwaMashu.

"Top rentals for light industrial space in Durban are being fetched at Springfield Park. In some cases these are as high as R13/m² but average R10/m² to R11/m². Rentals in Old North Coast Road are around R8/m² but it is expected they'll match Springfield within five years."

In a R2,6m deal, ICP has sold one of the last available tracts of open land on Old North Coast Road — 14 000 m² of a 20 000 m² old Corobrik transport yard. The buyers, a group of private investors, plan initially to let the yard and develop the property once the freeway is complete.

"Besides the freeway, the area offers extraordinary convenience for businessmen operating from an industrial area. This is the way to go, as has been shown in the new light industrial areas around Johannesburg," says Winter.

He points out that, as a barometer of property values in the area, a 1 ha plot recently sold by ICP for more than R2m was bought in 1926 for £1 826. ■

DEVELOPMENT

GHOSTBUSTERS?

The Murray Gordon Mansions' ghost walks again; this time it's haunting developer Tiber Bonvec.

The company has been thwarted in its bid to make an early start on the construction of townhouses on the controversial site on Westcliff Ridge in Johannesburg..

It acquired the site, vacant since 1976, last year with the intention of beginning construction of luxury units almost immediately (*Property* September 29 1989).

However, Tiber's schedule has been knocked sideways, apparently because of geotechnical problems.

A company spokesman says they are having to reposition the townhouses to make provision for flaws found in the soil composition on parts of the site.

The Murray Gordon site is notorious for the problems it has given would-be developers. Situated on steeply sloping ground, it is not the easiest of locations on which to build. In the Twenties the site accommodated a block of flats, Murray Gordon Mansions, which was demolished.

Residents, represented by Westcliff Homeowners' Association, while fearful of vagrancy problems on the vacant site, blocked earlier attempts to develop it, claiming the development proposals were unsuitable for the area.

This time round, though not ecstatic about Tiber Bonvec's scheme, the association gave its approval.

The site is fast becoming an urban legend. Apparently, when the original tenants were told to leave to make way for the demolition crew, one of them, a clairvoyant, warned the ill-fated developer that his scheme was doomed. He apparently went insolvent before the first brick had been laid.

In spite of its problems, Tiber Bonvec is a long way from giving in to superstition. It expects to have its development back on track within the next few months. ■

DOING IT YOURSELF

Doing its part towards easing the housing crisis, concrete block and brick manufacturer Frolbrik is offering a do-it-yourself package complete with plans, materials and training to build a two-roomed house for under R5 000.

While it intends profiting from the venture, the mark-up on materials will be minimal as part of Frolbrik's commitment to the community, says marketing manager Ken Buchanan-Clarke.

Frolbrik offers free training, in the form of a 10-module course run on Saturday mornings at its new R2m concrete masonry factory near Stanger, Natal. The proviso is that participants must buy the necessary building materials from it.

As part of the Frol construction group, the company is a bulk purchaser of materials and can negotiate prices well below retail level for DIY builders.

"We will supply the whole package, from the plans for the 54 m² house to the building blocks, cement, timber, roof material and door and window frames."

Homelands' tax holiday to be ended

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By ROBERT LAING W/Mail 19/10-25/10/90

VERWOERD'S bantustans have been offering customers an amicable service — GST-free shopping.

Vatcom, the government's committee addressing the proposed Value Added Tax (VAT) system, intends ending that.

A Vatcom representative says: "One of the main problems with the previous structure was cross-border trade. There is no customs control between South Africa and TBVC states — the borders are wide open to sales tax evaders."

Government has said VAT on exported goods and services will be "zero-rated": foreign customers can deduct all indirect taxes that were paid on goods before reaching them in the sales chain.

The TBVC states, however, will not be regarded as foreign countries and will have to pay VAT for their merchandise.

Bophuthatswana President Lucas Mangope says he regards the attempt at unilaterally introducing sales tax in his country in a very serious light. "Laws passed by the parliament of South Africa are, in Bophuthatswana, for all intents and purposes not laws.

"There is presently no sales tax legislation in Bophuthatswana. Therefore no agreements relating to collection of sales tax can presently be entered into."

Vatcom is expected to hear representations until end-November. A Bill enabling the change-over from GST to VAT will probably be introduced early next year. "There will be discussions with the TBVC states, but we still have a fair way to go," the Vatcom representative said.

The government has spent a great deal of effort and money reassuring people that the transition from GST to VAT will have little effect on them. In theory, the final mark-up for an article would be the same for GST or VAT if their rate is equal. In practice, VAT may be higher than GST because vendors could be taxed on tax already paid by their suppliers — causing a tax cascade.

Traders will get "input VAT" credit to restrict the indirect tax from escalating exponentially.

Homeland merchants faced no loss by ignoring GST, it only helped make their prices more competitive. If bantustan governments choose to ignore VAT the South African government will still get most of the article's indirect tax. Homeland traders will be forced to pay sales tax to their South African suppliers from October 1. Ignoring the VAT component will only make their prices marginally cheaper than neighbouring shopkeepers.

Vatcom hopes that won't happen: "We need a complete harmonisation of the states to end cross-border evasion."

Mangope has warned Bop traders not to apply sales tax: "Instructions have been given to the consumer council to be on the lookout for any unscrupulous traders who may overprice their commodities under the cloak of sales tax."

He said Bophuthatswana has lodged a formal protest with the state president about South Africa's imposition of indirect tax on the citizens of his country.

NEWS

VAT on rates and services

W/E ARGUS 20/10/90

'A tax on a tax is ridiculous'

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Weekend Argus Reporter

CAPE Town's cash-strapped ratepayers will have to share an annual increase in rates when VAT (value-added tax) is added to their municipal rates account this time next year.

Although the government has not said what the VAT will be, observers believe it will not be less than 10 percent and not more than 13 percent — the present rate for GST.

While Cape Town City Council has not yet conducted an in-depth study of the VAT legislation, Executive Committee chairman Mr Dick Friedlander has warned that VAT will impose an additional financial burden on ratepayers.

He pointed out that VAT would also hit the council which would have to establish the VAT first and then administer it.

Level unknown

Mr Friedlander confirmed that the proposed legislation included VAT on assessment rates, water, electricity and other municipal services, as well as the Regional Services Council levies.

He said it was difficult to quantify the cost implications at this time because the level of the rate to be applied was still unknown.

But he said it could be argued that the imposition of VAT on assessment rates and RSC levies constituted a tax on tax.

"The state appears to incline to the view that rates and levies are payments for services levied and not a tax," he said.

Mr Friedlander pointed out that rates were specifically exempted from VAT in the United Kingdom, but not in New Zealand on which the proposed South African legislation appeared to be based.

In Johannesburg, where the ratepayers are expected to fork out an additional R25 million, formal appeals to the Minister of Finance have already been made by some ratepayers' associations.

Double taxation

A spokesman said a tax on a tax would be a ridiculous situation.

"It's the sort of double taxation the government promised to avoid in the new system."

He said there was a big difference between payment of VAT on services and payment of rates. VAT on basic services such as electricity and water supplies threatens considerable increases to household costs.

"VAT on rates would be the last straw," he said.

South African Chamber of Business director-general, Mr Raymond Parsons, said of the controversy: "We must keep exemptions to an absolute minimum if we are not going to cripple the new system. Which means VAT must be levied on the widest base possible — once a particular exemption is granted, the queue for special treatment will be endless."

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VAT a boon to economy

St Times 21/10/90

By DIRK TIEMANN

VALUE ADDED TAX will boost the economy, says Deputy Finance Minister Org Marais.

Dr Marais says South Africa's employment and income will benefit by switching from sales tax to VAT.

Over a period of three years, there will be an increase of 0,6% in Gross Domestic Product and 50 000 additional jobs.

Dr Marais says VAT is more productive, more reliable and simpler than GST. With very few exemptions and zero ratings, consumer demand is not distorted.

Accurate

Tax evasion is limited with the invoice system. The invoices allow accurate cross checking, and the data on purchases and sales in the VAT returns could provide valuable information for the calculation of profits for income tax purposes.

The VAT system should be based on a single rate, with very few products exempted or zero rated.

Postponing VAT 'is unfair'

BDay 22/10/90 (320)

GILLIAN HAYNE

IT WOULD be unfair to SA's economy and its people to delay the introduction of VAT because of politically motivated self-interest, Deputy Finance Minister Org Marais said on Friday.

Commenting on suggestions by black interest groups that the implementation of VAT be delayed until after the adoption of a new political dispensation, Marais told a Bureau of Market Research function that the VAT committee was considering all factors, but was also committed to preventing a long, drawn-out process.

Any delay would increase uncertainty and unnecessarily postpone the positive contribution to growth and employment expected from the system.

"Conservatively over three years, there will be an increase of 0,6% in GDP and 50 000 additional jobs," he said.

Although admitting there was a regressive element within the VAT system, where the poor would "pay more as a percentage of their income than the rich", Marais noted that a comprehensive VAT system was "one of the most reliable and productive tax instruments available".

He said government recognised the claims and needs of the poor and was studying methods of providing targeted benefits.

These included providing food stamps, introducing negative income tax payments, lifting income tax thresholds, providing social security payments, adjusting social pensions and assisting voluntary charitable organisations.

"Solutions to (regressiveness) in the case of low-cost housing and transport costs seem to lie in the provision of subsidies."

Tax revenue running well over Budget

BDay 22/10/90

GRETA STEYN

GOVERNMENT's revenue is running well above Budget after six months of the fiscal year while spending is under control.

The current fiscal year looks set to be the second in which revenue is underestimated. Central Statistical Service (CSS) figures released at the weekend show revenue collected by the exchequer between April and September is up 15,4% on the same period last year. Government budgeted ~~for~~ an increase of less than 6%. 320

Government seems to have underestimated individuals' income tax contributions, even after a huge tax reduction to reduce fiscal drag. Inland revenue receipts were up by 18,8% — more than 10 percentage points above the budgeted figure.

On the spending side, government fell back to more normal levels in September after reaching a near-record in August (R5,7bn versus R7,7bn). Spending in September was the lowest this year and helped contain the overall increase for the year so far to 11,5%. The budgeted increase for the full year is 11,9%.

President F W de Klerk is greeted by Prime Minister Jacques Santer on his arrival in Luxembourg yesterday for the first visit there by an SA president. Picture: REUTER.

PAYE on remuneration for directors 'ridiculous'

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GILLIAN HAYNE

IT WAS ridiculous and unworkable to make directors' remuneration subject to PAYE, Deloitte Pim Goldby partner Willem Cronje said yesterday.

With effect from March 1 1991 directors will have to pay PAYE on all remuneration, including advances or loans granted prior to the director's year-end fee.

Commenting on the provision in the 1990 Income Tax Act to remove the withholding tax exemptions previously enjoyed by directors of companies, Cronje said the change was an overkill.

He said the move was motivated by the fact that some directors who were receiving monthly salaries, on top of a performance fee, were enjoying the cashflow advantages of not paying PAYE.

However, the effect on the "genuine small private entrepreneur", without a specific income, would be one of misery, he said, because his annual limit was unclear and could be accounted for only once the year-end profit had been determined.

Similarly, applying the tables and rules necessary for PAYE would be very difficult, Cronje noted.

The question of how the small entrepreneur would determine the PAYE liable on irregular loans taken as and when needed has not been addressed.

At a recent seminar, The Taxpayer co-editor David Meyerowitz said a practice note should be issued by Revenue to iron out the legal problems encountered with the change.

The major problem identified by him was the fact that PAYE would be deducted from advances to directors as and when they were paid. But the accrual to the director usually took place only after the end of the relevant tax year.

Thus although PAYE was payable in year one, the fee would nevertheless have to be shown as income in the tax return in year two.

Meyerowitz suggested the companies would have to change their articles of association to ensure the fee and approval occurred in the same year.

Tax scheme for TBVC exports 'may be scrapped'

B/Day 24/10/90 320

GILLIAN HAYNE

THERE are strong indications that the new regulation on exports to the independent homelands could be indefinitely postponed, tax experts say.

The regulation, which has been described as "completely unworkable", could be scrapped before its implementation date of November 1, and an announcement on the subject is expected before the end of the week.

The subject was discussed at ministerial level by the Finance Ministers of SA, Transkei, Bophuthatswana, Venda and Ciskei in Pretoria yesterday.

The regulation, gazetted without previous warning on September 7 and originally scheduled to come into effect on October 1, stated that GST exemptions would no longer apply on any exports to Bophuthatswana.

Meanwhile, only enterprises in Transkei, Venda and Ciskei (TVC) — except those involved in farming or manufacturing — would have to pay GST.

The complications involved with the regulation had tax experts describing the move as "disastrous". The lack of warning to the TBVC authorities also led to confusion and some dismay.

For Bophuthatswana, a country without a sales tax system of its own, the 13% burden would have made most enterprises uncompetitive.

"The dispensation would have lead to the demise of Bophuthatswana," said one tax expert.

For the TVC countries, where a system of input tax credits was suggested, enterprises feared the refunds would not be forthcoming as they had no knowledge of and therefore had no system in place to cope with such a scheme.

Further criticism levelled at the government was that the dispensation went beyond the power of the law.

One source said the Bophuthatswana government had been advised by a respected advocate in SA that the dispensation was ultra vires and therefore void.

PETER DELMAR reports that the Venda government announced yesterday that it was increasing GST to the SA rate of 13% as a prelude to its reincorporation into SA.

The government said in a statement that GST would be lifted from 8% to 13% and that certain foodstuffs would be exempted.

A spokesman for the Venda embassy in Pretoria, V P Makwarela, said yesterday Venda hoped to be reincorporated "as soon as the direction of the new SA is clear".

Landmark income tax ruling

GILLIAN HAYNE

IN A landmark judgment yesterday, a special income tax court ruled that no deductions would be allowed up front on forestry schemes funded by promissory notes.

Tax experts said this could set a precedent for similar types of investment schemes. B/Day 26/10/90

The court ruled against Deloitte Pim Goldby, acting on behalf of investors, in its plantation scheme case against the Commissioner of Inland Revenue.

The practice to date has been to fund forestry schemes by way of a promissory note, thereby allowing deductions on expenses such as the costs of establishing, maintaining and insuring the plantation.

The compounded interest on funds borrowed could also be argued to have been incurred in advance, by way of the promissory note, and could be deducted at the start of the scheme.

Tax experts believe the judgment could apply to all projects funded by way of promissory notes, such as aircraft schemes.

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Fears voiced by tax experts were that, with one case in its favour, Inland Revenue could establish the practice of disallowing deductions on many other schemes. The implication was that the taxpayer would still have to pay the tax due on assessment, despite having lodged a complaint.

One tax expert speculated that if deductions on the costs of the schemes were not allowed, presumably the proceeds on the investment would not be taxable.

Deloitte Pim Goldby's tax partner Robin Beale confirmed the court ruling and expressed his disappointment over the judgment. A decision still had to be taken on whether to appeal, but no further comment would be given until the situation had been discussed with investors and lawyers.

VALUE-ADDED TAX (320)

WHAT PROGRESS?

F/M 26/10/90

Deputy Minister of Finance Org Marais, at a conference held by Unisa's Bureau for Market Research, put up a spirited defence of government's move to VAT, hinting broadly that the initial rate could be 12% (compared with the current 13% GST).

Provisional Revenue calculations suggest a R1,79bn shortfall on the GST take at an initial 12%, on the basis of input tax credits for capital and intermediate goods and nil rating for exports, servants' residential rents and salaries, services rendered outside SA, and medical and financial services.

But there are high hopes this shortfall will be made up by the expected fall in evasion and "generally greater efficiency" of VAT. Marais points out that initial collections when VAT was introduced in New Zealand exceeded expectations by nearly 20%.

Vatcom and SA Chamber of Business (Sacob) are refining yield projections in terms of government's guideline that it does not seek additional income from VAT. The goal remains to combine the least exemptions and lowest feasible rate.

Marais also acknowledged that the regressive nature of VAT (if food is included) will increase the burden on the poor. Vatcom is investigating a range of reliefs, including food stamps; a "negative income tax" (cash payments from Revenue to those with incomes below determined levels); an increase in income tax thresholds; social security payments; adjustments to social pensions; and assisting voluntary charitable organisations.

Subsidies are thought to be the preferred remedy for the regressive effect of VAT on low-cost housing and transport.

He reiterated the strong case against exempting foodstuffs, indicating that higher-income groups consume 82% of exempt foodstuffs. (In the UK, these groups consume 61% of exempt foodstuffs and fuels.)

Marais admits there are widespread fears about the cost of compliance, especially for small businesses. He says Vatcom "should be aware of these and do as much as possible to mitigate them." The question remains: what turnover should establish liability to register for VAT? In the UK, the million smallest registered businesses (76% of the total number registered) paid only around 7% of total collections in 1983-1984.

The draft Bill proposes R50 000 a year. The *FM* has quoted suggestions that the compulsory threshold should be R500 000, with an option to register below that level. This could suit the informal sector, while making it possible for small businesses to register and gain input tax credits.

There are hopes, says Marais, of regional co-operation. VAT consultations are under way with the TBVC states, Botswana, Swaziland, Lesotho and Namibia: a commendable intent, but the extreme difficulties being experienced in imposing GST on exports to Bophuthatswana are not a good portent.

What about VAT and inflation? Some local studies have shown that a typical basket of foodstuffs at 10% VAT would rise in price by 1,9% for whites and 2,3% for blacks. Marais hopes that the inflationary aspects of VAT will be offset by a possible reduction in prices of durable and semi-durable goods.

In Canada, he points out, many major companies have made public commitments to pass on any benefits from the impending introduction of VAT.

And Alan Tait, an internationally recognised VAT authority, says evidence does not support the contention that introduction of VAT is bad for inflation. Marais suggests that the phase of the trade cycle is important. Introducing VAT towards the end of an expansionary phase will be more inflationary than at the start of an upswing.

Lastly, Marais warns that under VAT, each trader's sale is someone else's purchase. Invoices filed permit accurate cross-checking — a potent antidote to VAT avoidance. But there are implications for income tax avoiders too: VAT returns will provide a valuable input for verifying profit figures set out in taxpayers' returns. ■

Court fells tax scheme

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5/Times 28/10/90

By IAN SMITH

THOUSANDS of investors in tax-saving "plantation" schemes were shocked this week when a special tax court disallowed up-front deductions on one of the schemes.

With many millions of rands at stake, the matter is almost certain to go to the Appeal Court.

But investors will have to pay the disputed tax when they are assessed and it could be two years or more before an appeal is heard.

Pioneer

Accounting firm Deloitte Pim Goldby, acting on behalf of investors in its case against the Commissioner for Inland Revenue, will decide in a few days whether to appeal.

But spokeswoman Jenny Nathanson says: "Irrespective of the case, the plantation scheme is still a good investment. It is a good commercial venture in its own right."

Many plantation schemes came into existence after Deloitte Pim Goldby pioneered the concept about two years ago. The practice has been to fund new plantations by promissory notes, which allowed deductions on expenses for establishing, maintaining and insuring the trees.

The compound interest on borrowed funds could be argued to have been incurred in advance and could be deducted at the start of the scheme.

Complex

After a five-day hearing in the special tax court, Mr Justice Melamet ruled against Deloitte Pim Goldby in a complex judgment on Thursday.

The fear is now that Inland Revenue will move against many other schemes.

Funds raised through the schemes, estimated by the tax partner of a big practice to run into "many, many millions", were largely used by Sappi to establish forests to provide fibre for pulp and paper mills.

"Significant funds came from this source," says Sappi strategic planner Neville Perry. "They were mainly used to finance farmers who wanted to grow timber on their own land. The cash required stretched our own resources.

"If the flow of funds from these investment schemes dries up, we will have to find the money elsewhere or reduce forest expansion."

Value

Forestry investments were specifically excluded in Section 15.1(a) of the Income Tax Act, which was amended to state that losses from farming could be deducted only against farming income, not against any other.

In many forestry schemes, the investor issued a promissory note to a lender — such as a bank — undertaking to repay all capital and interest in several years' time when the trees were big enough for felling.

The value of the promissory note was until now regarded as a liability incurred in the current tax year and therefore deductible in full.

The court's findings suggest that an interest deduction will not be allowable if the interest in respect of ensuing years is a contingent liability.

Henry Vorster of Hofmeyer Van Der Merwe says the judgment does not mean that it will be generally applied because of the different structures used in forestry investment schemes.

Govt withdraws GST on exports to TBVC states

(320)

29/10/90

The decision to charge GST on the sale of certain goods for export to the TBVC countries will be withdrawn, the Minister of Finance Dr Barend Du Plessis has announced.

A statement released by the Minister says this is being done because the adjustment of management and accounting procedures to meet the VAT system has already been planned by trading concerns.

It is felt that this planning should not be interfered with at this stage.

The notice of the withdrawal will be published in the Government Gazette shortly.— Sapa.

Perplexing problem of how to stretch the pensions budget

BDay 29/10/90

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LINDA ENSOR

AS THE politicians knock heads over a new constitutional structure for the country, so economists, statisticians and social planners are grappling with an equally perplexing problem — how to stretch a circumscribed budget to meet the clamouring needs of the until-now forgotten majority.

Estimates suggest a growth rate of at least about 5% will be necessary to address the primary problem of unemployment and to create the wealth for distribution.

But even this will be insufficient to overcome the accummulated backlog in social spending on the black population.

Take social pensions as an example of a need whose solutions — options are presently being examined — could create a furore.

Currently white pensioners get R276 each month, coloureds and Indians R215 and blacks R176. Assuming the white pension is increased by about 9% next year to R300, that racial disparities are removed and that the means test is abolished, the total amount allocated to pensions in 1991 would have to increase from about R2,2bn to R5,2bn.

Given the findings of the Mouton Committee's draft situation analysis, it is probable the committee will recommend the equalisation of pensions and the abolition of the means test. It is also likely, given the high level of unemployment and informal sector employment, that a state-run compulsory contribution scheme will not be regarded as suitable.

The analysis focused on the retirement provision industry and made only passing reference to social old age pensions which were the subject of a separate report. It is expected to be handed to Finance Minister Barend du Plessis within the next month.

The report found there had been a significant improvement in the 1970s and 1980s in the number of working people covered by pension funds. In 1970, 33% of all formally employed people were members of private retirement funds, in 1980 the figure had risen to 70% and by 1986 to 82%, significantly higher than Australia, Canada, Japan, Switzerland, the UK and the US, though comparisons, the report said, were rendered dubious by the fact that these countries had either state or substantial age old assistance systems.

"By international standards the retirement provision industry in SA has had considerable success in drawing employed persons into membership of the retirement provision system."

"It is clearly not possible for any retirement provision system that requires contributions from its members to provide retirement benefits for those not formally employed.

"The members of this group who are without formal employment for a large proportion of their working life are probably going to have to look to the state to provide for their old age requirements. The committee, after consultation with a wide spectrum of experts, concluded that as many as 3-million individuals may be productively engaged in the informal sector."

Furthermore, the needs in old age of those people earning low incomes would exceed their income during their working lives.

"Their inability to afford to make full provision for their old age needs must be addressed."

Based on 1988 estimates the informal sector employed 4-million out of a total labour supply of 13-million, with about 8,5-million employed in the formal sector and about 1,5-million unemployed, it said.

CALITZ

Several ways of raising the R5,2bn required merely to equalise pensions are being examined.

The Tax Advisory Committee, for example, is looking into taxing contributions and possibly the investment income of existing pension funds. The loss to the fiscus by the state "subsidising" pensions is estimated at about R14bn annually.

As most funds are defined benefit funds which require employers to increase their contributions to pay the balance of cost in order to ensure that there are sufficient funds to pay for the withdrawal benefits, any such tax would effectively be paid by employers. In other types of funds, the effect could be to whittle away what were planned for pension benefits.

Without the attraction of a tax deduction for pension fund contributions, the incentive to establish and maintain private sector funds could fall away.

Experience in the Western world, some experts say, has conclusively proved that without incentives the voluntary drive towards pension provision is stopped dead in its tracks.

An advantage of removing tax exemptions on pension fund contributions is that it is upfront.

Another possibility is that a special addition to GST be allocated specifically for pensions. The estimated R5,2bn would require about a 2% addition to GST over and above the present budget allocations for pensions. The same tax could be added to VAT — if and when VAT is finally introduced — as a form of old age assistance levy.

It might be possible for food to be included in GST. While this will be taking away in one form what is given in another, the net increase in a black person's pension after allowing for a rise in food costs would be about R80.

But government is known to be against allocating portions of GST revenue for specific purposes, not only because it creates inflexibility in budget planning but also because it would create a precedent for other claims.

Finance deputy director-general Estian Calitz says government has a consolidated income fund — out of which it finances government expenditure. Tax income does not normally carry a tag and once it is received it loses its "identity".

He said a specific allocation could create cash flow problems if, for example, GST income did not match expenditure in any one month. Also, claims against particular tax income would build up and it might be difficult to meet expectations. In short, such a proposal would create rigidities and tie government down.

"The basic question is whether it is appropriate to increase the tax burden and government expenditure now. If one's answer to that question is no — and there are good reasons not to increase government expenditure — then one would begin to try to restructure the existing allocation in government expenditure by shifting priorities.

"It is easy to get into the temptation of using a particular tax for a particular purpose, but unless you intend to increase total government revenue, it does not really help."

Perhaps these suggestions are merely the beginning of what could be a tortuous road to come up with something workable — and if possible generally acceptable even to those who control government's purse-strings. The juggling of priorities is likely to be fraught with difficulties, lobbies and counter-lobbies.

It has often been stated in the intense public debate on the issue that the credibility and faith which the black population has in the future system and their leaders will depend on its ability to deliver the goods. The tide of rising expectations cannot be dammed up, and waves of social unrest and instability threaten if they are not satisfied to some degree.

TBVC countries win battle over GST

B/Day 29/10/90

GILLIAN HAYNE

THE criticised regulation making GST applicable to the sale of goods to Transkei, Bophuthatswana, Venda and Ciskei (TBVC) has been withdrawn, Finance Minister Barend du Plessis announced at the weekend.

The move followed strong objections by organised trade and industry and authorities in the TBVC countries.

The regulations had been introduced to prompt the TBVC countries to implement similar indirect tax structures before SA's introduction of VAT.

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"The absence of full harmonisation of the indirect tax structures . . . was eroding SA's tax base, which could not be allowed to continue for an indefinite period" Du Plessis said.

Huge administrative problems had made the dispensation unworkable.

Bophuthatswana Finance Minister Leslie Young said the decision had been taken for the TBVC countries to concentrate on bringing their indirect tax structures into line with SA's VAT by October 1991.

"Implementing systems to deal with the GST dispensation would have been pointless, for the short period left before the adoption of VAT," Young said.

He confirmed that Bophuthatswana, the only independent homeland without a sales tax system, was examining options for the introduction of an indirect tax similar to others in operation.

This would pave the way for a clearing house operation whereby input tax paid on goods in one country could be claimed as a credit in the other.

Deloitte Pim Goldby tax partner Ken Boggis expressed relief at the news.

No tax breaks, but people may be locked into deals

B Day 29/10/90 (320)

GILLIAN HAYNE

INVESTORS who ploughed millions of rands into what were expected to be tax-efficient forestry deals could now be locked into such schemes, making them much less attractive.

This emerged after a ruling by a special tax court which disallowed deductions on expenses claimed within the first year of the tax-saving scheme.

Tax experts fear the ruling could extend to other similar schemes.

A Commissioner of Inland Revenue spokesman said he was aware such forestry deals were "prevalent" and confirmed all revenue offices had been briefed to "look out" for them.

Other similar schemes involving aircraft, films and the like, would also be examined, he said.

The forestry scheme, devised and administered for its clients by Deloitte Pim Goldby, centred on the use of promissory notes. Implicit in the note was the tax advantage of claiming all expenses inherent in the scheme — compounded interest on the initial investment loan, establishment costs, maintenance and insurance — within the first year.

Department of Environmental Affairs' official figures show 72,6% of the forestry industry is privately held. One quarter of this — or more than 200 000 hectares — is in the hands of the "small man", including syndicates.

Syndicates

The land and timber value was about R1bn, Timber Grower's Association assistant director Dave Dobson said.

University of Cape Town law professor Dennis Davis confirmed that 10 such forestry tax schemes had recently crossed his desk, each valued at about R3m. "This is a minuscule percentage of deals currently in operation which, I believe, have a value of over R100m," Davis said.

Deloitte chairman Tim Curtis said a decision on whether to appeal against the tax ruling would be taken once all concerned parties had been consulted. But he confirmed his firm's view that participation in a plantation was an "excellent investment even though the tax breaks have been disallowed by the court".

In contrast, one Deloitte client who was reluctant to be identified was incensed at being locked into an investment with no tax advantages. "They should have made sure before they marketed it. I'm thinking of demanding a refund (of fees) if they don't come up with an acceptable alternative. And there are others who think the same way."

However, tax experts await clarification on whether expenses would be claimable once incurred, throughout the term of the deal, or if the Receiver would stall until completion of the scheme and then determine allowances in relation to income.

BUSINESS DAY, Tuesday, October 30 1990

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Tax 'not prime reason' for forestry venture

GILLIAN HAYNE

DELOITTE Pim Goldby yesterday defended advising its clients to enter into forestry deals, saying that trees rather than tax were the principal motivation for the venture.

The commercial benefits accounted for 80% of the projected profits, with only 20% being attributed to tax advantages, Deloitte Pim Goldby partner Robin Beale said at a Press conference yesterday.

Beale was responding to last week's judgment handed down by a special tax court which disallowed deductions claimed by investors on both the interest on initial investment capital borrowed from a financial institution, and the management fee paid to Sappi.

Despite believing that trees continued to represent a good investment — even without the tax benefits — Deloitte Pim Goldby may take the decision on appeal. However, the final decision rests with the investor singled out in the case.

The case under the spotlight, involving approximately R5,6m, represents only a quarter of the ventures linked to Sappi, which was just one of the companies used to manage such schemes for Deloitte Pim Goldby's personal financial planning division.

The deals, which encompass a 12-year period, allow participants to sell their shares to Sappi after five years for a minimum guaranteed price calculated on a predetermined formula.

Although Deloitte Pim Goldby insisted the forestry ventures were not tax-driven, the advantages investors stood to gain were upfront deductions on the compounded interest on the initial investment, as well as deductions for establishing, maintaining and insuring the plantation.

The investors, whose names were not disclosed, are locked into the schemes until the trees are felled, or they can sell out their portion for the minimum guaranteed price.

However, should they wish to do so, it is unlikely the return will cover the cost of the initial investment borrowed from the bank, tax experts predict.

VAT will be levied on all Krugerrand sales

(320)

Star 31/10/90

By Des Parker

DURBAN — Even though Krugerrands are legal tender — and exempt from GST — they will be classified as goods in terms of VAT legislation and subject to the tax.

Explaining why the Government has turned down requests from the Chamber of Mines to exclude the coins from VAT, an Inland Revenue Department spokesman said: "Even though they are legal tender and have a face value of only R1, they have a far greater numismatic or investment value."

"They are not currency in the usual sense of the word. In addition, we have learned from the experience in Britain where our Krugerrands where once exempt from VAT."

Before the exemption was scrapped, con artists would melt the coins down and sell the raw gold to dealers. The sellers would falsify "input" tax certificates and collect that sum from the buyers, who in turn would demand a refund from the revenue authorities — causing a loss to the fiscus.

The South African gold coin industry, not surprisingly, believes levying VAT on Krugerrand sales will be detrimental to the economy.

Collection costs outweigh the benefit of the tax collected, its members maintain, while the imposition of tax would hamper sales.

"It will make an already weak industry non-existent," said Deborah Davis, deputy chairman of the SA Gold Coin Exchange. It had destroyed the gold coin market in Britain, she said.

She said while South Africa was the biggest gold producer in the world, its gold coin business was smaller than that of many other countries. Last year, 6,5 tons of gold was minted. Canada used 35,6 tons, Mexico 29,9 and the United States 16,2.

VAT threat to building industry

BDay 31/10/90 (320)

THE introduction of Value Added Tax (VAT) on the construction industry at a rate of 12% would cause a 5% to 7% increase in building costs.

Leading quantity surveyor Piet Botha says: "When one considers the building industry is experiencing negative growth, an increase of 5% or 6% in building costs would be devastating."

Botha is a professor in Pretoria University's quantity surveying department, director of C P de Leeuw Quantity Surveyors and a member of the Association of Quantity Surveyors.

He says the total turnover of the construction sector was estimated at over R22bn in 1989. It provides employment for over half a million people, excluding the informal sector.

GST is only charged on the material component of the contract price, but VAT will be charged on the net value of the contract, which includes not only materials, but labour.

If the construction industry were to make the same contribution to the fiscus from VAT as from GST, the rate of VAT should be set no higher than 10%.

Uncertainty

Botha says there will be a slowdown in the various sectors of the construction industry as there will be uncertainty on input credits for capital items.

When a contractor pays VAT on the contract, he can deduct the VAT he has already paid on inputs such as land or materials. These are called input credits.

The draft VAT bill provides for an input credit on capital goods, but government has announced this will be subject to some form of phasing in.

Contractors are therefore uncertain what will happen on contracts which extend before and after the date of introduction of VAT.

"With the introduction of GST, provision was made for zero rating on work done prior to GST introduction and a rate of 4% on work done after the introduction.

"But VAT will be more complicated unless the problem is addressed before the transitional period and in consultation with various interest groups," Botha says.

Many costs which do not incur GST will be incurred before the introduction of VAT on October 1 1991, but will only be invoiced after that date, Botha says.

Examples are architects' and quantity surveyors' fees and preliminaries such as insurance, salaries and rentals.

The association recommends that work done and materials permanently included in the development or fixed on site the day before VAT is introduced should be valued and this valuation should be excluded from VAT.

Valuation

Another aspect which may present difficulties is the valuation of plant and equipment, since different accounting policies apply.

The association has suggested that the value of plant and equipment should be calculated at the depreciated book value at the date VAT is introduced — determined according to the contractor's accounting policies.

SOWETAN Friday No
y November 2 1990

Final chance for income tax returns

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Sowetan 2/11/90

A LARGE number of taxpayers in Johannesburg have neglected to submit their 1990 income tax returns, the Receiver of Revenue's Johannesburg office has pointed out.

The Receivêr said final demands were being issued to all taxpayers who were not granted formal extensions, adding that legal action would be instituted if no response was received.

In addition to a sentence imposed by courts for this offence, a further penalty in the form of additional tax would be levied against the defaulting taxpayer on assesment.

At present the additional penalty amounted to R100 for the first offence.

According to the statement, additional penalty will be doubled in the case of returns received after the end of October.

Citing an example, the Receiver said the penalty would be increased from R100 to R200 for the first offence.

The original D-day for submission of income tax return forms was June 4.

This was postponed to July 2 for employees who had not yet received their IRP5 forms. - *Sowetan Reporter*

FM 2/11/90 (320)

kei, as well as the total absence of such a structure (GST) in Bophuthatswana, erosion of the SA tax base could not be allowed to continue for an indefinite period."

The problem is that goods are bought in SA using GST registration certificates and falsely representing that the goods are intended for export, to Bophuthatswana in particular, so avoiding tax. Government now appears to be saying in a face-saving manner that it has given up trying to prevent this abuse and will await VAT to put things right.

Such contretemps could be prevented easily, as the *FM* has often argued, if government would consult organised commerce and industry as well as the Tax Advisory Committee whenever there is any risk that a proposed amendment to a taxation statute could have adverse effects on business. ■

F/M 2/11/90 (320)

SALES TAX F/M 2/11/90 (320)

CLIMB-DOWN

After what Minister of Finance Barend du Plessis (in a press release on October 26) calls "discussions with organised trade and industry," government has withdrawn changes which would have imposed GST on exports to TBVC countries.

Regulations promulgated on September 7 to this effect were withdrawn "because the adjustment of management and accounting procedures to meet the requirements of the VAT system has already been planned by trading concerns" and "no inroads into that planning should be made at this stage."

There is a further — good — reason why the regulations have been withdrawn: they were introduced without adequate consideration of their effect on manufacturers who have relocated to Bophuthatswana and buy raw materials from, and re-export finished products to, SA. They would be crippled by 13% GST on their inputs.

The press release also notes that government concludes that, "in the absence of full harmonisation of the indirect tax structures between SA and Transkei, Venda and Ciskei, as well as the total absence of such a structure (GST) in Bophuthatswana, erosion of the SA tax base could not be allowed to continue for an indefinite period."

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SPARE THAT TREE

The heavy axe of the Income Tax Special Court has felled a tax scheme of a type widely used to enable individuals to invest on attractive terms in plantations (as well as in aircraft, movie-making and even bloodstock ventures), in what can fairly be described as a test case.

The taxpayer was a member of a partnership organised by accountants Deloitte Pim Goldby to develop a plantation for use by Sappi. The taxpayer claimed deductions under two heads: total interest on the full period of a five-year promissory note signed in favour of a financial institution which lent the capital for participation, and plantation establishment and maintenance costs charged up front by Sappi, including all overheads, such as Deloitte's fees.

The commissioner originally allowed deductions under both heads, but then issued a revised assessment disallowing both. The taxpayer appealed to the Special Court, which ruled against the taxpayer under both heads. It found that the taxpayer (on whom the onus rests) had failed, on a balance of probabilities, to prove the commissioner wrong in disallowing the deductions.

In relation to the claim for interest on the promissory note, it held that actual liability to pay interest is incurred only as and when interest accrues on the outstanding loan.

In relation to the up-front management fee, the court upheld the commissioner's application of Section 103 of the Act, which requires three elements to be present in "a transaction, operation or scheme" to overturn it for tax purposes. It must be:

□ Entered into with the purpose or effect of avoiding or postponing liability for tax or reducing the amount;

□ Entered into or carried out in a way which would not normally be employed or creates rights or obligations which would not normally be created between persons dealing at arm's length; and

□ Avoidance, reduction or postponement of tax must be the sole or a main purpose.

The court was sharply critical of many aspects of the partnerships (including whether a two-tier structure of over 70 members could legally be a partnership at all, in the light of the Companies Act prohibition on partnerships of more than 20 members).

The court held that the partnership structure was artificial and designed effectively to disguise investors as partners. Features pointing in this direction included:

□ Provision for a stop loss option if the timber growing turned out badly and the possibility of early withdrawal (which would not be a clause in a normal partnership established for plantation farming);

□ The manner of withdrawal was abnormal;

□ So was the right of the managing partner (an entity of Deloitte) to terminate the management agreement in certain circumstances — not to mention the restriction preventing individual partners from supervising or controlling the management or conduct of the farming operation;

□ So was the up-fronting to day one of the scheme of interest charges and costs of establishment and maintenance of the plantation (day one was within a few days of the close of a financial year);

□ So was vesting the management function in the managing partner without provision for consultation with individual partners; and

□ Inherent risk was to be borne by the agent (Sappi) rather than individual partners.

The court further considered it established that the scheme was entered into mainly to avoid tax and did achieve that purpose. In particular, the taxpayer took advantage of special concessions to farmers to deduct amounts that would otherwise be of a capital nature (paragraph 19 of the First Schedule to the Act).

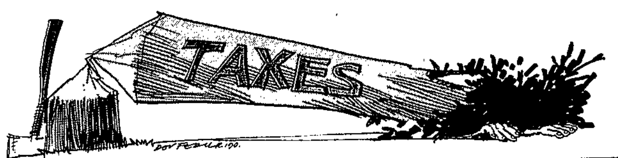
The court held the structure of the scheme also gave incidental advantages to Sappi in deferring its tax liabilities.

Fall-out from this decision will be widespread and long-lasting. It is evident that such claims will be generally disallowed by Receivers. The influence on the means of financing plantations may take some time to become apparent, but may be profound.

Deloitte chairman Tim Curtis, acknowledging disappointment, says his firm's "basic view" remains that participation in plantations is an excellent investment even though tax breaks have been disallowed. A decision on an appeal will only be taken after all concerned parties have been consulted.

Notice of appeal must be given within 21 days of the judgment. Appeal lies either to the Transvaal Provincial Division or the Appellate Division. It seems probable that any appeal will be to the Appellate Division. Revenue will surely have the whiphand until an appeal is decided, which could take years.

If the commissioner loses an appeal, the Act could be amended in a variety of ways, including ring-fencing losses from forestry operations in the same way as farming losses (deductions), which cannot now be claimed against other income. The problem may arise, despite Deloitte's disclaimers, of how to finance tree-growing under a strict tax regime.



BDay 2/11/90

SA taxation policy under fresh attack

(320)

GILLIAN HAYNE

GOVERNMENT's academic and legalistic approach to the tax system was creating uncertainty and supressing economic growth, Price Waterhouse partner Chris Frame said yesterday.

Speaking at the Financial Mail's annual investment conference, Frame said government's motive in phasing out tax incentives in favour of subsidies, following the popular concept of tax neutrality, was ill-judged and disruptive.

"It is nonsense to argue that tax incentives cannot be used to achieve particular economic objectives and that progress towards that objective cannot be monitored."

Subsidies were the first step to wholesale corruption, whereas a tax break, in the form of an incentive, was the biggest attraction available for any potential capital investors, he said.

And foreign capital investment was the most effective way to develop the SA economy, he said.

Frame cited four fundamental changes that needed to take place in order to make a "real contribution to the new SA":

□ SA was a natural springboard for international investment to exploit the black African market. But capital was a scarce resource, with Africa "hardly at the top of the list" in the world economy. To exploit the natural advantages, focused, organised and monitored fiscal incentives should be offered.

□ The country needed relaxed exchange control regulations. To attract foreign investment, government should guarantee remittance back out of SA.

Similarly, investment overseas was essential for exporters to gain access to the markets they wanted to exploit.

□ The domestic economy needed to be reorientated so that it focused to a much greater extent on overseas markets.

"From the fiscal side, we have made the fundamental error of rewarding exporters for spending money rather than making money," Frame said.

□ The steady decline in the gold mining industry had produced an increasingly severe strain on SA's balance of payments, which in turn limited the economic growth vital for political security.

To slow down the decline government had to "sort out" the tax situation, which had moved from a system that grew out of economic indicators to largely academic theory. A minimum tax could be an alternative.

Frame emphasised that bringing in artificial changes to the Tax Act was more destructive than helpful.

Talks between government and industry were essential so that organised, monitored incentives could be awarded to promote joint objectives, he said.

Breaking down control structures . . .

CAPE TIMES 3/11/90 (320)

Distribute wealth through taxation

JOHANNESBURG. — Taxation is the most effective method of distributing wealth, says stockbroker Richard Stuart.

He told the Financial Mail investment conference in Johannesburg yesterday that tax was the most subtle method of breaking down control structures in pyramid situations.

"If a tax of, say, 15% was placed on dividends received in the hands of companies, it would make the whole daisy chains of holding companies and pyramid tax inefficient and encourage the distribution of shares up the line to the ultimate shareholders. This would result in a far flatter control structure along American lines."

Stuart continued: "It can be argued that the masses, via their savings institutions, already own half the market. An unquantifiable, but rapidly growing portion, of the beneficiaries are black. 'The people' thus already own a large and ever growing portion of the share market.

"Changes there will be. But the whole perceived problem of ownership and concentration of power can be overcome in an imaginative way that will not destroy confidence, the capital base or entrepreneurial flair.

"In my view it is high time, anyway, that our companies moved from first and second generation control situations and became true public companies. In that way the mobility of capital would be greatly enhanced."

Stuart said black consumer spending and infrastructural spending on raising black living standards would be the twin forces that would drive the economy into the 90s.

"Shares benefiting from rapid domestic growth will be the winners, not the exporters or the weak rand beneficiaries."

Stuart was optimistic about the prospects for the industrial market.

He told delegates: "Good quality industrial shares are in very short supply. There is a very limited time, probably no more than a few months at best, to buy them at current levels. As soon as the markets can see the lower turning point of the economy with any certainty, and with some of the prevailing domestic political uncertainties clear, share prices will move ahead very sharply."

Stuart said while the industrial index could drop in the short term, it would be higher this time next year and substantially higher in two years' time.

"I believe the index one year out, will have risen from the present 2 657 to around 3 050 largely on the improved outlook likely to prevail at that time."

He continued: "Our forecasts of earnings growth in 1991 and 1992 take the earnings of the industrial index 30% higher than they are now.

"If this is combined with an optimistic outlook for the post-apartheid environment, as I believe will be the case, the price-earnings ratio of the market will move to above average levels".

Stuart concluded that the risk to institutions of not being in the market at current levels in leading industrials was far greater than being in the market. — Sapa

Tax change likely to hit cash flow

GILLIAN HAYNE

INLAND Revenue's phasing out of tax allowances on instalment credit transactions is expected to cause serious cash flow problems for banks and hire purchase traders.

(3 20)

The allowances deferred the tax liability on hire purchase transactions and taxed traders and financiers in accordance with cash receipts. B Day 5/11/90

Although Revenue would not comment on the implementation date or method of plugging the tax loophole, a spokesman confirmed the allowances were considered "overly generous" and would be changed.

Arthur Andersen partner Stephan Minne said the extent of the tax breaks depended on differences between gross and net margins, which permitted some companies to defer their tax indefinitely.

He believed Revenue would accelerate its collections by bringing forward the tax liability on the product mark-up to the original date of the transaction, with the tax on the finance charges being payable as and when recorded for accounting purposes by the trader or banking institution.

Traders were also concerned over Revenue's treatment of existing transactions. Minne said there were indications that the remaining period of existing deals could be affected by the new dispensation.

He believed the move would discourage capital investment due to the increased cost of providing instalment credit. Because of the tax breaks, banking institutions were able to pass on substantial benefits to industrial concerns by offering lower interest rates.

"The move underlines the shift in Revenue's use of its discretionary powers which will accelerate income collection for Revenue at the expense of industrialists' cash flows," Minne said.

Report on VAT expected by year-end

B/Day 5/11/90.

GERALD REILLY

PRETORIA — The government-appointed committee to investigate VAT (Vatcom) hopes to submit its final report and recommendations on the new tax system by the end of the year.

(320)

A Vatcom spokesman said at the weekend that by the end of this week all oral and written submissions would have been made to the committee.

The specialist working groups which had been co-operating closely with the private sector on problems in specific areas were expected to complete their work by the end of the month.

The spokesman said more than 700 representations had been submitted to the committee. Applications for zero rating had been made strongly for health care necessities and basic foods.

An Inland Revenue spokesman said preparations were advanced for handling the new system, which would be introduced in October next year.

Of the 1 200 new posts authorised by government for the administration of VAT, about half had been filled. However, there had been some difficulty in recruiting staff with the necessary accounting background.

To police the new system adequately would require about 1 400 inspectors. There were 670 GST inspectors.

Disastrous to intervene in the economy

Cape Times 6/11/90 (320)

By PIETER COETZEE
Financial Editor

ATTEMPTS to distribute wealth by intervening in the economy will have the same disastrous results as socialism has had in Eastern Europe, said Anton Rupert, chairman of the Rembrandt group yesterday.

He was speaking at the State President's Award for Export Achievements in Johannesburg and said it will also contribute to a brain drain of the best expertise in the country.

"There are, nevertheless, those in our country who are still advocating a command economy, which has brought misery to so many people," said Rupert.

He said the surest way of scuttling the process of generating wealth is to impose stricter state control and higher taxes.

In SA company taxes are already of the highest in the world and if they are increased any further, foreign investors will merely stay out of the country.

"Nationalisation, the process by which the productive utilization of resources has been taken out of the hands of the private initiative and placed under state control, has proved to be discredited and outmoded economic policy," said Rupert.

"To succeed in a new dispensation we need a country which is securely built on democracy and free initiative.

"No one is going to invest in a communist state, no one is going to invest where private initiative and private ownership are not recognised and no one is going to invest where private assets are not guaranteed," said Rupert.

He said although he is a fervent supporter of small business undertakings, big business undertakings are a necessity. "The secret of a successful economy lies in the right mixture of the big and the small.

"The export market is but one area where big undertakings, with their easier access to capital and technonoly, often have an advantage. The successful export ventures of Japan are controlled by about six export houses.

"In banking 'big' is indispensable because of the high cost of computer technology. We are already experiencing this in SA, and that is probably why Germany and Switzerland each have only three big banking groups."

"A third sphere where 'big' is essential is the mining industry. With the exeption of diamonds, huge amounts of capital must be invested before any returns can be expected.

FINANCE

Judgments on special income tax questioned

B Day 7/11/90

(320)

GILLIAN HAYNE

RECENT special income tax court judgments involving the treatment of interest on borrowed capital go against the law, according to certain tax experts.

UCT senior law lecturer Trevor Emslie said yesterday there was no legal authority for such judgments.

Other tax lawyers also expressed their dissatisfaction with the rulings but declined to be quoted for professional reasons.

The judgments, involving Wesbank's attempt to claim tax deductions by upfronting interest on negotiable certificates of deposit (NCDs), and Deloitte Pim Goldby's bid to do the same for the forestry schemes funded through promissory notes, ruled that interest was accrued on a daily basis.

This is in contrast with the traditional interpretation that interest accrued at the end of the period to which it related.

The judgments held that upfront deductions of the compounded interest were not allowed because there was not an absolute certainty that the debt would remain for the full term.

In effect the rulings implied that NCDs and promissory notes no longer constituted unconditional liabilities, although Emslie said such decisions would always depend on the underlying contract.

"The difficulty was in the interest rather than the instrument."

However, he said the implications on the income side for various fixed period instruments, where the holder used to get taxed at the end of the term, were enormous, and an aspect of double taxation had been introduced.

KPMG Aiken & Peat tax partner Pat McGurk said the treatment of interest on expenditure should not influence treatment of interest on income.

Historically, instruments such as fixed deposits were not taxed until maturity, and individuals should not have to pay earlier, he said.

SA industry not competitive

Call to drop trade barriers for chemicals

320

BDay 8/11/90

ZILLA EFRAT

A REPORT on SA's chemical industry calls on government to remove GST and import surcharges on capital equipment and to reduce tariff protection on raw materials to help increase the industry's international competitiveness.

The report accepted that lowered tariff protection would force prices down and lead to a general restructuring of the industry. Those activities that survived would be internationally competitive.

It said the increased economic activity resulting from waiving the surcharge and GST on capital equipment would mean the lost revenue being more than recouped through other GST and income tax.

The study was produced by a working group chaired by J A Lambrechts of the Department of Trade and Industry. It included representatives from major chemical companies and converters and the Board of Trade and Industry.

It stressed the need for consistent government policies influencing investment.

SA's imports of chemical and related products already exceed exports by an estimated R5bn a year. And Trade and Industry Minister Kent Durr expects this negative trade balance to grow.

The report broadly discussed key issues which affected the chemical industry. It made 14 recommendations to government.

It said while SA's chemical sector was indispensible to growth in the manufacturing sector and to the economy generally, it was proportionately less developed than in other industrialised countries.

Its point of departure was that the initiative for investment should be left to the private sector, but since government policy influenced the environment in which the industry operated, government should facilitate its development by judicious measures.

The report said government must commit itself to a consistent and coherent monetary, fiscal and industrial policy to create a stable investment climate.

Government should also urgently remove fiscal measures which acted as unnecessary disincentives to investment, international competitiveness and economic growth.

In this regard surcharges, GST and tariffs on capital equipment were particularly detrimental. Studies showed that these taxes added at least 10% to the capital cost of plant built in SA.

To achieve an after-tax discounted rate of return on an investment of 5% in real terms, a local investor had to have a pretax simple return on investment of about 24%, compared with 19% in Germany and 12% in Taiwan.

☐ To Page 2

Chemicals

BDay 8/11/90. 320

☐ From Page 1

The report stressed the need to increase competition by avoiding high levels of tariff protection, and for the least possible use of import control to be made — but it called for some protection against dumping.

The Board of Trade and Industry is involved in a separate investigation into tariff protection in the chemical industry.

The report's recommendations also addressed the need to create additional sources of chemical building blocks at competitive prices.

The fastest growing sector of the chemical industry was organic chemicals where potential demand for raw materials suggested that major new capacity for a balanced spectrum of the major building blocks needed to be created by the mid to late 1990s.

The report said new investment would present an opportunity to create surplus capacity for derivatives which, if competitively priced, could be exported. At the same time, it could establish a base for the manufacture of other chemical intermediates and polymers which are currently being imported.

Durr has invited comment on the report by November 30.

TAX POLICY FM 9/11/90 (320)

CHANGING THE RULES

THE LETTER OF THE LAW IS NO LONGER ENOUGH IN TAX PLANNING

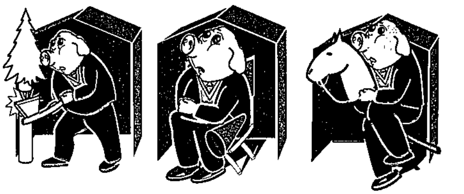
The recent Special Tax Court decision that disallows a popular tax shelter based on investment in plantations has far-reaching implications for many formerly legal tax shelters. It also highlights a pressing need for streamlining the Income Tax Act so that adjudication disagreements can be more quickly resolved.

The plantation decision shook the investment world because it was widely believed that these schemes could withstand judicial scrutiny. After movie-making tax shelters were blocked by law there was a surge in popularity of these schemes, especially among high earners.

Other shelters using bloodstock have been eliminated through ring-fencing losses. That is, a prohibition against setting off losses from bloodstock operations against other income. In effect, it meant that a professional breeder maintained the tax advantage but not anyone else.

The purchase of aircraft still theoretically offers shelters based on accelerated depreciation but, in practice, the principles of the plantation case will almost certainly be applied to this category too.

In effect, capital expenses on developing plantations are deductible if the taxpayer carries on farming activities as defined in the Act. These are not yet ring-fenced.



Tax planners have relied on the drawing of promissory notes by the taxpayer which front-end, or add in, interest for many years (in some cases 20) and claim a deduction for all interest in year one.

Planners have also relied on rolling up a variety of other expenses (including, on occasion, their own fees for devising and administering a scheme) into a globular deduction claimed in year one. The particular decision relied on invoking Section 103 of the Act (the general anti-avoidance provision) in relation to these fees, and on a view of the legal nature of a commitment to make future interest payments — which has been questioned (see "Du Toit on Tax" ***Economy***).

Now that the plantation scheme — which so many believed inviolate — has been rejected by the court, and a protracted appeal may be pending, concern has arisen among investors over the time it takes to reach a finality in a tax dispute and over the procedures.

The long-standing procedure for objection to and appeal against assessments starts with the issue of the assessment. The taxpayer may object in writing and in detail to any item within 30 days of issue. If the commissioner disallows the objection in whole or in part, the taxpayer has 30 days to appeal to an Income Tax Special Court and state the grounds.

Proceedings in the Special Court are informal: the taxpayer need not be represented by counsel, and Supreme Court rules are not a requirement, but while the taxpayer is bound by his stated grounds of appeal, unless either the commissioner or Special Court agree to an amendment, the commissioner may raise any matter whatsoever concerning that particular taxpayer.

But the taxpayer concerned may not obtain a discovery order against the commissioner compelling disclosure of any written evidence he possesses bearing on the case.

The Special Court is presided over by a Supreme Court judge, assisted by two assessors, one chosen for knowledge of accountancy, the other for knowledge of commerce. In practice, appointments are confined to a small roster of judges (only one or two in each provincial division) who have expressed an interest in tax matters.

They sit for concentrated sessions (several a year). From the Special Court, appeal lies either to a provincial division or direct to the Appellate Division. Judgments of the Special Court are not binding precedents but strongly persuasive nonetheless.

The effect of a Supreme Court judgment is to state what the law, including the statute law, was at the time a dispute arose. To this extent, a precedent is retroactive.

Application of S103 is specific to a case. So a decision to apply S103 to a plantation scheme will be persuasive in relation to future such schemes only so far as the facts correspond to those of the recent case.

The decision on promissory notes will be persuasive on those or similar facts unless and until overturned by a provincial division or the Appellate Division.

Of course, in the last resort, if the commissioner is unhappy with the fiscal implications of a pronouncement by the Appellate Division or even of a provincial division, he may persuade government to amend the Act, with effect either from a stipulated date or retroactively. Though retroactivity offends a major canon of tax law, it has been resorted to increasingly in recent times, because government claims this is necessary to combat the ingenuity of schemes which achieve large-scale avoidance of tax.

Tax specialists observe a tide of sentiment in administering and adjudicating the laws which runs strongly against the taxpayer, based on a conviction that taxpayers have become over-technical in devising artificial "schemes" to reduce liability. The same tide has been observed also in other countries.

Recent Special Court cases put the commissioner in a strong position. Even the plantation case, for example, if appealed, could take two to four years to reach the Appellate Division (a case takes as long to reach the Special Court, unless the commissioner rushes it through). The ultimate decision could yet go against the taxpayer, if only on the grounds that the syndicate did not come within the definition of participation in farming activities.

Meanwhile, we must expect Revenue to disallow deductions in comparable cases across the board, even reopening assessments already issued but not prescribed (that is, within three years of issue).

It is also a risk that the Act could be amended to introduce ring-fencing. (It may be significant that one major paper group, Mondi, never chose to rely on tax-driven syndications to create plantations.)

Clearly, taxpayers and professional advisers should now proceed with extreme caution in all cases where arrangements which Revenue might consider artificial are involved as a means of saving tax. There is a word of warning for tax advisers too.

An editorial in the April 1989 *The Taxpayer* warns of possible delictual liability to the taxpayer through professional negligence in preparing a return. Though there is no local juristic authority, it is consistent with foreign decisions and the principles of SA law that a taxpayer could sue a professional adviser for bad advice which caused him loss. The standard seems to be that of the "reasonable tax adviser," not merely the average practitioner.

GENCOR AND UNBUNDLING FM 9/11/90

IDEA WHOSE TIME MAY COME

Not without reason, Gencor chairman Derek Keys has gained a reputation for creative thinking. The debate he has sparked off about the need to "unbundle" shareholdings of listed companies must be pursued, even if Gencor ultimately does not go ahead with the plan it is considering.

Two distinct but related issues have been raised. One is the possibility of creating value for shareholders. This could be achieved in a single step by eliminating mining, financial and other conglomerates, whose shares generally trade at a discount to underlying net asset value.

The other issue, expounded by Martin & Co director Richard Stuart at the *FM* Investment Conference, is the need to improve the tradeability of listed shares. To say the least, it is stretching a point to describe the JSE as an efficient and liquid capital market when 40% of market capitalisation represents double counting. Large proportions of the shares of many industrial and mining companies never trade, as they are locked away in the control structures of holding companies and ubiquitous pyramids.

As far as Gencor is concerned, Keys is suggesting shareholders in the mining house simply be given shares in the major underlying companies in proportion to their existing Gencor holdings. Should the process be worked through to its logical conclusion, Gencor would cease to exist, its functions assumed by the five major subsidiaries.

From a commercial and financial standpoint, this may well be practical. After recent restructuring, most of Gencor's interests are held by five companies: Genmin, Sappi, Engen, Malbak and Genbel. It would not be difficult to slot the few outstanding investments into these. Sanlam's concurrence would presumably depend on its being satisfied that effective control can be maintained, which up to now has been a tenet of the assurer's attitude to "strategic" investments.

Apart from potential elimination or reduction of the asset discount — a one-off event — shareholders would have greater freedom to select their own portfolios. As in the case of share splits, there is no guarantee that share trading would increase, given that existing holders may not be sellers; but investors would have greater freedom of choice.

Keys rightly argues that investors here and abroad prefer pure asset plays to conglomerates. Gencor's price is now about 25% below net worth; even industrial conglomerates like Malbak and Barlow Rand, which have often traded at a premium, are generally close to, or below, asset value.

This is in line with the rating of conglomerates in the UK market. The highly successful Hanson offers a dividend yield of 7,5% and earnings multiple of 10; BTR a 7,7% yield and earnings multiple of 8. In contrast, the average yield for the industrial market is 5,5% and the p:e about 10.

Share prices aside, a question to consider is whether the mining house — or other large holding company — still needs to exist, or whether historical functions, such as the ability to raise large amounts of capital, provide ostensibly inexpensive services and spread risk, can be fulfilled as effectively in another way.

The answers will vary with each case. Last year, Gencor was able to raise R1,5bn in a rights issue. This was a successful issue close to the peak of a bull market, even though the cash was not earmarked for specific new projects. Whether the subsidiaries could have held similar issues is a moot point.

A related aspect is the ability to seek out new business. Keys has said that one achievement of Gencor's refocusing is that top executives now concentrate on this task.

According to the mission statement, the group's business is "starting or acquiring major business ventures, and accelerating the development of our existing businesses." Indeed, without a creative approach at head office, the expansion into energy almost certainly would not have happened — as Keys acknowledges.

Keys denies that political considerations are any part of the motivation for possible unbundling. He insists there is no intention of seeking an escape mechanism, but that Gencor happened to reach a stage this year where the move could be considered from a commercial point of view.

Perhaps so; but this is a politically sensitive topic, from which commercial aspects cannot be made to stand apart. Both politics and economics provide good reasons for every conglomerate and mining house to evaluate unbundling and both will certainly have to be taken into account.

ANC criticism of the excessive power of mining houses might be deflected if their key assets were dispersed among a broad group of shareholders — though this would not apply to Gencor, where control would simply revert directly (rather than indirectly) to Sanlam.

In its official comment, Anglo American has remained non-committal, offering reminders that big business is not necessarily bad and that SA has a capital and skills shortage. Given the sensitivities as well as complexities and financial inefficiencies inherent in Anglo's shareholding structure, it must be assumed that the house is, or soon will be, carrying out its own internal studies, whatever the conclusion.

This debate should go well beyond the potential elimination of a few conglomerates of uncertain merit, perhaps involving the greater enrichment of some shareholders.

While lamenting the market's poor liquidity and, tacitly, limited efficiency as a capital market, the JSE continues to allow the listing of pyramids and even multi-tiered pyramids — such as FSI — a practice which would not be allowed in many foreign markets and which was also criticised by Stuart.

These serve no other purpose than to lock in control and offer no assurance that the underlying operating companies concerned will continue to be run by adroit entrepreneurs. Yet another instance of the JSE's impotence? ■

The editorial also argues that in SA law the test for ascertaining the liability of a tax consultant will become more stringent "where the consultant overtly promotes a tax scheme so that the consultant's reward is derived from the scheme's earnings and not simply from a professional fee."

These more immediate considerations aside, what can be done to improve the situation, if only on the issue of delay?

Spending more money on the administration of justice would enable more Special Courts to be set up and delay reduced. Perhaps we also need to appoint additional judges of appeal to reduce backlogs.

No less a commentator than Prof Michael Katz, chairman of the Tax Advisory Committee, feels that both the objection stage and procedure before the Special Court could be improved. Commissioner of Inland Revenue Hannes Hattingh says it has been acknowledged for some time that appeal procedures are no longer effective. Ways of improving them are being investigated.

Katz indicates that a subcommittee has been set up with representation from the tax advisory committee.

Katz feels more cases could be dealt with effectively at the objection stage without going to the Special Court, though Hattingh says all objections now go from local Revenue offices to his office in Pretoria.

Katz also believes the cause of justice will be better served if taxpayers are offered an option in the Special Court to have the proceedings governed by the ordinary Supreme Court rules. This would oblige a corporate taxpayer (or trust) to be represented by counsel but also oblige Revenue to be bound

Tax expert Katz . . . *room for improved procedures*

by the pleadings filed. It would focus the court and level the playing field.

Revenue could then not raise last-minute issues to the embarrassment of the taxpayer, who might have to ask for an adjournment. The right to discovery would also be of great assistance to the taxpayer.

Under the current informal procedure, no order on costs can be made. The *quid pro quo* that an order for costs could be made against the taxpayer would hardly matter to a large corporate group seeking adjudication of a tax point with major implications.

Also desirable, argues Katz, would be to extend the jurisdiction of the Special Court to other taxes, notably GST and VAT. Procedures for adjudicating GST disputes have proved most inadequate for taxpayers.

Then there is the well-known problem of staffing in Revenue offices — including the commissioner's own office — which impinges on all tax issues, including the time taken to get out assessments.

No improvement can be expected while conditions of service are bound by general civil service arrangements (especially salary). Some special charter is required, along the lines mooted for the Office of the Registrar of Financial Institutions.

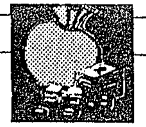
It could pay government to do something along these lines: the return would show up in both increased revenue collections and better taxpayer relations. Enhanced efficiency in tax administration would also have a profound indirect beneficial effect on economic efficiency generally, as finality on tax issues could be speedily arrived at.

Matters like this suggest that the Income Tax Act needs urgent overhaul — a point agreed by many private-sector tax practitioners and recommended by the Margo Commission. The Act has arrived at its state of complexity through a protracted process of ad hoc amendment to meet ever more ingenious efforts at avoidance. Innumerable commissioner's discretions built into the Act need to be removed before proposals for self-assessment can be implemented.

A consolidated and simplified Act relying on principle rather than a host of ad hoc anti-avoidance sections would be in everybody's interests — in particular by limiting the need for expensive and protracted litigation from the outset and through promoting greater certainty about tax law. ■

FM 9/11/90 (320)

UNHAPPY TRIO



Pierre du Toit is a partner at Arthur Andersen

In the Supreme Court, findings on the principle of the law (part of the *ratio decidendi*) create binding precedent. Therefore, the judge's responsibility extends beyond the immediate parties, as future litigants' rights may also be affected. So judgments tend to be phrased with great circumspection and precision, distinguishing observations on points not actually requiring decision (*obiter dicta*) from *ratio*. Judgments in the Special Income Tax Court (though the president is always a judge) are not binding precedent, but constitute powerful persuasive precedent, while they have a great influence on how the Receiver assesses similar cases and on everyday conduct of business.

Three recent unreported Special Court judgments, in all of which the same judge presided, cause serious concern.

In the first, the taxpayer sought to deduct all interest on negotiable certificates of deposit (NCDs), though the greater portion was payable in instalments on specified dates in future years. The case turned on whether interest relating to future years could be regarded as having been unconditionally incurred and thus be currently deductible.

The taxpayer had a difficult case. Firstly, payment of the interest seemed to depend on presentation of interest coupons. Secondly, as argued by the commissioner, the liability of interest may well in that case have been conditional on other factors.

The Court referred to some of these arguments — without, unfortunately, making clear whether it was speaking for itself or reporting the commissioner's argument — but failed to develop, accept or reject them and without explicitly basing its finding on them. Instead, the Court seemed to base its decision on an alleged general principle that interest "cannot be incurred prior to the time during which the money is used. It is incurred and accrues from day to day."

While daily accrual is a well-known common law assumption in the absence of an explicit contractual variation, the statement is presented as some universal truth. This denies the capacity of parties contractually to vary the common law consequence.

The Court delivered another sweeping dictum. Without qualification or restriction, it cited an Australian case to support the idea that " . . . accounting practice can be resorted to to identify the extent to which a presently existing contractual liability to be discharged in another year should be treated as an expenditure incurred in the year of income." This citation, which is no more than persuasive precedent, seems to contradict earlier rejections by our Supreme Court of the subjection of law to accounting principle.

Furthermore, at least one of the Australian judges on appeal (not mentioned by the Special Court) cautioned against seeing accounting practice as more than possibly helpful evidence. Ironically, the same case confirms that the Australian Federal Court regards the common law assumption of daily accrual of interest as no more than a general position which can be varied by the parties.

In a second case, the commissioner disallowed a deduction by an employer of a leave accrual, forfeit if not taken within a certain period. The Special Court found that the employer's liability was not absolute and thus did not represent an unconditionally incurred expense. The correctness of this finding on the facts is not the issue here. But the Court observed blandly: "It is irrelevant whether the liability is subject to a suspensive or resolutive condition. The only relevancy is whether an absolute liability has been incurred in the year of assessment."

Once again the Special Court has apparently and wrongly universalised a statement (cited from *Nationale Pers v CIR*) made in a particular context and subject to qualification.

Indeed, so far as the Court in *Nasionale Pers* found explicitly that the condition was suspensive, the comment regarding a resolutive condition was probably *obiter*. But if a resolutive condition — so far as it may make a debt unenforceable — would in all circumstances bar deductibility, what about statutory prescription, which renders *all* claims ultimately unenforceable? Surely there is no conceptual difference between "contractual" and statutory prescription?

The Court here inconsistently refrained from relying on accounting practice (which would have meant finding for the taxpayer).

In a third case on plantation schemes, the Court borrowed from its own earlier wrong reasoning in the NCD case on the timing of interest. But for changing the expression "NCD" to "promissory note," the argument, références and all, is copied verbatim from that case for 33 lines.

INCOME TAX F/M 9/11/90

DIVORCE BENEFITS (320)

The Commissioner for Inland Revenue has ruled on the tricky question of benefits and tax obligations relating to retirement annuity fund (RA) credit, transferred from one spouse to another, in terms of a divorce.

Martin Kourie, a GM of Momentum Asset Trust, explains that the Divorce Amendment Act of 1989 provides for the transfer of pension and RA benefits as part of the determination of property rights in a divorce.

F/M 9/11/90 (320)

However, neither this Act nor the Income Tax Act sheds light on the tax treatment of this transfer to the "non-member" spouse.

A client of Momentum was awarded cession of the benefits of an RA held by her ex-husband. Because of the uncertainty in the Divorce Act, Momentum applied on her behalf for a tax ruling.

The position has now been clarified in what is really the only logical way. The ex-wife (in this case) succeeds to the position of the ex-member of the fund in respect of those benefits awarded to her.

She must pay tax on that part of the benefits received as a compulsory purchase annuity, when the member retires from the RA. But she also acquires big tax benefits — to take up to a third of the accumulated benefit as a commuted lump sum tax-free up to R120 000, with the balance of the lump sum taxable at the average rate on her other income in the retirement year. ■

Govt aiming at 'as much tax relief as possible' next year

320

BDay 9/11/90

GRETA STEYN

GOVERNMENT plans to give as much tax relief as possible in the next Budget, a spokesman for Finance Minister Barend du Plessis has said.

He was responding yesterday to questions on Du Plessis's statement last week that government's freedom of action in providing "substantial and much-needed tax relief will have narrowed" as a result of the Gulf crisis.

Economists are predicting there will be little to be happy about in the next Budget.

Old Mutual's David Mohr said there would be limited scope next year for the ongoing tax relief which government had committed itself to in the 1990 Budget.

But Du Plessis's spokesman said meaningful tax relief in the next Budget had not been ruled out as a result of the Gulf situation.

Since much depended on the outcome of the crisis in the Middle East — its adverse effect on the balance of payments and inflation — it was impossible to make any promises.

"It is premature to speculate on the extent of tax relief next year. A lot can happen between now and March 1991. But the National Party remains committed to its five-year plan to reduce taxes, both for individuals and companies."

The NP's objective over five years, which started this year, is to cut marginal rates to a maximum of 40% at the income level of R100 000 from 45% at R80 000 in 1989.

In this year's Budget, income levels were left unchanged but the rate was cut to 44%. Overall, personal income tax relief of more than R3bn was given.

But in spite of this cut in taxes, government is still seeing huge increases in revenue in excess of what it expected.

Latest government revenue figures indicate government was again conservative in its revenue forecast of 5,8% for the fiscal year as a whole — revenue for the period April-September was more than 15% up on the same period last year.

Economists said it seemed fiscal drag had not yet been eliminated. In the previous book year, fiscal drag pushed the increase in personal income tax to a massive 37% and was the main reason why government ended the fiscal year with R6bn more than it expected in revenue.

Govt plans 'tax relief'

Cape Times 9/11/90 (320)

Own Correspondent

JOHANNESBURG. — Government plans to give as much tax relief as possible in the next Budget, a spokesman for Finance Minister Barend du Plessis said.

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Star 9/11/90

VAT opens the door to price fiddles

(320)

By Des Parker

Value-added tax (VAT) will be inflationary if businesses ignore pleas from the Government that they exclude the tax when calculating mark-ups.

This warning comes from accountant firm BDO Spencer Steward, which says living costs will be pushed up when VAT is levied on goods and services such as electricity, water, municipal rates, GST-exempt food, short-term insurance and telephone accounts.

While the additional costs to businesses should be minimal — because they can claim input tax credits as soon as they have tax invoices — the public will pay more tax than under the GST system even if the rate is lower, the firm says.

"One reason is that VAT will be levied on virtually the entire gross domestic product."

The provision in the draft VAT legislation for the tax to be included in final prices would enable unscrupulous businesses to charge more by including the tax in calculations of markups.

The potential increase in selling price of an article or articles for which raw materials originally were bought for R100 — and on which VAT of 10 percent is charged at each stage — was calculated at more than 26 percent.

Car allowances gaining favour

S1 Times • 11/11/90 (320)

A SURVEY by FSA-Contact shows a swing from the company-provided car to allowance schemes.

The number of car allowance schemes increased from 40% in 1988 to 53% in 1990. Reasons include increased perks tax on vehicles provided by a company and higher rates for deductions (about 18%) for allowances.

Companies say the increased cost of vehicles is a burden, affecting ratios such as return on capital and gearing. As a result, off-balance-sheet funding becomes attractive. Because of high interest rates, companies also find it sensible to release capital instead of holding it in depreciating assets such as vehicles.

Where companies have both types of scheme and allow employees a choice, the survey indicates a trend to car allowances.

FSA-Contact says VAT should not result in car allowances becoming a less favourable benefit for the employee.

A draft Bill requires that VAT be payable on the "cash value" of an instalment sale agreement. The term "cash value" is defined as the cost price of the goods to the financier and does not include any finance costs.

Therefore, where a vehicle is bought on an instalment sale agreement, for example, VAT will not be payable on the finance costs as occurs with GST.

In spite of these patterns, growth in the size of vehicle fleets is detected in several companies. More than a quarter indicate an increase in the size of their fleets because of the provision of cars or allowances for lower-level employees.

Although the cash purchase is still the most popular method of financing company cars, and the percentage of them using this method increased by 10% in the past 12 months, the full maintenance lease method rose by 50%.

The survey discloses that 10% of companies provide cars for non-executive directors.

Star 14/11/90 (320)

Vat at 12 percent will cripple building industry

By Frank Jeans

If value added tax (VAT) is introduced in South Africa next year at a rate of 12 percent, the effect could be devastating for the building industry which is already in the grip of a severe downturn.

The effect of the proposed tax system on the key industries of building and contruction can be gauged by the fact that 1989 turnover of these sectors was more than R22 billion last year — a figure which must have increased considerably since then as a result of inflation.

Non-residential building accounted for more than R7 billion, residential nearly R6,5 billion and civil engineering about R8,5 billion.

These labour-intensive industries also provide employment for more than 500 000, excluding the informal sector.

Commenting on the cost effect of VAT, Professor Piet Botha of the Department of Quantity Surveying at the University of Pretoria, says: "Research indicates that for the construction industries to make the same contribution towards the fiscus, the rate of VAT should be between 6 and 10 percent.

Professor Piet Botha ... seeking equitable deal.

"Any rate above this will represent an increase in building costs. If VAT is set at a rate of 12 percent, costs will immediately rise between 5 and 7 percent and such an increase in costs will be devastating."

Professor Botha, who was speaking as a leading member of the Association of Quantity Surveyors, points out that such an additional cost burden would drastically affect affordability, which again would have a serious social and economic impact.

"I subscribe to the principle that the construction industries should contribute the same amount of tax as was derived from the general sales tax system," he says.

"This will be equitable to both the fiscus and the consumer."

Professor Botha also raises the question of costs on projects which are not subject to GST and incurred before next October when VAT is implemented but which will be invoiced only after that date.

These costs could cover, for example, the cost of land and services incurred by a developer, architects' and quantity surveyors' fees, the costs of preliminaries such as insurance, salaries and rentals, and transport, overheads and interest costs.

"Notwithstanding that these costs would not be subject to GST, some form of relief should be granted in all cases where construction was in progress at October 1 1991," he says.

President F W de Klerk speaks at the induction ceremony in Pretoria yesterday where former Namibian administrator-general Louis Pienaar, centre, was sworn in as a cabinet minister and Vryburg MP Johan Scheepers was sworn in as Deputy Minister of Law and Order.

Picture: ROBERT BOTHA

● See Page 6

VAT 'may push up fuel price'

(320)

B Day 15/11/90

MARC HASENFUSS

THE petrol price could be pushed up again when the Value Added Tax (VAT) system was introduced, Econometrix analyst Tony Twine said yesterday.

Twine said GST was not levied on petrol as it was part of the consolidated fuel levy included in the pump price, and consequently the addition of VAT could increase the fuel price.

Naamsa director Nico Vermeulen said although he believed VAT's effect on the fuel price had not been determined yet, Naamsa had sent a submission to government suggesting the GST portion of the levy be removed before VAT was introduced.

Vermeulen said if government failed to revise the consolidated fuel levy by removing GST, the subsequent addition of VAT would distort the fuel price by a double taxation.

Motor Industries Federation (MIF) executive director Vic Fourie said an MIF representation to government argued for the inclusion of VAT within the pump price, once the 8,4c a litre GST in the fuel levy was removed.

Tax experts were unsure of the effect VAT would have on the petrol price. Analysts believed that VAT, likely to be introduced at an initial rate of 12%, would not be added to the fuel price on top of GST.

One expert said: "If VAT is added government will surely have to revise the consolidated fuel levy."

This goes unspecified into state coffers, and is used mainly for the building and upgrading of roads.

An oil company spokesman said it appeared that oil companies, fuel distributors and related industries had last week submitted possible scenarios on how VAT should be incorporated in the fuel price for consideration by Vatcom, the government-appointed committee investigating the introduction of VAT.

It would make the final decision, a National Energy Council spokesman said. Vatcom chairman Org Marais could not be reached for comment.

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VAT will not up inflation, says tax man

B Day 16/11/90

GILLIAN HAYNE

VAT would not have an inflationary effect on the economy because the benefit gained by businesses through input tax credits would be passed on to consumers, Inland Revenue's Norman Patterson said at a property and VAT workshop on Wednesday.

Speaking at the SA Property Owners' Association (Sapoa) function, Patterson said government believed companies would not operate for profit alone and would pass on their benefits to consumers.

This would overcome the possibility of inflationary effects caused by VAT.

Through the system of input tax credits, companies would save an estimated R7bn and "government will see that they do not keep it to themselves", he said.

However, quantity surveyor Roy Hamlyn said the building industry would face a 4% to 6% increase on the average building contract.

Assuming a current sales tax exposure of 66%, with VAT it would increase to 100% and would also include the land and professional fees, translating into a 5% to 9% rise on the whole capital investment.

Fears were also expressed that the increases would filter through to the rental market, despite its being exempt from VAT.

C/Press 18/11/90 320

Make the rich pay for the land they use

The question of redistribution of land is one of the most important facing a future South African government. Authors Stephen Meintjies and Michael Jacques propose a system of property tax (similar to municipal rates). They spoke to ZB MOLEFE.

IT'S a frightening future scenario: thousands of rural people streaming to the cities.

South Africa is faced with uncontrolled urbanisation. This will continue until we have vast areas of nothing and huge cities of teeming poverty-stricken masses.

But we can escape that future, says businessman Stephen Meintjies who, with colleague Michael Jacques, has written an unusual book: *The Trial of Chaka Dlamini – An Economic Scenario for the New South Africa.*

Meintjies, managing director of the investment arm of an insurance group, says the heart of the book's message is how South Africa can change its tax system to create redistribution of wealth "without confiscation".

What Meintjies and Jacques propose is user tax – similar to the property rates system used successfully by the Johannesburg City Council, which enables it to receive more land rent from richer sites and nothing from poor sites.

In the wider South African context, poor areas like the north-western Cape and homeland rural areas suffer a common burden of taxation plus indirect taxes such as GST. This, argues Meintjies, in the long run means many of the poor in these areas will move to the rich urban areas.

"Taxation has this terrible thing that it blocks out economic activity at the margin," adds Meintjies, a 1961 Oxford Rhodes Scholar who read for a BA Jurisprudence degree.

What if a future government does not change the tax laws?

"What will happen is that apartheid may go, we may get one-man one-vote, but the economic circumstances of the poor, most of whom are black, will stay exactly as they are. That is when you get a situation ripe for revolution," says Meintjies.

Meintjies speaks with missionary zeal. "We are saying: don't confiscate land from the rich – but make them pay for it."

What he means is that under a new land tax system people who have vast tracts of unused land will have to pay for it.

Meintjies' argument is one of the ideas written about in the latest issue of Britain's prestige *The Economist* in a survey of South Africa "After Apartheid".

If the ANC could swallow its anti-capitalist scruples, says *The Economist*, it may well end up borrowing some of the government's land-reform ideas: give blacks cheapish loans, and let them buy farms themselves.

It continued: "A land tax might make some whites sell. Others would look around for (black) tenants. Before blacks were debarred from 'white' land, that is exactly what many landowners did."

Jacques, a University of Natal-educated chartered accountant who runs a Sandton-based business consultancy, joins in when the spotlight moves to the effects of the repeal of the 1913 and 1936 Land Acts.

"Farmers who have too much land will be forced to sell land they don't use. Inevitably blacks (who have no land at the moment) will end up owning that land."

This land tax proposal will also affect the mining houses who hold mineral rights to huge areas. The main effect here is that it will be a matter of time before "you find black mineowners digging for diamonds".

Listening to the authors you might be tempted to think that theirs is a work which has been prompted by the now-fashionable buzzword nationalisation, or the fear of it.

However, the land-tax idea was born during Meintjies' Oxford days. After arguin with economists and people who gave him hearing, four years ago a friend suggested h write a book.

"I have been thinking about the book fo 30 years. We have talked to many peopl about it – including submissions we (th authors) made to the Margo, Welgemoed an Brand commissions on tax. Nobody listened The more we talked to people, the les convincing were their answers," Meintjie says.

Jacques says their tax ideas have bee around since before the French and Russia revolutions. But they were shot down by th powerful clergy and landlords of the time.

There is nothing new in their ideas, say Jacques, but we are in a similar position now "Are we going to have the same thing here?"

One thing which has made Meintjies an Jacques proud is that nobody in South Afric has said they are wrong so far.

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CITY PRESS, November 18, 1990 PAGE 11

Stephen Meintjies . . . tax landowners.

Married women could face jail over tax

B/Day 19/11/90

GILLIAN HAYNE

320

MARRIED women who did not register as separate taxpayers by the end of the current tax year could be fined up to 200% of their tax bill or even go to jail for three months, sources at the Johannesburg Revenue office said on Friday.

Revenue appears to have taken a hard line despite the widespread confusion surrounding the registration of married women as separate taxpayers.

The source said that Revenue had instituted a system whereby on assessment of the 1990 tax returns, married women eligible for registration as separate taxpayers were identified and coded.

Commission of Inland Revenue director Ian Meiklejohn said individuals should register by mid-January to allow time for allocation of a tax number.

Price Waterhouse manager Raoul Pienaar said married women who earned more than R40 000 had to register. Married women who received income from trade — for example, their own business — no matter what their remuneration might be, also had to register.

KPMG Aiken & Peat partner Pat McGurk expressed concern about the difficulties in calculating a married woman's provisional tax. Revenue had indicated that the couple should work from the husband's last assessment, calculate how much gave rise to taxable income in her husband's hands, and then pay the same amount.

"Problems arise if the last year of assessment was several tax years ago. Similarly, travel, earnings and joint assessment allowances will make an accurate provisional payment very difficult."

Looming tax changes could be 'drastic'

B Day 21/11/90 (320) [redacted]

SEVERAL changes to the taxation of pension fund contributions are either in the pipeline or being discussed by the authorities.

One possible change about which the industry has been asked to comment is the exclusion from the 7,5% tax deduction on contributions of those whose annual salary exceeds, for example, R80 000.

Sanlam GM, group benefits, Francois Marais says such a change would be "drastic" if introduced.

"It will alter the face of the pension industry as all companies will have to decide whether they want to continue making that kind of contribution without the tax deduction.

"If introduced, it may require a change in the way the pension benefit is funded."

The law will have to be carefully thought out to seal the manifold loopholes which potentially exist.

Former Pensions Institute executive director Snowy van Niekerk says there is also the question of the taxation of a retirement fund's investment income, which would have wide ramifications.

Preserving

"Pension funds are concerned about preserving their assets in order to meet their long-term liabilities.

"If they swing their assets to equities, the income will be tax free so the income which could accrue to the state may evaporate.

"One cannot simply say that if funds are taxed the state will gain a significant amount in revenue."

The Mouton committee's draft situation analysis of the state of the pension industry estimated the cost to the state of granting income tax concessions on retirement provision was between R5bn and R8bn in fiscal 1990.

"This is equivalent to some 55% to 90% of the inflow to funds and is a considerable indirect subsidy."

Liberty Life group benefits marketing manager Alan McCulloch says while government may be "shooting itself in the foot" by giving tax relief on contributions, this is also a motivation for having retirement funds.

"It will be a demotivator to employers and employees if investment yields are taxed, raising the possibility of less private provision for retirement and more reliance on the state."

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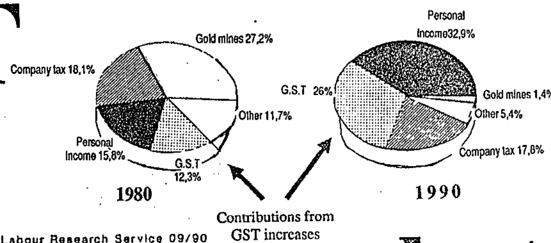
South 22/11 - 28/11/90

How VAT will hit your pocket

TAXES COMPARED 1980 and 1990



Labour Research Service 09/90

THERE is common agreement that apartheid has created a crisis of economic, social and environmental dimensions. The problem South Africa now faces is who is going to pay to restore the mess.

SELIM GOOL examines one method of recovering money — the new Value Added Tax (VAT) system.

IT has been argued by some that the present government is "selling off the family silver" by privatising publicly-owned assets and selling these (like Iscor and Sats) to major companies at knockdown prices.

It seems they are doing so with the full knowledge that a new democratic government will be shouldered by the burden of a massive foreign debt, privatised state corporations and a shrinking manufacturing industry.

South Africa at present is plagued by unemployment, spiralling inflation and a vast backlog in housing, education and welfare measures.

There is a strange logic in what the state is doing. For a decade we paid for a costly war in Angola, the occupation of Namibia and the "destabilisation" of our neighbours, specially Mozambique and Zimbabwe.

Added to this is the cost of apartheid itself — the separate bureaucracies for education, separate facilities for health and the relocation of millions of people into ghettos. Now that apartheid is to be scrapped, who is going to foot the bill for the construction of the new South Africa.

In the past it has been the taxpayer and the country's poor who has paid the costs of apartheid through their taxes.

Taxes are the most important source of income to the government.

Historically, the gold mines were a key source of revenue. In 1980, 27 percent of state revenue came from the mines, but in 1990, only 1,4 percent or R1 billion came from the gold mines.

In 1980 the government raised personal tax on a scale unprecedented in the Western world — 60 percent of total receipts. When General Sales Tax (GST) was first introduced in South Africa in 1978, it was as low as four percent. Since then it has risen to13 percent

Personal tax

GST now raises more tax than the total personal tax paid to the Receiver of Revenue. It was a very successful source of additional income over and above what had already been imposed on the ordinary wage earner.

Ten years ago GST accounted for 12,3 percent of all taxes. Today it makes up 26 percent of all taxes collected by the government.

The percentage of company taxes has remained the same, around 18 percent. Although the official tax rate on company profits is 50 percent, in reality most big companies pay only 30 percent of their profits as tax.

The government's policy had been to move away from direct taxes to indirect taxes like GST and the proposed VAT (Value Added Tax) which is due to be introduced in October 1991.

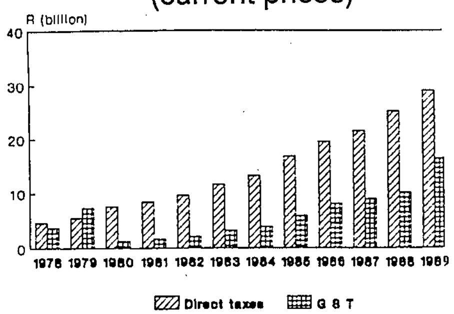
Indirect taxes shifts the tax burden from the rich to the poor. This is what is called regressive taxation.

The VAT system is supposed to eliminate the evasion of tax through the misuse of registration certificates. It is also supposed to be a more efficient manner of collecting taxes.

The VAT tax base will be broader through the inclusion of many more services and property transactions.

But more importantly, it will re-incorporate unprocessed foodstuffs and transport into the calculations. This will have an enormous consequence for working-class households who spend a greater portion of their income on food and transport.

PERSONAL TAXES (current prices)



TAX IMPACT: The graph shows the ernormous impact of personal tax and the indirect GST tax on ordinary taxpayers

GST is a tax added to goods bought from retailers like OK Bazaars, Checkers and Pick 'n Pay. It is only added to goods which are bought and sold by the final consumers of the product.

Like GST, VAT is also a sales tax. The tax is paid at each stage in the production and sales chain. It is a tax on the value added to the goods by a company.

The "value added" is the difference between the amount of a company's sales and the amount the company paid for raw materials used in producing the goods sold.

In theory, the total tax paid on a particular product is the same, whether the GST or VAT method is used.

VAT will also be set at 13 percent. Under GST sales tax is collected directly from the consumer. The retailer fixes a selling price at the end of the production process and adds GST.

Under VAT, it is still the consumer of the end product who foots the bill, but at least he or she can be sure that no one in the chain of production has escaped paying tax. Millions of rands have been drained out of the GST system over the years.

Here is an example of how VAT operates: We can follow what happens from the time fruit is picked until the consumer buys a carton of fruit juice at the local supermarket.

Step 1: the fruit farmer harvests and his selling price for enough fruit to fill a carton of fruit juice is R1. VAT at 13 percent adds 13 cents, which is recovered from the buyer with an invoice showing that 13 cents can be claimed back. The 13 cents is then paid to the Receiver of Revenue.

Step 2: the fruit juice producer pays R1,13 for the fruit and presses and packages the juice. Production costs increase the value of the fruit to R2,50. VAT on R2,50 is 32 cents. The total VAT of 32 cents is recovered from the next buyer with an invoice showing that 32 cents can be claimed back. The fruit juice producer can deduct the 13 cents paid to the farmer and therefore only pays the balance of the 19 cents to the Receiver.

Step 3: the wholesaler buys the carton of fruit juice for R2,82 and sets his selling price at R3. VAT on R3 is 39 cents. The total VAT of 39 cents is recovered from the next buyer with an invoice showing than 39 cents can be claimed back. He deducts 32 cents and pays 7 cents to the Receiver.

Step 4: the retailer or supermarket buys the carton of fruit juice for R3,39 and sets the selling price at R3,50. VAT on R3,50 is 45 cents. The 45 cents VAT is paid by the consumer. The retailer can deduct the 39 cents already paid to the wholesaler and therefore pays the balance of 6 cents to the Receiver.

Step 5: The consumer purchases a carton of fruit juice for R3,95, VAT included. This is supposed to work out to the same as a selling price plus GST.

But in reality, it will not be so easy to collect tax as the example above.

The government proposes to exempt capital goods, such as machinery, from VAT. This will make capital relatively cheaper than labour and will not help to create more jobs.

The Minister of Finance, Mr Barend du Plessis, announced that dividends (profits) would no longer be taxed. He reported that the estimated loss of revenue from this proposal would amount to R650 million.

Benefit

Obviously, only the rich will benefit from this proposed tax change.

A capital gains tax hits the rich hardest. Capital gains tax is applied to profits made, for example, on the sale of residential property and company shares. Several industrial countries use the form of taxation but South Africa does not.

Capital gains tax will encourage productive investment in new plants and equipment instead of speculative buying and selling of shares and properties to make a "quick buck".

VAT will hit the poor hardest, perhaps even harder than GST did. This will definitely be the case if there are no exemptions of food.

Domestic users of municipal services like rates, sewerage, water and electricity are liable to pay VAT if there are no exemptions.

Exemption

In the present draft VAT Bill there is a specific exemption for services but not for the domestic users of them.

Therefore, in a situation where the tenant is charged for the municipal services, only the municipalities will be liable to exemptions.

On the other hand, where the landlord absorbs the municipal charges and recovers them through increased rentals, the increases will be totally exempt from VAT.

There should be ongoing discussion among workers, trade unionists, housewives and homeowners about the new tax reform and how it will hit their pockets.

Increased taxation is one of the methods the government uses to siphon revenue from the poor for the rich.

What South African consumers need are strong consumer organisations and trade unions to protect the hard-earned wages.

(Dr Selim Gool, who holds a doctorate in economics, is a South African exile who recently returned from Sweden.)

TAX FM 23/11/90 (320)

NO QUICK FIX FOR LIFE OFFICES

Life offices are wondering how to counter suggestions that their products be subject to VAT. An early resolution of the tax bases for financial institutions now seems remote, as unforeseen problems emerge and each new issue impinges on all surrounding ones.

There is pressure on the committee headed by Barend du Plessis' special adviser, Japie Jacobs, to have a report ready by year-end, presumably so changes may be introduced in the next Budget. Life assurers think, however, that there are too many unresolved questions. There could be some tinkering with tax principles but no ultimate solution.

Discussions and propositions channelled through Jacobs' committee are considered so sensitive that all participants have been told to observe secrecy. Some issues are, however, rather open secrets. At the core lies Jacobs' brief to create equitable tax bases for all institutions — the level playing fields debate. It is now obvious that some of the suggestions to achieve this could, in practice, conflict with the State's financial needs.

Withholding tax, taxing life office corporate funds, taxing share dealing profits, exploring a variant of VAT for life offices, finding a rational base for taxing the income accruing to policyholders of widely disparate financial means and the whole principle of life assurers acting as trustees for policyholders' funds, are all part of the debate.

Life offices are taxed on the formula 45%(I-55%(E)), with I representing long-term investment income and E deductible expenses. It is a fairly arbitrary formula, introduced after the Margo Commission's report, designed to give the fiscus roughly the same revenue from life offices as it enjoyed before. The rate of 45% was chosen because it was the top marginal rate on personal incomes in 1989-1990.

Why policy owners should effectively be taxed at this rate is far from clear or equitable. Many Liberty Life A-B income clients may attract the top marginal rate (now 44% for individuals) but precious few of African Life's black clientele have any tax liability. It will be impossible, say industry sources, to make distinctions between the tax rate of different life offices but 45% strongly suggests life offices' customers are, on average, over-taxed. There seems to be consensus that about 30% would more fairly represent average liabilities to the State.

On VAT, one assurer tells the *FM:* "The concept is ludicrous. How do you measure value added to an insurance premium? In our books, a premium accepted is a liability. Nowhere in the world where VAT is used is it applied to financial services. If no one else has been able to solve the arithmetic, why should our legislators be more successful?

We are not manufacturers, but trustees of savings. Do they want to tax savings?"

According to the VAT draft proposals, financial institutions are exempt. There is a feeling among life assurers that, though VAT cannot work on their products, they will be asked to accept a different tax — perhaps 0,5% of new premium income — as a sop to other industries which feel they should be exempt. This translates to a fashionable argument in Pretoria: wherever banks contribute to Revenue, so should there be an equivalent tax on life offices.

The proposed withholding tax of about 10% on individuals' income from bank and building society deposits opens yet another minefield. Life offices argue that they should get into the act because their investments earn large interest income on behalf of individuals (the policyholders). Jacobs is said to be sympathetic to this argument. Yet if life offices win the point, it will erode any ground banks and building societies may have won in their campaign to regain savings.

The argument could also backfire on life offices. "If they are so keen on the trustee principle," suggests a bank source, "what about capital gains?" An individual who trades in shares does not pay tax on profits — or claim losses — unless the frequency of transactions prompts the Receiver to classify him as a dealer. Life offices do not pay tax on their huge capital gains but, the argument goes, they are most certainly dealers. By implication, then, so are their policyholders.

Life assurers counter that, if life office gains were made taxable, the JSE would virtually dry up, because all offices would lock their shareholdings away.

A new subtlety has been introduced to the debate on withholding tax. Many forms of interest other than bank/building society payments accrue to individuals: Post Office investments, participation bonds and instruments which produce what is now conveniently being described as "quasi-interest."

In a recent paper, Southern Life tax expert Tony Davey pointed out one anomaly, the immediate voluntary annuity: "The fixed deposit investment returns offered by banks, building societies and similar financial institutions, being 18%-19%, equate fixed investment returns under the immediate voluntary annuity plans offered by life assurers.

"A low final withholding tax on fixed interest will make the fixed-interest-type investment more tax-efficient than the immediate voluntary annuity, as the rate of tax on the fixed-interest investment will be in the order of 10%-15%, instead of the individual investor's marginal tax rate, which ranges from 16% to 44%." Davey argues that the income portion should be reclassified as quasi-interest, subject to withholding tax only, rather than the rates applicable to annuities.

To bedevil the argument still further, sources confirm that Pretoria is now contemplating a withholding tax which is not final: it could become part of the conventional income returns. If so, it would be a bewildering turn-around, because the withholding tax idea was originally presented not only to restore tax advantages to banks/building societies, but to simplify collection.

Also part of the debate is the question of shareholders' funds which, Margo recommended, should be taxed differently to policyowners' funds. The argument is that income from these funds should be taxed on the simple formula of I-E that applies to any trading company.

Though more than 50% of the life industry is controlled by two mutuals, who do not have shareholders, some of their assets would be classified as corporate funds and subjected to the same formula.

To the principle there are few objections; to the practice there could be many — as one life office director points out, there would be severe temptations to apportion expenses to various funds in such a way as to minimise tax. ■

HOME LOANS FM 23/11/90

BOND BAIT

The Perm's role in the new home finance scheme, which draws on corporate pension fund money and ties loan repayments to the borrower's income, will be a departure from the traditional provision of finance. The former building society, now part of Nedbank, will act as agent only, taking a commission for administering the funds and collecting and channeling instalments.

The mortgage bond will be in favour of a separate vehicle (whose structure is still being discussed with the Reserve Bank) and

Tax cuts depend on Public Service sacrifice

Star 24/11/90 (320)

THE State President, Mr FW de Klerk, both raised and dashed hopes this week of a cut in income tax in the next budget.

His statement that he plans to reduce the maximum rate of income tax from 44 percent to 40 percent must have elicited cheers in many homes.

A cut in the top tax rates would lead to a reduction in all tax rates.

But the excitement was quickly dissipated when it became known that this was a four-year target.

Nonetheless, his statement has raised the question: Will there be a worthwhile cut in income tax next year?

Economists say the rates will almost certainly be adjusted for fiscal drag. Otherwise, taxpayers will paying even more tax than they are at present.

And it is worth remembering that the Government has given an assurance that it wants to prevent fiscal drag pushing people into higher tax brackets.

However, adjusting tax rates to offset fiscal drag is not a genuine tax cut. It merely restores the taxpayer to the situation he was in a year ago.

South Africans would need a much larger reduction in tax than this to achieve a lower tax burden, which is among the highest in the world.

However, in the light of current Government finances, this seems unlikely to happen only unlessthere is a major cut in Government spending; and this

DEREK TOMMEY

means in the main, smaller pay rises for the Public Service.

The latest Treasury figures indicate the Government could be in a tight financial position by next year's Budget. Revenue was buoyant earlier this year. But it has been showing much slower growth recently.

Sales tax brought in only R1,412 billion in September - down more than R6 million on last year.

Normally sales tax figures rise in line with inflation — current 14 percent. October's tax figures also show a depressing picture. Inland revenue receipts at R5,1 billion were just six percent higher than a year ago, while customs and excise receipts were down 10 percent to R397,2 million.

Furthermore, the poor profit figures now starting to come from industry foreshadow a sharp cut in Government income from company taxes in the coming months.

The Treasury's cornucopia in past years, the gold mining industry, has become an empty bucket and these days is making a relatively small contribution to the fiscus.

As South Africa will have to spend far more on basics such as health and education to meet the needs of its rapidly growing population, financing next year's budget will not be easy.

The "peace dividend" following the withdrawal of troops from Namibia is expected to continue, with a saving of R1 billion. But this is not particularly significant in a R71 billion budget.

Much more money is needed and this is why considerable attention is being given to the one area where the Government — if it has the political will — could make significant savings: namely public service pay increases.

Talk among public servants in Pretoria is that they don't expect much more than10 percent. Some suggest it could be as little as five percent.

However, limiting public service pay rises to a genuine 10 percent could provide some cash to make real tax cuts.

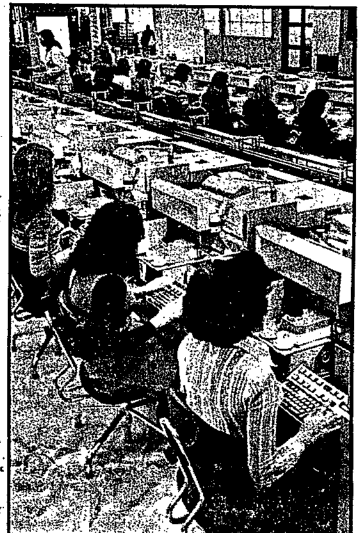
The Reserve Bank is a major force in encouraging the Government to limit public service pay rises.

Professor Jan Lombard, the bank's senior deputy governor, said in Johannesburg recently that the only reason why South Africa had inflation was the expectation that inflation would continue.

He added that "there was no reason why prices and wages should rise more than a few points in 1991" — which sounds ominous for public servants.

However, economists point out that if the money saved on public servants' salaries is used to cut income tax, the public sector might be a little happier about accepting a small pay rise.

However, an answer to this and other questions of Government fiscal policy is only likely to be obtained on Budget Day, next March.



PAY HOPES: The public service, and that includes not only Post Office employees, may have to sacrifice inflation-adjusted pay rises for the common good.

TAX FM 30/11/90

MOVIE MOVES

(320)

After a long intermission, things have started to roll again in the vexed and sensitive area of assessments involving deductions for movie-making expenses, based on the provisions of Section 24F and the marketing allowance of S11 *bis*. (A subsidy has also been established to assist local film-making, but it's subject to complex rules which curtail access to the 11 *bis* allowance while government has made it difficult for film-makers to register for the subsidy.)

Many people in the early Eighties invested in film production through such contractual arrangements as *en commandite* partnerships (a type of sleeping partnership). Now, individuals who pressed for assessment for 1984, 1985 and 1986 have been assessed, but find their claims for a deduction related to film partnerships have been disallowed.

Ian Meiklejohn, director, legal drafting, at the office of the Commissioner of Inland Revenue, says there can be several reasons for disallowance. One notable reason is that films purportedly made in SA were in reality only subjected to light editing of rough cuts of films made abroad.

Despite the recent Income Tax Special Court judgment on plantation schemes, there does not seem to be a general risk that Revenue will take film tax cases to court, say informed sources, for several good reasons:

☐ Revenue issued rulings on film-making contracts, some even signed by the Commissioner for Inland Revenue himself;

☐ Legislation was specifically introduced setting out the rules governing the taxation of film-making ventures;

☐ Revenue is attempting to stamp out prospective tax-driven syndication schemes while changes to the law have reduced the attractiveness of movie-related tax schemes; and

☐ There is also the lapse of time. Many taxpayers who committed funds to film-making have not been assessed since 1986, so attempting to impose tax on them now would cause an uproar.

On the other hand, it is evident from Meiklejohn's comments that Revenue will continue to scrutinise individual returns astutely where movie-making is involved. ■

TAXATION FM 30/11/90 (320)

ZOLA BUDDS REFUSE

The 55 000 members of the powerful SA Black Taxi Owners' Association (Sabta), with an estimated R3bn annual turnover, are refusing to pay tax. They also warn that unless a future government subsidises taxi commuters — travelling in what are colloquially known as Zola Budds — and redresses economic imbalances they will continue to defy the taxman.

Sabta public affairs manager Mike Ntlatleng says the organisation and its members take the American Revolution view that "taxation without representation is tyranny. The Receiver would love us to pay tax, but our people won't — no taxation without representation. We are involved in consultations with Inland Revenue but the playing field must be levelled; economic imbalances of the past must be redressed."

Not only does Sabta want economic imbalances to be redressed without their financial contribution, they are demanding subsidisation of taxi commuters to bring them into line with subsidies for rail and bus passengers. Ntlatleng says no black bus companies receive subsidies now and black entrepreneurs are not being encouraged to push free enterprise. He sees no contradiction in the organisation's refusal to pay tax while demanding subsidies.

About 72% of the rail fare of commuters is subsidised but bus subsidies have been consistently cut in the wake of declining passengers lost to taxi services.

Ntlatleng says Sabta favours economic protectionism to allow black business to grow. For example, it argues that when the Group Areas Act is repealed, big chain stores owned by whites should not be allowed to operate in black areas until the end of a 10-year moratorium, during which time black businessmen should be allowed to establish themselves in white areas.

He adds that until black business is involved in decision-making with government and local authorities, and has complete equality of business opportunities, there is no point in Sabta members paying tax, "and we

FM 30/11/90 (320)

don't know how Revenue will pin these chaps down."

An Inland Revenue spokesman says it is not policy to comment on the tax affairs of individuals or organisations but notes that all South Africans are eligible for tax. Government's Tax Advisory Committee is studying the informal sector to find ways of extracting tax from it. ■

LAND REFORM FM 30/11/90

B/Day 30/11/90.

Call to extend tax perks on donations to schools

(320)

TANIA LEVY

PRIVATE sector donations to primary and pre-primary education should be tax deductible, says Bishop Bavin St Georges School headmaster Morgan Ellis.

At present the Income Tax Act allows for up to 5% of gross income to be tax free if donated to secondary or tertiary educational institutions.

Extending the system of tax deductions to cover contributions to primary and pre-primary schools would send out a signal that government was launching an onslaught on SA's educational malaise, he said.

The private sector would be encouraged seriously to consider funding bursaries at the lower school levels where the greatest pressure existed, he said.

Bishop Bavin St Georges School, which opens in January, is a private, co-educational and nonracial school, based in Bedfordview. It will accommodate about 450 pupils from nursery school to Std 6.

Lance Japhet, chairman of the school's board of governors, said it was accepted that the level of functional literacy of a population determined its prospects of development.

Japhet said the Margo Commission had recommended extending existing tax deductions for educational donations to primary school contributions. Despite lobbying, nothing had changed to date.

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Audited year ended 31 March 1990 R'000

(10)

B/Day 30/4/90

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Taxman has eye on women who earn big money

320

Sowetan 30/11/90

By SIZAKELE KOOMA

EMPLOYED married women who earn R40 000 and more are in danger of retribution by the taxman if they do not apply for tax numbers.

Women who fall in this category must register with the Receiver of Revenue so that they can be taxed under their own names.

They also have to submit income tax returns for the year ending February 1991, which is the current tax year.

Those married women who earn less than R40 000 will be taxed under the SITE tax system. They, according to tax consultant Matsheru Matsheru, do not have to submit income tax returns.

The two regulations above are a result of changes in the tax law introduced this year, which state, among other things, that married women be taxed separately from their husbands.

Married women who fall under the following categories, Matsheru said, also have to register as provisional tax payers before the end of the current tax year:

* Self-employed women
* Directors of private companies
* Members of closed corporations
* Those involved in property letting businesses
* Those who receive commission income

The registration will enable them to submit provisional tax returns.

He explained that even though married women were from this year being taxed in their own right any interest income they earned, whether employed or self-employed, would be taxed under their husbands.

The wife would therefore have to tell her husband about any interest she earned from investments. Failure to do so could lead to a penalty, on the husband, by the tax man.

VISIONS OF THE FUTURE ... A TAX-FREE UTOPIA 1

Imagine a new SA free of all taxes

W/E ARGUS 1/12/90

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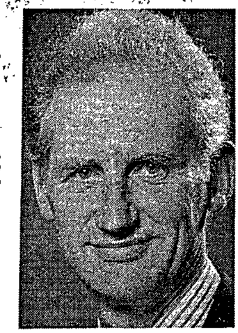
'Could be the ideal economic scenario' for our country



Stephen Mentjies ... proposes a land-use tax.

Weekend Argus Reporter

IMAGINE a Utopia where there are no taxes and where the Minister of Finance's annual budget speech is reduced to one simple sentence that everyone can understand.

A pipe dream? Cloud cuckoo land?

Not so. It's a serious and perfectly feasible proposition and it could be the ideal economic scenario for the new South Africa. So says Johannesburg investment manager Mr Stephen Mentjies, a Stellenbosch University graduate and former Rhodes Scholar at Oxford.

To prove the point, he and longtime friend, Michael Jacques, have published a book, *The Trial of Chaka Dlamini*, that tells in basic terms how this "tax free" society would work.

The cornerstone of their philosophy is that the natural way of raising revenue for the State is for people to contribute in direct proportion to the value of the land or natural resources they own. In other words Mentjies and Jacques advocate the replacement of taxation with a user charge on natural resources.

Reinforcing this concept are more subtle changes that will "level the economic playing field for every person willing to create wealth for their families and the community at large".

If their proposals were put into practice, Mentjies and Jacques contend, there would be no need for income tax, GST, the tax on petrol (about 25 percent of the total cost) or any other taxes.

Doomsday book

They advocate a "Doomsday" book value of all land in South Africa on which the owners would pay a user charge. But the man or company with a plot in the central business district of Johannesburg, for example, would be asked to pay something like a million times more than the man with the same sized plot in a remote area of Namaqualand.

Stephen Mentjies contends that most of the economic woes of the world can be traced to people who acquire land and then "sit on it".

Mark Twain it was who said: "Buy land, son, they ain't making any more of it." And for centuries before he made this memorable observation, people had been doing just that — safe in the knowledge that, even if they did not utilise or develop the land, they would still gain in wealth.

The land user charge proposed by Mentjies and Jacques is designed to encourage owners of natural resources to "get off their assets" and use those natural resources or get off the land.

"What we are proposing is far more 'nationalisation' than the ANC envisages without, in fact, nationalising one hectare of ground.

"On the other hand we would be freeing up the most important market of all, which is natural resources.

"The result would be that the average chap ... freed of GST, tax on petrol, etc ... would be a lot better off."

The principle of a national user charge on land owners is not a new one. It has been propounded by economists as far back as the time of Louis XVI. If adopted then, it might even have saved his head, says Stephen Mentjies.

But has the system ever worked in practice? Yes, he contends. In the 1870s the land of the Japanese land barons was re-distributed to the peasants who had to pay a two percent levy on the value. The innovation gave Japan a "kick start" into the 20th century.

More recently similar measures were adopted on Formosa (now Taiwan) when Chiang Kai-shek and his followers fled there in 1948 after the revolution in China. The results on the Taiwanese economy were also electrifying.

Save skins

What's in this for Messrs Mentjies and Jacques? "Nothing," says Stephen Mentjies. "We're just a couple of concerned South Africans, wanting to save our skins ... and everyone else's.

"In my case, I was very active politically from my student days until some years ago. Then I came to the realisation that when the time came for the dismantling of apartheid, the underlying causes of injustices and poverty would remain and would have to be addressed."

Separate women's tax

C Press 2/12/90

EMPLOYED married women earning more than R40 000 a year should register as separate taxpayers by February 28 next year, the central revenue office in Pretoria stated in a directive.

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Tax consultant Matsheru Matsheru said failure to do so could result in heavy penalties.

Women – employed or self-employed – should notify their husbands about income from interest on investments still taxed through the husband.

Cape Times 4/12/90 320

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Harms findings on Jalc Holdings

PRETORIA. — Numerous prima facie irregularities by Jalc Holdings SA and associated and related companies were found to have taken place, the Harms Commission of Inquiry into certain alleged across-border irregularities has found.

The report by the one-man Commission headed by Mr Justice Louis Harms was released yesterday.

The commission found that an investigation of the books of the company Jalc Holdings SA and its associated and related companies had indicated, prima facie at least, a large number of irregularities. The report said many of the irregularities found would be of interest to the fiscal authorities.

"Others are matters which may require the attention of the attorney-general."

Jalc Holdings SA (Pty) and related and associated companies were active in South Africa, Transkei, Ciskei, Lesotho, Bophuthatswana, Botswana and Mauritius and, according to the report, had tried to obtain a foothold in other countries, including Mozambique.

Among the "more glaring" irregularities:

- The Jalc company was found to be shifting sources of income to eliminate or minimise tax liablility in a profitable situation. The Commission found that fictitious invoices and payments for large amounts had been entered.
- Partners and shareholders in the different companies allocated their income to different countries often with no apparent justification. The allocations had the effect of reducing the taxable income in each partner's or shareholder's hands.
- The failure to declare taxable income was a "common feature" in the books of Jalc whether to the RSA tax authorities or those of neighbouring countries.
- Tax liability was often reduced by the writing off of loans.
- In order to draw monies from their companies, the directors quite often issued cheques in respect of fictitious work done by existing or fictitious sub-contractors.

The report said one of the possible charges to be considered was one of corruption against Jalc director Mr Chris van Rensburg.

Sun International apparently held exclusive casino rights in Ciskei but the Ciskei government, in contravention of the agreement, had granted rights to the Lenton Group for the establishement of a casino. The Jalc partners, who were also shareholders in Lenton, had then asked former SADF member Brigadier Marthinus Deyzel to make use of his friendship with Ciskei President Lennox Sebe.

President Sebe had later announced a deal from which Lenton made about R5 million.

Mr Van Rensburg was also tenuously linked to the acquisition of gambling rights in Transkei.

Shares were sold to Sun International and at that stage Prime Minister Mr George Matanzima was paid R2 million in order to secure Sun International's gambling rights.

Mr David Bloomberg, a Cape Town attorney, was acting on behalf of Mr Van Rensberg at the time and the Commission found there was no available evidence to show Mr Van Rensburg was personally involved in the transaction.

Casino magnate Mr Sol Kerzner and Mr Bloomberg in a statement to the Commission accepted the blame for the payment of R2 million to Mr George Matanzima. — Sapa

Warning: loophole in tax proposals

B/Day 4/12/90

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GILLIAN HAYNE

SMALL private companies could take advantage of the discrepancy between the cost of borrowing money and the tax deductions claimable from Revenue if legislation introduces a 10% withholding tax on interest, Deloitte Pim Goldby director Willem Cronje said yesterday.

"If individuals are allowed to save through financial institutions at a low flat tax rate of, say, 10%, through a withholding tax, interest arbitrage will be encouraged. Individuals could deposit dividends with the bank which in turn would lend the money back to the company," Cronje emphasised.

Assuming a set-up where the shareholder and the company were closely connected, the shareholder could take out a tax-free dividend, put it in the bank for the small fee of about 10% on the interest. The company could then borrow money from the bank, thus completing the circular transaction.

The company would then claim a 50% deduction from government while paying a lower interest on the loan. In effect the company would be receiving a subsidy from government.

"However they would effectively be replacing reserves with debt in their balance sheets and the debt:equity ratios would increase artificially," Cronje said.

The above example had been simplified but it would be very difficult to identify a "natural slanting" and a carefully thought out scheme, he warned. "With a discrepancy such as that introduced through a low tax on interest, natural arbitrage is inevitable."

Introducing a withholding tax of only 10% would negate, to a large extent, the effect of exempting dividends from taxation. It would also put the tax balance between debt and equity out of kilter again, he emphasised.

Dividends were exempt from tax in the hands of individual shareholders in order to overcome the double tax created by taxing companies and shareholders. By this means the balance between debt and equity was restored.

Levett calls for tax consistency

ARCUS 6/12/90

Business Staff 520

LEVEL playing fields for institutions competing for peoples' savings can be achieved only if the principle of taxation is applied consistently, says Old Mutual chairman Mr Mike Levett.

He said in his address to members and policyholders at the annual meeting today the life insurer's business was fundamentally different from that of banks and building societies.

"Our contracts are long — usually for 10 years or more — and are very clearly not deposits."

DEFINITION WIDE

"It is unfortunate that the definition of deposits in the Deposit Taking Institutions Act is so wide. This classifies life insurance, unit trusts, provident funds, medical schemes and many other activities as the taking of deposits, even though they are governed under other acts."

Statutory controls for life insurers should recognise the nature of their business, as was done in the Insurance Act. "It is completely inappropriate to talk of applying controls formulated for banks to life insurers, simply for the sake of uniformity."

Mr Levett said by far the major part of the funds were held on behalf of policyholders. These funds should be taxed at a rate and using principles in keeping with those applying to the policy holders as individuals.

"If one does not recognise and apply this tenet, sometimes called the trustee principle, one cannot achieve the level playing field we are talking about."

On a proposed final withholding tax on interest payable to individuals he said the introduction of such a tax was fraught with difficulties.

"There is the likelihood that loopholes could be created, loopholes that would inevitably be exploited. It is important the whole taxation framework be carefully studied to ensure loopholes are not created before any such tax is introduced."

A further concern was that the concept was not founded on taxation principles. This could lead to a raising of the tax rate to fund excess government expenditure, something that had happened to the life insurance industry over the past 10 years.

HISTORY REPEATED

"I would not like to see history repeated," Mr Levett said.

Two issues related to life insurance business, should a withholding tax on interest be introduced:

"In terms of the trustee principle, interest received by life insurers in respect of policy holders' funds should be taxed at a rate equal to the withholding tax rate.

Secondly, life insurers issue voluntary immediate annuity business. The income portion of this business should also be taxed at the withholding tax rate."

200 000 tax returns still outstanding

Bday 6/12/90

GERALD REILLY

PRETORIA — More than 200 000 salary earners have failed to render income tax returns for the 1989/90 tax year. (320)

They represent about 15% of the 1,4-million returns forms posted in April this year.

In Johannesburg, defaulters number 42 000, Pretoria 24 000, Cape Town 26 000 and in Durban 26 000.

An Inland Revenue spokesman said summonses were being sent out at a rate of about 14 000 a month from the 32 Revenue offices nationwide. First offenders faced R200 fines, while habitual offenders would have to fork out up to triple the amount of tax owed.

Inland Revenue director Schalk Albertyn said some defaulters had moved and had failed to notify the department of their changes of address, some had gone abroad, and some had died.

However, most were taxpayers with an aversion to co-operating with Inland Revenue.

The Commissioner's Office had a special tracing task force on the job, "and we invariably get our man", Albertyn said.

VAT will be test of farmers' bookwork

B/Day 6/12/90

MARIETTE DU PLESSIS

FARMERS would have to get their paperwork and accounting systems in order or lose out on credit refunds when the value added tax (VAT) system was introduced next year, accountants said yesterday.

They would not be able to leave their paperwork until year-end as was the case with GST. The VAT system was invoice-driven and invoices had to be supplied whenever a taxable service was received or supplied, the accountants said.

While efficient farmers had nothing to fear from the introduction of VAT — provided they already had good accounting systems — those without proper accounts would have difficulty in reclaiming the tax component included in their bills for purchased inputs.

When all tax paid on purchases or services (input tax) was deducted from the total tax farmers charged their customers (output tax), farmers could claim credit only if input was greater than output.

To a certain extent VAT would provide a built-in checking mechanism and although tax collected would have to be paid over to the tax authorities, VAT paid and shown on invoices could be claimed as a tax credit paid on goods and services obtained for farming purposes (inputs).

"The ideal VAT system should have as few exceptions and zero-ratings as possible to ensure that it will be a broad-based consumption tax," said Mark Badenhorst of Price Waterhouse.

He added that all primary producers such as farmers, fishermen and timber growers would have to be included to safeguard the integrity of the system.

There were large numbers of farmers on medium-sized farms who would be caught in the middle between the large primary producers and small producers.

They would be faced with the problem of ensuring that their accounting systems and records complied with requirements such as VAT registration, which was necessary to claim input tax credit, and correct invoicing, giving the registration number and amount of tax charged, Badenhorst said.

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Refunds

An insignificant percentage of small farmers falling below the threshold turnover limit of R50 000 would be exempted and, therefore, not liable to comply with the VAT requirements, while large producers already had accounting systems and records to ensure adequate compliance.

Because farming was seasonal, farmers would tend to claim refunds at the beginning of the agricultural year, when purchasing inputs, before making heavy payments to the Receiver after harvest, economists said. This made government revenue more seasonal.

Appeal over health budget

GERALD REILLY

PRETORIA — The Medical Association of SA yesterday appealed to President F W de Klerk to give urgent priority to the health care budget for next year.

In a letter to De Klerk, Masa said it was seriously concerned about the deterioration of health services in the public sector.

This was caused by the loss of public sector health personnel to the private sector and to jobs in other countries because of inadequate pay, stressful work, outdated equipment and lack of career incentives at state hospitals. B/Day 6/12/90

Wits University's Specialists Association, using information from medical personnel at medical schools, estimated 76% of the doctors planned to move to the private sector; 41% were considering emigrating; and 9% planned a career change.

It was feared if the trend of losing state doctors continued, public sector health care services would be unable to provide care for a growing population.

Masa secretary-general Hendrik Hanekom stressed the vast majority of South Africans were totally dependent on state health care services. A preliminary report by management consultants commissioned by Masa warned that losses of senior practitioners and administrators to the private health care sector were a major threat to the public health sector.

Hanekom stressed that in the past 10 years there had been increasing concern over the deteriorating standards of academic medicine.

The standard of health care was determined by academic medicine standards and Masa had warned for years that urgent steps were needed to head off the crisis now developing.

Masa, Hanekom said, was waiting for feedback from a leadership conference on academic medicine held earlier this year but in the meantime it had started its own investigations into the funding aspect.

Levett warns of tax loopholes

BDay 7/12/90 (320)

LESLEY LAMBERT

CAPE TOWN — A low fixed-rate withholding tax on interest could create loopholes and lead to higher future tax rates to fund excess government expenditure, Old Mutual chairman Mike Levett warned in his address to yesterday's AGM.

He said that while the proposed tax was a pragmatic way of dealing with the penalties imposed when interest was taxed at marginal rates in a high inflation environment, it was fraught with difficulties.

"There is the likelihood that loopholes could be created by such a tax ... and because the concept is pragmatic and not founded on taxation principles, it may lead to a raising of the rate of tax in the future, in order to fund excess government expenditure," which was what had happened in the life assurance industry in the past decade, he said.

Levett's warnings came amid a renewed call for fair and consistant application of tax treatment.

He said a withholding tax meant the tax rate on interest received by life assurers from the investment of policyholders funds and the income portion of retirement annuities should equal the withholding tax.

The majority of funds held by life assurers were held on behalf of policyholders, Levett said. Unless the authorities applied the trustee principle, in which the taxation of policyholders' funds was based on tax principles applied to individuals rather than corporates, they would not have created level playing fields, he said.

10 percent capital gains tax next year predicted by BOE

By TOM HOOD, Business Editor

Argus 7/12/90

SOME resolution of the capital gains tax issue is on the cards and a flat 10 percent rate has been mooted, says The Board of Executors in its latest Investment Outlook newsletter.

This will be among far-reaching changes in tax policy expected to be made next year, forecasts BOE.

Other possibilities are:

- Company tax might be reduced to a maximum rate of 45 percent, but unrealised profits on instalment sales will probably become taxable at a low rate; and,
- The introduction of a withholding tax of about 10 percent on all interest-earning instruments at banks and building societies.

The effect of this measure would be twofold, says BOE. First, to make these deposits much more competitive with equity and, second, deposit rates could be expected to fall under the weight of money channelled in that direction.

- The introduction of VAT on October 1 1991 looked likely at a lower rate than that of GST, but imposed more widely, was probable; and,
- Wide-ranging, but unspecified changes to the taxation of life insurance and pension funds were expected.

The board says: "The local economic outlook displays the same negative trend as that of our major trading partners, although political turmoil and the effect of trade and financial sanctions have greatly magnified the situation in South Africa."

The last straw was the leap in oil prices and real GDP was likely to be at least 1,5 percent lower than in 1989.

Given the 2,5 percent annual population growth rate, this represented a major per-capita impovrishment, which was making the resolution of socio-economic problems practically impossible.

"The spirit of renewal in the government seems especially strong in the area of monetary policy and its determination to reverse the trend of past mismanagement appears unrelenting in spite of the unexpectedly vicious current downturn.

"Foreign exchange reserves remain critically low and it is doubtful whether the small cut in interest rates that could now arguably be afforded would have much impact on economic activity."

The safest courst for the country would be to grow itself out of the current recession by way of stimulating exports of minerals and manufactured goods, but external markets did not at present lend themselves to that course.

"To simply stimulate retail spending and thereby imports by a large interest rate cut would quickly lose all the ground thus far gained.

LOGIC SORELY TAXED

320

FM 7/12/90

Good pickpockets have an accomplice distract the victim while the "job" is done. So beware! The ghost of Henry George has been resurrected to con South Africans into believing they won't be taxed anymore.

Every few years, the Georgist idea of a "single tax on land rent" seems to come back into fashion. Economists then expose its faults and it goes back into hibernation until it can be foisted on the next generation. The latest incarnation comes in a book by Stephen Meintjes and Michael Jacques, *The Trial of Chaka Dlamini*. It is being sold as an economic elixir that, defying logic, replaces capitalism with free enterprise.

The authors are mistaken: their proposal is just another way of nationalising land. Their book is based on false premises. Claiming to abolish taxes, they simply replace old taxes with a new one; euphemistically naming it a "user charge." Speaking on behalf of the "community" they explain: "What is this rent? It is the benefit the owner derives from occupying better land and since it is the community that determines which land is superior to other land, this natural rent is due to the community." What they mean is that any benefit a landowner derives from land that is better than the worst land in use, is to be taxed away.

The question they fail to answer is: if the benefit of holding better land is taxed away, why hold better land? Why use better land more wisely than the worst? Their proposal, if applied, would distort land use in the same way that land nationalisation or "rent control" would, keeping the best land out of the hands of the highest bidder, thereby encouraging crowding and deterioration.

This "community" to which we owe a "user charge" is a myth. The "user charge" is a tax that goes to government, lowering returns to all capital and labour used on that property. The whole purpose of owning superior property is defeated if the benefits are taxed away. The owner effectively ceases to be the owner and will act accordingly.

One reason the authors prefer their "user charge" to income tax is, they claim, that income "is virtually impossible to measure." They fail to understand that their natural rent is even more difficult to measure. This rent is an abstract concept that does not appear separately in the market. Assessors can't truly separate it from return on capital. Assessments would be arbitrary, leading to favouritism, collusion and bribery. A tax system constructed on the basis of their advice would tend to consolidate power in the hands of those who act for the "community." This politicisation would destroy any "objectivity" in land pricing and battles over land zoning and assessments would rage.

Georgists will, as usual, shout conspiracy and accuse me of distorting their doctrine. Even Meintjes and Jacques suggest this when they quote Leo Tolstoy and take it on his authority that George's idea is "expressed so convincingly and effectively" that the only way to "fight against it" is "to falsify it and keep silent about it."

The real reason economists don't talk about it anymore is the same reason we don't argue about whether or not the earth is flat: economics has advanced greatly since George's time. George wrote before the "marginal revolution" in economics and couldn't benefit from that knowledge. Thus, George's errors can be sympathetically understood; but those of his followers are inexcusable. Indeed, many of these followers seem not only to be unaware of modern economics, but not even to have read George.

Meintjes and Jacques claim their plan is not socialistic. They seem unable to comprehend that their methods would lead to the same results. George himself, did not differ with the socialists' ends, but only with their methods. He abhorred and railed against the private ownership of property and favoured nationalisation without compensation.

But he was well aware that open and honest nationalisation of the land would "arouse the most bitter antagonism," so he proposed to accomplish the same thing in a "simpler, easier, quieter way," as he admitted in *Progress and Poverty:* "Let the individuals who now hold it still retain, if they want to, possession of what they are pleased to call their land. Let them continue to call it *their* land. Let them buy and sell, and bequeath and devise it. We may safely leave them the shell, if we take the kernel. *It is not necessary to confiscate land; it is only necessary to confiscate rent.*"

George sought a more practical strategy for imposing the objectives of socialism. He openly proposed "to appropriate rent by taxation." He didn't evade the obvious by calling a tax a "user charge."

By speaking of a "user charge," Meintjes and Jacques unwittingly accept the State as true owner of the land. This Marxist premise allows them to overlook taxation: if the State is entitled to what it is taking, how can one call it a tax? They also perpetuate the fallacy that, because their own policies weren't followed in the past, there arose the "need for redistributing wealth via socialism." They too, are socialists quibbling over methods.

If you wish to reduce our tax burden, then reduce taxes. But please don't con us by replacing one tax with another.

Interest tax loophole warning

S I Times 9/12/90

INTRODUCTION of a final withholding tax on interest payable to individuals is "fraught with difficulties", says Old Mutual chairman Mike Levett.

Mr Levett warns that such a tax could open loopholes for exploitation.

"It is important that the whole taxation framework be carefully studied to ensure loopholes are not created before any such tax is introduced," he told Old Mutual's annual meeting this week.

(320)

He is also concerned that the concept is not founded on taxation principles. It could lead to a raising of the tax rate to fund excess Government spending — something which has happped to the life-assurance business in the past 10 years. "I would not like to see history repeated," says Mr Levett.

Tiger calls on govt to clarify plans for VAT

B/Day 11/12/90

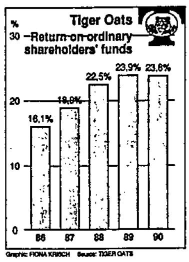
320

MARCIA KLEIN

FOOD giant Tiger Oats (Tiger) chairman Robbie Williams has called on government to clarify its intentions on the application of VAT to food products.

In the group's annual report he said that about 35% of lower income group expenditure was on food and with about 70% of food turnover exempt from GST, the extension of VAT to these products and the removal of the bread subsidy in March next year "will be a considerable burden to an already over-extended sector of our population".

Tiger operates in the food, pharmaceutical, fishing, confectionery and food canning industries and is a subsidiary of CG Smith Foods, which in turn is a member of the Barlow Rand Group.



Tiger posted a 16% growth in earnings to 184c (158c) a share for the year to end-September on a 19% increase in turnover to R6,78bn.

Williams said while most of the core business activities held up well, the broiler and bakery divisions, the pineapple divisions in Langeberg and the pelagic fishing operations in the Oceana Fishing Group had reported disappointing results.

He said the mixing of businesses making up the Tiger group had altered over the past five years, in line with a shift in the group's portfolio aimed at broadening its range of activities, strengthening brand names and adding value.

Williams said Tiger generated sufficient cash to fund its own expansion and keep gearing in line with levels in the food industry. Gearing rose from 35% in 1989 to 39% in 1990.

Total assets increased by 20% to R3,1bn in the year to September and the group spent R109m on replacement of assets, R125m on expanding operations and R106m on acquisitions in financial 1990.

There was major investment in the broiler chicken and egg operations, the bakery division and Langeberg canning operation.

In Maritzburg a major focus of investment was the erection of a wheat and maize mill and a bakery plant.

The group's target was to become globally competitive wherever feasible, Williams said.

Tiger is listed on the International Stock Exchange in London and has been involved in international markets for many years. The group hopes to increase the level of high value exports.

Tiger chief against VAT on basic food

Star 11/1/90 (320)

By Derek Tommey

Major food producer Tiger Oats is concerned about the Government's intention to impose value-added-tax (VAT) on all foodstuffs when it is introduced next October and its consequent effect on lower-income groups.

Writing in the group's annual report, chairman Robbie Williams says the Government appears determined to have hardly any exemptions from VAT in order to close tax loopholes that have resulted in under-recovery of GST.

Unfortunately this means all foodstuffs will be subject to VAT.

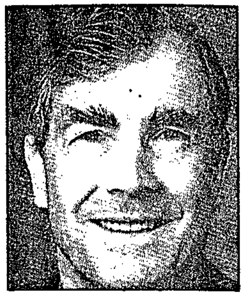
About 70 pecent of food turnover is now exempt from GST. The introduction of VAT means consumers will pay tax on the present exempt portion.

A 10 percent VAT rate, for example, could push up everybody's food bill by about seven percent.

"The effect of extending tax to basic foods with the replacement of GST by VAT is still not entirely clear," he says.

He asks: "What plans has the Government for helping the lower-income groups, who are already spending as much as 35 percent of their income on food?"

A simple calculation shows that the introduction of VAT could push the figure up to almost 38 percent.



Robbie Williams . . . still not entirely clear

The Government has hinted it has plans to help the lower-income groups. But Mr Williams points out that little is known about their extent and timing.

He says three developments — the removal of bread subsidies, the probable increase in food prices and the apparent lack of assistance for lower—income groups — are inextricably linked.

The extension of VAT to food and the removal of the bread subsidy "will be a considerable burden to an already over-extended sector of our population", he says.

He cites the United Kingdom as an example of a country where foodstuffs are exempt from VAT.

Figures in the annual report go a long way to refuting claims that food manufacturers are responsible for much of the current inflation by forcing up margins.

Although Tiger Oats' turnover rose 18 percent to R6,8 billion, operating profits rose only 14 percent because of a decline in operating margins on all sales from 7,6 percent to 7,3 percent.

An analysis of divisional earnings shows that margins on foodstuffs sold dropped from 6,5 percent to 6,15 percent.

Reflecting the increased emphasis on exports, Mr Williams says the efficiency of Tiger's businesses are no longer assessed against the best of the local competition, but against overseas firms.

"Our target must be to become globally competitive," he says.

Tiger Oats has been involved in international markets for many years and has developed both the skills and the external infrastructural network.

"We will seek to build on these capabilities, particularly in increasing the level of high-value exports."

He sees a difficult year ahead.

But the acquisition of the sweet manufacturer Beacon, and stronger results from fruit canner Langeberg should produce a satisfactory increase in earnings, he says.

INSURANCE (320)

OVERTIME

FM 14/12/90

Japie Jacobs, special adviser to Finance Minister Barend du Plessis, will spend the holiday drafting his overdue report on rationalising the tax base of financial institutions. The report was scheduled to be in Du Plessis' hands this month but Jacobs says his committee, after drafting some recommendations, hit snags. He now aims to have a report ready towards the end of January.

That will hardly allow a major overhaul of tax legislation in time for the Budget. The Tax Advisory Committee (TAC) is not due to meet again until late in January. Consensus, then, may be elusive; there are recommendations coming from Jacobs which the TAC still finds "debatable."

Jacobs' brief is to level the tax playing fields between banks and building societies on the one hand and life assurers on the other. When Deputy Finance Minister Org Marais began earlier this year to plan a withholding tax on individuals' interest income, this was to have been a quick and simple fix, designed to divert savings to banks and building societies. The Life Offices Association (LOA) was, however,

FM 14/12/90

quick to point out that its members also receive interest income on behalf of policyholders — who are also individuals.

All organisations making representations to Jacobs have been held to secrecy. Some life assurance sources now suggest total reconstruction of the tax base will be impracticable. Some amendments could be drafted for the Budget as a trade-off. It is suggested there will be a withholding tax — but broadly based. Since this would be little gain for banks/building societies, a *quid pro quo* is needed. It is now widely expected by assurers that this will mean a tax on trading gains in their investment portfolios.

Since the rapid growth of assurers' funds has been partly due to their success as share traders, the gains are an obvious tax target. The irony is that if policyholders had invested as individuals, only in extreme cases would they be classed as traders and their gains subjected to tax. So, if these predictions materialise, it will create yet another crack in the tax wall assurers have built. The principle that they are simply trustees for a large number of individuals will again be on the table for discussion.

One assurer said this week that, because the composition of banks' and building societies' funds precludes them from large-scale JSE trading, to tax assurers' gains would significantly redistribute the tax base. The question then would be, what rate of gains tax would be bearable. Among the submissions has been a veiled warning that if assurers' gains attract swingeing taxes, they will tend to lock shares away — with disastrous effects on JSE turnover. ■

PERSONAL FINANCE

'Withholding tax' plan under surprise attack

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Star 15/12/90.

A withholding tax on savings was proposed in last year's Budget as a means of encouraging people to save. But the concept is running into opposition, says ANTHONY CHAIT, part time lecturer at Wits Business School and tax partner of accountants Fisher Hoffman Stride.

GOVERNMENT's proposed withholding tax mooted in the March 1990 budget, is unlikely to be implemented by March next year as originally intended.

"We are running out of time, which is a pity", says Mr Chait whose main concern is that the concept is in danger of being scuttled because of the opposition Government and the Jacobs Committee have received. Criticism has also come from some members of the Tax Advisory Committee.

The committee includes financial and tax luminaries Michael Katz, Herc Hefer and Dr Jannie Graaf. It is chaired by Dr Japie Jacobs, special economic advisor to Minister of Finance Barend du Plessis. Jacobs is known to be a keen supporter of the proposed tax.

"Because of criticism of the new tax the whole thing is probably in the balance until final approval by the Cabinet", notes Mr Chait. Despite these problems he believes there's a 70 percent chance that a withholding tax will be introduced in the second half of 1991.

It's believed Deputy Finance Minister Dr Org Marais, one of the main supporters and proponents of withholding tax as a concept, is adamant the tax be introduced as soon as possible.

The Jacobs Committee's finalised report is ready to be presented to the Cabinet which will decide if it will be a public document or a document for Government use only.

Government's main objective in introducing a withholding tax is to increase discretionary savings by offering taxpayers an attractive savings incentive.

South Africa's discretionary savings, expressed as a percentage of income, are in a negative phase. This has been the case for some considerable time.

Several factors have contributed to this. Rampant inflation and tax calculated at marginal rates of up to 44 percent often erode real returns on interest accruing from institutional investments, to a negative level. Withholding tax calculated at between 10 percent and 15 percent would obviously change this and act as a powerful incentive to save.

In addition the new tax could enable government to take in tax on interest from investments which taxpayers often omit to include in their tax returns. Taxing at source means Government no longer has to rely on the honesty of taxpayers. This will certainly sharpen collection procedures once the new tax is implemented.

More significantly, Government is presently deprived of considerable income when non-residents, not registered as taxpayers, escape the tax net on interest accruing to investors who deposit moneys in interest bearing accounts for considerable periods, say in between share transactions on the JSE.

No mechanism exists to collect tax on what is believed to be vast amounts of accumulated interest in these non-resident accounts.

The possible downside of a new withholding tax is that historicaly new tax regulations attract and encourage irregularities. A certain degree of manipulation and abuse is inevitable and to be expected. Regardless of the carefully structured legislation, someone is likely to find a loophole or devise a scheme to beat it, says Mr Chait.

Certain critics fear that avoidance schemes such as tax arbitrage schemes and reclassification of income to benefit the taxpayer could give rise to tax anomalies and unfair advantages.

"Their concern seems to be that withholding tax will lead to wholesale abuse which will distort and mitigate the original objective."Certain factors need to be taken into account when Government decides whether or not to implement the tax," says Mr Chait.

ANTHONY CHAIT

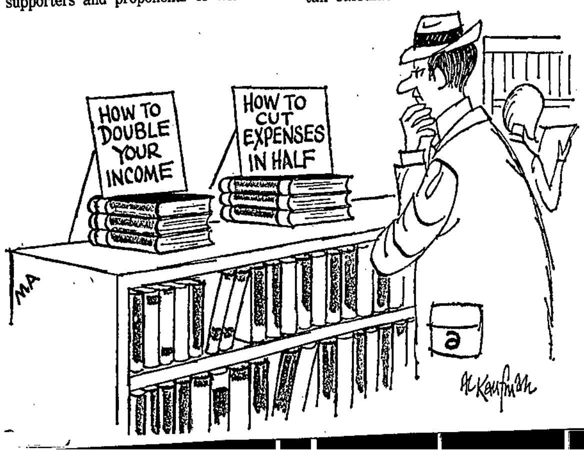
"One has to look at it in its totality and in the full context of the socio-political situation and the extent to which some people today have declining disposable income while others are experiencing increasing diposable income.

"This is a factor in determining the success of the tax in terms of achieving the objective of increasing the amount of discretionary saving."

A considerable advantage of introducing witholding tax, believes Mr Chait, is that the playing fields of financial institutions such as life offices and banks and building societies will be levelled.

"At the moment the life insurance industry has a distinct advantage over banks and buildings societies. They are able to offer certain products which in terms of current tax legislation may be tax free.

Mr Chait expects opposition to the tax to diminish once Government drafts legislation which will hopefully eliminate the problem areas.



No delay in VAT introduction

320

THERE was no truth in the rumours that the government had decided not to proceed with the implementation of the Value Added Tax (VAT), the Deputy Minister for Finance Dr G Marais says.

In a statement released yesterday, the Minister, who was reacting to these rumours, confirmed that the target date for implementation of the tax remained October 1, 1991 as previously announced.

Dr Marais said that certain recommendations of the Committee, set up under his chairmanship to consider the comments on Vat by interested parties, had already been submitted to the Cabinet. It was intended to make a complete report of the Committee available for general information during January 1991.

The final legislation would then be able to be finalised for approval by Parliament early next year, Dr Marais said. —Sapa.

Sowetan 15/11/90

R1bn overrun on income tax likely

BDay 17/12/90 (320)

THE Finance Department expects an overrun of at least R1bn on personal income tax, mainly reflecting fiscal drag as big salary increases push people into higher tax brackets.

GRETA STEYN

Also paying tax at a far more rapid rate than envisaged in the 1990/91 Budget speech are non-gold mines. Even though other tax categories are under-performing and the recession is gaining momentum, official forecasts are for a smaller deficit before borrowing than budgeted — an outcome which could provide extra funds for development spending.

Finance director-general Gerhard Croeser said estimates before the 1990/91 Budget of average wage increases of 16% had proved conservative and the fiscus looked set to benefit to the tune of an extra R1bn — "or maybe even more".

The Reserve Bank said in its Quarterly Bulletin: "Exchequer receipts for the fiscal year as a whole are expected to exceed the Budget estimates to a quite considerable extent."

Croeser said that, based on an average 16% rise in salaries and wages, fiscal drag would have been virtually eliminated. But the Bank said in its Bulletin that the annual rate of increase in wages per worker was 17,1% in the second quarter of this year and that recent unofficial surveys had indicated unions had achieved 20% increases for their members.

CSS figures released at the weekend showed the increase in income taxes, excluding gold mines, was well ahead of Budget at 23% up after the first seven months of the fiscal year.

However, gold mines were lagging (30% down compared with a budgeted 5% drop) and so was sales tax (up 9,8% compared with a budgeted 12,5%).

The Reserve Bank notes that "signficantly higher than budgeted for" receipts from individuals' taxes, combined with the "even more pronounced" buoyant receipts from non-gold mines, had swelled the Exchequer's coffers at a more rapid rate than expected.

A detailed breakdown in the Quarterly Bulletin for the first half of the fiscal year

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Tax overrun

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shows income tax for individuals up 21,1% — well ahead of the budgeted 4,3% for the full year. Tax from non-gold mines was surprisingly buoyant at an increase of more than 100% (compared with a budgeted decline of 10,8%).

The strong rise in the latter two categories will more than offset the weak gold mines and sales tax performances to take the deficit down to 2,6% of GDP, instead of 2,8%, the Bank predicts. This implies a revenue overrun of about R600m. The Bank's forecast is more cautious than those of some economists, who have been predicting revenue overruns of up to R3bn.

After six months of the fiscal year, the deficit amounted to less than half the budgeted deficit for the full year (R3,05bn compared with R7,99bn). The Bank's prediction of a deficit of about R7,4bn indicates it expects the revenue bonanza of the first half to taper off in the second half.

Film tax scams face scrutiny

GILLIAN HAYNE

INVESTORS who have been involved in film schemes might have to pay hundreds of millions of rands to the Receiver of Revenue if their tax assessments are re-examined in terms of a new approach being formulated. B Day 19/12/90

The Receiver is believed to be formulating a new way of dealing with tax on film subsidies which could provide the key to a more thorough investigation of the legitimacy of film schemes.

Informed sources say that if the new approach is successful, the Receiver might reopen past assessments and even cancel tax allowances if they were obtained fraudulently. (320)

In addition, penalties of up to 200% of the original tax lost to the fiscus could be levied. The amount lost to government through double deductions and allowances on questionable film schemes has been estimated at hundreds of millions of rands.

There are about 35 film projects on record from the past four years. Some of these have not yet been assessed.

Analysts said if deductions were cancelled and penalties were levied, it would have a significant influence on companies' cash flow and earnings, especially for those which took advantage of the tax saving to pay out dividends.

Members of the Receiver's team involved in film scheme assessments were

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Films

B Day 19/12/90

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unavailable for comment.

It is believed the backlog in film scheme assessments — and assessments of music projects and other export schemes — arose from Revenue's inability to put together an investigation strategy to test whether the schemes were genuine, and whether they warranted the double deduction allowance.

The new approach stems from the use of fixed expenditure contracts between the SA management companies, on behalf of investors, and overseas distributors, where it was argued that management companies were not obliged to support the expenditure with invoices.

When invoices were requested by auditors many were found to be false.

Sources suggested that by making the schemes with fixed expenditure contracts the starting point of investigations, Revenue would be more likely to distinguish bona fide cases from those implemented solely for the tax benefits.

The new approach was conceived at a special meeting of creditors in the insolvent estate of Trinity Asset Management (Trinity).

At the meeting, evidence was put forward that the modus operandi of the film scheme management companies, which in turn were nearly always administered by Trinity, was to sign fixed expenditure contracts with overseas distributors where the management companies would undertake an obligation to pay an agreed sum overseas for distribution purposes.

Being a contractual obligation, it could be argued that invoices detailing the breakdown of the "fixed expenditure" were not necessary. However some auditors did request invoices and later others followed suit when problems were encountered. Many proved false.

Receiver wins bonus from mining firms' big tax rise

B Day 20/12/90

(320)

GILLIAN HAYNE

TAX payments by mining companies other than gold mines rose 106,4% in the first six months of the fiscal year, defying the 10,8% decline budgeted by government in March, the latest Reserve Bank Quarterly Bulletin reports.

Some analysts felt the discrepancy was "another typical Reserve Bank budgetary faux pas".

However, KPMG Aiken & Peat partner Alister MacKenzie said the difference was a combination of unpredictable timing structures and the periods when provisional payments were made.

"Although the figures are accurate the results they reflect are fortuitous. With such a mixed bag of inputs, half-year figures are not accurate indications of the long-term trends."

All non-gold mining companies were required to make three provisional tax payments a year — the timing of which was dependent on the companies' tax years — and the deadline months would obviously register far greater tax payments than others.

Similarly, other tax payments were reliant on the companies' order books, he said.

In June of the 1991 fiscal year Revenue collected R752,6m compared with R401,5m for the same period last year. These compared with the "lean" months which saw Revenue pay out R7m in refunds in May, R1,6m in July and R2,6m in August.

Revenue confirmed that a total of R1bn was received for the first six months of the 1991 fiscal year compared with R522m for the same period in 1990.

Many mining houses, in their quarterly reviews, include the caveat that there are huge fluctuations within the quarters which do not necessarily reflect the trend for the year.

Price Waterhouse partner Chris Frame said the discrepancy indicated a lag between government's premature recession predictions and the companies' experiences. "Last year government was trying to decelerate the economy without success and was forecasting a gloomy year. Companies were still doing well in the first six months, which government would not accept," he said.

Single tax: an idea whose time will never come

B/Day 20/12/90 (320)

LAWRENCE HAAR

CONSIDERABLE attention has recently been focused on the single tax theory where various proponents, most notably Stephen Meintjes and M Jacques — authors of The Trial of Chaka Dlamini — have portrayed taxing only the value of land as a virtual panacea for many of SA's ills.

The profound deficiencies of this theory, particularly with regard to its applications and benefits, demand close scrutiny.

Like most "new ideas", financing government through the taxation of land only has a long history. It was the neoclassical economists of the last century who first rigorously analysed the effect of the taxation on the supply of economic goods and services.

As taxes may distort relative prices (for example, taxing alcohol and not tobacco may indirectly encourage smoking), considerable attention was focused on ways to tax without distorting what may be ideal competitive conditions.

The search was then on for goods and services where the supply was insensitive to price. Moreover, the ideal would be a commodity where the supply could not be changed at all. Thus taxing it would have no dislocating effect.

Broad ownership of land has often been regarded as a desirable public good. Late 19th-century America was no exception. Since, in a crude sense, the supply of land was regarded as fixed, and because windfall gains arising from population growth seemed unfair, taxing the implicit rent on land or imposing a tax on the value of land, seemed like an excellent idea.

The most famous proponent was Henry George, whose book Progress and Poverty swept the US in the 1890s and gave rise to the single tax movement, calling for the exclusive reliance on land taxation.

Land taxation, be it an exclusive or partial source of revenue, is a good example of how a little bit of knowledge is a dangerous thing.

Firstly, there is the problem of how property should be valued. Should it be assessed on sale or rental income values, and should use be made of actual or potential values?

Assuming perfect markets and optimal utilisation, this difference *shouldn't* matter — but when are markets perfect?

If property is under-utilised, assessment on the income base yields a lower value; such assessment therefore discriminates in favour of under-utilisation. This may have adverse economic consequences in developing countries such as SA.

Conversely, taxation based on market value when the income derived is minimal, for example vacation property, may seem unfair. Only if markets are perfect will prices reflect alternative uses.

In order to determine potential income or market value, it has been proposed that self-assessment by the owner of the property be relied upon. The owner would then be required to sell, at any time, at the declared value; but this is hardly feasible.

The market value versus income approach also handles risk differently. Different properties with the same income may have different market values. Incomes are capitalised into property values at rates which reflect different risk premiums. That's what speculation in land is all about.

Property improvements also cause problems. Taxing land value rather than income when the property has been substantially improved will lead to under-assessment. The point then is that taxing land only is fraught with difficulties of a subjective, often emotive, quality.

In SA, the single tax on land theory seems to be intertwined with the broader debates now raging over land reform. Presumably taxing underutilised land would, by raising the cost of ownership, free up (read, "liberate") resources so that they may be more "democratically" owned.

The implicit assumption is that land prices do not reflect present and possible future income streams — the land would be "worth" more to someone else, for example, blacks.

Although ownership or usage criteria based upon race should be eliminated, on both equity and efficiency grounds, property and capital markets are otherwise quite well oiled. Gross price discrepancies and bargains seldom occur.

Markets are not always efficient, but mechanisms do exist to make them efficient.

In conclusion, financing government through the exclusive taxation of land is unworkable and simplistic. There are good reasons why it has never been implemented.

Moreover, the overt political overtones ("land for the people") cannot be ignored.

Sensible taxation must stand on three principles: it must recognise one's ability to pay; it must be related to the benefit one derives from the revenue collected; and it must endeavour to cause minimal market dislocation.

In the real world, land is not unique and therefore singling it out can hardly be justified.

□ **Haar is deputy chief dealer, financial engineering, at FNB. The views expressed here are his own.**

LETTERS

Call made for reassessment of tax system

B/Day 20/12/90

320

GILLIAN HAYNE

A REASSESSMENT of SA's tax system was needed to bring tax rates back to globally competitive levels and reduce the political pressure on government to provide welfare benefits.

This view was expressed by International Freedom Foundation (IFF) director Warwick Davies-Webb in a report released yesterday.

He recommended, among other things, that SA's tax structure should reflect a more free market perspective and that taxation "should be pegged at a level sufficient to provide only for the defence, law and order, and legal framework of a free society".

The state should give individuals the chance to "opt out" of relying on state welfare benefits, he said.

Consumers to share banks' load

(320)

GRETA STEYN

CONSUMERS face higher bank charges next year as banks hit by tax changes to be introduced in 1991 will pass them on to customers. B/Day 24/12/90

First National Bank chairman Basil Hersov's annual statement said the introduction of VAT, the withholding tax on interest and changes to tax allowances on suspensive sales would put upward pressure on bank costs.

"These changes will inevitably have to be passed on in the form of increased financing costs," he said.

With some financial services exempt from VAT, banks might not get full credit for VAT paid on inputs and with the VAT tax base broader than the current GST base, the bank's tax profile would be higher. The impact would be felt as a "slight addition" to costs across the group.

"The proposed withholding tax, which may be introduced at a low rate on interest payable to individuals, will impose an additional burden on the group's administration and systems," Hersov said.

He also noted that changes to Section 24 tax allowances on goods sold under suspensive sale agreements would have a negative impact on costs.

Hersov noted that the bank would maintain strict control over non-interest costs. In First National's previous financial year, the rise in operating expenditure was contained to 7,5%. The need to restrain costs was more important in view of continued pressure on asset growth, he said. But he addded that asset growth should be higher than in the past financial year.

Levelling the tax playing fields

OUTLOOK '91

DORIAN WHARTON-HOOD, Joint Managing Director Liberty Life (320)

THE appointment of the Jacobs Committee to level the playing fields in the financial services industry was welcomed by the Life Offices Association as one of the most important developments of the year.

The LOA is confident that we will end up with tax rules that genuinely level the playing fields. Star 29/12/90

The committee may be considering taxing the total yield on all personal savings within life assurers, banks, building societies and mutual funds at a low rate.

This would be a pragmatic alternative to taxing only the real return at a higher rate. If the same rates apply to all participants and individuals, the LOA would support such a move.

Life assurers have been successful in the past, despite the fact that they have been adversely treated from a tax point of view and, in addition, were handicapped until last year by having to invest heavily in prescribed assets.

Because of its efficiency, superior products, an effective marketing system and investment expertise, life assurers have consistently produced real returns, above the inflation rate, for policyholders.

The result has been that the bulk of SA's contractual long-term savings has flowed to life assurers. This has provided much needed capital to finance economic expansion.

But, if inflation is brought under control — and there is a chance of this happening if the oil price remains relatively stable — life assurers may struggle to compete with the banks and building societies. Why? Simply because we pay too much tax.

The true role of life assurers is to mobilise contractual long-term savings and, in so doing, provide benefits to millions of people in the event of death, disablement or retirement.

Were is not for the industry, the burden of caring for these people would fall upon the general body of taxpayers.

It is therefore in everyone's interests that life assurers should be successful.

An essential element of any life assurance product is the investment guarantee.

The introduction this year of 100 percent equity-based policies was a disturbing trend as these policies cannot offer these investment guarantees, a feature which we at Liberty Life believe is very important.

It is difficult to control the activities of agents and brokers to ensure that these policies are only sold to people who understand the risk they are taking — most people need these guarantees.

The facility to switch portfolios from equities to properties or gilts gives scant protection. We all know what happens in practice.

The market booms, it reaches a peak and everyone is buying equities. The market crashes and everyone wants to bail out.

The public get it wrong every time. And to suggest that the man in the street has the expertise or the ability to forecast or know where the market is, is absolute nonsense.

The raging bull markets of the 1980s are unlikely to be repeated in the 1990s and who can say whether equities will outperform property or even fixed interest investments over the next decade.

Life assurers are in the long-term business and it is essential that we continue offering investment guarantees to our policyholders. We can't gamble with their retirement savings.

Another development which will impact in the year ahead is the LOA's decision in April to set up a committee to investigate "socially desirable" investments.

It was motivated by the move to research all investment opportunities for the life assurance industry.

The industry will only agree to invest in "socially desirable" projects provided they yield market-related returns.

But the industry does not have the ability to manage and drive these projects — our job is to manage money.

The perception that it is the responsibility of life assurers to invest in socially desirable projects which produce less than market-related returns is wrong.

It is the Government's responsibility to decide what portion of its income from tax it will set aside to subsidise these projects. People must realise that the money we manage on behalf of our policyholders belongs to the members who contribute to the funds, and not to the public.

Another important issue that will impact significantly on the industry in the years ahead is AIDS.

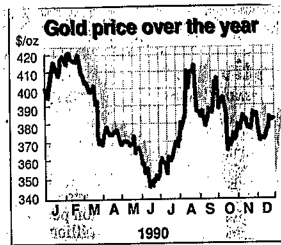
Uninformed speculation is rife that a large number of SA's population could be HIV positive by the year 2000. This is frightening. However, I still feel that as an industry we should offer unconditional life cover, wherever possible.

It is preferable to insist on proposers undergoing HIV tests to enable us to offer them full cover, rather than inserting AIDS exclusion clauses in policies.

Exclusion clauses could give the industry a bad name in the future because claims could be repudiated and widows and orphans left destitute and disillusioned because they would probably not be aware of exclusion clauses on policies. The industry and SA are entering a new era.

It is vital that, in a new South Africa, the economy be structured to achieve a high level of growth and wealth creation to create more employment opportunities.

Life assurers have a major role to play in this regard and therefore the stimulation and mobilisation of the savings of all our people will always be of paramount importance.



Graphic: LEE EMERTON Source: INET

BDay 31/12/90

Tax from bullion takes a nosedive

(320)

GRETA STEYN

GOVERNMENT's revenue from gold mines tax plunged by an unexpected 30% in the first seven months of the fiscal year from the same period in the 1989/90 book year — making a mockery of the 5% drop foreseen in the Budget.

Revenue from gold mining is shrinking as a percentage of overall state revenue, while the stake of individuals rises.

The metal's tiny contribution of 1,3% to total revenue in the period April to October is a far cry from 1980, when revenue from gold mines accounted for almost a fifth of government's total revenue.

Although government did not disclose its estimate of the gold price in the March Budget, officials indicated it was an average price for the year of more than $400.

But gold spent most of the year languishing below that level, even briefly sinking below $350 in June and failing to impress as a "safe haven" during the Gulf crisis.

Government also budgeted for an 8% drop in income tax receipts from gold mining leases.

But here, too, massive underrecovery is taking place (down 40%).

The few hundred million rands in revenue lost because of weak gold mining will be more than offset by substantial over-recovery of personal income taxes because of fiscal drag.

The Reserve Bank's policy of keeping the rand stable saw it refuse to push the rand exchange rate lower to help the ailing gold mining industry — a move which also kept down the taxes the industry paid.

The effects of the lower-than-expected gold price on the balance of payments were not as severe as initially feared, with the current account still set to record a

☐ To Page 2

Nosedive

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(320)

☐ From Page 1

R5bn surplus.

The Bank had projected a surplus of about R6bn at the beginning of 1990.

The Bank said it would intervene in the gold market to support the price. It has built up enough foreign cash reserves to allow it to keep gold from the market, and has indicated it wants to rebuild gold reserves.

There was evidence of that at the end of November, when gold holdings surged by 323 000 oz — the biggest move since February 1990.

But at just more than 4-million ounces, the Bank's gold holdings are 33% lower than three years ago and 66% less than in 1980.