TAXATION — 1992

FEBRUARY — MARCH

'More revenue, less corporate tax'

(320)

CAPE TIMES 3/2/92

From LESLEY LAMBERT

JOHANNESBURG. — The state could raise additional tax revenue of R40bn over five years without increasing corporate or individual tax rates, according to new proposals published by the Wits Centre of Applied Legal Studies (CALS).

The proposals, drawn up by CALS director Dennis Davis, were initially developed to test the ANC's proposals that government expenditure should be increased to 35% of GDP and that tax revenues should be increased from 25% to 30% of GDP in order to raise an additional R40bn over five years.

Now the proposals are being presented as an alternative to the Margo Report which Davis says had "enormous intellectual and political inadequacies".

Davis argues that the additional revenue could be achieved even with a reduction in corporate tax to 43%, the existing maximum marginal rate for individuals.

However, a reduction in rates would have to be coupled with a minimum tax of about 30%, higher than the effective rate currently paid by many companies.

Government would also have to cut back on discretionary allowances and incentives in virtually all areas other than those which promote training and housing.

A reduction of rates would also have to be accompanied by a range of wealth taxes, including capital gains tax, capital transfer taxes and land and property taxes, Davis proposes.

He notes that in almost all OECD countries the maximum marginal tax rate for individuals has decreased fairly dramatically over the past five years. In many developing countries this trend has been accompanied by an increase in tax revenues because of the introduction of indirect taxes many of which were previously considered as regressive and inefficient.

Benefit principle

"Significantly the benefit principle, namely that taxes be levied in accordance with the benefits received from the expenditure they finance, has returned to favour as opposed to the ability to pay principle which hitherto dominated during the highpoint of the theory of high maximum marginal rates of tax," Davis says.

But whatever the principle, Davis argues that a tax system can only succeed if two important conditions are met. The administration must be accountable to civil society, ensuring that the revenue is put to the most effective use, and it must be effective and efficient, removing corruption and collecting the maximum possible amount of revenue.

At the same time the system should be user-friendly with contributers updated on revenue practice and interpretation by means of regularly published rulings.

A majority of the Margo Commission voted against the introduction of Capital Gains Tax because its potential yield was low and it would create a bias towards holding onto appreciated assets which could seriously retard and distort markets.

Davis argues, however, that the Commission missed the point made by the Irish Tax Commission that a main advantage of Capital Gains Tax was to prevent avoidance of income tax by switching income gains into a form in which they were regarded as capital gains.

He says that while land taxes will not resolve the pressing land issues confronting SA, they should not be discounted as part of an overall package of reform.

"It is estimated conservatively that there is some R60bn worth of agricultural land in SA. Even allowing for an exemption from tax for the poorer farmer, an annual tax of 2% could yield R1bn.

"Provided that this revenue is used to develop the agricultural sector, it could prove important particularly as a fiscal base for rural local authorities," Davis says.

Inheritance taxes, which are imposed in most western nations, should raise between 1% and 2% of total tax revenues, he says. In SA, estate duty, which yielded R82m in 1990, should raise at least R1bn.

BUSINESS

Taxing us to death by degrees

WMail 3/1-9/1/92 (320)

Count the day won when, turning on its axis,
This earth imposes no additional taxes.
— Franklin P Adams

A suggestion that a special tax on graduates should be imposed for redistribution was greeted with no little disbelief. REG RUMNEY *suggests some other yuppie taxes*

UNIVERSITY of the Transkei Professor Wiseman Nkhulu has advocated a tax on university graduates as one way of redistributing wealth.

He didn't later deny it, so we have to assume he meant it.

Graduates have profited from the apartheid education system, and so should put some money back into the system.

Opponents of such a scheme could argue that many uneducated people have benefited from apartheid at least as much as graduates have. Conversely, many graduates, particularly those unwise enough to have entered education or journalism, are not particularly wealthy.

As a revenue-raising device a graduate tax might not be particularly effective.

But let's accept that special taxes should be instituted to redistribute wealth.

Truly creative thinking demands that we don't stop there. Besides, a broader tax would be fairer and more efficient. Naturally, it has to be aimed at the wealthier members of society, or it would merely be a revenue-raising exercise.

What else could be taxed besides degrees?

Long a symbol of sybaritic suburban whites, swimming pools would be an obvious tax target. It could be progressive too: the bigger the pool, the bigger the tax. Trouble is *Sunday Times* editor Ken Owen has already filled his in. However, this is a definite possibility.

A logical extension would be a tax on jacuzzis and private steam rooms. Another possibility is a tax on second bathrooms.

A progressive (the more you have the more you pay) national property tax has already been advocated. This would have to be on the basis of municipal valuation. The Norwood trend of wealthier whites moving into tiny properties for security reasons would rule out tax on the basis of land size alone. Never mind that Trade and Industry Minister and former Gencor chairman Derek Keys has been living in a flat in Killarney, which presumably means he at least wouldn't be in line for the tax.

Luxury cars are another status symbol that suits a redistributive tax.

True, almost all new cars are becoming a luxury purchase. And luxury cars incur extra tax in the perks tax tables. But some observers, particularly members of the South African motor industry who manufacture Japanese cars (of course), argue that the number of luxury German cars on South African roads has reached obscene levels.

One can confidently predict, however, that with the already exorbitant price of BMWs and Mercedes Benz cars, a luxury car tax will quickly induce drivers to "buy down". The result will be a windfall for Toyota and the other car manufacturers.

So perhaps a tax should be placed on 16-valve fuel-injected models, or power steering.

Even more specific, a tax on car phones would hit exactly the right people — if it didn't kill the nascent car phone industry stone dead.

Similarly, there is no doubt which class of people would be subject to a tax on laptop computers, real leather brief cases, filofaxes, and computer programmes that enable you to play the stock exchange from home. Add to this airconditioned offices and big desks of exotic wood and leather.

Once again, though, if you want to tax the affluent businessman, you should for tax efficiency bring his wife into the tax net as well.

This means a tax on beauty salons and health clubs, racing bikes, home gym equipment, psychiatrists and mineral water, retro tortoise-shell spectacles and answering machines. The possibilities are almost endless.

Ah, but what about taxing the obvious, you ask? Imported suits and shoes and designer clothes from all corners of the globe, are surely fair game. These (and some of the above) are subject to pretty high import surcharges on luxury goods already. Add in Value-Added Tax and you have prices that make all but the super-rich blanche.

This is the beauty of the graduate tax: you can't avoid it. In this it resembles the UK's infamous poll tax.

An important principle of tax law — one which the present government doesn't seem to agree with — is that one should be able to arrange one's affairs so as to pay as little tax as possible.

People do anyway. The UK window tax of old is illuminating. The rich bricked up many of their windows. The poor could do little to avoid the tax.

So the yuppie taxes mentioned, if high enough, would encourage those with disposable income to lead an ascetic, low-tech and even unhealthy lifestyle. They would certainly be resented and most definitely be resisted.

So would a tax on graduates, and — if high — it could also speed up the brain drain.

If taxes are low but widespread, the theory is they only cause mild resentment and people get used to them quickly. That is the thinking behind taxes like VAT. However, if they are too low they don't raise enough revenue to make any difference.

In the end, income tax is still a pretty powerful instrument for redistribution. Granted, as a political gesture if nothing else, new taxes will probably be introduced. Estate duty, now all but nominal, could be beefed up again. Now the first R1-million is exempt, as are bequests to a surviving spouse, according to KPMG Aiken and Peat's Alister MacKenzie, and the flat rate of tax is 15 percent.

There may be big money slipping out of the tax net. But remember that individuals already shoulder a big part of the tax burden.

The individual's share of income tax has risen from 19,9 percent in 1979 to 37,6 percent in the 1991/92 budget.

The individual tax burden doesn't include sales tax or VAT, of around 20 percent. This is ultimately paid by the consumer — that's you and me. We could pay more, but not much.

So will anyone who has new creative ideas for the Receiver of Revenue give us a break. Please.

Retailers suffer an un-merry Christmas

WMail 3/1-9/1/92

There were fewer jingles in the store tills this Christmas, as the recession finally cut deep into consumer spending. **REG RUMNEY** *reports*

It's sale time with a vengeance in the New Year Photo: KEVIN CARTER

GET ready for some great New Year sales — if you have any money left.

For the first time in years it was not a merry Christmas for those who depend on the season of goodwill and bonuses to make a good part of their yearly profit.

Pre-Christmas sales in some retail chains should have been a clue. Goods that last year moved off the shelves as if by magic had to have their prices slashed to budge. Retailers are cagey about stock, but the pre-Christmas sales have already been followed by post-Christmas price slashing in some stores.

Retailers *The Weekly Mail* spoke to confirm that a South African Chamber of Business pre-Christmas survey was at least not too far off the mark and was in some cases optimistic.

Sacob's survey said retailers expected Christmas sales to be down around five percent in real terms. Individual retailers will judge their own performance against that depressing yardstick. Those *The Weekly Mail* spoke to felt happy to have matched or slightly bettered the November inflation rate of 15,5 percent.

Chain store OK Bazaars managing director Gordon Hood this week described Christmas this year as "not very exciting".

OK turnover in nominal terms, ie not adjusted for inflation, was 17 percent up on last year in real terms for the Christmas season.

Big-ticket items such as furniture and appliances were hardest hit.

OK is part of the South African Breweries group, which also includes Edgars Stores.

Drinks and retailing group SAB executive chairman Meyer Kahn was quoted just after Christmas as saying that Christmas sales looked like they could be the lowest in six years.

"We are comfortable with the real growth we've achieved," said Edgars financial director Robert Maydon, without quantifying that growth. He qualified this by saying he could only speak for the Edgars chain itself, not the other stores in the group, Sales House and Jet.

Unlike previous years, where Christmas has come earlier and earlier, shoppers seemed to delay buying until the last minute.

"We had a fantastic Christmas week," said Pick 'n Pay financial director Chris Hurst, "with sales up 28 percent in nominal terms." For the full five-week Christmas season, however, it looked as if the chain would achieve only an 11 percent increase in cash terms. "It was about as good as we could expect. There isn't a lot of money out there." He added that people were selective in their spending.

Chain store Game operations director Barry Clements said shoppers were a lot more price conscious, and shopped around at Christmas. Pricing on big-ticket items was very competitive. He said Game turnover was marginally up in real terms on last year, but "only just. It was a lot better than we'd hoped".

Spending was disappointing up to Christmas, but shoppers came to the stores after Christmas itself.

Furniture and appliances store Morkels also had a late shopping rush, with good trading in the few days before Christmas.

Morkels operating director Bob Smith said sales were marginally up in real terms until Christmas and in the final week were holding steady. He stressed, though, that there were two or three days of trading left. He said the last few months had been difficult, with discounts in place for some time.

On the other hand, Rusfurn director of strategic management Johan Kruger said sales had held steady in nominal terms. This implies a fall of 15 percent.

Department store group Greatermans financial director Izak du Plooy said the chain's Christmas sales were only marginally up in nominal terms. Adjusted for inflation they fell 10 percent compared to last year.

Similarly, Garlicks group MD Hymie Sibul said turnover in the group, excluding Game, but including Beares, Savilles and other stores was only five percent up in nominal terms. Taking the economic circumstances into account he was not unhappy with that, he said. "It's bloody tough out there."

It's not all gloom and doom, Sibul added. "People are still buying." The furniture division had achieved turnover up 25 percent on last year.

Consumer electronics group Milstan joint MD Stan Etkind said the group was satisfied to have gone some way to matching inflation, given the high base that last Christmas represented for the group. "We're more or less on the same level." Since the last three months had been tough, the company had been apprehensive. "We're more than satisfied."

The holiday cities were also hit.

Durban and Cape Town appear to have had a lacklustre Christmas season.

"The general feeling among hoteliers was that the season was not too wonderful," said Durban Publicity Association managing director Frank Vincent this week. The recession had meant that Durban's 30 000 beds have in all probability not been filled.

An indication of the squeeze is that the R500 000 spent by the association in bringing upcountry visitors to Durban in the traditional "valley" in the first half of December had had little effect. However, many people would have switched from hotel stays to visiting friends and relatives, so the retail trade might not be as badly hit as the hotels.

Captour director Gordon Oliver said indications were the number of visitors to Cape Town had surged. But the hotels had had a quiet time, with visitors preferring the cheaper bed-and-breakfast establishments or staying with family or friends. "The recession is being felt."

RETIREMENT BENEFITS FM 3/1/92 (320)

Revenue's salami tactics

Under the Income Tax Act a complex formula sets out the maximum deduction for contributions to a retirement annuity (RA) fund. A taxpayer may deduct up to the following maxima, whichever is the greatest:

☐ 15% of income after the deduction of all allowed expenses (excluding RA and pension fund deductions themselves, medical expenses and some other specialised categories). Income for this purpose excludes income from "retirement-funding employment" as defined (effectively, pensionable emoluments);

☐ R3 500, less deductions allowed for current contributions to pension funds; or

☐ R1 750.

The Commissioner for Inland Revenue is now asking government to amend the Act to delete the second and third bases of this formula, with effect from the 1997 tax year. The proposal has caused concern among long-term assurers, an important part of whose business is the management and marketing of RAs. Revenue argues that the second and third bases were inserted only as transitional provisions at the time of introduction of the first basis — the 15% option.

Liberty Life's Gavin Came explains that when RAs were introduced in the Sixties their focus was to provide an individual pension for the self-employed. Initially, a fixed rand amount was allowed for deduction of contributions. This was steadily increased until 1979 when the 15% rule was introduced. This was ideal for the self-employed, as it was automatically linked to increases in income. The older "fixed amount" allowance was kept to protect the rights of people who had relied on it.

Revenue says these two bases complicate their calculations and are now an unnecessary concession.

Came says the Life Offices Association (LOA) has problems with this approach, which generates instability in tax legislation and suggests that Revenue does not sufficiently recognise the RA's role in augmenting pensions, especially where there is no compulsory preservation of them.

Revenue argues the fixed amount options are unreasonably generous because of the combined deductibility of pension fund contributions by employer and employee. At present, employees may deduct up to 7,5% of their retirement-funding income, and the employer up to 20%.

Old Mutual's Abri Meiring argues that the three bases of the formula should be reviewed concurrently.

Above an income threshold of R11 667 a year for nonretirement funding (and taxable) income, the 15% basis leg is sufficient. If an LOA proposal, outlined below, for increasing the 15% basis were adopted, this threshold would fall, softening the impact of removing the remaining bases in 1997.

Independently of this consideration, the LOA feels that the 15% basis should be improved, for several reasons:

☐ The principle of "horizontal equity" demands that salaried and self-employed people should enjoy similar fiscal incentives — combined deductible contributions by employee and employer now total up to 27,5%;

☐ The real value of the 15% deduction has been eroded for some by the 1990 exemption of dividend income. Before this, gross dividend income formed part of the taxable base on which the 15% could be calculated. This (possibly unforeseen) consequence can be rectified by raising the 15% factor;

☐ All these considerations apply even more to older taxpayers who have less time to provide for retirement (and also rely more heavily on dividend income); and

☐ It is important to protect vested rights. The LOA accepts that the long deferral of the date suggested for introducing the proposed amendment acknowledges this. But no taxpayer who entered into a long-term RA contract should ever be disadvantaged by a retroactive change to the tax regime.

The LOA now proposes that the 15% limit should be lifted to at least 20% for taxpayers under the age of 50 with effect from the 1992 tax year; and that this be further increased by one percentage point for every year over the age of 50 to a maximum of 30% at age 60. Alternatively, a flat rate of 25% could be considered for all ages.

Further, the R1 800 limit for deduction of reinstatement contributions to RA funds and pension funds should be increased to at least R3 600 a year with effect from 1992. This type of payment arises when a member makes up arrear contributions to either a pension fund or RA or buys past service.

The LOA wants the upper age limit of 70 years for retirement from an RA fund abolished, or at least raised to 75.

Lastly, RA contracts entered before March 1 1992 should be protected against any future abolition of the fixed amount bases by specifically excluding them from the proposed amendment.

There are reservations at Revenue about an increase in the 15% basis:

☐ It would give a major benefit to exceptionally high earners who do not need any more assistance to save for retirement; and

☐ It might mean significant loss of revenue.

Of course, it would be easy to cap the 15% basis in monetary terms, from year to year, to adjust for inflation.

AA Life MD Joe Gates points out that numerous commissions of inquiry have emphasised the importance of providing sufficient retirement funding. Yet Revenue often displays tunnel vision when it comes to the risk of even limited loss of tax proceeds.

The LOA proposals (with one exception) seem not only right but overdue. In particular, taxpayers in the professions are often still fighting fit at 70, and not nearly ready to retire.

The exception concerns dividend income. There never was much logic in allowing this category to fund contributions to an RA, as the income will not be affected at all by retirement from work. Here, the LOA argument seems self-serving. ■

Wealth tax: let the public cast the final vote

S Times 5/11/92

JAMES MOULDER challenges Ken Owen's views on the redistribution of wealth

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KEN OWEN'S comment on our passing show tends to tell it as it is, but sometimes he gets it wrong.

It usually does not matter; but his bee-in-the-bonnet opposition to redistribution of wealth, which he consistently equates with stealing, is a serious mistake.

It also is dangerous because it suggests that just as thieving is so obviously wrong that it does not have to be discussed, so redistributing wealth is obviously wrong and does not have to be debated.

Using his favourite example: If Joe Slovo is encouraging people to nick swimming pools, Owen has a right to be outraged because, as the 10-point programme says, "thou shalt not steal". But when Slovo calls for a redistribution of wealth, what he wants may be silly but it is not morally reprehensible.

He believes, I think correctly, that we cannot have a new South Africa if those of us who have benefited from the way in which apartheid worked are unwilling to give back some of the goodies we got in the accumulation game.

In fact, if Slovo kicked his addiction to a Joe called Stalin, he could employ Robert Nozick, a professor of philosohy at Harvard, to put his case for redistribution.

According to Nozick, wealth is not "manna from heaven"; it has to be worked for and we are entitled "to possess whatever we acquired without injustice".

I have referred to Nozick because he defends the idea of a minimal state with a free market, but he does not reject redistribution policies when the system under which one's wealth was acquired was unjust, and so he reminds us that apartheid has helped to decide who are "haves" and who are "have nots".

This means that those of us who are stuffed while others are starved cannot justify what we have simply by showing that we worked for it. We have to go further and show that we would have got what we did even if apartheid had not tied logs to the legs of most of our competitors.

What is required is a debate on how wealth should be distributed rather than on whether it should be.

And in this debate it is not enough to invoke Adam Smith's (very) "invisible hand"; it also is necessary to adopt at least three rules to make it work.

The first rule is Smith's Strategy: it tells us that it is always acceptable to ask how the productivity and wealth of an organisation or society can be increased.

The second rule is Marx's Manoeuvre: it tells us that it is always acceptable to ask how the present and future wealth of an organisation or society can be distributed more fairly.

The last rule is Felicity's Finesse: it tells us that it is never acceptable and always illegitimate to employ Smith's Strategy (to increase productivity and wealth) without also using Marx's Manoeuvre (to distribute present and future wealth more fairly), and the other way round.

Another way to make Smith's hand more visible is to adopt "an index of achievement and need" for financing things like education, health, housing and rural development.

An index of this kind applies to a geographical area like a municipality, a magisterial district or a development region. It weighs the achievements and needs of the people in an area, puts this information into a formula (which is always open to public scrutiny, debate and revision) and distributes public monies in ways which both encourage the achievers and help the needy.

If we applied an index of this kind to the education budget, things like high teache/pupil ratios, textbook shortages and congested classrooms would count as needs; and things like regular attendance; students who graduate from universities and technikons in the minimum amount of time, and scores in English, Maths and Science Olympiads would count as achievements.

This, of course, is only an example. But it makes a point that is seldom made in the debate on redistribution: we do not have to choose between welfare (eliminating need) and meritocracy (rewarding achievements).

It is possible to balance these goals and, what is more important, to have a public debate on how this should be done. But this is impossible while Ken Owen equates redistribution with thieving and Joe Slovo calls for redistribution without giving us the rules of the game.

☐ *James Moulder is professor of philosophy at the University of Natal, Maritzburg.*

Building cost cut by VAT

S Times (Buss) 5/1/92 320

By TERRY BETTY

VAT has cut the cost of non-residential building by about 6%.

Real Estate Surveys property economist Erwin Rode says another 5% can be deducted from the cost of a building because the buyer does not have to pay transfer duty.

VAT will result in only a 1% increase in the cost of new houses. The full effects of this will be felt once VAT on housing is phased in in March.

Assuming labour and materials each constituted 40% of a contract under GST, plant and equipment would be 10%. Overheads and profit would comprise 10% of the total.

GST was paid on materials, plant and equipment. Stripping out GST results in a saving of 5,75%, reducing the cost of a R100 000 building to R94 250.

The 10% VAT payable on the reduced figure is irrelevant because it is fully recoverable by the developer or buyer. So is VAT paid on professional fees, says Mr Rode.

The position is different for residential properties where the ordinary person will not be able to recoup VAT unless he is a seller. The cost of a house will increase by an average 4%. However, paying VAT absolves the buyer from 3% transfer duty.

The result is only a 1% increase in the cost of houses bought from a developer.

MP and tax man in row over corruption claims

By MARTIN WELZ

A REPORT last week in the Sunday Times on alleged top-level corruption in the Department of Inland Revenue has led to an angry exchange between an MP and the director-general of finance. 320

Mr Robin Carlisle, Democratic Party spokesman on finance, said this weekend he had known for more than a year that the allegations involved a number of major national and international companies which were "the happy beneficiaries of some very strange tax decisions" by senior Inland Revenue officials.

Mr Carlisle accused the director-general, Mr Gerhard Croeser, of having "reneged" on an undertaking he gave the Cape Supreme Court more than a month ago for an investigation by an independent commission of inquiry.

The allegations were first reported to the Commissioner for Inland Revenue nearly three years ago, and to Mr Croeser personally in August last year.

Evidence in two cases in the Cape Supreme Court was that an accountant in the Cape Receiver of Revenue's office, Mr Trevor Foster, who made the report, was subjected to a campaign of harassment and intimidation by senior officials in the department, until he agreed to resign at the end of last month. S/Times 5/1/92

"It would be idle to pretend that tax evasion in South Africa has not become a national scandal now that the integrity and efficiency of our tax gatherers has been brought into question," Mr Carlisle said.

Mr Croeser said Mr Carlisle was "talking nonsense" and cautioned "people who do not know the facts to keep silent". He said an inquiry would be conducted by an official of the Department of Justice. No date was set.

Yesterday, Mr Carlisle angrily rejected what he described as Mr Croeser's "frantic appeals for silence" and reiterated the DP's demand for a full public inquiry.

Probe into Revenue 'corruption'

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STAR 8/1/92

By Helen Grange
Pretoria Bureau

A senior Justice Department official is to begin investigations into alleged corruption and maladministration in Cape Town's Department of Inland Revenue's (DIR) office.

Allegations of corruption among officials in the Cape Town office came to light when Trevor Foster, a department deputy director and head of a special investigations team of the DIR, launched a court action against the Finance Department last year.

Mr Foster was awarded an undisclosed settlement after claiming the department had blocked his promotion after he exposed corruption.

He has since resigned.

Learning how to swing VAT ropes

(320)

Sowetan 8/1/92

By DANIEL MAINE

A SERIES of low-cost VAT and business awareness seminars covering important aspects of the tax system will be held at Vista University on Saturday February 8.

The first seminar in the series will cost R30 a person, and includes refreshments.

This seminar will focus on how businesses are to account for VAT, and how not pay too much to the Receiver of Revenue; completion of VAT return forms; and how to apply for refunds. It will also cover the finer aspects of successful business practice.

Costing of second hand goods and the safekeeping of tax invoices will also be covered in great detail.

Only registered VAT businesses need charge the tax and participants will be taught how to identify these businesses. Each participant receives a VAT booklet.

The seminar will be presented by Millner and Partners. For reservations please call Mandy at (011) 482-2265.

Emigrants battle for stocks tax exemption

BDay 10/1/92

(320)

LESLEY LAMBERT

EMIGRATING South Africans are finding it increasingly difficult to convince Inland Revenue officials that they fulfil the necessary requirements to qualify for a tax exemption on investments in SA stocks.

SA emigrants are entitled to the tax exemption if they convince the authorities they are non-residents and are not carrying on business in SA. However, tax experts say tax officials have become far stricter in their definition of a non-resident as well as in their interpretation of whether or not local business interests comprise "the carrying on of business" in SA.

The future of the exemption, which is widely used by SA emigrants, became uncertain two years ago when an amendment to the Income Tax Act gave financial authorities the right to activate a provision which would remove the exemption.

The provision is supported by some ANC spokesmen, who say taxation of these investments would open up an easy flow of new revenue.

The two-year delay in implementing the provision has triggered speculation that rather than remove the exemption, the authorities will simply tighten the conditions for qualification.

"The fact that the provision has not yet been activated does suggest that it is unlikely to be, but the Finance Minister has many different advisors and could have plans Inland Revenue is not yet aware of," a senior Inland Revenue official said this week.

An emigrant won an important victory over Inland Revenue recently when the Income Tax Special Court held that he was exempt from tax on his dividend and interest income earned in SA, even though he retained his house in SA, made regular visits and was a director and major shareholder in a number of companies operating here.

"He was successful because his permanent or principal home was in the US," said Deloitte Pim Goldby tax consultant Orlando Fernandes. "All the surrounding evidence corroborated this fact. Since his emigration he had opened banking accounts, established church membership, rented a home and registered with social security in the US," he said.

Fernandes said the case highlighted the risk of the court reaching a different conclusion — that an emigrant was carrying on business in SA so was not entitled to the tax exemption.

"The taxpayer could have been unsuccessful if he traded in his share portfolio or carried on his business operations in an unincorporated form," said Fernandes.

TAX FM 10/1/92

In progress

(320)

An "initial work in progress" by Wits law professor Dennis Davies, on *Taxation in a post-apartheid society*, deals with a number of controversial issues including a capital gains tax, land tax, capital transfer tax and minimum tax on companies (MTC) and a dividend tax. It is not clear whether he is advocating their introduction or simply discussing their consequences.

However, he points out:

☐ The potential of taxes for achieving many of the goals in developing countries has been grossly exaggerated;

☐ Evidence on the redistributional role of taxes is ambivalent;

☐ There is considerable uncertainty about the extent to which company taxes are shifted to the consumer public; and

☐ The benefit principle — that taxes be based on benefits received from expenditure they finance, rather than on ability to pay — has returned to favour internationally.

Ernst & Young tax partner Ian Henstock says MTC "should be approached with caution — a new system should not provide for arbitrary taxes."

He describes two recommendations in the report as "outstanding." They are that the administration responsible for collecting and using taxes should be accountable and effective. "This will ensure that the widescale practice of tax avoidance would be substantially diminished as taxpayers would know the contribution to the Treasury will be used for the purpose for which it is being collected."

He also supports the recommendation that the State should pay market- related salaries to attract experienced accountants for senior Revenue positions.

Henstock says one issue not raised in the report is "vital given the close proximity of a number of independent tax jurisdictions." It is that income should be taxed on the basis of residence as opposed to source. "The system of providing residents with all the benefits of security, education, medical care, et cetera, without any assured form of contribution should no longer be accepted."

Henstock, a member of the SA Fiscal Association Think Tank formed early last year "welcomes the report as a basis for future debate of fiscal policy." The Think Tank, which has as its members 20 legal and accounting tax practitioners consulting in the Johannesburg area, aims to "make an impartial contribution to the ongoing development of SA fiscal policy." ■

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CT 11/1/92

Capital gains tax not all bad

By AUDREY D'ANGELO
Business Editor

THE introduction of a capital gains tax should also mean rebates for losses on the stock exchange or in property deals, says David Clegg, a partner at the Cape Town office of international accounting firm Ernst & Young.

Clegg and other chartered accountants say they think the imposition of a capital gains tax inevitable for political reasons. But they do not expect it to be introduced in the next Budget.

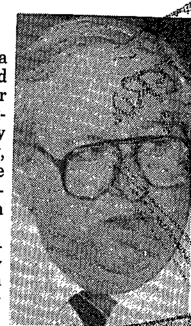
Clegg thinks it might not come until 1994.

Meanwhile, they stress the need for discussions to ensure that it is a fair tax making proper allowance for inflation.

Michael Flax, Cape President of the Chartered Institute of Management Accountants and MD of Seeff Trust, the financial services arm of the Seeff Holdings Group, says he considers it "alarming" that the imposition of a capital gains tax is now being accepted as inevitable.

But Clegg and Godfrey Shev, a partner at the Cape Town office of accountants Kessel Feinstein, point out that there could be advantages in a clearly defined capital gains tax.

Clegg stressed that it was vital that business should start now to make some input, to ensure that when it came it was a genuine capital gains tax — with allowances for capital losses which could be carried back as well as forward — instead of wasting time in a hopeless fight to prevent it from being imposed.



Godfrey Shev

David Clegg

"It will have to be index-linked to inflation. Capital gain excludes inflationary gain and if we start with that as a premise a lot of knee-jerk objection falls away."

Clegg said he believed the tax ought not to be applied to the sale of a principle private residence. In the US there was a capital gains tax on the sale of a principle private residence but only if the money was not used to buy another one within a certain time.

Stressing the need for a proper definition of a capital gain he said: "A capital gain is a windfall. If you set out with the aim of making one then it is a normal revenue gain subject to income tax. And no unrealised gain should be taxable.

"We must press for acceptance that capital losses can be used to offset capital gains. If I suffer a loss on the share market — not an unrealised one but a genuine one on the sale of the shares — and have no capital gain to offset against it I should get a tax refund.

"If my fellow citizens expect to share in my good fortune through a capital gain they should also be prepared to share my misfortune by allowing a tax rebate."

Shev said: "I do believe that in time we shall get some form of a capital gains tax, particularly with a change of government. But I don't believe it is imminent."

Like Clegg, he stressed the importance of a proper definition of a capital gain. "It should effectively allow for inflation and once that is done a lot of apparent capital gains will not be gains at all."

What's the truth about 'tax scam'?

(320)
ARGT 11/1/92

STEFAANS BRÜMMER
Weekend Argus Reporter

NEW allegations of multi-million rand Department of Inland Revenue corruption have prompted MP Mr Robyn Carlisle to repeat Democratic Party demands for a "full public inquiry".

After an article in The Argus on December 31, several people — including present and former tax officials — contacted Mr Carlisle to lodge new allegations.

The article quoted Mr Carlisle charging that Director General of Finance Mr Gerhard Croeser had "reneged" on a request made to the Supreme Court to have the Department of Inland Revenue probed.

Mr Croeser denied the charge, saying an independent official from the Department of Justice would investigate.

The controversy was sparked by two successful Supreme Court applications brought by Cape tax official Mr Trevor Foster against his superiors for not promoting him.

In a December settlement ordered by the court, Mr Croeser said Mr Foster was promotable, agreed to pay his R164 000 legal bill and to launch an independent inquiry into Mr Foster's charges of "large scale corruption, gross negligence and irregularities".

The order imposed a gag on further charges by both Mr Foster and Mr Croeser.

But new allegations made to Mr Carlisle by two tax officials, two former tax officials and a tax expert include:

- In a typical example, a major company had multi-million rand capital expenditure on a new facility "treated as maintenance and written off for tax purposes".

- There is a class of corporate and individual taxpayers who are "untouchables". Multinational and local companies, as well as prominent local businessmen, have been implicated and requests that they be investigated by Inland Revenue's investigations section "are seldom if ever granted".

- To compensate for not pursuing cases against the "untouchables", Inland Revenue has "waged war" on taxpayers who lack the protection of powerful political lobbies.

Mr Carlisle said: "I am told that until fairly recently 90 percent of cases investigated by the inspectorate were coloured or Indian taxpayers, who contribute a tiny proportion of the (overall) tax."

- Mr Carlisle was told senior members of the department had been personally enriched and set up trust funds for their children's education.

He said the corruption was allegedly facilitated by lawyers who "specialise in bringing about the marriage between company and taxman".

Mr Carlisle said: "The Democratic Party wants to reiterate its demand for a full public inquiry because there is every possibility that an inter-departmental inquiry (as Mr Croeser proposed) would be a whitewash."

He said the people who had contacted him feared victimisation if they testified to an inter-departmental inquiry.

Mr Croeser responded by saying: "If there are people wanting to make allegations, they must submit them. The department is at all times willing to listen to people with proposals and complaints."

He said the probe by a "very senior lawyer of the Department of Justice" would "presumably" start soon, although he had no date yet.

The inquiry itself would not be public, but the findings would "certainly" be made public, although the decision had not been finalised, he said.

He advised complaintants to contact the chief of Inland Revenue Mr Hannes Hatting, himself, or Minister of Finance Mr Barend du Plessis.

"The integrity of the taxation system is of prime importance to us," he said.

Capital gains tax is on the agenda

STAR 11/1/92

(320)

MAGNUS HEYSTEK

A LIMITED form of capital gains tax is in the offing, possibly in this year's Budget.

Well-placed sources in the income tax world suggest that the Government is poised to introduce the tax in order to increase revenue.

However, the department of Inland Revenue remains tight-lipped and has refused any comment on the matter.

In last years' Budget the Minister of Finance, Barend du Plessis clearly indicated that the government was seriously looking at its introduction.

According to an article in the latest issue of the privately circulated newsletter Personal Finance it is reported that the chairman of the standing Tax Advisory Committee, Prof Michael Katz, has indicated that some form of taxation on capital gains will be recommended.

Currently South African taxpayers are exempt from paying any tax on capital gains earned on property, unit trusts, share investments or life assurance policies.

Informed sources indicate such a move is being planned with the full approval of the African National Congress which has frequently suggested such a tax in order to eradicate the wealth discrepancy in the country.

Marius van Blerck, tax consultant to the Anglo American Group, says he would be "surprised but not astounded" if the tax was introduced in the coming Budget, scheduled for March 18 this year.

He adds, however, that the idea of a capital gains tax should not be cause for alarm. "Provided that the overall tax burden is reduced — which is already unduly high in South Africa — I have no objections."

"Experience in overseas countries has been that a capital gains tax tends not to have a major impact and is not a major source of revenue. Also, it is not cost-effective as it requires a great deal of policing and administration.

"In most countries that have a capital gains tax private homes are exempt while any capital gain is also linked to the inflation rate.

What could be affected is the market for second homes and holiday homes.

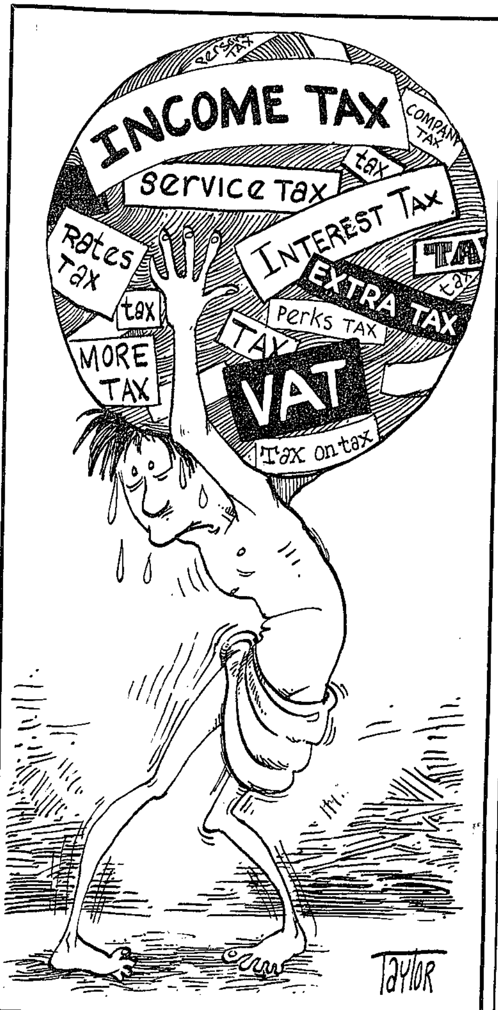
Proponents of a capital gains tax argue that it will remove the uncertainty as far as capital profits are concerned. Many large institutional investors on the Johannesburg Stock Exchange fear selling large blocks of shares held by them in case the deals attract some kind of income tax liability.

Assets frozen

This effectively freezes large blocks of shares and is a major contributor to the lack of tradability of shares on the JSE. A decisive move by the Revenue authorities in this regard will clear the way for the unfreezing of these assets to be used for other development projects.

The Margo Commission on tax reform, which reported in 1987, came out against capital gains tax on the following grounds:

- The yield from this form of taxation is low compared with the costs of administering the tax. The tax is complex and uses manpower resources that could be used more productively elsewhere.
- It is unlikely to create a massive new source of revenue as the rich invariably find new ways to reduce their income tax.
- To be fair, if introduced, a capital gains tax should be indexed to the inflation rate — which is also very complex.



2 Cape Times, Monday, January 13 1992

High-level VAT talks this week

(320) CT 13/1/92

Own Correspondent

JOHANNESBURG. — High level discussions on VAT between Finance Minister Mr Barend du Plessis and leading tax advisers will take place this week against the backdrop of an emerging showdown between the government and the VAT Co-ordinating Committee.

The committee's dissatisfaction with the government over the issue has been aggravated by mounting speculation that an increase in the VAT rate from 10% could be announced in the coming months.

Latest revenue figures indicate that VAT has failed to fill the government's coffers sufficiently despite predictions of a mini-spending boom after its implementation.

Continued VAT Co-ordinating Committee requests to the government to re-open VAT negotiations had been unsuccessful, Cosatu official Ms Lisa Seftel said at the weekend. Cosatu is a key member of the committee.

None of the benefits expected from VAT had materialised — as predicted by the committee at the time of the tax's implementation on September 30, she said. Investment had not been boosted by the input credits, food prices had soared and a poverty relief programme was not in place.

In addition, the government had refused to involve the committee in the official investigation into VAT in the first quarter of the year.

The committee has decided to open a forum on the matter, allowing the public to give its opinion on the tax.

"The government continues to operate behind closed doors, which is wrong," said Ms Seftel.

Exemptions

The committee will hold a VAT summit at the end of the month to detail a programme of action. It will call for a freeze to be put on the VAT rate and for the continuation of exemptions on certain basic foodstuffs. The exemptions are due to fall away in March.

Talk of an increase in the VAT rate resurfaced on Friday, and labour and tax specialists speculated that it was likely the rate would rise in the near future, perhaps to as much as 18%.

A closer look at tax relief

CT 13/1/92

(220)

CONTINUING high inflation and lower pay rises mean that most people will be living on less money, in real terms, this year than last, says Martin McAusland, personal financial planning manager at Price Waterhouse Meyernel.

He suggests that employers should help maximise after-tax salaries by "appointing compensation committees to ensure that staff are being remunerated as tax-effectively as possible."

He said individuals should "make full use of their subsistence and entertainment allowances, make sure that car allowances are raised, split income earned outside SA and take full advantage of retirement annuity and tax-free interest limits."

McAusland said salary-earners and employers "should carefully consider dropping traditional medical aid schemes in favour of a combination of catastrophe cover and medical savings schemes."

Capital gains tax is on the agenda

ARGT 13/1/92 (320)

MAGNUS HEYSTEK

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He adds, however, that the idea of a capital gains tax should not be cause for alarm.

"Provided that the overall tax burden is reduced — which is already unduly high in South Africa — I have no objections if it introduced."

"Experience in overseas countries has been that a capital gains tax tends not to have a major impact and is not a major source of revenue. Also, it is not cost-effective as it requires a great deal of policing and administration.

"In most countries that have a capital gains tax private homes are exempt while any capital gain is also linked to the inflation rate. It is unlikely that the tax will have any effect on the residential property market if introduced," he added.

What could be affected is the market for second homes and holiday homes.

Proponents of a capital gains tax argue that it will remove the uncertainty as far as capital profits are concerned.

Many large institutional investors on the Johannesburg Stock Exchange fear selling large blocks of shares held by them in case the deals attract some kind of income tax liability. This effectively freezes large blocks of shares and is a major contributor to the lack of tradability of shares on the JSE.

A decisive move by the Revenue authorities in this regard will clear the way for the unfreezing of these assets to be used for other development projects.

■ If investors keep pouring money into the JSE industrial sector as they did in calendar 1991, the average dividend yield of the sector could drop to as low as 1,8 percent by the end of 1992, with the average earnings yield going as low as 4,8 percent, writes Anne Crotty.

This drop in returns from industrial equity investments assumes that the industrial index surges by around 40 percent again this year, while earnings and dividends grow by an average of 10 percent.

These are three considerable assumptions, but none is unrealistic.

Only seven trading days into 1992 and the industrial index has already advanced six percent. This was achieved despite a very uncertain performance from gold which dipped below 350 at one stage last week.

The nature of investment in industrials remains unchanged with dealers stating that about 90 percent of listed equities are ignored in the rush for blue chips.

Blue-chip status right now appears to have little to do with current earnings (recent past or near future) and everything to do with size and years on the JSE.

Speculation of rate increase

Du Plessis to probe VAT shortcomings

BDay 13/1/92. (320)

SHARON WOOD

HIGH level discussions on VAT between Finance Minister Barend du Plessis and leading tax advisers will take place this week against the backdrop of an emerging showdown between government and the VAT Co-ordinating Committee.

The committee's dissatisfaction with government over the issue has been aggravated by mounting speculation that an increase in the VAT rate from 10% could be announced in the coming months.

Latest revenue figures indicate that VAT has failed to fill government coffers sufficiently despite predictions of a mini-spending boom after its implementation.

Continued VAT Co-ordinating Committee requests to government to reopen VAT negotiations had been unsuccessful, Cosatu official Lisa Seftel said at the weekend. Cosatu is a key member organisation of the committee.

None of the benefits expected from VAT had materialised — as predicted by the committee at the time of the tax's implementation on September 30, she said. Investment had not been boosted by the input credits, food prices had soared and a poverty relief programme was not in place.

In addition, government had refused to involve the co-ordinating committee in the official investigation into VAT in the first quarter of the year.

The committee has decided to open a public forum on the matter, allowing the public to give its opinion about the tax.

"Government continues to operate behind closed doors, which is wrong," said Seftel.

The co-ordinating committee will hold a VAT summit at the end of the month to detail a programme of action. It will call for a freeze to be put on the VAT rate and for the continuation of exemptions on certain basic foodstuffs. The exemptions are due to fall away in March.

Talk of an increase in the VAT rate resurfaced on Friday, and labour and tax specialists speculated that it was likely the rate would rise in the near future. They were responding to former Finance Department economist Frits Berkhout's assertion that a rate increase was inevitable, and that it could conceivably rise to 18%.

Berkhout called for the resignation of Du Plessis because the introduction of VAT had been mismanaged and said few economists still believed VAT was a good tax for the country.

Government would be faced with either raising direct taxes or the VAT rate in the forthcoming Budget, Berkhout said. Economists said Du Plessis would have to fulfil his promise to reduce personal and company taxes by at least 1%.

Latest government figures showed revenue was still lagging well behind Budget estimates and a monthly inflow of R6,8bn was needed in the last four months of the fiscal year to prevent a vastly higher deficit. This compared with November's revenue inflow of R4,9bn — the first monthly figure to include VAT collections.

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VAT

BDay 13/1/92 (320)

☐ From Page 1

Seftel said there was a high possibility that the VAT rate would increase, which would be disastrous for personal incomes. Other sources of revenue needed to be sought, rather than increasing the VAT rate.

Anglo American tax specialist Marius van Blerck said it was unlikely government would push the rate up sharply, but international tax trends did show a tendency for VAT to move towards 15%.

"It is inevitable that the VAT rate will go towards this level," he said.

But he added it would be a mistake to increase the rate and ignore essential goods. Instead, government should introduce a favoured rate, for instance of 5%, on a wider range of essential goods.

A system of dual rates, with a 15% standard rate and 5% on favoured items of expenditure, would bring in 40% more revenue than at present.

"This is a major source of revenue that cannot be ignored," he said.

Zero rating of essential goods was less likely to be accepted by government because it would substantially deplete the tax base.

Finance Department officials were unavailable for comment at the weekend.

Manufacturers get no cost-benefit from VAT

By Sven Lünsche ~~TBO~~ 320

STAR 14/1/92

Manufacturers do not expect savings resulting from VAT to benefit their cost structures and thus consumer prices.

This energes from the latest survey of the manufacturing industry by the Bureau for Economic Research (BER) at Stellenbosch University.

The authorities had hoped that VAT input credit on capital and intermediate goods would help manufacturers in the form of lower costs for their products.

This benefit would then have been passed on in the form of lower consumer prices.

From the survey, however, it appears that this is not expected to happen, the BER says after analysing the returns of over 700 manufacturers representing 21 subsectors.

"The average purchase price per unit of raw material is estimated to be higher and this translates into an expectation that the average total cost per unit will be higher," the BER says.

The overall depresssed economic mood among manufacturers is also reflected amongst manufacturers.

Confidence declines

"Business confidence showed a further decline for the fourth quarter which is reflected in the decrease in the volume of production as well as sales.

"The volume of orders received during the fourth quarter also showed a decrease while the ratio of uncompleted orders to sales increased," the BER comments.

However, prospects for 1992 as a whole are more optimistic, which is reflected in the survey by higher expected sales and production volumes in the first quarter compared with the last quarter of 1991.

Particularly, manufacturers expect a continued rise in exports in line with the expected increase in worldwide demand.

Budget unlikely to hold hope of a respite for the overtaxed

B/Day 14/1/92 (320)

There was a time when the Finance Minister limited his fiscal adjustments to the Budget speech and the taxpaying public could prepare themselves for the one-off shock. Now it seems that the Budget is no more than a brief outline of the state's current financial position, writes GILLIAN HAYNE. Major changes and policy repositioning take place regularly, announced through media releases. It is easy, through this piecemeal approach, to lose sight of the overall picture.

THE stated aim of Finance Minister Barend du Plessis has been to reduce the overtaxation in SA, but has he succeeded?

BDO Spencer Steward tax director Matthew Lester says neither companies nor individuals have benefited from the fumbling of the fiscus.

"It is impossible to make a categorical statement that all taxpayers have been prejudiced by amendments made to the Income Tax Act over the last two years, but most believe the concessions removed from the Act far exceed the limited reductions in the tax rate," he says.

Companies were given a reduction in the flat rate of tax from 50% to 48%, effective from April 1 1991. They were also granted VAT input credits on capital expenditure and other items that were previously subject to GST.

The concessions that have been taken away, however, make more meaty reading.

The LIFO reserve concession — in effect a tax holiday — granted in 1984 when companies shifted from the LIFO to the FIFO method of accounting, is to be phased out during the next 10 years.

Lester concedes that although a cursory glance indicates a generous phasing-in period, its effect on companies' tax liabilities is substantial.

Even worse is government's adoption of the five-year write-off period of fixed assets.

"Companies can no longer postpone their tax bill through the wear and tear allowance, which was loaded in the first year to help finance expansion. Fiddling with the 50-30-20 formula has been a major blow," he says.

Companies' consumable stores are now open to taxation; construction work in progress is to be included in closing stock (both over a period of 10 years); training allowances and the marketing allowance on exports have been removed; and a financial services levy has been imposed.

Individuals have fared equally badly.

The maximum marginal tax rate for individuals earning R80 000 or more fell to 44% in 1991 and 43% in the current tax year.

The separate taxation of married women was finalised (although in many cases, however, it can be argued that this was not a concession as married women reach the maximum tax rate of 38% at R40 000).

Taxpayers were given the option to elect a capital gain in respect of quoted shares held for more than 10 years, and dividends were exempt from tax. In addition, the tax-free portion of interest income rose from R1 000 to R2 000, and there was a marginal increase in the travel allowance deduction tables.

Much, however, has been taken away:

☐ Primary rebates for married and single people have decreased by R100 and R175 respectively, although for married women the primary rebate has increased by R100. Trusts no longer qualify for any rebate at all;

☐ Tax-free instruments, such as Post Office savings accounts, are to become fully taxable over a period of five years;

☐ The residential accommodation perk was removed where an employee had an interest in the property;

☐ The tax-free bursary scheme is to be removed on March 1;

☐ The tax-free exam bonus will also be removed on March 1;

☐ The deemed value of company cars was increased twice;

☐ PAYE was imposed on directors' emoluments;

☐ The official interest rate was increased;

☐ Travel allowances were partially subjected to PAYE from August 1 1991;

☐ The deemed private mileage used in the travel allowance deduction formula increased from 10 000km to 12 000km a year, and a ceiling of 20 000 business kilometers was imposed unless detailed records were kept;

☐ VAT was imposed on many goods and services previously exempt from GST;

☐ The three-year spread allowed on lump sums received on retirement or retrenchment was removed; and

☐ Seventh-schedule fringe benefits enjoyed by retired employees will, with effect from March 1, attract tax in the same manner as those of ordinary employees.

Tax experts agree Du Plessis is in a tight spot for his next Budget. VAT collections are purportedly far behind Revenue's liability for VAT input credits, adding to its already strained budgets.

Lester believes the VAT rate may rise to 12% early in 1992, and could even go as high as 14% by the end of the year.

Price Waterhouse Meyernel national tax director Chris Frame says, however, that it will be politically impossible to raise the rate. "VAT was lowered from 12% to 10% as a result of political pressure. It would be too difficult to raise it again so soon."

Other options to cover the shortfall are limited. Du Plessis has given his assurance that neither company nor personal tax rates will rise. He has also committed himself to continued dividend exemptions.

The odds are shortening on the possibility of a capital gains tax being introduced. This would tap a new source of revenue for the fiscus and act as a sop for those calling for redistribution of wealth.

Other experts believe a withholding tax on interest will also be on the agenda.

However, Frame says it is more likely that the Finance Minister will withdraw the R2 000 exemption on interest rather than introduce a whole new form of tax.

"Du Plessis' hands are tied at virtually every turn. His hope for the coming year lies in a surge in the economy rather than a change in the tax regime.

"If gold stays firm and the economy does improve it will solve his problems temporarily, which is all he can hope for," Frame says.

One thing the experts agree on is that there is little hope of a respite for the overtaxed people of SA.

Cosatu seeks clarity on VAT plans

B/Day 14/11/92 (320)

SHARON WOOD

COSATU called on Finance Minister Barend du Plessis yesterday to assure the public that VAT would not be increased this year.

The trade union body was responding to Du Plessis' refusal yesterday to comment on speculation about a VAT rate increase in the coming months.

"Du Plessis has not denied it and we want to hear his response," Cosatu spokesman Neil Coleman said.

The VAT Co-ordinating Committee would meet today and announce plans to intensify its anti-VAT campaign.

"Government promised the co-ordinating committee that VAT would be lower than GST and it seems it will be far higher.

"November returns showed that revenues from VAT were short of what is needed and it is clear that government did not do its sums properly when it implemented VAT," Coleman added.

The evidence of the past two months had placed a question mark over whether VAT was a more efficient tax, he added. VAT's implementation had been a good example of crisis management and ad hoc response.

Speculation that Du Plessis met leading tax advisers early yesterday in Pretoria could not be confirmed.

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● Comment: Page 6

Talks continue as mine strike ends

211

DIRK HARTFORD

THE strike by 11 000 workers at Impala Platinum's Bafokeng North mine and mineral processes plant ended at the weekend.

Management and worker representatives agreed to call on strikers to return to work while appeal procedures against the dismissal of 1 800 employees continued.

The workers were dismissed after an overnight sit-in a week ago.

Although the NUM was not involved in negotiations because it is not recognised in Bophuthatswana, the majority of workers and their representatives are NUM members, the union said. B/Day 14/1/92

Meanwhile, the National Union of Metalworkers (Numsa) said yesterday 250 workers from Lascon Lighting Industries in Johannesburg had returned to work after striking last Friday against short-time measures.

Another 350 workers at Girlock SA went on strike — also in Johannesburg — yesterday in an attempt to stop retrenchments, Numsa said. The company and union will meet today.

In the catering industry, the strike at Kentucky Fried Chicken branches is nearly a month old.

Taiwan prepares to end curbs on gold exports

B/Day 14/1/92

MATTHEW CURTIN

TAIWAN is to lift its 43-year ban on gold exports, a move which could turn the island into one of Asia's major gold trading centres and boost gold demand and prices.

Reuter reports that the Taiwan Monetary Affairs Bureau said at the weekend the cabinet had in principle agreed to remove the ban, paving the way for free trading in gold for the first since the nationalist government moved to Taiwan in 1949.

"The move is a first step towards a free gold market," said Leon Shen, director of the bureau's international banking division.

An SA Chamber of Mines spokesman said yesterday the gold mining industry welcomed any development providing stimulus to the gold trade.

He said gold had retained its attraction as a store of value far better in the Far East than in the West. Jewellery demand was also strong in the region. However, it was difficult to predict what impact Taiwan's move would have on the gold market.

An analyst said any new market for gold was good news, and if there was an increased Taiwanese offtake of gold it could improve the metal's fundamental market conditions.

Reuter reported that bullion dealers said Taiwan's gold market would be more active after the export liberalisation. Taiwan permits jewellery shops, precious metal firms and some government agencies to import gold. Individuals are only allowed to bring in a limited amount of gold.

The island was the world's largest gold importer in 1988, buying 354,7 tons of gold bars and coins. Imports fell to 160,22 tons in 1989 and to 103,7 tons in 1990 before rising to 111 tons in 1991.

Bullion dealers said the export liberalisation could boost Taiwan's gold imports this year by between 160 and 200 tons.

"Our gold market is a lame duck market because of the export ban," said China Trust Precious Metals Corp analyst Jack Wu.

"The liberalisation will help Taiwan move one step further towards becoming a regional financial centre," said another analyst.

Sacob warns govt not to tamper with VAT rate

ANDREW GILL

320

SACOB has warned government that it should "strongly resist" any tampering with the present VAT system, including the current VAT rate of 10%.

In its recommendations, sent to Finance Minister Barend du Plessis for the 1991/92 Budget and published in the Johannesburg Chamber of Commerce and Industry newsletter, it made recommendations on tax issues including personal and company tax.

Those rates needed to be adjusted downwards in line with the five-year plan spelled out in the 1989/90 Budget. Also, individual tax rate structures needed to be adjusted for bracket creep, it said.

It also called for the fight against inflation to be reinforced by a more effective competition policy supported by a strengthened, more independent Competition Board. B/Day 14/1/92

It registered its strong opposition to a capital gains tax and a wealth tax and said the process of removing the import surcharge should be continued.

The report warned that there seemed to be a "sting in the tail" in the recession, and a number of negative factors could still slow down the upturn.

"Uncertainty in the business community is exacerbated by the inconsistency, perceived or real, often to be found in government policy application as well as the policy pronouncements of important extra-parliamentary leaders."

The report said a high priority should be awarded to law and order, education and training and job creation.

VAT hike looms

Showdown likely as speculation on tax increases mounts

Labour Reporter and Political Correspondent

Arg 14/1/92

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A SHOWDOWN is looming between the government and the Co-ordinating Committee on VAT amid mounting speculation that a sharp increase will be announced in the next Budget.

The co-ordinating committee meets today to plan action and intensify its campaign against the three-month-old tax system.

Cosatu has called on Finance Minister Mr Barend du Plessis to assure the public that VAT will not be increased this year.

The trade union federation was reacting to Mr Du Plessis's "no comment" response to speculation yesterday about a VAT increase.

Government sources say Mr Du Plessis will avoid a public debate on the likelihood of a VAT rise because it will pre-empt the Budget, preparations for which are still in a preliminary phase.

There was no clarity today on whether the government was willing to re-open discussions with the VAT co-ordinating committee.

'We want response'

Cosatu spokesman Mr Neil Coleman said today that Mr Du Plessis "has not denied an imminent rise in VAT and we want to hear his response".

Economists predict the government will have to increase taxes in the next Budget, but warn that any increase would be unwise with the economy in a parlous state. They fear that raising more taxes from an already weak private sector could be courting disaster.

Market sources expect the Department of Finance to increase its issue of Treasury bills to raise funds to offset revenue lost from sagging tax receipts.

Recent Treasury figures show that tax revenues are falling well behind estimates.

In his Budget speech last March Mr Du Plessis forecast tax revenue would rise by R7,5 billion in the current fiscal year.

But in the eight months to November receipts increased by only R2 billion to R45,5 billion.

Detailed figures for November's tax collections will only be available at the weekend. But if the October figures are anything to go bythey will not be happy reading.

Income tax collections at R3,5 billion were only R105 million more than October 1991, while sales tax collections were down R30 million.

Rumours of a possible rise in the rate resurfaced at the weekend after former Department of Finance economist Mr Frits Berkhout asserted that a rate increase was inevitable and that it could conceivably rise to 18 percent.

Mr Berkhout said the introduction of VAT had been mismanaged and called for the resignation of Mr Du Plessis.

Cosatu official Ms Lisa Seftel said today: "Everything we said about the problems of VAT has materialised."

Cosatu had made numerous attempts to reopen negotiations with the Department of Finance and there had been "endless communications" between the two parties, she said.

GST and VAT figures down

Bday 15/1/92 (320)

GERALD REILLY

PRETORIA — Combined revenue from GST and VAT in the current financial year will be significantly less than the budgeted figure for GST.

An Inland Revenue spokesman says GST collections in the eight months to end-November amounted to R10,52bn against R11,9bn the year before.

VAT collections amounted to R1,22bn. Before Parliament passed VAT legislation, budgeted income from GST was R19,44bn.

Sources said December's VAT revenue could be much higher than November's because of collection hiccups in the first month.

An Inland Revenue spokesman said GST investigations still in progress would result in a significant revenue flow for at least two years. The R1,4bn drop in GST revenue between April and November reflected declining spending.

No big increase in VAT: experts

(320)

STAR 15/1/92

By Peter Fabricius
Political Correspondent

Officials and private sector experts have warned against premature speculation about an increase in the VAT rate in the 1992 Budget.

They were responding to speculation about increases of up to 8 percent in the tax which has provoked threats of a showdown between the Government and Cosatu.

Cosatu is a leading member of the co-ordinating committee on VAT which has led the campaign against the tax.

Finance Minister Barend du Plessis has so far refused to comment on the speculation.

Finance department officials have explained that the reason for Mr du Plessis's silence is that he is obliged not to comment on important revenue matters before final decisions have been made, as this could favour certain parties.

However, a leading tax expert who did not wish to be named, said this week that an increase in the VAT rate in the Budget was unlikely.

Top finance officials did not rule out an increase but poured scorn on some predictions that the rate could rise from 10 percent to as high as 18 percent.

They said this would be political suicide.

VAT hike of 18pc possible in March

(320)

Sowetan 16/1/92.

Political Correspondent

VAT could be increased dramatically when Finance Minister Mr Barend du Plessis announces his Budget for 1992/93 in March.

This is the indication from economists who say an increase is inevitable, following disappointing revenues accrued since the implementation of VAT at the end of September last year.

This week, an Inland Revenue spokesman said combined revenue from last year's GST - before VAT was implemented - and VAT in the current financial year would be significantly less than the expected figure.

The Government's recorded income from GST for the first eight months of the current financial year (until November) amounted to R10,52 billion against R11,9 billion for the same period the year before.

While the envisaged income from GST (if it were not replaced by VAT) was around R19,44 billion, VAT itself contributed only R1,2 billion to Government coffers.

The rising speculation of an increase in VAT was - based on the above statistics - compounded by the assertion by former Department of Finance economist Mr Fritz Berkhout that an increase in VAT was inevitable and that it could be as much as 18 percent.

BAREND DU PLESSIS

Berkhout reportedly called for the resignation of Du Plessis because the "introduction of VAT had been mismanaged" according to reports earlier this week.

Nevertheless, Berkhout said the Government could be faced with either raising direct taxes or VAT during the next Budget.

The speculation of an increase in VAT was further compounded by a high-level meeting between Du Plessis and leading tax advisers this week.

The Ministry of Finance yesterday refused to comment on this week's meeting or the possibility of a price increase.

Du Plessis given VAT ultimatum

SHARON WOOD

THE VAT Co-ordinating Committee yesterday issued an ultimatum to Finance Minister Barend du Plessis giving him until the end of the month to reopen talks or face action.

If Du Plessis failed to respond, a programme of action would be decided on at a VAT summit of the 104 member organisations on January 29, the committee said yesterday.

"Despite numerous letters and approaches to the State President, the government has refused to reopen negotiations on the problems of VAT," it said.

The committee warned government it was playing with fire if it unilaterally increased the VAT rate or made further changes to VAT and said it was committed to fighting all steps which would lead to greater poverty and hardships for the majority of South Africans.

In addition, public forums were being arranged in the eight major centres to give the public an opportunity to vote on VAT.

320

Sowetan 16/1/92

Ultimatum on VAT

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Government told to reopen negotiations

The Argus Correspondent ARG 16/1/92

JOHANNESBURG. — The Co-ordinating Committee on VAT last night issued an ultimatum to the government to reopen negotiations on the new tax system before the next VAT summit on January 23.

The committee said the government was "playing with fire" if it thought unilateral increases in the rate of changes to VAT could be made.

The committee, which said it wished to be known as the VCC said it was "committed to fighting all steps which will lead to greater poverty and hardship for the majority of South Africans".

Negotiations on VAT would include discussions on the rate, VAT on basic foods, particularly the eight zero-rated foodstuffs, VAT on medicines, medical services, water and electricity, special provisions for small businesses, properly negotiated poverty relief programmes and other sources of revenue.

Constituent organisations of the VCC were already considering possible forms of action if the ultimatum was not met, the committee said.

The committee gave Finance Minister Mr Barend du Plessis until January 29 — when the 104 VCC members meet at a VAT summit to decide on a plan of action — to respond to their call for negotiations to be reopened.

"Barend du Plessis's VAT system has failed," said the committee.

According to the committee this was highlighted by:

- Recently released treasury figures showed VAT had not brought the required revenue into government coffers. This fuelled speculation that the VAT rate would have to be increased.
- Despite initial government assurances that VAT could not be delayed because of imminent investments and capital goods orders, a survey of 700 manufacturers by the Stellenbosch University Bureau for Economic Research revealed this had not, and was not expected to, happen.
- Prices, especially food prices, had rocketed and consumers had not yet felt the impact of the petrol price increase.
- The poverty relief programmes, aimed at offsetting the impact of VAT on the poor, had not been set up. The full R220 million had not been distributed.
- Small business were struggling to handle the added administrative costs associated with VAT.

Govt gets ultimatum to reopen VAT negotiations

STAR 16/1/92

(320)

Consumer Reporter

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The committee, which said it wished to be known as the VCC, said it was "committed to fighting all steps which would lead to greater poverty and hardship for the majority of South Africans".

Negotiations on VAT would include discussions on the rate; VAT on basic foods, particularly the eight zero-rated foodstuffs; VAT on medicines, medical services, water and electricity; special provisions for small businesses; properly negotiated poverty relief programes; and other sources of revenue.

The VCC gave Finance Minister Barend du Plessis until January 29 — when the 104 members meet at a VAT summit to decide on a plan of action — to respond to their call for negotiations to be reopened.

"Barend du Plessis's VAT system has failed," said the committee.

According to the committee, this was highlighted by:

- Recent Treasury figures which showed VAT had not brought the required revenue into Government coffers.
- Despite initial Government assurances that VAT could not be delayed because of imminent investments and capital goods orders, a survey of 700 manufacturers by the Stellenbosch University Bureau for Economic Research revealed this had not happened, and was not expected to happen.
- Prices, especially food prices, had rocketed and consumers had not yet felt the impact of the petrol price increase.
- The poverty-relief programmes, aimed at offsetting the impact of VAT on the poor, had not been set up. The full R220 million had not been distributed.
- Small business were struggling to handle the added administrative costs associated with VAT.

The VCC has begun arranging public forums in eight major centres where the public will be given an opportunity to "vote on VAT".

Inkomstehoof	Head of Revenue	Begroting Estimate 1991/92	Maand November Month of November 1991	Maand November Month of November 1990	Totaal 1 April tot 30 November Total 1 April to 30 November 1991	Totaal 1 April tot 30 November Total 1 April to 30 November 1990
		R	R	R	R	R
Doeane- en aksynsregte:	Customs and excise duties:					
Doeanereg	Customs duty	2 635 000 000	232 520 241	282 649 135	1 880 956 333	1 727 237 546
Aksynsreg	Excise duty	3 555 000 000	169 558 216	236 169 363	2 107 064 179	1 879 351 990
Bobelasting	Surcharge	1 409 000 000	121 625 743	213 247 747	982 557 931	1 434 985 722
Diverse	Miscellaneous	233 000 000	91 719 777	8 856 260	179 650 347	125 567 588
Brandstofheffing	Fuel levy	4 520 000 000	494 997 397	371 645 861	3 235 107 451	2 715 650 460
Gewone Heffing	Ordinary Levy	111 000 000	2 221 617	6 088 296	40 607 023	70 449 720
	R	12 463 000 000	1 112 642 991	1 118 656 662	8 425 943 264	7 953 243 026
Min: Bedrag tot krediet van Sentrale Inkomstefonds	*Less:* Amount to the credit of Central Revenue Fund	—	—	—	—	223 500 000
Betalings ingevolge Doeane-unie-ooreenkomste	Payments in terms of Customs Union Agreements	4 233 000 000	172 797 000	—	3 464 269 000	2 130 526 750
Totaal: Doeane- en aksynsregte	Total: Customs and excise duties R	8 230 000 000	939 845 992	1 118 656 662	4 961 674 264	5 599 216 276
	R	74 866 000 000	4 448 328 995	4 702 271 097	44 742 912 891	43 240 718 374
Suid-Afrikaanse Ontwikkelingstrustfonds	South African Development Trust Fund	50 000 000	57 300	436 872	42 222 854	56 968 146
Fonds vir Sorghumbiernavorsing	Sorghum Beer Research Fund	1 200 000	—	—	—	—
Toewysings uit brandstofheffing:	Allocations from fuel levy:					
Oliebesoedelingsfonds	Oil Pollution Fund	6 000 000	—	—	—	—
Suidwes-Afrika	South West Africa	10 000 000	—	—	—	—
TBVC-lande	TBVC Countries	140 000 000	—	—	—	—
	R	207 200 000	57 300	436 872	42 222 855	56 968 146
	R	75 073 200 000	4 448 386 295	4 702 707 969	44 785 135 745	43 297 686 520
Inkomsterekening: Volksraad	***Revenue Account: House of Assembly***					
Binnelandse inkomste	Inland revenue	—	38 498 334	9 134 043	148 881 392	99 211 478
Inkomsterekening: Raad van Verteenwoordigers	***Revenue Account: House of Representatives***					
Binnelandse inkomste	Inland revenue	—	1 707 600	3 029 829	23 770 527	24 357 471
Inkomsterekening: Raad van Afgevaardigdes	***Revenue Account: House of delegates***					
Binnelandse inkomste	Inland revenue	—	769 368	437 906	5 650 224	4 838 407
	R	—	40 975 302	12 601 778	178 302 143	128 407 356
Groottotaal	Grandtotal R	—	4 489 361 597	4 715 309 747	44 963 437 888	43 426 093 876
Rekonsiliasie met opgaaf gepubliseer by Goewermentskennisgewing 3088 in *Staatskoerant* van 20 Desember 1991:	Reconciliation with statement published by Government Notice 3088 in *Government Gazette* of 20 December 1991:					
In Transito, 31 Maart 1991	In Transit, 31 March 1991	—	—	—	198 934 099	—
In Transito//Te veel oorgedra, 31 Oktober 1991	In Transit/Overremitted, 31 October 1991	—	(91 338 777)	—	—	—
Invorderings soos hierbo	Collections as above	—	4 489 361 597	—	44 963 437 888	—
	R	—	4 398 022 820	—	45 162 371 987	—
In Transito/Te veel oorgedra, 30 November 1991	In Transit/Overremitted, 30 November 1991	—	556 163 813	—	556 163 813	—
In Transito Inkomsterekening: Administrasie	In Transit Revenue Account: Administrations	—	(7 700 632)	—	(137 326 841)	—
In Skatkisrekening ontvang	Received into Exchequer Account R	—	4 946 486 001	—	45 581 208 959	—

No. 263 **17 Januarie 1992**

Staat van Ontvangste in en Oordragte uit die Skatkisrekening vir die tydperk 1 April 1991 tot 31 Desember 1991.

Tesourie, Pretoria.

No. 263 320 **17 January 1992**

Statement of Receipts into and Transfers from the Exchequer Account for the period 1 April 1991 to 31 December 1991.

Treasury, Pretoria

RECEIPTS—ONTVANGSTE

Inkomstehoof	Head of Revenue	Maand Desember Month of December 1991	Maand Desember Month of December 1990	Totaal 1 April tot 31 Desember Total 1 April to 31 December 1991	Totaal 1 April tot 31 Desember Total 1 April to 31 December 1990
		R	R	R	R
Skatkissaldo, 31 Maart 1991	Exchequer Balance, 31 March 1991	—	—	2 707 707 237	—
Skatkissaldo, 30 November 1991	Exchequer Balance, 30 November 1991	5 157 533 311	—	—	—
Staatsinkomsterekening	***State Revenue Account***				
Binnelandse Inkomste	Inland Revenue	6 166 004 758	4 566 521 725	46 337 294 718	42 414 313 864
Doeane en Aksyns	Customs and Excise	1 068 522 486	938 508 997	6 429 515 666	6 603 894 923
	R	7 234 527 244	5 505 030 722	52 766 810 384	49 018 208 787
Suid-Afrikaanse Ontwikkelingstrustfonds	South African Development Trust Fund	57 300	436 871	47 228 456	72 222 662
	R	57 300	436 871	47 228 456	72 222 662
	R	7 234 584 544	5 505 467 593	52 814 038 840	49 090 431 449

Inkomstehoof	Head of Revenue	Maand Desember / Month of December 1991	Maand Desember / Month of December 1990	Totaal 1 April tot 31 December / Total 1 April to 31 December 1991	Totaal 1 April tot 31 December / Total 1 April to 31 December 1990
		R	R	R	R
Ander Ontvangste	*Other Receipts*				
Skatkisbiljette	Treasury Bills	6 528 230 000	–	51 765 081 150	–
Leningsheffing 1989–94	Loan Levy 1989–94	277 695	–	2 032 358	–
Obligasies:	Bonds:				
Onbepaalde Termyn Skatkis-obligasies	Indefinite Period Exchequer Bonds	26 000	–	921 100	–
Onbepaalde Termyn Nasionale Verdedigingobligasies	Indefinite Period National Defence Bonds	240 400	–	3 010 650	–
Binnelandse Geregistreerde Effekte:	Internal Registered Stock:				
12%, 2004/5/6	12%, 2004/5/6	55 000 000	–	5 312 755 000	–
		(13 780 000)	–	(1 337 690 000)	–
12,5%, 1995/96	12,5% 1995/96	(313 746)	–	3 733 506 146	–
		–	–	(483 305 000)	–
13%, 2009/10/11	13%, 2009/10/11	76 000 000	–	5 469 500 000	–
		(16 277 000)	–	(1 094 289 000)	–
6,5%, 1992	6,5%, 1992	–	–	360 000 000	–
		–	–	(39 872 000)	–
10%, 1991	10%, 1991	–		66 200 000	–
		–	–	(2 226 000)	–
11,5%, 1999/2000	11,5%, 1999/2000	132 000 000	–	1 018 000 000	–
		(31 150 000)	–	(241 154 000)	–
14,5%, 1993	14,5%, 1993	–	–	75 802 942	–
		–	–	–	–
12%, 1994	12%, 1994	–	–	2 368 000 000	–
		–	–	(218 917 000)	–
13,5%, 2015	13,5%, 2015	42 000 000	–	1 846 570 000	–
		(8 197 000)	–	(395 693 000)	–
10,5%, 1992	10,5%, 1992	473 488 000	–	500 000 000	–
		(19 860 000)	–	(21 104 000)	–
14%, 1994	14%, 1994	500 000 000	–	500 000 000	–
		(21 104 000)	–	(21 104 000)	–
Buitelandse Lenings en kredîtte:	Foreign Loans and Credits:				
1991–1994	1991–1994	–	–	139 250 000	–
1991–1996	1991–1996	378 642 471	–	682 528 223	–
Vasgestelde Statutêre Toewysings, 1990–91	Fixed Statutory Allocations, 1990–91	–	–	19 373 779	–
Terugstortings, 1985–86	Surrenders, 1985–86	–	–	28 049	–
Terugstortings, 1989–1990	Surrenders, 1989–1990	–	–	155 527	–
Terugstortings, 1990–1991	Surrenders, 1990–1991	7 943 000	–	785 059 627	–
	R	8 193 533 820	–	74 647 774 551	–
*Min Diskonto R.S.A. Effekte	*Less Discount R.S.A. Stocks	110 368 000	–	3 855 354 000	–
	R	8 083 165 820	–	70 792 420 551	–
	R	15 317 750 364	–	123 606 459 391	–
Inkomsterekening: Volksraad	*Revenue Account: House of Assembly*				
Binnelandse Inkomste	Inland Revenue	38 498 334	9 134 043	148 881 392	99 211 478
Oorplasing vanaf Staatsinkomsterekening	Transfer from State Revenue Account	665 275 826	603 483 000	7 244 764 551	6 180 371 000
Terugstortings, 1989–90	Surrenders, 1989–90	–	–	209 528 809	–
	R	703 774 160	612 617 043	7 603 174 752	6 279 582 478
Inkomsterekening: Raad van Verteenwoordigers	*Revenue Account: House of Representatives*				
Binnelandse Inkomste	Inland Revenue	1 707 600	3 029 829	23 770 527	24 357 471
Oorplasing vanaf Staatsinkomsterekening	Transfer from State Revenue Account	298 000 000	231 000 000	2 904 000 000	2 550 694 000
Terugstortings, 1986–87	Surrenders, 1986–87	–	–	9 132 250	–
Terugstortings, 1989/90	Surrenders, 1989/90	–	–	24 013	–
	R	299 707 600	234 029 829	2 936 926 790	2 575 051 471
Inkomsterekening: Raad van Afgevaardigdes	*Revenue Account: House of Delegates*				
Binnelandse Inkomste	Inland Revenue	769 368	437 907	5 650 225	4 838 407
Oorplasing vanaf Staatsinkomsterekening	Transfer from State Revenue Account	130 000 000	120 000 000	1 220 000 000	1 021 000 000
Terugstortings, 1989–90	Surrenders, 1989–90	–	–	8 474 981	–
Terugstortings, 1988–89	Surrenders, 1988–89	–	–	–	7 738 386
	R	130 769 368	120 437 907	1 234 125 206	1 033 576 793
Rekening vir Provinsiale Dienste: Kaap	*Account for Provincial Services: Cape*				
Provinsiale inkomste	Provincial revenue	–	146 889 197	85 539 881	146 889 197
Oorplasing vanaf Staatsinkomsterekening	Transfer from State Revenue Account	273 750 000	269 750 000	2 634 000 000	2 387 710 714
Terugstortings, 1989–90	Surrenders, 1989–90	–	–	36 062 590	–
	R	273 750 000	416 639 197	2 755 602 471	2 534 599 911

Inkomstehoof	Head of Revenue	Maand Desember / Month of December 1991	Maand Desember / Month of December 1990	Totaal 1 April tot 31 December / Total 1 April to 31 December 1991	Totaal 1 April tot 31 December / Total 1 April to 31 December 1990
		R	R	R	R
Rekening vir Provinsiale Dienste: Natal	***Account for Provincial Services: Natal***				
Provinsiale inkomste	Provincial revenue	—	119 257 462	75 879 294	160 637 748
Oorplasing vanaf Staatsinkomsterekening	Transfer from State Revenue Account	124 000 000	89 000 000	1 220 388 000	1 171 000 000
Terugstortings	Surrenders	—	—	—	—
	R	124 000 000	208 257 462	1 296 267 294	1 331 637 748
Rekening vir Provinsiale Dienste: Oranje-Vrystaat	***Account for Provincial Services: Orange Free State***				
Provinsiale inkomste	Provincial revenue	—	26 847 082	26 321 810	38 038 415
Oorplasing vanaf Staatsinkomsterekening	Transfer from State Revenue Account	148 000 000	155 000 000	898 000 000	765 000 000
Terugstortings, 1990–91	Surrenders, 1990–91	—	—	39 925 270	—
	R	148 000 000	181 847 082	964 247 080	803 038 415
Rekening vir Provinsiale Dienste: Transvaal	***Account for Provincial Services: Transvaal***				
Provinsiale inkomste	Provincial revenue	—	276 888 275	136 231 788	353 957 702
Oorplasing vanaf Staatsinkomsterekening	Transfer from State Revenue Account	250 000 000	280 000 000	3 212 673 000	2 767 808 000
Terugstortings, 1988–89	Surrenders, 1988–89	—	8 071 411	—	8 071 410
Terugstortings, 1989–90	Surrenders, 1989–90	—	—	188 002	—
Terugstortings, 1990–91	Surrenders, 1990–91	1 765 538	—	1 948 725	—
	R	251 765 538	564 959 686	3 351 041 515	3 129 837 112
	R	17 249 517 030	—	143 747 844 499	—
Totaal (insluitende Aanvangssaldo)	Total (including Opening Balance) R	22 407 050 341	—	146 455 551 736	—

UITBETALINGS—ISSUES

Dienste	Services	Begroting / Estimates 1991–92	Maand Desember / Month of December 1991	Maand Desember / Month of December 1990	Totaal 1 April tot 31 Desember / Total 1 April to 31 December 1991	Totaal 1 April tot 31 Desember / Total 1 April to 31 December 1990
		R	R	R	R	R
Staatsinkomsterekening	***State Revenue Account***					
Begrotingsposte	**Votes**					
1. Staatspresident	State President	17 419 000	1 600 000	1 400 000	13 830 000	11 900 000
Statutêre Bedrag	Statutory Amount	205 000	18 000	17 000	161 000	153 000
2. Parlement	Parliament	45 046 000	3 138 000	3 190 000	41 157 000	32 188 000
Statutêre Bedrag	Statutory Amount	26 200 000	2 440 000	2 194 000	20 932 000	19 718 000
3. Buro vir Inligting	Bureau for Information	41 595 000	3 466 000	3 500 000	31 194 000	28 000 000
4. Buitelandse Sake	Foreign Affairs	5 023 131 000	374 000 000	409 674 800	4 148 000 000	2 979 674 800
Statutêre Bedrag	Statutory Amount	2 572 000	215 000	166 000	1 935 000	1 494 000
5. Staatkundige Ontwikkelingsdiens	Constitutional Development Service	14 257 000	—	1 121 667	17 151 428	10 095 000
6. Weermag	Defence	9 187 096 000	495 000 000	700 000 000	6 338 000 000	5 863 000 000
7. Mineraal- en Energiesake	Mineral and Energy Affairs	896 092 000	25 400 000	71 547 000	840 696 000	910 201 360
8. Kantoor vir Privatisering	Office for Privatisation	4 064 000	600 000	1 000 000	3 468 000	2 905 000
9. Justisie	Justice	527 108 000	36 000 000	40 000 000	427 000 000	376 500 000
Statutêre Bedrag	Statutory Amount	37 500 000	3 500 000	4 000 000	30 900 000	33 100 000
10. Korrektiewe Dienste	Correctional Services	1 275 032 000	109 000 000	100 200 000	987 500 000	818 300 000
11. Administrasie: Volksraad	Administration: House of Assembly	8 430 906 000	665 275 826	603 483 000	7 244 764 551	6 180 371 000
12. Finansies	Finance	1 537 164 000	95 659 000	110 307 000	1 103 970 000	961 593 998
Statutêre Bedrag	Statutory Amount	15 846 538 000 (2 741 000 000)	673 600 000 (110 368 000)	603 736 652 (143 201 000)	13 113 583 902 (3 855 354 000)	10 582 993 652 (2 608 864 000)
13. Oudit	Audit	500 000	—	—	425 000	—
14. Streekontwikkeling	Regional Development	966 055 000	54 000 000	—	452 532 000	—
15. Mannekrag	Manpower	300 543 000	38 000 000	—	280 998 000	232 000 000
16. Administrasie: Raad van Verteenwoordigers	Administration: House of Representatives	3 750 788 000	298 000 000	231 000 000	2 904 000 000	2 550 694 000
17. Administrasie: Raad van Afgevaardigdes	Administration: House of Delegates	1 378 957 000	130 000 000	120 000 000	1 220 000 000	1 021 000 000
18. Polisie	Police	4 631 833 000	360 000 000	310 000 000	3 924 000 000	2 829 200 000
19. Waterwese en Bosbou	Water Affairs and Forestry	374 874 000	30 000 000	22 000 000	282 000 000	254 000 000
20. Handel en Nywerheid	Trade and Industry	1 914 883 000	69 500 000	138 000 000	1 493 000 000	1 408 000 000
21. Onderwys en Opleiding	Education and Training	3 295 681 000	270 000 000	229 000 000	2 494 000 000	2 270 000 000
22. Binnelandse Sake	Home Affairs	281 435 000	23 000 000	20 000 000	212 000 000	136 000 000
23. Vervoer	Transport	1 496 275 000	110 000 000	140 000 000	1 232 000 000	1 148 000 000
24. Openbare Werke en Grondsake	Public Works and Land Affairs	1 842 061 000	195 000 000	365 000 000	1 470 000 000	1 518 000 000
25. Nasionale Gesondheid en Bevolkingsontwikkeling	National Health and Population Development	632 713 000	74 000 000	34 000 000	478 057 000	465 000 000
Statutêre Bedrag	Statutory Amount	—	—	—	—	225 000
26. Beplanning, Prov. Sake en Nas. Behuising	Planning, Prov. Affairs and Nat. Housing	746 205 000	51 000 000	34 000 000	437 000 000	304 000 000
Statutêre Bedrag	Statutory Amount	9 612 161 000	795 750 000	793 750 000	7 945 673 000	7 033 808 000
27. Landbou	Agriculture	253 770 000	8 000 000	18 000 000	233 000 000	246 000 000
28. Ontwikkelingshulp	Development Aid	6 335 366 000	659 605 000	443 864 000	5 555 727 000	3 904 264 000
Statutêre Bedrag	Statutory Amount	655 534 000	54 628 000	50 152 000	491 652 000	451 368 000
29. Kommissie vir Administrasie	Commission for Administration	160 578 000	12 000 000	45 000 000	120 654 000	285 196 000
30. Verbetering van Diensvoorwaardes	Improvement of Conditions of Service	2 875 134 000	356 175 000	14 779 271	356 175 000	133 013 439
Statutêre Bedrag	Statutory Amount	464 898 000	—	—	—	—
31. Sentrale Ekonomiese Adviesdiens	Central Economic Advisory Council	4 640 000	300 000	—	2 645 000	—
32. Nasionale Opvoeding	National Education	299 601 000	17 000 000	12 000 000	214 872 000	171 000 000
33. Omgewingsake	Environment Affairs	168 505 000	9 000 000	17 304 000	123 743 500	126 028 000
	R	85 354 915 000	6 103 869 826	5 693 386 390	66 288 396 381	55 298 984 249
*Min Diskonto RSA Effekte	*Less Discount RSA Stocks	2 741 000 000	110 368 000	143 201 000	3 855 354 000	2 608 864 000
	R	82 613 915 000	5 993 501 826	5 550 185 390	62 433 042 381	52 690 120 249

Dienste	Services	Begroting Estimates 1991–92	Maand Desember Month of December 1991	1990	Totaal 1 April tot 31 Desember Total 1 April to 31 December 1991	1990
		R	R	R	R	R
Staande Toewysings	***Standing Appropriations***					
Suid-Afrikaanse Ontwikkelingstrustfonds....	South African Development Trust Fund.......	50 000 000	57 300	436 871	42 222 854	72 222 662
Uitbetalings, SA Ontw. Trust 1990–91	Issues, SA Developm. Trust 1990–91	–	–	–	5 005 602	–
Fonds vir Sorghumbiernavorsing	Sorghum Beer Research Fund....................	1 200 000	–	–	–	–
	R	51 200 000	57 300	436 871	47 228 456	72 222 662
	R	82 665 115 000	5 993 559 126	5 550 622 261	62 480 270 837	52 762 342 911
Ander Uitbetalings	***Other Issues***					
Skatkisbiljette	Treasury Bills..	–	5 849 543 000	–	50 046 311 150	–
Skatkisbiljette—Laat Aanvraag	Treasury Bills—Late Issue............................	–	–	–	579 290 000	–
Leningsheffing...	Loan Levy..	–	6 790	–	245 113	–
Betaling Ingevolge Art. 10 (1) (e) van Skatkis Wet	Payments in terms of section 10 (1) (e) of Exchequer Act	–	–	–	263 488	–
Betaalmiddele Bydrae, I.D.A.	Currency Subscription, I.D.A.	–	–	–	3 554 419	–
Betaalmiddele Bydrae, I.B.R.O......................	Currency Subscription, I.B.R.D.....................	–	–	–	10 137 532	–
Betaling Ingevolge Art. 10 (1) D Wet 66 van 1975	Payments in terms of section 10 (1) D of Act 66 of 1975	–	9 890 311	–	48 490 177	–
I.M.F.: Valuta Aanpassing	I.M.F.: Valuation Adjustment	–	–	–	810	–
Finansiewet 120 van 1991............................	Finance Act, 120 of 1991	–	1 350 000 000	–	1 800 000 000	–
Obligasies:	Bonds:					
Onbepaalde Termyn Skatkis-obligasies ..	Indefinite Period Exchequer Bonds..........	–	2 322 800	–	32 033 100	–
Onbepaalde Termyn Nasionale Verdedigingsobligasies	Indefinite Period National Defence Bonds	–	670 800	–	9 874 100	–
Onbepaalde Termyn Senior Burger Spaarobligasies	Indefinite Period Senior Citizens Savings Bonds	–	2 094 200	–	28 448 900	–
Binnelandse Geregistreerde Effekte:	Internal Registered Stock:					
Aflossing, Mei 1991:................................ R038, R040, R043, R044, R045, R047, R055, H059, R064, R066, R070, R083, R085, R089, R093, R097, R100, R101, R103, R104, R106, R111, R113, R119, R124, R126, R133, R141..............................	Redemption, May 1991:.......................... R038, R040, R043, R044, R045, R047, R055, R059, R064, R066, R070, R083, R085, R089, R093, R097, R100, R101, R103, R104, R106, R111, R113, R119, R124, R126, R133, R141..............................	– –	– –	– –	66 442 632 –	– –
Aflossing, Junie 1991: R104,142	Redemption, June 1991: R104, R142...............................					
Aflossing, Julie 1991:..................................	Redemption, July 1991:..........................	–	–	–	75 682 600	–
R147	R147	–	–	–	–	–
Aflossing, Augustus 1991:	Redemption, August 1991:	–	–	–	113 020	–
R100, R138..	R100, R138...	–	–	–	–	–
Aflossing, Oktober 1991:............................	Redemption, October 1991:.....................	–	–	–	2 000 028 500	–
R101, R028, R054..	R101, R028, R054...	–	–	–	830 881	–
Aflossing, November 1991:...................... R061, R041, R119, R064, R066, R045, R044, R070, R083, R055, R101, R103, R104, R100, R111, R106, R093, R097, R124, R043, R141, R038, R126, R133, R142, R147, R138, R028, R059	Redemption, November 1991:.................. R061, R041, R119, R064, R066, R045, R044, R070, R083, R055, R101, R103, R104, R100, R111, R106, R093, R097, R124, R043, R141, R038, R126, R133, R142, R147, R138, R028, R059	–	–	–	1 817 284 648	–
Buitelandse Lenings en Kredïtte:	Foreign Loans and Credits:					
1985–91	1985–91..	–	–	–	–	–
1988–91	1988–91..	–	–	–	146 341 463	–
1989–92	1989–92..	–	–	–	4 492 219	–
1990–99	1990–99..	–	–	–	4 258 555	–
1982–86	1982–86..	–	–	–	1 038 741	–
1989–90	1989–90..	–	–	–	821 906	–
1983–85	1983–85..	–	22 134 399	–	22 818 967	–
1982	1982...	–	–	–	571 486	–
1983–89	1983–89..	–	–	–	543 820	–
1983–91	1983–91..	–	–	–	5 911 335	–
Uitbetalings, Statuter 1990–91	Issues, Statutor 1990–91..............................	–	88 339 222	–	88 339 223	–
Uitbetalings, 1985–86...................................	Issues, 1985–86...	–	–	–	12 215 514	–
Uitbetalings, 1986–87...................................	Issues, 1986–87...	–	–	–	6 966	–
Uitbetalings, 1987–88...................................	Issues, 1987–88...	–	–	–	2 370	–
Uitbetalings, 1990–91...................................	Issues, 1990–91...	–	–	–	1 071 429	–
		–	1 000	–	204 408 428	–
	R	–	7 325 002 522	–	57 011 873 492	–
Totaal Staatsinkomsterekening..................	Total State Revenue Account..................R	–	13 318 561 648	–	119 492 144 329	–
Inkomsterekening: Volksraad.................	***Revenue Account: House of Assembly***..........R	–	665 275 826	603 483 000	7 244 764 551	6 180 371 000
Inkomsterekening: Raad van Verteenwoordigers........................	***Revenue Account: House of Representatives***...........................R	–	298 000 000	231 000 000	2 904 000 000	2 550 694 000
Finansiewet 42 van 1991..............................	Finance Act of 1991..	–	–	–	59 843 102	–
Inkomsterekening: Raad van Afgevaardigdes	***Revenue Account: House of Delegates***R	–	130 000 000	120 000 000	1 220 000 000	1 021 000 000
Rekening vir Provinsiale Dienste: Kaap..	***Account for Provincial Services: Cape***.R	–	273 750 000	416 639 198	2 719 539 881	2 534 599 911
Finansiewet 120 van 1991..........................	Finance Act 120 of 1991	–	–	–	37 151 538	–
Rekening vir Provinsiale Dienste: Natal..	***Account for Provincial Services: Natal***.R	–	124 000 000	208 257 462	1 296 267 294	1 331 637 747
Rekening vir Provinsiale Dienste: Oranje-Vrystaat	***Account for Provincial Services: Orange Free State***...R	–	148 000 000	181 847 082	924 321 810	803 038 415
Finansieswet 120 van 1991........................	Finance Act 120 of 1991	–	–	–	8 938 034	–
Rekening vir Provinsiale Dienste: Transvaal	***Account for Provincial Services: Transvaal***...R	–	250 000 000	556 888 275	3 348 904 788	3 121 765 702
Finansiewet 120 van 1991..........................	Finance Act 120 of 1991	–	–	–	213 542	–
	R	–	1 889 025 826	2 318 115 017	19 763 944 540	17 543 106 775
Totale	Totals...R	–	15 207 587 474	–	139 256 088 869	–
Skatkissaldo, 31 Desember 1991	Exchequer Balance, 31 December 1991 ..R	–	7 199 462 867	–	7 199 462 867	–
Totale	Totals...R	–	22 407 050 341	–	146 455 551 736	–

Address of premises	Situation of premises
184 Kemston Avenue, Benoni	Erf 398, Benoni.
185 Kemston Avenue, Benoni	Erf 515, Benoni.
188 Kemston Avenue, Benoni	Erf 394, Benoni.
190 Kemston Avenue, Benoni	Erf 392, Benoni.
191 and 191A Kemston Avenue, Benoni	Erf 509, Benoni.
193 Kemston Avenue, Benoni	Erf 507, Benoni.
194 Kemston Avenue, Benoni	Erf 388, Benoni.
195 Kemston Avenue, Benoni	Erf 505, Benoni.
196 Kemston Avenue, Benoni	Erf 386, Benoni.
57, 59 and 59A Kemston Avenue, Benoni	Erf 7613, Benoni.
58 Kemston Avenue, Benoni	Erf 2594, Benoni.
60 Kemston Avenue, Benoni	Erf 2593, Benoni.
83 Kemston Avenue, Benoni	Erf 617, Benoni.
85 Kemston Avenue, Benoni	Erf 615, Benoni.
87 and 87A Kemston Avenue, Benoni	Erf 813, Benoni.
90 and 90A Kemston Avenue, Benoni	Erf 612, Benoni.
91 Kemston Avenue, Benoni	Erf 809, Benoni.
92 and 92A Kemston Avenue, Benoni	Erf 610, Benoni.
93 Kemston Avenue, Benoni	Erf 607, Benoni.
94 Kemston Avenue, Benoni	Erf 468, Benoni.
95 Kemston Avenue, Benoni	Erf 7879, Benoni.
98 Kemston Avenue, Benoni	Erf 7128, Benoni.
101 Kemston Avenue, Benoni	Erf 599, Benoni.
102 Kemston Avenue, Benoni	Erf 460, Benoni.
103 Kemston Avenue, Benoni	Erf 597, Benoni.
105 Kemston Avenue, Benoni	Erf 595, Benoni.
106 Kemston Avenue, Benoni	Erf 456, Benoni.
108 Kemston Avenue, Benoni	Erf 454, Benoni.
110 and 110A Kemston Avenue, Benoni	Erf 452, Benoni.
111 Kemston Avenue, Benoni	Erf 589, Benoni.
112 Kemston Avenue, Benoni	Erf 450, Benoni.
113 and 113A Kemston Avenue, Benoni	Erf 587, Benoni.
114 Kemston Avenue, Benoni	Erf 448, Benoni.
115 and 115A Kemston Avenue, Benoni	Erf 585, Benoni.
116 Kemston Avenue, Benoni	Erf 446, Benoni.
121 and 121A Kemston Avenue, Benoni	Erf 579, Benoni.
127 and 127A Kemston Avenue, Benoni	Erf 573, Benoni.
129 Kemston Avenue, Benoni	Erf 571, Benoni.
131 Kemston Avenue, Benoni	Erf 569, Benoni.
133 Kemston Avenue, Benoni	Erf 567, Benoni.

DEPARTEMENT VAN FINANSIES

No. 255 **17 Januarie 1992**

Staat van Inkomste ingevorder gedurende die tydperk 1 April 1991 tot 30 November 1991.

Tesourie, Pretoria.

DEPARTMENT OF FINANCE

No. 255 (320) **17 January 1992**

Statement of Revenue collected during the period 1 April 1991 to 30 November 1991.

Treasury, Pretoria.

Inkomstehoof	Head of Revenue	Begroting Estimate 1991/92	Maand November Month of November 1991	Maand November Month of November 1990	Totaal 1 April tot 30 November Total 1 April to 30 November 1991	Totaal 1 April tot 30 November Total 1 April to 30 November 1990
		R	R	R	R	R
Staatsinkomsterekening	*State Revenue Account*					
Binnelandse Inkomste:	Inland Revenue:					
Belasting op inkomste	Tax on Income	44 817 200 000	2 167 756,208	1 695 031 631	26 275 767 973	23 617 587 817
Leningsheffing 1989–94	Loan Levy 1989–94	—	277 696	—	2 032 358	264 800
Verkoopbelasting	Sales tax	19 444 000 000	(50 995 449)	1 536 665 621	10 518 049 089	11 917 875 662
Belasting op toegevoegde waarde	Value added tax	—	1 219 590 582	—	1 219 948 672	—
Ander belastings:	Other taxes:					
Belasting op buitelandse aandeelhouers	Non-resident shareholders' tax	430 000 000	26 520 630	29 711 532	228 862 738	315 035 837
Rentebelasting op buitelanders	Non-residents' tax on interest	—	679	4 003	8 176	1 807 500
Onuitgekeerde winste	Undistributed profits	—	2 596	167 972	382 053	582 047
Geskenkbelasting	Donations tax	6 000 000	225 582	175 219	3 076 381	4 258 150
Boedelbelasting	Estate duty	75 000 000	3 374 081	6 429 513	56 229 143	65 167 501
Handelseffekte	Trade securities	175 000 000	13 239 431	13 528 474	139 448 848	174 491 883
Seëlregte en gelde	Stamp duties and fees	655 000 000	71 931 871	62 130 354	500 124 515	434 325 882
Hereregte	Transfer duties	675 000 000	75 214 673	72 278 551	605 956 909	519 552 189
Diverse	Miscellaneous	—	—	—	—	—
Mynverhurings- en eiendomsregte	Mining leases and ownership	320 000 000	8 230 177	23 254 518	147 327 616	180 450 295
Rente en dividende	Interest and dividends	55 000 000	2 041 911	1 275 480	45 752 244	46 644 352
Heffings	Levies	9 000 000	2 059 951	1 645 152	8 800 458	3 974 406
Terugvorderings van lenings en voorskotte	Recoveries of loans and advances	56 000 000	1 175 583	37 727 600	28 401 426	59 460 255
Departementele bedrywighede	Departmental activities	994 000 000	50 109 802	179 276 815	715 423 028	905 430 522
	R	67 711 200 000	3 590 756 004	3 659 302 435	40 495 571 627	38 246 909 098
Min: Betalings aan selfregerende nasionale state	*Less:* Payments to self-governing national states	1 075 200 000	82 273 000	75 688 000	714 333 000	605 407 000
Totaal: Binnelandse inkomste	Total: Inland revenue R	66 636 000 000	3 508 483 004	3 583 614 435	39 781 238 627	37 641 502 098

Inkomstehoof	Head of Revenue	Begroting Estimate 1991/92	Maand November Month of November 1991	Maand November Month of November 1990	Totaal 1 April tot 30 November Total 1 April to 30 November 1991	Totaal 1 April tot 30 November Total 1 April to 30 November 1990
		R	R	R	R	R
Doeane- en aksynsregte:	Customs and excise duties:					
Doeanereg	Customs duty	2 635 000 000	232 520 241	282 649 135	1 880 956 333	1 727 237 546
Aksynsreg	Excise duty	3 555 000 000	169 558 216	236 169 363	2 107 064 179	1 879 351 990
Bobelasting	Surcharge	1 409 000 000	121 625 743	213 247 747	982 557 931	1 434 985 722
Diverse	Miscellaneous	233 000 000	91 719 777	8 856 260	179 650 347	125 567 588
Brandstofheffing	Fuel levy	4 520 000 000	494 997 397	371 645 861	3 235 107 451	2 715 650 460
Gewone Heffing	Ordinary Levy	111 000 000	2 221 617	6 088 296	40 607 023	70 449 720
	R	12 463 000 000	1 112 642 991	1 118 656 662	8 425 943 264	7 953 243 026
Min: Bedrag tot krediet van Sentrale Inkomstefonds	*Less:* Amount to the credit of Central Revenue Fund	–	–	–	–	223 500 000
Betalings ingevolge Doeane-unie-ooreenkomste	Payments in terms of Customs Union Agreements	4 233 000 000	172 797 000	–	3 464 269 000	2 130 526 750
Totaal: Doeane- en aksynsregte	Total: Customs and excise duties R	8 230 000 000	939 645 992	1 118 656 662	4 961 674 264	5 599 216 276
	R	74 866 000 000	4 448 328 995	4 702 271 097	44 742 912 891	43 240 718 374
Suid-Afrikaanse Ontwikkelingstrustfonds	South African Development Trust Fund	50 000 000	57 300	436 872	42 222 854	56 968 146
Fonds vir Sorghumbiernavorsing	Sorghum Beer Research Fund	1 200 000	–	–	–	–
Toewysings uit brandstofheffing:	Allocations from fuel levy:					
Oliebesoedelingsfonds	Oil Pollution Fund	6 000 000	–	–	–	–
Suidwes-Afrika	South West Africa	10 000 000	–	–	–	–
TBVC-lande	TBVC Countries	140 000 000	–	–	–	–
	R	207 200 000	57 300	436 872	42 222 855	56 968 146
	R	75 073 200 000	4 448 386 295	4 702 707 969	44 785 135 745	43 297 686 520
Inkomsterekening: Volksraad	***Revenue Account: House of Assembly***					
Binnelandse inkomste	Inland revenue	–	38 498 334	9 134 043	148 881 392	99 211 478
Inkomsterekening: Raad van Verteenwoordigers	***Revenue Account: House of Representatives***					
Binnelandse inkomste	Inland revenue	–	1 707 600	3 029 829	23 770 527	24 357 471
Inkomsterekening: Raad van Afgevaardigdes	***Revenue Account: House of delegates***					
Binnelandse inkomste	Inland revenue	–	769 368	437 906	5 650 224	4 838 407
	R	–	40 975 302	12 601 778	178 302 143	128 407 356
Groottotaal	Grandtotal R	–	4 489 361 597	4 715 309 747	44 963 437 888	43 426 093 876
Rekonsiliasie met opgaaf gepubliseer by Goewermentskennisgewing 3088 in *Staatskoerant* van 20 Desember 1991:	Reconciliation with statement published by Government Notice 3088 in *Government Gazette* of 20 December 1991:					
In Transito, 31 Maart 1991	In Transit, 31 March 1991	–	–	–	198 934 099	–
In Transito//Te veel oorgedra, 31 Oktober 1991	In Transit/Overremitted, 31 October 1991	–	(91 338 777)	–	–	–
Invorderings soos hierbo	Collections as above	–	4 489 361 597	–	44 963 437 888	–
	R	–	4 398 022 820	–	45 162 371 987	–
In Transito/Te veel oorgedra, 30 November 1991	In Transit/Overremitted, 30 November 1991	–	556 163 813	–	556 163 813	–
In Transito Inkomsterekening: Administrasie	In Transit Revenue Account: Administrations	–	(7 700 632)	–	(137 326 841)	–
In Skatkisrekening ontvang	Received into Exchequer Account R	–	4 946 486 001	–	45 581 208 959	–

No. 263 **17 Januarie 1992**

Staat van Ontvangste in en Oordragte uit die Skatkisrekening vir die tydperk 1 April 1991 tot 31 Desember 1991.

Tesourie, Pretoria.

No. 263 **17 January 1992**

Statement of Receipts into and Transfers from the Exchequer Account for the period 1 April 1991 to 31 December 1991.

Treasury, Pretoria

RECEIPTS—ONTVANGSTE

Inkomstehoof	Head of Revenue	Maand Desember Month of December 1991	Maand Desember Month of December 1990	Totaal 1 April tot 31 Desember Total 1 April to 31 December 1991	Totaal 1 April tot 31 Desember Total 1 April to 31 December 1990
		R	R	R	R
Skatkissaldo, 31 Maart 1991	Exchequer Balance, 31 March 1991	–	–	2 707 707 237	–
Skatkissaldo, 30 November 1991	Exchequer Balance, 30 November 1991	5 157 533 311	–	–	–
Staatsinkomsterekening	***State Revenue Account***				
Binnelandse Inkomste	Inland Revenue	6 166 004 758	4 566 521 725	46 337 294 718	42 414 313 864
Doeane en Aksyns	Customs and Excise	1 068 522 486	938 508 997	6 429 515 666	6 603 894 923
	R	7 234 527 244	5 505 030 722	52 766 810 384	49 018 208 787
Suid-Afrikaanse Ontwikkelingstrustfonds	South African Development Trust Fund	57 300	436 871	47 228 456	72 222 662
	R	57 300	436 871	47 228 456	72 222 662
	R	7 234 584 544	5 505 467 593	52 814 038 840	49 090 431 449

No rise in VAT seen but watch motor fuel

320 ~~BB~~

SVEN LUNSCHE
Weekend Argus Business Staff

ARG 18/1/92

VAT is unlikely to go up — contrary to speculation of the past few days — but motorists are on the road to another shock, according to economists.

An increase in the price of petrol seems the most likely means for the government to deal with the estimated R5 billion shortfall in government income for the current financial year.

Despite indications that tax revenues are behind their budgeted targets, Econometrix economist Tony Twine said yesterday a hike in the VAT rate from its current level of 10 percent would be a "political nightmare" for the government.

A rise in the fuel levy, which makes up part of the petrol price, should not be ruled out as it gave the government instant access to extra revenue, he said.

"A 10c rise in the fuel levy, which makes up 36 percent of the petrol price, generates R1 billion in revenue per annum.

"Mr Barend du Plessis (the Finance Minister) previously indicated that he would like to see this percentage increased to 45 percent in line with other Western countries.

"By raising the petrol price by 10c, he would move closer to this level and generate roughly R250 million in the remainder of the fiscal year," Mr Twine said.

But the bulk of the revenue shortfall is set to be raised through additional borrowings on the local money and capital markets.

Mr Twine said the government's need for cash could result in some hardening of rates on the capital market but was unlikely to delay a cut in interest rates, anticipated over the next two months.

Releasing figures for the first nine months of the budget, Mr Du Plessis yesterday said government spending had increased by 18,5 percent over the same period in the previous fiscal year.

And revenue would be even lower than he had calculated in October 1991 after revising estimates to take into account the lowering of the VAT rate and an increase in excise duties from the fuel levy.

So far this year, total revenue income is up by only 7,6 percent compared with the previous fiscal year — well short of the budgeted 11,5 percent increase.

Income from GST and VAT is nearly two percent lower than for the same period last year, an indication of poor retail sales and economic conditions.

Fuel price hike seen as solution to cash crisis

Motorists may bail out Govt

STAR 18/1/92 (320)

SVEN LÜNSCHE

SOUTH Africa's long-suffering motorists are likely to bear the brunt of the estimated R5 billion shortfall in Government income for the current financial year, according to economists.

But an increase in the rate of VAT is unlikely, despite indications that tax revenues are running well behind budgeted targets.

Econometrix economist Tony Twine said yesterday that any rise in VAT from its present 10 percent would be a "political nightmare" for the Government.

He added, however, that an increase in the fuel levy, which makes up part of the petrol price, should not be ruled out, as it gave officials instant access to additional revenue.

"A 10c rise in the fuel levy, which makes up 36 percent of the petrol price, generates R1 billion in revenue per annum.

"Mr du Plessis previously indicated that he would like to see this increase to 45 percent in line with other Western countries. By raising the petrol price by 10c he would move closer to this level and generate roughly R250 million in the remainder of the fiscal year," Mr Twine said.

The bulk of the revenue shortfall, however, is set to be raised through additional borrowings on the local money and capital markets.

In a statement yesterday, Minister of Finance Barend du Plessis said it would not be necessary to find additional sources of revenue, as sufficient loans had already been arranged to meet revenue shortfalls and finance higher spending.

However, the Government's need for cash was unlikely to delay the cut in interest rates expected over the next two months, Mr Twine said.

Mr du Plessis announced yesterday that the Government would

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Fuel rise

(320)

● FROM PAGE 1.

"substantially" overshoot its 1991/92 Budget as a result of overspending and lower tax revenues.

Releasing figures for the first nine months of the 1991/92 Budget, Mr du Plessis said Government spending had increased by 18,5 percent over the same period of the previous fiscal year.

He added that revenue would be even lower than he had calculated in October 1991, when estimates were revised to take account of the lowering of the VAT rate and an increase in excise duties from the fuel levy.

So far this year, total revenue is up by only 7,6 percent compared with the previous fiscal year, which is well short of the budgeted increase of 11,5 percent.

Income from GST and VAT, in particular, is nearly 2 percent lower than for the same period last year, which is a reflection of poor retail sales and economic conditions.

Income from VAT in November and December was R1,2 billion and R1,8 billion respectively, but Mr du Plessis predicted that revenue from VAT for the full year would be "fairly close to target".

This follows widespread speculation that VAT income would be much lower than budgeted for and an ultimatum this week by the Co-ordinating Committee on VAT to the Government to reopen negotiations on the new tax.

Mr Twine said the Government was unlikely to raise the VAT rate, as it risked an even bigger political controversy than the one surrounding the introduction of the tax in September.

With Government revenue unlikely to meet budgeted estimates, the scope for effective tax relief to the individual in the forthcoming Budget is also limited.

Commented an economist: "Although it has been stated that the long-term aim is to bring down the level of direct taxes and increase indirect taxation, this seems highly unlikely in view of the revenue shortfalls and political demands on Government expenditure."

STAR 18/1/92

Taxpayers in need of urgent relief

320 STAR 18/1/92.

DEREK TOMMEY

SOUTH AFRICANS badly need a cut in taxation.

This is evident from the poor Christmas retail sales, depressed new car sales, flagging tax revenues, rising unemployment and low Christmas hotel occupancies.

And the basic cause of this unhappy sitauation is pretty clear — it is the result of a major reduction in the man in the street's ability to save and spend.

Therefore the solution is also obvious — cut taxes and give people more money for saving and spending.

The Americans believe that their depressed economy needs this sort of medicine. There seems no reason why the same considerations do not apply here.

Although a number of factors are at work in the current recession, it is evident that a major factor has been over-taxation in the past 10 years by a Government which believes the country owes it and its supporters a living.

Official figures show the extent to which the rate of taxa tion has been raised in recent years.

While private spending rose 133 percent between 1985 and 1990, income tax collections increased by 159 percent — with the bulk of the increase coming from private individuals.

In addition there was the steady increase in the rate of GST, in the petrol tax, and in a great many other indirect taxes.

This alone would have restricted economic growth. But coming at a time when sanctions were being imposed the overall effect has been disastrous.

Since 1983 the South African economy has grown overall by 11 percent — or about 1,5 percent a year. For this to happen at a time when the population has been growing by between 2,5 percent and 3,0 percent a year, means that today South Africans on average are about 10 percent poorer than they were in 1983 — with the most skilled being the least affected and the unskilled the hardet hit.

It is not surprising that the retail, hotel, and motor trades — and the Receiver of Revenue are having a hard time. It is also not surprising that South Africa is in the grip of a crime wave.

South Africa's high tax rates help to restrict economic growth in two ways, firstly, by curbing consumer spending and secondly by limiting the ability to save.

Interest rates

When a person is being overtaxed and has to spend more of his income on the necessities of life his saving rate drops. This is not the only reason though. But here in South Africa there is another factor. It is simply if you save money you lose it.

For years the rates of interest paid on savings have been below the inflation rate — and still are. On top of this the Government until recently has insisted on taxing up to half the interest. The result has been that for every R100 a person managed to save, he would have only about R93 left in real terms 12 months later, even if were able to get the highest rate of interest available.

The tragedy in all this is that the lack of savings has meant the growth in the economy has had to be financed by the creation of money by the Reserve Bank.

While this prevented the economy from contracting and even created some expansion, it gave inflation a huge boost. And unfortunately inflation is a major deterrent to new investment and the economy is now suffering severely from this.

About a year ago some top public servants, realising the real need to increase savings, proposed that interest on savings should be subject to only a 10 percent withholding tax.

But they ran into strong opposition. The main opponents were the insurance companies who feared a loss of business, and the Department of Finance which believed the scheme would be abused. As a result the scheme has been shelved, the savings rate is still low and the economic outlook just as poor as ever.

However, there has been some movement towards a sounder economy. For the past two years the Reserve Bank has reversed its policy of money creation and has been mopping up surplus cash. This has kept interest rates high but it is starting to squeeze inflation out of the economy.

Now the Treasury must also play its part in getting the economy moving by cutting taxes to increase private consumption and also boost savings so that the economic upturn can be financed in a non-inflationary manner.

But unless the Minister of Finance, Mr Barend du Plessis, has some surprises up his sleeve on March 18, Budget Day, it seems that taxes are likely to remain high and the economic growth rate low.

As someone close to the Government explained this week. "A cut in taxes would help the economy. But this is most unlikely as it would require a cut in Government spending. This could cause great hardship in the Public Service and you must remember that the State President, Mr FW Botha, this year needs all the votes he can get."

Tax increase up Barend's sleeve?

MINISTER of Finance, Barend du Plessis, is expected to announce new tax increases when he addresses Parliament next month. (320)

Du Plessis is reported in a morning newspaper yesterday as saying that he would ask Parliament to approve a substantial additional amount to balance the 1991-1992 books. CPress 17/1/92

It is believed that the above budget expenditure during the first nine months of the 1991-1992 financial year was related to higher spending on, among other things, inter-governmental grants to black local authorities.

Delays in payouts for relief

(320)

CT 20/1/92

Own Correspondent

PRETORIA. — The government has distributed only R14,75 million of the R220m relief programme launched in August, partly to counter the effect of VAT on the very poor.

The money has gone to 14 welfare organisations and two non-profit agencies.

ANC and Democratic Party spokesmen said at the weekend that the figures, released by the Department of National Health and Population Development, showed that poverty relief was not only financially inadequate, but its distribution was being severely slowed down by bureaucratic procedures.

However, a department spokesman said the department was aware of the need for urgency and every effort was being made to speed up the process.

The spokesman was unable to say how many applications had been screened by the department's regional offices.

To date 201 applications had been recommended to head office by regional offices.

After approval by the director-general, Mr Coen Slabbert, some were still being processed, the departmental spokesman said.

The Minister of National Health, Dr Rina Venter, has said she will press for a doubling of the R220m in the next budget.

Applications were coming from organisaions and bodies representing all racial groups, including whites.

ANC spokesman Ms Gill Marcus said the amount made available this financial year was pitifully inadequate to deal with a massive and growing problem.

Not only hunger, but starvation was rife in some townships.

Fringes

The fact that only R14,7m of the R220m allocated this year had been spent was an indication that bureaucratic processing delays were taking place.

Even a doubling of the amount in the new financial year would only touch the fringes of the problem, she added.

DP development-aid spokesman Mr Peter Soal said it was vital that bureaucratic barriers be removed.

The amount allocated in the current financial year was merely scratching the surface of the problem, and the DP would demand during the coming parliamentary session that the budget allocation for poverty relief be increased to a more realistic level.

Corporate tax, inflation 'chasing away' investors

(320)

B/Day 20/1/92

JONO WATERS

THE poor fiscal climate in SA as a result of high corporate taxes and inflation has reduced the country's attractiveness to both local and overseas investors, says AECI MD Mike Sander in the group's quarterly journal, Prospect.

Sander cited analyses which showed that projects undertaken in SA paid almost 2,5 times as much tax as a project in Holland or Britain, and six times as much as in Taiwan.

Conversely, investor returns, given the same cash margin, are 4,5% in SA compared with 8,4% in Holland, 8% in Britain and 10,2% in Taiwan, he said.

If SA was to ensure success and stability in future, economic growth was needed at a rate where increasing numbers of people were employed and their earning aspirations met, Sander said.

"The time is long past when production and export of raw materials could be relied upon to generate sufficient jobs and wealth to satisfy SA's needs."

He said it was unacceptable to export SA's resources at unattractive prices and in doing so, provide employment for citizens of other countries who produced higher valued manufactured products.

The manufacturing sector had to play the major role in future wealth creation, and employment should become the focus of investment in SA.

For manufacturers to participate successfully in external markets, certain conditions were necessary — a fiscal system which made SA producers competitive with other world producers, a stable productive workforce and good enterprising management within companies.

"Labour relations and associated issues such as inadequate training, are also limiting industrial development at present," said Sander.

An imbalance between technical and non-technical education in the workforce and boycotts and stayaways in black schools had all contributed to lower productivity.

Furthermore, without a sound partnership between labour and management the task of being internationally competitive was very difficult to achieve, he said.

On the management side, Sander said industry could prosper if maximum benefit was derived from the economic environment where SA had a comparative advantage.

He said SA had access, at a relatively low cost, to raw materials, as well as a good infrastructure, high calibre technical resources, an established support industry, a professional and adaptable management base and good links with major international companies.

Tax relief urgent — truth evident

(32) ARCT 20/1/92

DEREK TOMMEY

JOHANNESBURG. — South Africans badly need a cut in taxation.

This is evident from the poor Christmas retail sales, depressed new car sales, flagging tax revenues, rising unemployment and low Christmas hotel occupancies.

And the basic cause of this unhappy sitauation is pretty clear. It is the result of a major erosion of the ability to save and spend.

Therefore the solution is also obvious: Cut taxes and give people more money for saving and spending.

It is evident in the current recession that a major factor in the past 10 years has been over taxation by a Government that believes the country owes it and its supporters a living.

While private spending rose 133 percent between 1985 and 1990, income tax collections increased by 159 percent, with the bulk of the increase coming from private individuals.

There was also the steady increase in the rate of GST, in the petrol tax, and in a great many other indirect taxes. These increases moved wealth from the private to the public sector. The individual grew poorer and the Government richer.

This alone would have restricted economic growth. But coming at a time when sanctions were being imposed the overall effect was disastrous.

Since 1983 the South African economy has grown overall by 11 percent or about 1,5 percent a year. For this to happen at a time when the population has been growing by between 2,5 percent and 3 percent a year means that today South Africans on average are about 10 percent poorer than they were in 1983, with the most skilled being the least affected and the unskilled the hardet hit.

South Africa's high tax rates help to restrict economic growth in two ways, first by curbing consumer spending and second by limiting the ability to save.

When a person is being over taxed and has to spend more income on the necessities of life the saving rate drops. This is not the only reason though. But here in South Africa there is another factor. It is simply if you save money you lose it.

For years the rates of interest paid on savings have been below the inflation rate — and still are. On top of this the Government until recently has insisted on taxing up to half the interest. The result has been that for every R100 a person managed to save, only about R93 was left in real terms 12 months later, even at the highest rate of interest available.

The tragedy in all this is that the lack of savings has meant the growth in the economy has had to be financed by the creation of money by the Reserve Bank.

While this prevented the economy from contracting and even created some expansion, it gave inflation a huge boost. And unfortunately inflation is a major deterrent to new investment and the economy is now suffering severely from this.

About a year ago some top public servants, realising the real need to increase savings, proposed that interest on savings should be subject to only a 10 percent withholding tax.

But they ran into strong opposition. The main opponents were the insurance companies that feared a loss of business, and the Department of Finance, which believed the scheme would be abused. As a result the scheme has been shelved, the savings rate is still low and the economic outlook just as poor as ever.

However there has been some movement toward a sounder economy. For the past two years the Reserve Bank has reversed its policy of money creation and has been mopping up surplus cash. This has kept interest rates high, but it is beginning to squeeze inflation out of the economy.

Now the Treasury must also play its part in getting the economy moving by cutting taxes to increase private consumption and also boost savings so that the economic upturn can be financed in a non-inflationary manner.

Income from VAT likely to increase

320

STAR 20/1/92

By Sven Lünsche

Income from VAT looks set to rise as the Department of Finance irons out the technical problems experienced since its introduction.

Finance Minister Barend du Plessis said on Friday that collections totalled R1,2 billion in November and R1,8 billion in December.

He added that for the 1991/2 fiscal year "estimated revenue from VAT is fairly close to target".

Econometrix economist Tony Twine says revenue from VAT will rise in months to come as "initial input VAT credits iron themselves out of the cash flow of companies".

The higher revenue from VAT should help the Government in financing the deficit before borrowing which has been growing steadily because of higher-than-budgeted expenditure and falling revenue.

Finance Department figures show that total spending in the first nine months of 1991 totalled R62,44 billion — 18,5 percent above the same period in 1990-91 — while revenue totalled R52,77 billion, only 7,6 percent higher than the previous year.

For fiscal 1991-92, the Government budgeted for expenditure of R85,98 billion and revenue of R74,16 billion.

The difference between spending and income for the nine months was R9,67 billion.

The department now estimates that the gross deficit before borrowing for the full fiscal year could exceed previous estimates of R11,83 billion, but Mr du Plessis said that despite the shortfall, there would no extra pressure on capital markets because the Government had a relatively large financing surplus.

Even after provision for further redemptions of government stock in February, funds already acquired were enough to accommodate the expected overshoot on the budget and drop in revenue, he said.

The total gross financing requirements (new loans plus redemptions) for the first nine months of the fiscal year totalled R13,80 billion, while financing of R18,05 billion had been obtained, including foreign loans of R822 million.

Mr du Plessis said the 18,5 percent increase in spending over the first nine months of the present budget would not necessarily be the figure for the whole financial year.

ANC renews call over VAT aid plan

Sowetan 21/1/92 (320)

SAPA

THE African National Congress yesterday renewed its call for essential goods and services to be exempt from Value Added Tax until a properly structured povery relief programme was in place.

The movement said in a statement that it was not surprised the Department of National Health and Population Development could not distribute more than R14,7 million of the R220 million relief programme launched in October last year.

"The Government has no proper statistics on poverty. It does not know the size of the population, who the poverty-stricken people are, or where they live. It does not know how to target the poor and has no mechanisms to distribute poverty relief," it claimed.

"While the Government will collect R420 million as a result of GST on basic foodstuffs, it only awarded R220 million for relief, a paltry amount considering the scale of the problem and given that food prices increased by a massive 25 percent in 1991."

It said National Health Minister Rina Venter's statement that she would press for a doubling of the budget of R220 million in the next Budget rang hollow.

"It is essential that civilian organisations be involved in monitoring both poverty and the relief programmes established to see that the needs of the poor are addressed with the urgency the situation demands," the organisation said.

BDay 21/1/92

VAT refund limit

320

FOREIGN tourists could apply for VAT refunds on items purchased and taken out of the country but the value of the items had to exceed R250 000, a Satour spokesman said yesterday.

Sacob supports call for cut in income tax

(320)

STAR 21/1/92

By Derek Tommey

The poor performance of the economy is adding weight to a recent submission by the South African Chamber of Business (Sacob) to the Government for an immediate cut in personal income tax in the next Budget.

The submission included a warning that the recession could become much worse.

The argument gains increasing relevance as signs mount that if South Africa wants a brighter economy this year, it will have to pull itself up by its own bootstraps.

Stimulus

Reports indicate that it could be six months or even a year before the economy receives any major stimulus from overseas.

Yesterday's sharp fall in Japanese share prices is just another indication of a continued weakening in international economic conditions.

The fall was triggered by Friday's report of a marked decline in American imports in November.

This was taken as showing that the US was now exporting its recession with all its painful effects to Japan — and one could add to South Africa, as well.

Sacob, in its submission to the Minister of Finance, said that the South African economy had been underperforming for the past 15 years and it was imperative to maximise the next upswing.

It warned against regarding the mild appearance of the recession in 1991 as a sign that it could soon be over.

The length of the recession, combined with the effects of bracket creep (not adjusting income tax for inflation), and the tight money policy had finally started to affect spending and the final phase of the recession in South Africa "could prove to be unexpectedly severe", it said.

It pointed to the expectation that only seven out of every 100 job-seekers were expected to find employment in the formal sector as an indication that the economy was already in serious trouble.

As a remedy, it proposed a reduction in both the rate of company income tax and individual income tax.

It said the most effective incentive to investment was a reasonable personal and company tax rate.

Adjustment

At present these tax rates were far too high when compared with those of our trading partners, it said.

It pointed out that there was no allowance in these taxes for the effect of inflation on profits and individual incomes.

The individual was automatically paying a greater proportion of income to the taxman, even if salary increases were to compensate for the effects of inflation.

Sacob said the Government made no significant adjustment in the last Budget and not much in previous Budgets for bracket creep.

This had resulted in an increase in personal income tax as a proportion of total tax revenue from 25 percent to 37 percent.

Sacob said the maximum marginal personal income tax rate of 43 percent was far too high.

It reduced the ability of the individual to save and also to spend, thereby retarding South Africa's economic growth.

Sacob also called for the new income tax tables to come into effect soon after the Budget so that taxpayers could at once feel in their pockets the benefits of tax cuts.

It said a marked reduction in the company tax rate was also necessary to enable companies to plough back a higher proportion of their earnings.

The nominal rate of 48 percent was much higher than in many other countries, and compared with 34 percent in the United States.

Thirty years ago the company tax rate in SA was 30 percent.

Sacob also opposed any increase in the rate of VAT from its present 10 percent.

Although it did not mention it, it must be appalled by the effect an increase of, say, two percentage points in VAT would have on already extremely depressed retail sales.

Fringe benefits tax on bursaries looms

(320)

CT 22/1/92

Own Correspondent

JOHANNESBURG. — Only one month is left in which companies and their employees can make use of tax-free educational benefits.

As of March 1, 1992 companies will no longer receive tax exemptions and employees will have to pay fringe benefits tax on many educational bursaries and grants.

The exemptions which will be withdrawn are educational grants to employees of less than R750 a year; gratuities or prizes which are given to employees who obtain educational qualifications (not linked to job performance); and bursaries and amounts paid by approved bursary schemes to employees' children.

KPMG Aiken and Peat senior tax consultant Noel de Charmoy said that until March 1, benefits could still be awarded and companies should take advantage of it.

But he warned that should the existing rules of approved bursary schemes provide for the payment of bursaries in advance, taxpayers and employers should settle all 1992 fees before February 29.

Schemes which could have problems taking last-minute advantage were those which specified only part of a bursary would be awarded up front.

VAT has to be included on all quotations – dept

(320)

STAR 23/1/92

Consumer Reporter

10% VAT

THE STAR VAT WATCH

Value-added tax has to be included in all quotations for services and goods given to consumers, a spokesman for the Department of Finance has confirmed.

This followed a consumer's complaint that she was charged VAT on a machine and the services of a plumbing company in addition to the initial quotation given to her.

In terms of section 65 of the VAT Act, any price charged by any vendor in respect of the taxable supply of goods or services should, for the purposes of the Act, be deemed to include any tax payable "whether or not the vendor has included tax in such price".

"The amount of any deposit payable to or refundable by a vendor in respect of a returnable container shall be deemed to include tax," says the Act.

An addition, the Act has the following provisos: Where the price inclusive of tax and the price excluding tax are advertised or quoted, both prices should be advertised or quoted with equal prominence and impact; price tickets on goods need not state that prices include tax if this is stated in prominent displays at all entrances and payment points, and provided the Commissioner approves any other method of displaying prices or goods during an approved period.

The spokesman said the department had received a number of similar complaints, which had been followed up.

Consumers who were charged 10 percent VAT on top of the initial quotation were within rights to question the charge.

VAT brings prices down — survey (320)

LESLEY LAMBERT

PRICES of goods and services declined by an average 0,27% in December, Vatwatch announced yesterday. This was the second price decline recorded since VAT was introduced in October, the watchdog organisation said. BDay 23/1/92

Reporting the results of Vatwatch's sixth countrywide market survey yesterday, Sapa said the average 0,27% decline in prices compared with average monthly increases of 1,5% since VAT was introduced and 2,4% in the months preceding VAT. Prices declined by 0,29% in October.

Economists are hoping this trend will be reflected in a slowdown in the rate of food price increases recorded in the official December inflation figures scheduled for release today.

According to the Vatwatch survey, the price of surveyed canned fish declined by an average 5,45% in December compared with pre-VAT prices, while the price of rice declined by an average 3,93% and that of fresh milk by an average 0,29%.

However, the survey also showed that some basic foodstuffs cost "appreciably" more than before VAT's implementation.

Increases in the prices of zero-rated maize meal, milk powder, samp and brown bread had negated the effects of zero-rating. Sharp increases in meat prices recorded in November continued last month, the survey showed.

While the prices of minced meat,

☐ To Page 2

VAT survey BDay 23/1/92

(320) ☐ From Page 1

boerewors and stewing beef tended to increase by slighly more than 1% in the months before VAT, they were now increasing by an average 9,1% — or nearly 30% in total since the introduction of VAT, Vatwatch said.

It pointed out, however, that increases in excess of 10% should not be attributed to VAT because meat prices traditionally increased towards the end of the year.

The survey also indicated that the rate of increase in the cost of services appeared to be slowing down. Dental fees, vehicle servicing, TV rental, plumbing and electrical services were now increasing at a much reduced rate, but the cost of accommodation was increasing by 9,9% a month, while the cost of visiting a general medical practicioner was rising by 6,7% a month, according to the results of the survey.

Since the implementation of VAT, the steepest price rises had been recorded in the western Transvaal (2,6% a month) and the lowest at independent stores in black towns (0,3% a month).

Vatwatch chairman Louise Tager said the slowing down in the rate of price increases appeared to be developing into a definite trend.

However, she cautioned that discounting over the Christmas period may have contributed as much to lower prices as the savings effect of VAT.

The Vatwatch surveys research prices of 104 groceries and other products at 105 outlets countrywide. They are conducted by Interfact.

VAT prices see-sawing

320 Sowetan 24/1/92

By GRACE RAPHOLO

SOME basic foodstuffs are costing more than before VAT came into effect, according to a countrywide market survey by Vatwatch.

The prices of zero-rated maize meal, milk powder, samp and brown bread increased, which negated the effects of zero-rating.

On the other hand, canned fish, rice and fresh milk had become less expensive, according to the report.

On average, the price of goods and services decreased by 0,27 percent.

On the whole, the average monthly increase in prices had been 1,5 percent since the introduction of VAT, compared with 2,4 percent in the months preceding VAT.

The latest survey showed that the rate of increase in the cost of services appeared to be slowing down. Dental fees, vehicle servicing, TV rental, plumbing and electrical services were now increasing at a greatly reduced rate.

The cost of accommodation is increasing by 9,9 percent a month and that of visiting a general practitioner was rising by 6,7 percent a month.

The Vatwatch survey focused on a basket of 104 and other products at 105 outlets countrywide.

Vatwatch chairman Professor Louise Tager this week said the slowing down in the rate of prices appeared to be developing into a definite downward trend.

"Retailers appear to have experienced disappointing sales in December.

"We would be pleased to see the price slow-down sustained, but it may be too soon to make such a claim," she said.

However, the savings which the private sector was beginning to experience following the demise of sales tax, were enabling some firms to cut prices without decreasing profits.

"The recent announcement by the building industry that commercial building construction costs were decreasing and that home building costs were rising, at most, by 1 percent following VAT, is an indication of the savings which can be achieved when VAT is correctly implemented."

LOUISE TAGER

Probe findings to be released

SIMON WILLSON (320)

RECOMMENDATIONS arising from the Justice Department probe into alleged corruption at Cape Town's Inland Revenue office are to be made public.

Allegations of corruption and maladministration at the office first surfaced last year when an Inland Revenue deputy director, Trevor Foster, started legal proceedings against the Finance Department.

Foster, who also headed an Inland Revenue special investigations team, claimed the department had acted to prevent his promotion when he uncovered corruption in the Cape Town Inland Revenue office.

Foster won an undisclosed settlement and later resigned.

BDay 24/1/92

Finance director-general Gerhard Croeser said yesterday the "independent" investigation into Foster's allegations, being carried out by a senior Justice Department official in Cape Town, would be completed "as soon as possible".

Recommendations which did not infringe the statutory prohibition on disclosure of the tax affairs of taxpayers would be made public, Croeser said.

January 24 1992 3

City tax office to be probed

~~302~~ 320

CT 24/1/92

By ANDRE KOOPMAN

ALLEGATIONS of mismanagement and corruption in the Cape Town office of the Department of Finance are being independently investigated by a "senior and respected officer of the Department of Justice" in the city.

This was said yesterday by the director-general of Finance, Mr Gerhard Croeser.

The investigation is believed to follow on a Supreme Court matter last year in which a senior tax official, Mr Trevor Foster, a deputy director and head of the special investigations team in the city's Department of Internal Revenue, claimed that he had twice been passed over for promotion because he had insisted that alleged corruption be investigated.

Silence clause

In a "private and confidential" agreement made an order of the Supreme Court in December last year, Mr Croeser undertook to set up an independent inquiry into the allegations.

Mr Croeser said part of the Supreme Court order had been a clause imposing silence on himself and Mr Foster.

LABOUR

Meeting to revive anti-VAT campaign

(320)

WMail 24/1 - 30/1/92

A second summit of organisations opposed to the implementation of Value-Added Tax will be held next week to discuss strategy, reports

DREW FORREST

THE Congress of South African Trade Unions and its allies are to gather next week in Johannesburg for a second Value-Added Tax "summit", in a bid to revive the flagging fortunes of the anti-VAT campaign.

More than 100 labour, civic, welfare and professional bodies, spearheaded by Cosatu, will ponder the government's continued refusal to negotiate on VAT and weigh up new forms of action to bring pressure on the state. 24/1 - 30/1/92.

The government's last contact with the Co-ordinating Committee on VAT (CCV) was on December 17 last year, when deputy finance minister Theo Alant said in a letter that it had become clear in previous talks that "VAT was not on the agenda" — clearly hinting that Cosatu's aims were political. He doubted that "further talks will take the matter further".

Because of the disparate make-up of the CCV, action to be considered will not include a stayaway, although further stayaway action by Cosatu and the National Council of Trade Unions is a remote possibility.

A key initiative planned by the CCV, in response to a government internal VAT probe, is two days of public hearings on the tax in eight major centres early next month.

To be overseen by "commissioners" drawn from the Mass Democratic Movement, small business and the academic world, these will take submissions from the public for a report which will be forwarded to government. Interested parties from various fields will also be directly approached for comment.

The summit will discuss ways of popularising these hearings, which the CCV is confident will confirm widespread discontent with VAT and its impact on prices.

Cosatu campaigns co-ordinator Lisa Seftel said the summit would look at a broad campaign of lobby and protest culminating with this year's Budget. Cosatu is particularly concerned that the zero-rating of eight basic foodstuffs — a government concession to last year's VAT outcry — automatically falls away at the end of March.

Also under consideration will be new policy options to alleviate the plight of those hardest hit by VAT, such as people on low incomes and small business.

There is a possibility that in addition to Cosatu and Nactu, key representatives of white labour may attend the summit. The Confederation of Metal and Building Unions, the main representative of white metalworkers, and the 250 000-strong Federation of Salaried Staff Associations have both been invited.

Poverty relief fails to get off the ground

(320)

W/Mail 24/11 - 30/1/92

By REG RUMNEY

THE African National Congress has hit home at the most vulnerable aspect of the government's implementation of Value-Added Tax.

Even conservative commentators, who believed VAT should be levied on all goods and services virtually without exception, stressed the need for effective poverty relief to offset the wider-based tax.

Now the government seems to have conceded it hasn't got a sufficiently widespread poverty relief programme in place.

The ANC comments: "South Africa has very high levels of poverty, yet the Pretoria government has no proper statistics on poverty.

"It does not know the size of the population, who the poverty stricken people are, or where they live. It does not know how to target the poor, and has no mechanisms to distribute poverty relief.

"Therefore it comes as no surprise to learn that the Department of National Health and Population Development has distributed merely R14,75-million of the R220-million relief programme launched in August last year to counter the effect of VAT on the very poor."

The ANC, however, then weakens its case by claiming in a press release that unnamed "experts" say the introduction of VAT on basic foodstuffs resulted in a three to five percent increase in the cost of living for the poor.

In fact, the cost of living increase for the very poor has been lightened by the zero-rating of two staples — bread and mealie-meal — and interim exclusion of some other basic foodstuffs from the VAT net.

The cost of living for the general population, as measured by the consumer price index, rose only around one percent as a direct result of VAT.

Though the VAT rate of 10 percent was lower than General Sales Tax at 13 percent, more goods were subject to VAT, which also embraces a wide range of services.

Even if the whole 1,9 percent month-on-month increase in October last year as compared to September was due to VAT it pales by comparison with increases in food prices.

Food price inflation rose by a whacking 25,7 percent year-on-year. This was the highest increase since April 1991. The accusation is that business used VAT as an excuse to raise food prices to this level. But food prices rose again in November by a similar amount, while the general inflation level fell slightly.

The Cosatu-led VAT Co-Ordinating Committee's Bernie Fanaroff has pointed out the effect of the fuel price hike introduced to offset the drop in VAT from 12 to 10 percent has still to flow through. When this happens inflation will rise again.

And when zero-rating for various basic foodstuffs is phased out, the prices of those foods will rise by 10 percent.

The ANC says that while the government will collect R420-million as a result of GST on basic foodstuffs, it only awarded R220-million for relief, "a paltry amount considering the scale of the problem and given that food prices increased by a massive 25 percent in 1991".

The extent of poverty in South Africa is blurred by the unavailability of accurate stats, as the ANC notes.

But since estimates of unemployment range from 20 to 40 percent and higher, it must be so big that poverty relief itself cannot scratch the surface of the problem.

Tax cuts 'urgent' priority

MICHAEL MORRIS, ARG 24/1/92 (320)
Political Correspondent

CUTTING company and individual tax remained an "urgent" government goal in neutralising the impact of interest rates, boosting savings and improving international competitiveness, said Mr De Klerk.

This would be addressed in the coming Budget. He gave no clue on possible alterations to VAT.

He said economic conditions had prevented the government moving as rapidly on this front as it would have wished.

South Africa's return to the international financial and trading markets would have a positive influence on the country's economic growth capacity, but more important were investor confidence and quality, price and assured delivery in a highly competitive world market.

"Adherence to our commitment to further cuts in the tax rates of companies and individuals is an indispensable part of our policy package and will, of course, bring much-needed relief to our people."

Mr De Klerk said the implementation of VAT had had a "negligible effect" on inflation, which was "still in a long-term downtrend to healthier levels".

He said promoting economic growth remained a "high priority" to generate work and income for a fast-growing workforce and to support extensive development programmes.

Tax cut coming, promises FW

320 STAR 25/1/92

By Derek Tommey

THE STATE President Mr FW de Klerk has given an undertaking that taxes will be reduced in the next Budget.

He has also indicated that for the first time in many years that some Government departments will get "reduced" allocations.

In previous years these departments could at least count on getting increases equal to the inflation rate and usually on top of that a bit extra.

The Government has been under increasing pressure from commerce and industry to reduce Government spending in order to reduce the high rate of taxation and stimulate the economy and end the recession.

Speaking at the opening of Parliament yesterday Mr de Klerk said the Government regarded the reduction of taxation as "a matter of urgent importance".

He added that "inasmuch as it is at all possible, it will be attended to in the forthcoming Budget, difficult as that may be."

Daunting challenges

Mr de Klerk said that chief among the daunting challenges facing South Africa was the pressing need to accelerate the process of economic growth. This would generate work and income for the fast increasing workforce and support the extensive development programes which the country had embarked upon.

The long recession, with all of the social problems it brought with it, coupled on the one hand with urbanisation, droughts and natural disasters, and on the other hand with combatting crime and violence, had placed heavy demands on the Government.

"We have had to grapple with resulting strong and often justifiable demands for higher state spending, but we have succeeded in limiting expenditure to levels which could be financed with minimal disruption.

"However, if we are to ensure that the level and composition of state expenditure plays an ongoing positive role in economic growth, additional and relatively drastic structural changes will have to be made, especially in respect of current expenditure."

Tight rein

He said that many departments would receive "reduced" allocations and warned that the Government would crack down on departments which overspent.

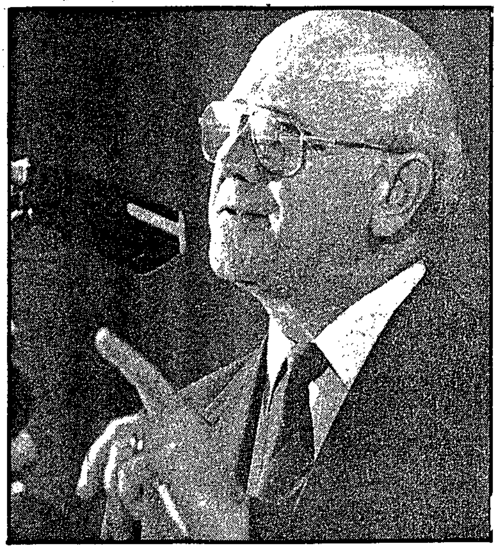
He said a tight rein was being kept on all allocations for 1992-93.

All Government departments would have to submit a proper management plan to ensure that they kept within their "reduced" allocations.

New approaches and methods were being used to this end, and unprecedented discipline in respect of public spending would be applied in the coming year.

"Our determination to keep State expenditure within rigorous limits is not a fad. The high and rising level of such expenditure impinges directly on our already onerous burden of tax and debt-servicing."

Mr de Klerk said the Government was still pursuing the systematic lowering of tax rates on companies and individuals to neutralise their impact on domestic interest rates and savings and also improve international competitiveness.



MR DE KLERK: "Our determination to keep State expenditure within rigorous limits is not a fad.

Important

"Regrettably, circumstances have prevented the Government from moving as rapidly on this front as it would have wished. Nevertheless, it remains a matter of urgent importance."

"Further cuts in the tax rates of companies and individuals are an indispensible part of our policy."

He said the cut in the rate of VAT from 12 percent to 10 percent had produced an appreciable loss of revenue. But this had helped, together with other forms of aid, to reduce the adverse impact of the change-over from GST.

The changeover to VAT and the decline in economic activity had resulted in lower income and a higher deficit than planned.

"Fortunately, this temporary imbalance was concentrated in a period of pronounced weakness in general demand. Therefore, it performed a valuable counter-cyclical role, was easily financed and had a negligible effect on inflation, which is still in a long-term downtrend to healthier levels."

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Investments can attract varying tax liabilities

STAR 25/11/92 (320)

INVESTMENTS and income tax are not only very confusing to most ordinary investors, but also to tax planners, investment advisers and even the Receiver of Revenue himself.

Money Matters

MAGNUS HEYSTEK

Some investments today are tax-free, some partially tax-free while others are fully taxable. However, every serious investor should at least know the basic difference between the various kinds of investments on offer because to ignore the effect of income tax on investments would be a costly mistake.

Take, for instance, someone who has R100 000 invested in a fixed-income deposit earning 15 percent (R15 000 a year). The first R2 000 of income does not attract any tax, which means that the investor has to pay income tax on R13 000 according to his/her average rate of tax.

Using 30 percent as an average, the tax comes to R3 900. With the R2 000 untaxed portionthe investor ends up with R11 900, equivalent to a return of 11,9 percent.

As a general rule, most income-earning investments will attract income tax on the income, apart from the first R2 000. Hopefully this will be increased in the future.

Some investments made prior to the 1990/91-tax year still have a tax-free element, but this concession is currently being phased out at 20 percent a year. By 1995 this concession will have been phased out.

Investments that fall in this category include special tax-free indefinite period building society shares and deposits, building society subscription shares and deposits, building society deposits, made under the state-aided home-ownership saving schemes, Post Office savings and telebank deposits.

To make matters even more confusing, different maximum amounts apply to all these types of investments.

All other kinds of income-earning investments like fixed deposits, participation mortgage deposits, call accounts, post office and bank savings accounts are fully taxable apart from the first R2 000.

Equity investments, however, are treated differently. The dividends paid by share investments, listed or otherwise, do not attract any income tax. Prior to the 1990/91 Budget dividends attracted income tax according to a sliding scale, but this was abolished on the recommendation of the Margo Commission of Inquiry into the tax system. The reasoning here was that companies already paid tax on their profits, which meant that tax on the dividends amounted to double taxation.

Property unit trusts which are listed on the JSE, again are treated differently. The income generated by the property trusts are not taxed at company level but only in the hands of the owners, and then at the average tax rate which applies. That's why I consider property trusts a fairly good investment for people with a low average rate of tax.

Life insurance policies, especially endowment policies with a minimum of life cover for ten years or more do not attract any income tax. Because the returns on most, not all endowment policies, have generally outpaced the inflation rate they are very popular with the investing public.

However, should an endowment be matured before the ten years are up, any proceeds will attract income tax.

The income tax status of unit trusts can also be very confusing. Unit trusts receive their income from two sources: the dividends from companies in which they are invested, and income from the cash-investment that they make. These make up what is called the income-distribution.

Now here comes the tricky part: dividends are not taxable; the same applies in the case of unit trusts.

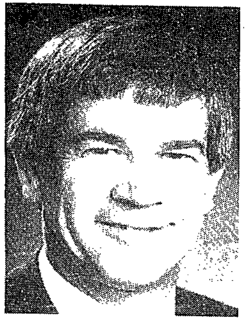
Income received from income-generating investments do attract tax.

Normally unit trusts do not have a lot of money invested in liquid investments, but this varies from time to time depending on the trust's outlook on the equity market. When fund managers are bullish they buy more shares (and hence have less cash invested) while if they are cautious, they hold more cash. This means more income for the unit trust holder. And if you are by now hopelessly confused, wait until next week when I discuss income tax on retirement annuities as well as that dreaded thought: A capital gains tax.

WEEKEND ARGUS BUSINESS POLL


DON BODLEY


BARRY SWART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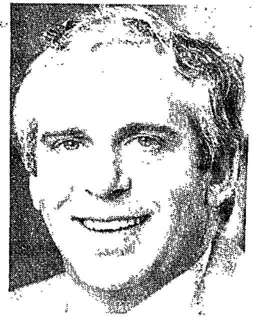
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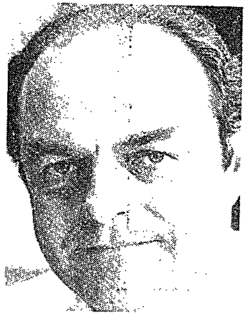
DORIAN WHARTON-HOOD


MERVYN KING


GORDON UTIAN


HUGH HERMAN

Blueprint for the Budget

320 ARGT 25/1/92

Businessmen urge: 'Create tax incentives to boost growth in SA'

CLAIRE GEBHARDT
Weekend Argus Correspondent

SLASH government spending. Don't increase taxes. Create tax incentives.

That's the overwhelming consensus of South Africa's top businessmen, who, polled by Business this week, called for Mr Barend du Plessis to give tax incentives for growth.

Six weeks before the Minister of Finance delivers his Budget they were unanimous that in spite of the government's severe shortage of cash, more money must be ploughed back into business and to private individuals to stimulate the economy.

The overwhelming consensus was that the solution to the revenue shortfall was not for government to seek new sources of revenue, but to cut its own expenditure drastically.

The biggest whinge was bureaucratic duplication of apartheid structures.

Nearly all the businessmen urged cuts in defence and some suggested the money saved be used to bolster the police force.

Increasing the rate of VAT "willy-nilly" sent shivers down most spines.

Another specific suggestion was to reverse the decision to tax bursaries, as education would assume a pivotal role in the new South Africa.

There were hardly any calls for lower interest rates because most accepted that the inflation bogey was rampant.

Businessmen called for job creation and said high corporate and personal tax rates were killing the economy.

The Budget this year is regarded as crucial because of the volatile political climate and the huge risks implicit in constitutional change.

This newspaper set out to discover what the backbone of South African business felt could be done to get the country on an even keel economically in these difficult times. This is what they said:

Mr Brian Gilbertson, chairman of Gencor: "The real problem facing South Africa is rising unemployment as a consequence of no growth. We need a fiscal environment which is conducive to new investment such as exports. Tax holidays could be considered and low cost funds for new ventures that add value.

"The Section 37E allowance for beneficiation is a good incentive but doesn't go far enough. Ring fencing prohibits investment and must be abolished. Barplats would still have been open were it not for this.

"We have another gold mining project we are looking at and it is a tricky decision beause of ring fencing." (Ring fencing limits mines from making effective deductions of capital expenses on new mines from older mines)."

Mr Barry Swart, First National Bank chief: "The Minister must encourage investment in productive means by giving a boost to confidence. Businessmen are loathe to take the necessary longer term view — five years is about as far as you want to right now.

"We need tax incentives or a cash payment once the thing is up and running — say an 80 percent payback. This will get employment levels up and increase economic activity. A housing boost is crucial and would take a couple of thousand people off the unemployment list.

"From a purely financial view, banks and mortgage lenders have a commitment to make funds available but do not want to lend on an empty piece of land. Corporate and individual income tax rates brought down to 40 percent as soon as possible."

Mr Dorian Wharton-Hood, Liberty Life managing director: "The main emphasis must be on containing expenditure and cutting corporate and individual tax rates rather than raising more revenue — there's an enormous amount of waste."

Mr Gordon Utian, Premier's deputy chief executive: "The Minister must stimulate the economy through industrial incentives which will give people jobs and get exports going. Company tax must be reduced to encourage overseas investment.

"We need to give VAT relief on essential foodstuffs and medicines and then negotiate a one or two percent increase with all the political players."

Mr Eugene van As, Sappi managing director: "Cut government spending drastically and spend it where it is needed. If you spend on infrastructure, at least at the end of the day you have a railway line or a hospital. The way we're going we just have more bureacrats."

Mr Don Bodley, Adcock Ingram chief executive: "Increase export incentives, reduce government spending, give incentives for personal saving, spend more on health care."

Mr Bert Wessels, Toyota chairman: "The manufacturing industry needs support through investment allowances. Company taxes are too high. Because we don't do inflation accounting when we replace our capital equipment our effective tax rates are well in excess of 48 percent."

Mr Hugh Herman, Pick 'n Pay managing director: "Government should allow a tax reduction or some specific allowance for job creation. The poor relief scheme must be accelerated and exemptions given for VAT on basic foodstuffs.

Mr Gerald Leissner, Anglo American Properties chairman: "The best way to create employment is to grant tax incentives to stimulate manufacturing and construction activity.

"The provision of shelter has to be a priority and there must be assistance through subsidies, a lowering of the interest rate or the allocation of more money to the IDT."

Mr Mervyn King, Frame chairman: "Reduce taxes and eliminate bureacracy. Keeping money tight and interest rates high may be technically correct but given the increase of employment in the non-productive govenment sector and the decrease in private sector employment, it is disastrous and won't bring down inflation. To increase VAT would be suicide."

VAT rate 'need not be raised'

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PRETORIA — During the first two months of its implemention, VAT generated the revenue that had been budgeted for, finance department Inland Revenue deputy director Peter Frank said yesterday.

He told a meeting of the South African National Consumer Union this meant that the VAT rate need not be raised.

However, he was not the Minister of Finance and could not make any promises in this regard.

Frank said during the first month of VAT's introduction only R1,2bn in revenue had been accrued but the second month brought in R1,8bn — giving an average of R1,5bn per month that had been budgeted for. CT 25/1/92

Frank said in order to make a proper appraisal of VAT's efficacy, one had to wait until six months' figures were available.

It was not clear yet to what extent VAT had stopped tax evasion.

● The chairwoman of Vatwatch, Prof Louise Tager, told the meeting the organisation had completed its task and would soon disband. — Sapa

Tax cuts on way

320

ARGT 25/1/92

Government spending to be screened

DEREK TOMMEY
Business Staff

TAXES will be reduced in the next Budget and — for the first time in many years — some government departments will get "reduced" allocations.

This pledge was given by President De Klerk during his speech at the opening of parliament.

In previous years government departments could at least count on getting increases equal to the inflation rate and usually on top of that a bit extra.

The government has been under increasing pressure from commerce and industry to reduce government spending in order to reduce the high rate of taxation and stimulate the economy and end the recession.

Mr De Klerk said the government regarded reduced taxes as "a matter of urgent importance".

He added that "inasmuch as it is at all possible, it will be attended to in the forthcoming Budget, difficult as that may be."

Mr De Klerk said that chief among the daunting challenges facing South Africa was the pressing need to accelerate economic growth. This would generate work and income for the fast-increasing workforce and support the extensive development programmes.

The long recession, with all of the social problems it brought with it, coupled on one hand with urbanisation, droughts and natural disasters, and on the other hand with combating crime and violence, had placed heavy demands on the government.

"We have had to grapple with resulting strong and often justifiable demands for higher State spending, but we have succeeded in limiting expenditure to levels which could be financed with minimal disruption.

He said that many departments would receive "reduced" allocations and warned that the government would crack down on overspending.

Management plans were expected.

"Further cuts in the tax rates of companies and individuals are also an indispensible part of our policy." Mr De Klerk said.

Bank tax shock for foreigners

S/Times (BUSS) 26/1/92.

(320) ~~(58)~~

By CURT VON KEYSERLINGK

FOREIGNERS who believe they need not pay tax on interest earned from deposits in South African banks are in for a shock. The Receiver of Revenue says their interest is taxable.

Sources in three of the biggest banks expressed disbelief this week that the law allowed foreigners' interest to be taxed. They say it has not been taxed since the abolition of the 10% withholding tax on non-residents' interest earnings in March 1988.

The tax authorities have not tried to collect tax on non-residents' interest since then.

But Commissioner for Inland Revenue Hannes Hattingh confirms that his department is tapping this source of revenue.

"We are only applying the law which states that if the capital on which the interest is earned was made available in SA it is subject to tax no matter where the investor lives," he says.

Depositors in countries with double tax agreements with SA — they include the UK, the Netherlands and Switzerland — are subject to a tax of only 10% on interest earnings.

But foreigners from countries with which SA has no double tax agreement — they include the US, Greece, Portugal, France, Italy, Japan and Australia — are taxed at the full marginal rate of 43%.

Biggest

Inland Revenue law application director John Hanssen says: "People do not seem to realise that the 10% withholding tax was merely an advance which could be set off against normal income tax, which is also payable on interest."

A tax expert says Mr Hanssen's statement is in line with the judgment in the Lever Brothers case where it was held that the source of interest is deemed to be where the capital was made available.

Business Times knows of 12 cases where the Johannesburg Receiver of Revenue has demanded tax on interest earned by foreigners. One is a diplomat who was once stationed here.

Another foreign depositor has been billed for more than R130 000 tax on his interest earnings of about R320 000 in the 1991 tax year. This reduces the interest on his deposit from a pre-tax 17% to under 10%.

All 12 depositers have accounts at a Johannesburg branch of a small bank which has links abroad. The branch manager says the Receiver instructed him this month to withdraw whatever sums are necessary from the accounts of the depositors to pay tax.

"They picked our biggest customers and are probably doing a trial run before they start collecting from the others," he says.

Tax inspectors visited another small bank with foreign connections this week. They said they would instruct it to collect tax on interest earned by some foreign customers.

So far the biggest banks have received no such directives.

A source at a small bank says: "It is unfair. It discriminates against us in favour of the larger banks. It will force our foreign customers to withdraw their funds in our bank. This will strain our resources because a high percentage of our deposits are from foreigners."

But Inland Revenue says the law is being applied equally to all. Collections are

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Tax shock

S/Times (BUSS) 26/1/92

being made in the most cost-effective way.

A top banking official says: "The 10% withholding tax on interest was abolished to attract foreign funds to SA. The latest news will have the opposite effect.

"Deposits by foreigners have grown in recent years because they have been net sellers of equities. They are now likely to switch their funds to gilts, which are exempted from tax on interest."

(320) ~~(58)~~

A tax expert says: "The legality of the Receiver's actions could probably be contested on two grounds. First, does a bank have the power to attach its customer's funds to pay the Receiver? Second, the Receiver's interpretation of the source of the funds that generate the interest is open to question."

VAT income on target — taxman

(320)

BDay 27/1/92

SHARON WOOD

INLAND Revenue doused recent speculation of a VAT-rate rise at the weekend, saying that VAT revenues were right on target and there was "little reason" for a rate increase.

Inland Revenue VAT deputy director Peter Frank, speaking at an SA Consumer Council meeting in Pretoria, said: "I cannot make any promises and the Finance Minister may still change his mind . . . but there is little reason for the VAT rate to go up because average VAT revenue of R1,5bn for November and December is spot on target with budget."

Inland Revenue was still battling to get a banking system in place to deal with incoming VAT revenue and it needed about six months to settle down.

Frank added there was a good chance that some food exemptions, due to fall away in March, would be extended. Government was losing about R400m a month because of food exemptions.

Further evidence of government's satisfaction with VAT's implementation was the imminent disbanding of the Vatwatch Committee which was put in place by the Finance Department to allow consumers to voice their grievances about the new tax system.

Vatwatch chairman Louise Tager said while Vatwatch had closed at the end of last year, the Vatwatch Committee still existed. But it might be concluded soon, leaving the ball in business's court.

It was still too early to say whether the benefits of VAT had been passed on. Competitive advantage would play a major role in keeping prices down, but there were some products with virtual monopolies.

The consumer's role in the VAT implementation process had been critical in the earlier stages, but VAT was now a silent tax and there was little the consumer could do at this stage, Tager said.

The role of Vatwatch had been to promote consumer awareness and the weapon it had against business was the threat of exposure. Both had worked successfully during its existence, she said.

Advertising for VAT had cost government R10m, of which a third had gone towards Vatwatch advertisements.

Frank said: "This may seem a lot, but it works out at 30c a head, including the TBVC population, to tell people about VAT. With the benefit of hindsight, we realise we spent too much time convincing people that VAT was a good thing and not enough time teaching them what it was about."

Government had funded Vatwatch activities to the tune of R460 000, which included Vatwatch premises, staff and news releases.

Cuts in personal tax 'very unlikely'

Bday 27/1/92 (320)

LINDA ENSOR

CAPE TOWN — Sharp increases in current government spending would make it very difficult for government to implement its intention to reduce the maximum marginal tax rate of individuals to 40% from the present 43%, Sanlam chief economist Johan Louw said in the latest Economic Review.

"In fact it is doubtful whether the intended downward adjustment will be possible without increasing VAT and/or other indirect taxation. Such a line would, nevertheless be in step with the world trend of increasing reliance on indirect taxation."

Louw believed the Budget was likely to be reasonably stimulatory to support the upswing and felt there would be room for mild downward adjustments in interest rates during the next 12 months.

A cut in Bank rate in the first quarter was expected with the prime overdraft rate also being adjusted downwards. Capital market rates were likely to drop in coming months.

Louw said the financial position of consumers would improve in the course of the year due to the lower rate of inflation, expected to drop to 12% by year-end to give an average of 14% for the year.

But he warned that no improvement in economic conditions was likely before about June this year, and when the recovery did materialise it was expected to be sluggish initially. Nevertheless, Louw predicted a real economic growth rate of about 2% this year compared with the -0,5% of 1991.

He said 1992 had begun without the economy having reached the lower turning point of the business cycle and amid considerable uncertainty about the quality and extent of the next upturn.

"There are clear signs of continued poor conditions in various sectors of the economy," Louw said.

"Private consumer spending and real fixed investment have also shown significant declines. The rising unemployment figure and disappointing Christmas sales are further proof of the weak economic situation. In fact, the non-agricultural sector of the economy is still in a recessionary phase."

Louw cited the continued improvement in exports, more favourable capital movements, continued increases in real government spending, a turnaround in the inventory cycle which were at their lowest level ever, a moderate relaxation of monetary policy and slightly lower inflation as factors which would give impetus to an economic recovery this year.

He expected the upswing in SA to be underpinned in mid-1992 by a more synchronised recovery phase of the world economy which would, however, take longer to get off the ground than originally thought and would be moderate.

The lifting of sanctions and improved political relations would see an improvement in the capital account of the balance of payments and result in an increase in foreign reserves. In the first nine months of 1991, the net outflow of capital had fallen to R1,4bn from R2,9bn.

A surplus on the current account of R5bn was expected, compared to R7bn in 1991 due to higher imports and higher foreign service payments.

The fight against inflation was likely to be aided by slow wage increases, a moderate interest rate drop, a slower growth of money supply and credit extension, and the filtering through of VAT concessions on capital and intermediary inputs.

VAT-rate rise rumours quashed

CT 27/1/92

Own Correspondent

JOHANNESBURG. — Inland Revenue quashed recent speculation about a VAT-rate rise, saying at the weekend that VAT revenues were right on target and there was "little reason" for a rate increase.

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NEWS

Hands off, tax man is told

320

STAR 28/1/92

Consumer Reporter

The Consumer Council has come out in support of the retention of tax deductions for contributions to retirement annuities as an incentive for people to make extra provision for their retirement.

This follows a proposal by the Commissioner of Inland Revenue that these deductions be terminated.

Council director Jan Cronje said the rising cost of living was resulting in retired persons barely being able to keep their heads above water with an income from an employer's pension fund alone. Retirement annuities offered consumers a convenient way of putting aside more money for their old age.

"The concession that contributes to these annuities may be deducted from taxable income encourages people to invest in them. Even though they do have to pay tax when the annuities are paid out after retirement, they are enjoying a tax benefit in the meantime," said Mr Cronje.

He pointed out that if the proposal was approved, people would be discouraged from buying annuities since there would be tax on contributions as well as payouts.

"If contributions are also taxed, holders of annuities may find it more advantageous to cease contributions and to make the annuities fully paid up," he said.

VAT rate likely to stay at 10%

By BILLY PADDOCK (320)

CAPE TOWN — The VAT rate was likely to stay at 10% when the Budget was tabled on March 18, NP finance study group chairman Francois Jacobsz said yesterday.

"To have a change in the rate so soon after the introduction of VAT would cause the business community yet more logistical problems with yet more cost implications for the consumer," he said.

It would also have negative effects on the inflation rate and hard-pressed consumers would find a hike in the rate difficult to accept.

While Finance Minister Barend du Plessis refuses to be drawn on the matter untill after he had presented the Budget to Parliament, the Jacobsz statement, released by the NP, was the clearest indication yet that government did not intend changing the VAT rate.

Jacobsz said government had made the correct decision to set the VAT rate at 10%, adding that curbing inflation had to be government's priority. B/Day 28/1/92

He also welcomed indications from Inland Revenue that revenues from VAT were satisfactory.

"VAT has only been in operation for five months. The business sector experienced commissioning problems when the rate was lowered just before the introduction from 12% to 10%" and the fact that revenues were satisfactory meant the 10% rate was the correct level, he said.

Maize Board to honour certain southern African supply

CP leaders 'choosing a path of armed struggle'

(3049) B/Day 29/1/92

CAPE TOWN — CP leaders gave the impression that they were deliberately choosing the path of armed struggle rather than negotiation, Piet Swanepoel (NP Nominated) said yesterday.

Speaking in debate on the President's address, he said the best thing the CP could do would be to come to Codesa to participate and put their case.

NP secretary-general Stoffel van der Merwe said the reasons given by the CP for not participating in Codesa were not valid. He said the principle of self-determination was recognised by the NP and would be by Codesa. The CP should not hide behind the Codesa's declaration of intent as a reason not to take part.

The CP had still not made it clear what it meant when it spoke of self-determination for the *volk*. Some members of the CP referred to whites, others referred exclusively to Afrikaners. The CP was also not prepared to map out a territory or area in which it wanted self determination.

But Cehill Pienaar (CP Heilbron) said the CP would act counter to its programme of principles and would damage its credibility if it took part in Codesa.

He said the CP could not simply erase three centuries of progress. Codesa's declaration of intent did not acknowledge the principle of self-determination for which so much blood had been spilled.

The NP reminded him of the spider that was eaten by its partner after mating. "After the NP has mated politically with the ANC, that partner will bite your head off," he said.

Pienaar also challenged President F W de Klerk to make one less trip overseas and visit the drought-stricken highveld farmers instead to see how their financial situation was deteriorating daily.

De Klerk had said SA could not become a food importing country, but with the drought it would in all probability have to do so.

"Inflation is still the farmer's biggest enemy, and if government does not take drastic action to protect the farmer one way or another we will indeed become a food importing country."

Reduce the tax burden, says chamber

GERALD REILLY

PRETORIA — The business community would believe government commitment to cutting state spending when they actually saw it happening, Johannesburg Chamber of Commerce and Industry president Mike Cato said in a statement yesterday.

Stressing the urgent need for action, Cato said President F W de Klerk had made it clear he excluded from the definition of effective action cosmetic conversion of state revenue sources from direct to indirect taxation. B/Day 29/1/92

Political rhetoric had been the background to continued inflation, increasing state spending, rising budget deficits and an accelerating sluggish economy.

Increasing the tax burden as a quick fix directly or indirectly would be economically and politically foolish and would drive big and small business to the wall, he warned. (320)

Cato said there was a desperate need for stimulating business growth.

Never before had the timing been so right for an economic recovery. "The coming Budget must reduce the tax burden. This can only be done by reducing the demands of the state on the fiscus."

Any increase in the VAT rate, in particular, was absolutely unacceptable to business in Johannesburg in particular and SA in general.

SA could lead the whole southern African trading area into an era of growth and development if given the opportunity.

Development Aid to be dismantled

B/Day 29/1/92

CAPE TOWN — The Cabinet had decided to dismantle the Development Aid Department by March 31 in a move towards more equitable government services, Regional and Land Affairs Minister Jacob de Villiers said yesterday.

The Cabinet also had decided on January 22 to dismantle the SA Development Trust with effect from April 1, he said.

The Act which established the trust had been repealed by the Abolition of Racially Based Land Measures Act of 1991.

The Act provided for the trust to be phased out, as well as providing that the President could repeal the remaining sections of the 1936 Trust and Land Act, which were retained for transitional purposes.

"Government is committed to rationalisation of the civil service with the view to the improved rendering of services and savings, where possible. Apart from this, the implementation of new policies since September 6 1989 also brought about the need for existing institutions to be investigated with the view to adaption, restructuring and reform to allow equitable government services, without discrimination on the basis of race or colour."

Against this background, the role and place of the Development Aid Department in the government system was again thoroughly reviewed. 29/1/92

Investigations and recommendations by the commission of administration since 1984 had also been taken into account.

Staff would be transferred to other departments. — Sapa.

Rugby to round off talks

IAN HOBBS

LONDON — President F W de Klerk and Prime Minister John Major are expected to round off talks in London on Saturday by watching England play Ireland in the Five Nations rugby match at Twickenham.

Political sources said that subject to time, security matters and protocol being satisfied — meaning no note of disapproval from the Dublin government — the afternoon at Twickenham is on.

New plan to focus on VAT

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Sowetan 29/1/92

Sowetan Reporter

THE co-ordinating committee on Value Added Tax has convened its third meeting for today to discuss a new programme of action.

More than 100 organisations are expected to attend.

Among the organisations to confirm their attendance are Cosatu, ANC, Nactu, SA National Consumers Council, SACC and Cast.

The summit is to discuss the "growing poverty crisis" and the Government's refusal to reopen discussions on VAT, according to the committee.

The committee's demands include the extension of zero-rating to basic foods, medicines and medical services, electricity and water.

Business warns Govt about VAT increase

STAR 29/1/92

By Michael Chester (320)

Any increase in the VAT rate above the current 10 percent level would be "absolutely unacceptable", big business warned the Government yesterday.

The warning came amid growing speculation about the possibilities of heavier tax burdens to be announced in the 1992 Budget due in March.

The influential Johannesburg Chamber of Commerce and Industry welcomed new commitments by President de Klerk to cut Government spending but added that the business community would be reassured only when it saw positive and effective actions.

JCCI president Mike Cato made it clear that any definition of "effective action" must exclude "the cosmetic conversion of State revenue sources from direct to indirect taxation".

He added in a statement: "For far too long now we have heard politically motivated rhetoric, and witnessed continued inflation, rising budget deficits, and an economy becoming increasingly sluggish.

"What we would like to hear is not the rhetoric but specific descriptions of how this overspending is to be tackled."

Mike Cato ... "The 1992 Budget must reduce the tax burden."

Mr Cato warned that any easy way out by increasing the tax burden, whether by direct or indirect taxation in the forthcoming Budget, would be economically and politically foolish — and drive many businesses to the wall when South Africa most needed more employment in all areas of the economy.

He said there was a desperate need for the stimulation of business growth and that the timing for an economic recovery out of recession had never been better.

"The 1992 Budget must reduce the tax burden," he said. The reduction could be achieved by cutting State demands on the fiscus and in turn cutting the demand for more revenue from company and private taxpayers.

"Any increase in the VAT rate in particular," he said, "is absolutely unacceptable to business in Johannesburg in particular and in South Africa in general.

"South Africa could lead the whole southern African trading area into an era of growth and development — and never before have we had the opportunity to do so," he said.

Barend faces choice over tax, social spending

BDay 30/1/92

LINDA ENSOR (320)

CAPE TOWN — Finance Minister Barend du Plessis should clarify what course he intended following as he could not make SA a redistributive country and implement recommendations on tax restructuring at the same time, Deputy Reserve Bank Governor Jaap Meijer said at a parliamentary news briefing yesterday.

"He cannot do both at the same time to the extent that they should be done and he should admit as much and spell out to us where he is going to find his middle course. He should admit the severe dilemma he finds himself in," Meijer said.

Government was finding it difficult to reconcile its attempts to increase social expenditure with its planned tax reforms.

"Like the State President I would imagine the Reserve Bank is informed about the course government expenditure is taking when it is just about too late," Meijer said. The Bank was presented by Treasury with an absolute minimum figure of expenditure for the forthcoming year and was asked only what it proposed to do about it with regard to the deficit and taxation.

"It is very hard to start cutting back on state expenditures by departments when the figures have already been published."

Meijer disclosed that there had been substantial outflows of all capital (unrelated to reserves) in the fourth quarter of last year owing to technical reasons, though the capital account for 1991 had improved over 1990. The outflow for the first three quarters was only about R1,4bn.

No breakdown of the capital account for the last quarter of 1991 was available yet but it had been tentatively suggested by Reserve Bank officials that the substantial outflows were due to the abolition by the Reserve Bank of the preferential terms on much of the forward cover and forward exchange reductions.

The Reserve Bank estimates an economic growth rate of minus 0,5% for 1991.

He said the slowdown in output had been remarkably mild. Until the third quarter total SA output in real terms was less than 1% lower than at the start of the recession in first quarter of 1989. The contraction in domestic expenditure had been larger —

☐ To Page 2

Barend

BDay 30/1/92

☐ From Page 1

slightly more than 5% — starting in the first quarter of 1989 up to the third quarter of 1991. The discrepancy between these two rates of contraction had been responsible for surpluses on the current account.

Meijer said the soft figures for household consumption expenditure for the fourth quarter suggested a further acceleration in the rate of contraction.

"It is sad that after holding up so well expenditure seems to have turned into a cumulative downward spiral of the typical recession type," Meijer said.

Impressive achievements had been made with building up current account surpluses on the balance of payments over the past 28 quarters. The current account surplus built up over 1991 from about R1,5bn in the first quarter to an unofficial figure of over R11bn in the last quarter to give an estimated surplus for the year of roughly R7bn.

Regarding the gold and forex reserves, Meijer said there was a decline in December but the entire banking system was heading for reserves of about R10bn towards the end of 1991. January had also been good. Although the strengthening of the reserves might have justified an upward movement of the rand, it was Bank policy not to allow this to happen.

There was a 5,5% drop in the nominal effective exchange rate during the first 10 months of 1991 against the basket of currencies of SA's major trading partners. There was a further drop in the fourth quarter and a level pegging in January. The 5,5% decline was slightly larger than the inflation differential between SA and its major trading partners, which meant there had been a marginal decline in the the real effective exchange rate.

Preliminary figures suggested a growth of 14,4% in M3 money supply figures last year, which was outside the guidelines of 8%-12%. Meijer believed that the changes to the Deposit-Taking Institutions Act had had the effect of causing a lot of non-money to become money. If this was allowed for, then money supply had been within or below the lower limits of the guidelines since February 1991.

The Bank wanted the budget deficit to be maintained at the IMF standard of about 3% of GDP. However, as the Bank believed the economy was "in greater recess than it needs to be", a mild relaxation in fiscal policy would not be opposed.

● See Page 3

VAT: Govt urged to think again

3 1 D

CT 30/1/92

JOHANNESBURG. — The Co-ordinating Committee on VAT (Vatcom) decided unanimously at its third summit meeting yesterday to call on the government to reopen negotiations on the tax.

Committee chairman Dr Bernie Fanaroff said at a press conference after the meeting, which was attended by 80 delegates from 39 organisations, that the summit also unanimously rejected the government's contention that all economic issues should be discussed through the Convention for a Democratic SA (Codesa).

He added that the committee believed Codesa was purely a political forum and did not have a mandate to discuss economic issues.

The summit urged the government to reopen negotiations on various issues including extension of zero-rating on basic foods, water and electricity, medicines and medical supplies.

It also resolved to convene two meetings — a food-price summit and a poverty-relief forum. — Sapa

Protests promised over tax impasse

STAR 30/1/92

(320)

By Shareen Singh

About 40 organisations, including Cosatu, Nactu and the ANC, yesterday decided to mark Budget Day — March 18 — with protest action to get the Government to reopen negotiations on value added tax.

At a press conference in Johannesburg after the third VAT summit, Cosatu's spokesman on VAT, Dr Bernie Fanaroff, said the organisations, which make up the Co-ordinating Committee on VAT (VCC), had unanimously rejected the Government's contention that all economic issues should be discussed through Codesa.

Most organisations in the VCC were not eligible to join Codesa, yet they were committed to fighting for measures that would alleviate poverty, Dr Fanaroff said.

VAT was clearly not working out as the Government claimed, and predictions made by organisations opposed to the tax had proved accurate, he said.

Since the introduction of VAT there had been no massive increase in investment or purchases of capital goods, and businesses were increasingly admitting that VAT would not make a difference to production costs.

Instead of prices coming down as the Government claimed, the Central Statistical Services had shown an increase in inflation and food prices, Dr Fanaroff pointed out.

Measures to prevent price abuse were inadequate and even Vatwatch had admitted this.

Poverty relief programmes were not adequate and only R14,5 million of the Government's R220 million allocation for poverty relief had been distributed.

These issues — and zero-rating on basic foods, electricity and medical supplies as well as special provisions for small businesses — were pressing issues that had to be discussed with the Government.

"Despite what the Government says, we believe they will increase the VAT rate," he said.

The organisations at the VAT summit had decided to convene a series of public hearings on February 14 and 15 to which members of the public as well as Finance Minister Barend du Plessis would be invited to air their views on VAT.

A free telephone service would be in operation on those days. The number to dial from anywhere in South Africa was 0800-11-7611.

A food price summit and a poverty relief forum would also be convened in coming weeks.

Reopen talks on tax, Vatcom urges govt

Sowetan 30/1/92 (320)

Committee chairman Dr Bernie Fanaroff said at a Press conference after the meeting, attended by 80 delegates from 39 organisations, that they had also unanimously rejected the Government's argument that all economic issues should be discussed through the Convention for a Democratic South Africa.

He said the committee believed Codesa was purely a political forum and did not have a mandate to discuss economic issues.

"We can't accept recent indications from the Government that it is only prepared to consider discussing economic issues through Codesa.

"Most organisations in Vatcom are not eligible to join Codesa and yet are committed, in the face of increasing poverty, to fight tooth and nail for immediate measures which can alleviate the suffering of the poor."

Vatcom recommitted itself to urge the Government to reopen negotiations on issues such as:

* The extension of zero-rating on basic foods, water and electricity, medicines and medical supplies;
* Special provisions for small businesses;
* A properly negotiated poverty relief programme;
* An end to spiralling food prices; and to
* Dissuade the Government from increasing the VAT rate.

Delegates resolved to convene two meetings - a food price summit and a poverty relief forum.

Fanaroff pointed out that food prices had rocketed since VAT was introduced.

It was proposed a meeting should be arranged with the food producers and retailers to find out the reason behind food price hikes.

and a campaign for lower prices be launched.

B/Day 31/1/92

Warning over VAT

SA's two largest trade union federations, Cosatu and Nactu, together with other independent unions and community organisations, have threatened government with "unprecedented protests" if it increases the VAT rate and does not impose zero-ratings on basic foods by the end of March.

(320)

And last night the Consumer Council offered to replace the function of temporary price watchdog Vatwatch. Council executive director Jan Cronje said the body was already processing all VAT complaints on behalf of Vatwatch and would continue to do so.

Tax jitters sparks dive in the finrand

B Day 31/1/92

MERVYN HARRIS

JITTERS among foreign investors about tax on their investments in SA sent the finrand tumbling yesterday in one of the biggest freefalls seen on the currency market in a single session.

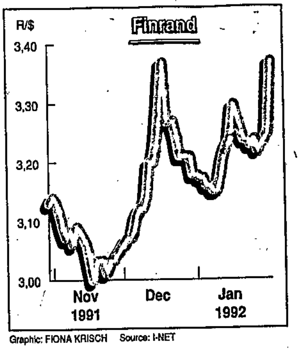
The unit plunged from R3,25 to the dollar to touch a low of R3,48 before attracting buyers at the softer levels. It closed 4,4% down on the day at R3,38 to the dollar.

This was roughly in line with the low of R3,38 last July when the unit began an uptrend which took it to a high of R2,99 to the dollar in November.

Dealers said the sell-off could have been sparked by a weekend report that foreigners' income would be taxed.

Inland Revenue chief director (legislation) Hennie Smit said yesterday the tax department was preparing a statement to clarify the tax treatment of foreign investments in SA. The statement would reinforce existing legislation which says dividends received by foreign investors are subject to non-resident shareholders' tax, while interest earned from SA investments is subject to income tax. The onus was on investors to declare income from SA investments to Inland Revenue, Smit said.

Standard Bank assistant GM foreign exchange Willie Potgieter said this could



Graphic: FIONA KRISCH Source: I-NET

have negative implications for foreign deposits in SA as it effectively reduced the yield on those finrand deposits.

A currency dealer said: "There are numerous stories doing the rounds but . . . it is difficult to estimate the amount of finrands involved."

Some finrand dealers said the sell orders were between R150m and R200m. They named two institutions, one in the Far East and one in Germany, as possible sellers.

INCOME TAX FM 31/1/92

Depositors hooked

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Non-resident investors who thought their interest on SA bank deposits was tax-free have been operating in a fact-free environment. If they have not already been assessed for interest, they will be in the near future.

The question may also be asked whether some banks — if not all — have given their clients less than optimal service in failing to advise them of some basic principles of SA tax law. Only interest on certain specified types of securities are exempt from income tax in the hands of non-residents — notably RSA, Eskom and certain other public-sector stocks.

The basis for taxation under SA's system is whether the income has a local source and it is clear that interest on local bank deposits is taxable — either at the rate applicable to

FM 31/1/92 (320)

companies or at the scale of progressive taxation applicable to individuals. This is confirmed by John Hanssen of the office of the Commissioner for Inland Revenue and by Ernst & Young tax partner Ian MacKenzie and Kessel Feinstein tax partner Ernest Mazansky.

During the period it was on the statute book — from April 1 1967 to March 16 1988 — the non-residents' tax on interest (NRTI) operated analogously to a provisional tax payment as an advance on tax that was payable anyway.

Non-resident depositors should have filed a tax return like any resident, adding up their SA-sourced income and claiming for deductions. Income tax was payable before NRTI and remains payable now.

Mazansky explains that NRTI was repealed following the enactment of the US Comprehensive Anti-Apartheid Act, which deprived American lenders of tax relief on SA income and of the imposition of worldwide sanctions. This was done to ease SA's difficulties in borrowing from abroad.

Lenders and depositors resident in certain major countries, such as the UK, Germany, Switzerland and the Netherlands, are taxed at a maximum rate of 10% in terms of double tax treaties between those countries and SA.

Hanssen says the banks have now been appointed agents of Revenue for collection purposes, a procedure available under the Act. And Hanssen says the Johannesburg Revenue's office is now actively following up the question of assessing non-resident depositors for past failure to declare interest income.

Hanssen denies that Revenue officials are discriminating against clients of smaller banks. This would not be in the interests of logic, equity or effective revenue collection!

Mazansky and MacKenzie agree the amounts likely to be involved are not great, because it has always been, and still is, quite easy to structure large commercial loans to SA borrowers in such a way that the creation of a local source is avoided. The problem is, therefore, limited mostly to deposits by individual residents overseas who might, for example, have been speculating in the finrand and have parked the money brought in through that medium in a bank deposit. Affluent emigrants are likely to have placed their money in Eskom or RSA stock and so avoided this problem.

Mazansky does not believe Revenue will take a punitive line (that is imposing penalties) and will content itself with collecting the tax due, as he doubts whether there has been an intention to evade tax. ■

Tax liability on RA's vary

STAR 1/12/92

328

Money Matters

MAGNUS HEYSTEK

AS we found out last week, income tax is a headache for investors and makes financial planning an absolute misery for most people.

But, I'm told, our tax system is relatively simple when compared with those in many other countries such as France and Belgium.

The question of retirement annuities and tax liability creates a lot of confusion and this was particularly evident this week on Financially Speaking, my radio show on Radio 702.

Despite the fact that hundreds of thousands of people contribute to retirement amnnuities or derive an income from this type of investment, the level of ignorance is astounding.

And once again one can only blame the large life assurance companies who market these products. They might think they are doing a good job educating the public about these products, but the simple truth is that they are not.

With that off my chest we can now discuss RA's and income tax. This article deals with the income tax-element after maturation of an RA. By now, hopefully, the tax benefits of RA contributions are well known.

There are two types of RA-purchases, one compulsary and one voluntary.

Compulsary retirement annuities (CPA's) have to be made when someone, who has been contributing to an RA-fund retires, which is anytime between the age of 55 and 69. One third of the capital value at retirement can be taken in cash, tax-free up to R120 000 (the rest is taxed at the taxpayers' average rate of tax) while the other two-thirds has to be used to purchase an annuity.

An important point to remember is that the annuitant (the person who takes out the annuity) is under no obligation to purchase an annuity with the life company where the capital resides. Its an open market and one should shop around for the best possible annuity.

Most people seem to think that all life companies are the same when it comes to purchasing an annuity. This is definitely not the case and sometimes the difference can be as much as 20 percent.

The income from a compulsary purchased annuity is fully taxable. As Trevor Williams, director of Willis Faber Enthoven and my guest on Radio 702 said: "You might postpone your tax liability with RA's but you never escape it totally".

The income tax on CPA's has to be deducted by the life companies according to the official Employee's Tax Deduction Tables, for which the annuitant will receive an IRP5 certificate indicating the amount of tax paid.

Voluntarily purchased annuities (VPA's), on the other hand, are treated somewhat differently for tax purposes. VPA's are made when, in return for a lump-sum investment, the insurance company undertakes to pay an income at fixed intervals at a fixed rate of interest.

As the annuity comprises a repayment of interest as well as capital, the capital portion of the repayment is exempt from tax. This is calculated in terms of a rather complicated formula, which fortunately for most, is done by the financial company.

But the life company only deducts tax based on the income you receive from them. In many cases this could mean an underpayment if there is other taxable incomeand often causes a nasty surprise. Don't let it happen to you.

● Next week: Income tax and life assurance products.

Minibus taxis still create tax headache

320

ARG 2/2/92

THERE were still serious problems in asserting effective control over tax revenue from minibus taxis, the Auditor-General said in his report on General Affairs accounts.

He said an investigation indicated that only a very small percentage of minibus taxi owners were registered as taxpayers.

"Although subsequent follow-up investigations by the Commissioner for Inland Revenue have yielded encouraging results, serious problems are still being encountered in asserting effective control, on a countrywide basis, over a revenue source with a potential of hundreds of millions of rand per year."

The Auditor-General also said he had written to the Commissioner for Inland Revenue about the inefficient use of existing tax-collection mechanisms which could result in a loss of revenue.

Assessed income tax for individuals outstanding for more than three months on March 31 1991 was R705 million, an increase of 24 percent on the figure for the year before.

The Auditor-General listed figures which showed that individual income tax for the year ended March 31 1991, totalling R23 billion, was R2,6 billion more than estimated, while company tax was R1,5 billion less than anticipated.

A total of R20,2 million in personal tax had been written off during the year as irrecoverable. — Sapa.

Pension paranoia 320

FINANCE MINISTER Barend du Plessis this week denied the government had decided to tax public servants' retirement gratuities. 320

The statement did not come a moment too soon: scores of officials have already opted for early retirement merely on the basis of rumours that the tax was on the government's agenda.

Signs of the dawning new South Africa — public service paranoia.

S/Times 2/2/92

Speculation on tax crackdown rejected

B/Day 3/2/92

LESLEY LAMBERT

INLAND Revenue had not made changes to the tax treatment of foreign investments, tax officials reiterated on Friday in response to speculation that the tax department was cracking down more heavily on foreign investors.

The speculation was said to have sparked the sell-off of financial rands, which pushed the unit to a low of R3,48 to the dollar last Wednesday.

In terms of existing legislation, dividends received by foreign investors are subject to non-resident shareholders' tax, while interest earned from SA investments, other than certain investments in gilts, is subject to the Income Tax Act. Bona fide non-residents are exempted from tax on interest earned from investments in gilts.

320

Inland Revenue would issue a statement to clarify the situation, the officials said.

Eskom finance GM Mick Davis said the speculation might have been prompted by an Inland Revenue reminder that the onus was on investors to declare income sourced from SA investments.

A tax official confirmed n ny foreign investors were not submitting tax returns.

No change to foreign investors' tax setup, says IR

320

Own Correspondent

JOHANNESBURG. — Inland Revenue had not made changes to the tax treatment of foreign investments, tax officials reiterated at the weekend in response to speculation that the tax department was cracking down more heavily on foreign investors.

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CT 3/2/92

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Inland Revenue would issue a statement to clarify the situation, the officials said.

Eskom finance GM Mick Davis said the speculation might have been prompted by an Inland Revenue reminder that the onus was on investors to declare income sourced from SA investments.

A tax official confirmed many foreign investors were not submitting tax returns.

Public views on VAT sought

STAR 3/2/92 (320)

Consumer Reporter

Finance Minister Barend du Plessis has been called on to give evidence at the VAT Co-ordinating Committee's public hearings on value added tax as the body begins to mobilise South Africans to vote on the new tax system.

The VCC has called for negotiations on aspects of VAT to be reopened urgently.

On February 14 and 15, the public will be able to phone or visit commissioners of the VCC in eight centres.

The VAT vote toll-free number, to be used on these days, is 0800-11-7611.

The VCC believes that the hearings will "have greater legitimacy than the investigation being conducted behind closed doors".

Among views sought are:

- What problems do you have with VAT?
- What do you feel about how VAT was implemented?
- What changes do you propose to VAT?

A report will then be compiled to be presented to the State President as well as local and international bodies.

Besides personal or telephonic "votes", the VCC has arranged for written submissions to be made. These can be sent to Box 260483, Excom 2023 before February 15.

Higher taxes ahead, says top economist

Business Staff 3/2/92

THE international economic slowdown will be deeper and last longer than expected, and South Africans will pay higher taxes and have less to spend, says insurance giant Southern Life's chief economist, Mike Daly.

In his latest Economic Comment, Mr Daly says the US economy in particular is struggling to emerge from recession.

"Interest rates have been dramatically reduced to encourage a new borrowing and lending cycle, but to little avail so far," he adds.

Mr Daly cautions that continued low US inflation does not hold out much promise for the gold price — and non-gold metals and mineral prices have yet to break out of their steep three-year decline.

He foresees continuing pressure on the profitability of gold mines and more retrenchments in the first half of this year.

"South African export volumes grew by a satisfactory 4 percent in 1991.

"But in view of the recession in the industrially developed countries at the start of 1992, the outlook for South Africa's international trading environment appears to be far from encouraging," he says.

Mr Daly believes export volume growth will be at its strongest in the second half of the year, coinciding with accelerating economic growth overseas.

"The deepening inability of the formal sector to provide jobs for the increasing number of workers entering the labour force annually is leading to a feeling of despair among school leavers, a questioning of the value of education and a rising crime rate as a survival strategy," Mr Daly adds.

He predicts a further weakening of real personal disposable income (PDI) growth in 1992 and that fiscal drag will ensure the individual's tax burden becomes even greater.

"Inflation will also remain high, particularly in the food sector," he comments.

Longer-term benefits stemming from the introduction of VAT should ease domestic inflation, and low inflation at the producer level will be reflected in consumer prices.

New firm to claim foreign VAT returns

(320)

B/Day 4/2/92

Business Day Reporter

VATCLAIM International, with backing from Safren and Safto, has been formed to help SA companies claim back a potential R40m a year in VAT paid during business trips to Britain and Europe.

Many more millions can also be reclaimed on VAT expenditure over the past five years, says Vatclaim MD Tony Bates.

"SA companies are allowed exactly the same VAT input credits in Britain and Europe as companies domiciled there," he said.

"We are simply assisting local companies to claim back a windfall that is rightfully theirs."

Bates said the VAT refund from a one-week stay in London was typically about R1 000. Some big organisations could claim back six-figure sums from one year's expenses in Britain and Europe.

Expenses on which VAT could be reclaimed included hotel accommodation, meals, car hire, fuel, conferences, trade fairs and training courses.

Vatclaim International, which already has the marketing support of SA's two largest travel agencies — Rennies Travel and American Express — does not levy an upfront charge for its service.

It prepares and submits claims on behalf of SA businesses to the relevant overseas authorities and takes 25% of the VAT refund as its commission.

"Each country we submit claims to has different allowances and conditions that must be strictly adhered to for refund applications to succeed," Bates said.

"All we need is original invoices, some details about the company making the claim, and we do the rest using our London office and Safren's international links."

Refunds can be expected about six months after claims have been submitted.

Countries with the most generous claim-back allowances include Britain, Germany, Luxembourg, Holland and Sweden.

Banks detail client portfolios to taxman

B/Day 4/2/92 (320)

LESLEY LAMBERT

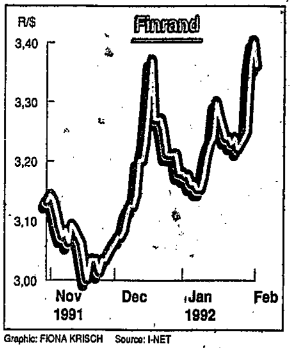
THE commissioner for Inland Revenue warned yesterday that his department was asking financial institutions to disclose their non-resident clients' investments to ensure that the full tax legitimately due was being paid.

The warning was made in a statement intended to clarify the tax treatment of non-residents' investments in SA.

However, the statement failed to revive a flagging financial rand, which slipped to a low of R3,48 to the dollar last week apparently as a result of speculation that Inland Revenue was cracking down more heavily on foreign investors. The unit closed little changed yesterday at R3,36.

In the statement, commissioner Hannes Hattingh reiterated that with certain exceptions — such as investments in gilts and semigilts — non-residents who derived interest from an SA source had the same obligations as South Africans to render income tax returns and pay taxes due.

The commissioner confirmed that the "Receiver of Revenue has the power to appoint a representative taxpayer to render an income tax return on behalf of non-residents and to remit tax which is due".



Graphic: FIONA KRISCH Source: I-NET

Many non-residents were unaware of their tax liabilities, he said.

Some smaller banks were recently reported as saying that Inland Revenue had already instructed them to withdraw the amount of tax due from non-resident clients' accounts.

This was interpreted as a sign that, in its

□ To Page 2

Banks

B/Day 4/2/92 (320)

□ From Page 1

efforts to find additional revenue sources, the tax department was tightening up on its implementation of tax legislation.

The commissioner's statement stressed that the "long-established" legislation enforcing the taxation of non-residents' investments remained unchanged.

The general principle contained in the Income Tax Act was that income tax was levied if interest was received by or accrued to a taxpayer from an SA source.

The source principle applied to all taxpayers, including non-residents and, briefly stated, meant that the actual source of interest was determined by the place where the credit was made available by the creditor to the debtor, Hattingh said.

"If, for example, the non-resident makes an investment directly in SA, the interest due is from an SA source. Where, however, the non-resident makes the credit available outside SA to the SA debtor and he (the debtor) is obliged, in terms of an agreement, to transfer the funds to SA for his account, the source of the interest is, in terms of existing tax law, outside SA."

The same rate of tax and tax rebates applied to residents and non-residents. There were exceptions to the principles.

Provided all the conditions had been met, interest payable to non-residents on stock or securities (including Treasury bills) issued by government, Transnet, any local authority, Eskom or the SABC was exempt from income tax.

Some double taxation avoidance agreements entered into between SA and other countries limited the tax due to a certain percentage of the interest.

SA did not have a withholding tax on interest payable to non-residents and although a 10% non-residents tax on interest was previously levied, this was merely granted as a credit on assessment if the interest was subject to normal tax.

BUSINESS

Taxman reassures foreign investors (320)

Finance Staff STAR 4/2/92

The recent bout of volatility in the financial rand market is expected to subside after yesterday's statement by the Commissioner for Inland Revenue that non-residents are not likely to be taxed on interest earned in South Africa.

Rumours to this effect last week caused a sharp sell-off of the financial rand, with the finrand dropping to as low as R3,47 against the dollar at one stage.

The Commissioner for Inland Revenue said yesterday the impression which was recently created that all interest paid or accruing to non-residents was now taxable was not correct.

He said in a statement the long-established rules still applied.

As far as interest is concerned, the general principle, contained in the Income Tax Act, was that income tax was levied if interest was received by or accrued to a taxpayer from a South African source.

The commssioner said the source principle applied to all taxpayers, including non-residents, and meant that the actual source of interest was determined by the place where the credit was made available by the creditor to the debtor.

However, the commissioner said there were various exceptions to the principle, including interest payable to non-residents on capital market stock and some double taxation avoidance agreements entered into by South Africa and other countries.

Non-residents who derived interest from a South African source had the same obligation as South African residents to render income tax returns and to pay the taxes owing on assessment, the commissioner said.

The Department of Inland Revenue was presently obtaining information from financial institutions and others to ensure that taxes which were properly due were collected, the statement said.

Government funds show R40-b shortfall

Taxpayers will shore up pensions shortfall

Sowetan 5/2/92 (320)

TAXPAYERS would continue paying billions for past Government incompetence in handling public pension funds, Mr Brian Goodall MP, Democratic Party spokesman on pensions, said yesterday.

He predicted that taxpayers' money would have to continue bailing out the troubled funds for 15 to 18 years.

Goodall was responding to a report tabled yesterday by the Auditor-General on SA Transport Services, which disclosed actuarial shortfalls of more than R7 billion at March 31 1988 in the Railways and Harbours funds.

The report said this meant that the Railways and Harbours Superannuation Fund with a R6,3 billion projected shortfall would only be able to meet 26,5 percent of its obligations, and the Railways and Harbours Pension Fund for Non-White Employees (R696-million) only 50,8 percent of its requirement.

Goodall, who has for years been raising alarms and criticising Government management of the vast public pension funds, said: "We sit with a situation which reflects incompetence of the past.

BRIAN GOODALL

"If you got yourself into this position, you didn't know what you were doing, or you were unbelievably greedy or stupid, or both."

He said the Government pension funds were in the same state as, or worse than the transport funds, which had amalgamated since 1988.

The transport funds struck trouble because of buy-back schemes which had been very expensive and inflicted tremendous liabilities. A second reason was that the funds had been used to subsidise housing, resulting in a very poor return on investments.

Actuaries had found that the shortfall would have been very small indeed if the money had been invested properly, earning good investment returns.

"You had bureaucrats running pension funds," he said, "upping benefits without any figures to measure the consequences of their actions.

"What we did with pension funds was like a company paying out dividends without having had any annual accounts done for 10 or 12 years."

When one tried to engineer a pension fund to meet social goals, there was no free lunch. Somebody, somewhere, had to pay.

He said the "state's contribution" in these pension funds was a euphemism for taxpayers' money - the state earned none. That contribution was extremely high, about 23 percent in government pension funds.

And in the last two years, R1 billion had been taken from the budget to keep the funds afloat.

Goodall noted, however, that Transport Services were the first to take corrective measures to extricate themselves from the mess.

They were taking appropriate steps, stopping buy-back and allowing private managers to invest pension funds for them in a whole spectrum of areas beyond fixed-interest areas, such as equities and property.

"They are doing better than other government pension funds. The steps they are taking are basically the only steps one can take."

The transport pension funds should reach the actuarial state they should be in beyond the year 2000.

"Although it's going to take time, we think they are moving in the right direction."

He said other government funds showed actuarial shortfalls totalling roughly R40-billion.

"It's just going to take a lot of time to rectify the situation. These pension funds are going to have to be monitored incredibly closely in future."

Wealth tax: Getting beyond the hysteria

320 CT5/2/92

Dr NEVA SEIDMAN MAKGETLA of the Department of Economics at Wits University takes a serious look at a tax on wealth and finds there may be something in it after all. This is the first of two extracts from an article which first appeared in the journal Work in Progress No 79 of December 1991.

WE NOW know that the ANC has no firm plans for a wealth tax. Nonetheless, at the mere suggestion, the white-oriented press had hysterics — like an upper-class Victorian lady at the sight of a mouse.

Meanwhile, outside, ignored, lurk the real monsters of poverty, unemployment and oppression.

We racked our brains to come up with a metaphor less set about with sexist and eurocentric overtones, but to no avail. The combined ability of reporters, editors and letter writers to repress the real issues brought only that image to mind.

Like the Victorian upper class, too, the "mainstream" press — with a few notable exceptions, including Allister Sparks, Chris Gibbons and Shaun Johnson — displayed no visible inclination toward serious or open-minded discussion of South Africa's political and economic ills.

Proposed tax hardly radical

Rather than encouraging and reporting on all possible suggestions for bringing about a more balanced and dynamic economy, most editorials used language — calling the putative proponents of the tax, among others, "loony tunes" and "half-baked intellectuals" — all too reminiscent of South Africa's authoritarian heritage.

In the event, the proposed tax is hardly radical. Its major benefit is that, given the massive disparities in wealth, it could target those most able to pay. Its drawbacks thus do not include a tendency to impoverish the middle class.

Contrary to the impression created by the Press, the ANC has no great interest in creating a new population of homeless professionals.

A wealth tax would have major weaknesses. Above all, it does not transform the economic and social relationships and technologies that currently foster extreme inequalities in wealth.

A wealth tax merely raises revenues from the rich. It will not in itself guarantee an expansion in the productive assets, housing and education of the poorest 70% in society.

Two causes of poverty

If its revenues finance current consumption only, a wealth tax will run into the same obstacles as an income tax.

By definition, any progressive tax seeks to impose a heavier burden on that class — the rich — which has a greater capacity for influencing or evading the law.

In the long run, therefore, using state power solely to redistribute income tends to run out of steam.

Table 1

Estimated revenues from a wealth tax on the top forty private groups.

Rate	Amount	As percentage of of 1991 revenues
0.5 %	R 2.75 bn.	4.1 %
1.0	5.50	8.2
3.0	16.50	24.6
5.0	27.50	41.0
10.0	55.00	82.0

Table 2

A tax on personal property, exempting R200 000 in net assets.

A. Estimated revenues

Rate	Revenues R billions	As percentage of 1991 revenues
0.5 %	0.8	1.2
1.0	1.5	2.2
3.0	4.5	6.7
5.0	7.6	11.3

Note: To estimate, very roughly, the current distribution of personal wealth, this table extrapolates figures on net assets for urban whites from Market Research Africa, Socioeconomic Survey, reported in *Business Day*, July 23, 1991.

B. Incidence

Tax on a family with net assets of:

Rate	R200 000	R500 000	R750 000	R1-m
0.5 %	0	1 500	2 750	4 000
1.0	0	3 000	5 500	8 000
3.0	0	9 000	16 500	24 000
5.0	0	15 000	27 500	40 000

6% of urban whites had net assets worth more than R500 000 in 1991. Half owned net assets under R100 000 and 20% under R10 000.

By international standards, in other words, most whites are not rich. They own, essentially, little more than a house and a car; since they frequently buy these assets on credit, their net assets remain low. The average white seems rich only in comparison with the deprivation of most of their black compatriots.

Illiterate blacks

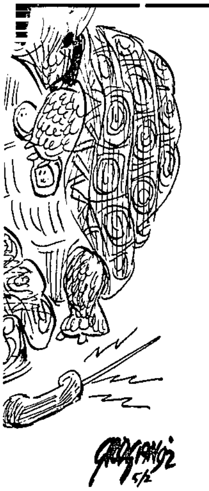
Some economists would extend the concept of wealth to include education since, like capital investment, it bolsters future earnings. For this conceptualisation, they develop the metaphor "human capital".

Apartheid put this form of accumulation out of reach for most South Africans. Almost half the black population remains functionally illiterate.

In 1985, 2% of blacks had completed Standard 10, compared to 30% of whites; fewer than one in a thousand blacks had a university degree, compared to about one in a hundred for whites.

In short, whether we look at personal or company assets, at physical or human captial, wealth distribution in South Africa remains unacceptably skewed.

That inequality spells poverty for the majority, despite fairly high national productivity, ensures that market demand only inadequatly reflects the requirements of most people, and undermines competition in virtually all sectors of the economy. A wealth tax could help raise revenues as a step toward overcoming these problems.



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on that class — the rich — which has a greater capacity for influencing or evading the law.

In the long run, therefore, using state power solely to redistribute income tends to run out of steam.

A wealth tax will only generate a stable equalisation of incomes if it accompanies the basic institutional changes required to establish and maintain a more equitable distribution of wealth.

There are two interrelated causes of poverty in South Africa: unemployment and starvation wages.

Both derive, in large part, from the extraordinary concentration of wealth in a few hands. In effect, a few hundred white men currently own most of the economy.

Assets derived from conquests

In 1990, total fixed productive capital in South Africa was reported at about R800 bn. In that year, the 40 largest private conglomerates in South Africa had assets worth about R570 bn.

Commercial banks and insurance companies accounted for over half their assets. By themselves, the 10 largest conglomerates owned R340 bn, or almost half the national productive capacity.

Each of these corporate groups had assets worth between R20 bn and R53 bn. Four state agencies in the public sector — Eskom, the Reserve Bank, the Land Bank and Transnet — each had assets of more than R25 bn.

No one can argue that these leading companies achieved their pre-eminence solely because of economic or social virtue.

Their assets derive from a history of conquest and wages that, whether judged by productivity or human needs, remained very low.

Compensation of employees makes up only about half the national income in South Africa, leaving almost the same amount for business.

By comparison, profits comprise merely a third to a quarter of national income in most industrialised countries.

Personal wealth held by few

Moreover, the state has not compelled companies to contribute to social welfare at levels comparable to, say, the US.

Income taxes absorb only about a seventh of reported aggregate company income. By contrast, in the US, companies pay about two-fifths of their aggregate income to the state.

Not surprisingly, the distribution of personal wealth parallels the centralisation of productive capital.

About 15 years ago, a study by McGrath found that the richest 5% of the entire population owned almost 90% of all personal assets in South Africa. Even within the white community, personal wealth was held by a few: 20% of all whites owned about 80% of white property.

A more recent study suggests only

skewed.

That inequality spells poverty for the majority, despite fairly high national productivity, ensures that market demand only inadequatly reflects the requirements of most people, and undermines competition in virtually all sectors of the economy. A wealth tax could help raise revenues as a step toward overcoming these problems.

Increase revenues

The great disparities in ownership mean that a wealth tax need not affect most salary earners or small-scale businesses. Yet it could generate significant revenues.

A 3% tax assessed on the assets of the top 40 private groups would increase government revenues by 20%; a similar levy on net personal wealth over R200 000 should increase revenue by almost 7%. Neither tax would affect the vast majority of the population. **(See Tables 1 & 2.)**

A carefully targeted wealth tax could shift the tax burden to profits, permitting some relief for individuals. If we posit, conservatively, a normal rate of return on capital of 15%, a wealth tax of 3% a year would raise the actual tax incidence on capital for liable companies to about 40%. That figure more or less equals the real rate in the US.

A tax on personal assets need worry only a small percentage of the population. If it exempted, say, R200 000, by a rough estimate only about 10% of the total population would have to pay anything at all. At a rate of 3%, only families with more than R240 000 in net assets — about 250 000 households in all — would pay over R100 a month.

Tax on human capital

If there was no punitively high tax rate, moderately productive companies and individuals could pay a wealth tax out of current income.

A wealth tax might hinder normal accumulation, stopping the expansion or possibly even maintenance of assets in real terms. In itself, however, it need not normally compel taxpayers to sell property.

Finally, a tax could be levied on human capital. The obvious problem is that such a tax might discourage the acquisition of skills. This drawback could be overcome by addressing only the historic, legal differences in education for whites and blacks.

The revenues could appropriately be placed in a revolving fund to support improved education for all South Africans. Such a tax would transform the excess paid to white families for education from a loan into a grant. Recipients would then repay the grant over a suitable period. — say, 30 years.

The tax would thus apply only to people who attended schools within the relevant educational administrations, paid for by the state. It would phase itself out naturally over the 30 years following the establishment of an integrated school system.

Christian National Education

The amount repaid would depend, naturally, on the number of years of school attended, with a premium for more expensive university courses. Suppose, for instance, we take the current difference between spending on white and black pupils as the basis for the tax.

The tax would then be assessed at R3 000 per year of primary and secondary education, payable over 30 years.

As the average person who suffered a Christian National Education has completed about eight years of schooling, they would be liable for about R800 a year. Altogether, the tax should initially raise at least R1,5 bn a year.

Unlike the other wealth taxes, a tax of this type could prove regressive. Everyone who completed the same amount of schooling would pay the same amount, regardless of their income.

A partial remedy would be to tie the tax to a means test, exempting, say, people whose incomes remain under the Minimum Subsistence Level.

□ **Tomorrow: The case against a wealth tax**

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Tax proposals may be beneficial

B/Day 6/2/92 (320)

Business Day Reporter

SOME couples married in community of property could be better off when tax changes proposed by Inland Revenue are promulgated by Parliament later this year.

The proposals will have no effect on the tax liabilities of couples married out of community of property and are intended to simplify tax rules governing passive income.

At present, it is assumed that either spouse's income from investments or trade accrues in equal proportions to both spouses in a community of property marriage, even if the money is earned solely by the wife.

The same goes for the cost of generating that income.

By way of example, this means half of a wife's net income not related to salaried employment is added to her husband's income for tax purposes and taxed at his top marginal rates.

Inland Revenue's intention is that net income from investment or trade (though not rental income) should in future be deemed to accrue to the spouse generating it when tax liabilities are calculated.

If husband and wife are in business together, taxable income will be deemed to accrue in proportion to the way in which the business is shared by the couple.

The new legislation will be backdated to the 1990-91 tax year though no new assessments will be made for that year unless both spouses in community of property marriage request this in writing.

It also makes provision for income from assets bequeathed to one spouse on condition the assets do not form part of the couple's joint estate.

VAT rebate registration extended

BDay 5/2/92

Business Day Reporter

THE Department of Inland Revenue has extended until May provisional measures introduced to ease the initial administrative burden of registering for VAT rebates on exports to neighbouring states and other trading partners. (320)

In terms of assistance schemes introduced when VAT was implemented in September, exporters can claim rebates for VAT paid on exports to neighbouring states and other trading partners if registered as participants in the scheme.

To ease the initial administrative burden of having to register for the assistance, short-term measures were introduced to allow exporters to claim assistance without being registered for the first three months after VAT was introduced. The measures have been extended again as application forms for registration have been delayed at the government printer.

Inland Revenue expects to receive the application forms within two weeks. In preparation for the implementation of the final scheme, vendors will be asked to apply for registration from March 2.

Four arguments posed against the creation of a wealth tax

CT 6/2/92 (320)

This is the second and concluding section of an article by Dr NEVA SEIDMAN MAKGETLA of the Department of Economics at Wits University assessing the advantages and disadvantages of a wealth tax. It first appeared in the journal Work in Progress of December 1991.

FOUR principal arguments have emerged against a wealth tax. They are that it would reduce capital formation; cause capital flight; discourage capital-intensive projects; prove difficult or impossible to levy. All but one of these points turns on the impact on investment.

Closer consideration suggests these fears are all ill-founded. They presuppose that companies now invest adequately and efficiently — a supposition which examination proves untenable.

In the last five years, according to official statistics, about 33% of company income has gone for investment, compared to about 40% in the early '70s.

Moreover, since transfer pricing reduces reported income by up to 20%, these figures probably overstate the share of investment significantly.

A wealth tax could actually foster more efficient investment in the private sector. A corporate wealth tax levied only on very large groups would discourage the centralisation of capital.

Conglomerates could reduce their liabilities by breaking up into smaller parts.

Threat of capital flight

Similarly, a tax on personal property would deter investment in non-productive assets. The tax would thus promote both productive investment and a reduction in unnecessary imports.

Finally, a democratic state could reduce the tax on desirable types of investment — for instance, to produce basic goods or exports, or create employment.

As for the threat of capital flight, it has become the standard private-sector response to any measure designed to restructure the economy. In this case, that tired warning can only arise out of unwarranted panic or a very low opinion of South Africa's capitalists.

At least from the turn of the century, most of Europe had a wealth tax of between 0,7 and 2,5%. For 30 years the Germans had an additional surcharge of 1% a year to provide loans to refugees from World War II. A similar tax has now been reimposed to assist the eastern provinces.

Neither tax caused noticeable capital flight. Rather, despite much grumbling, the vast majority of wealthy Germans seem to have accepted that, if they want a prosperous and stable society, they must compensate their fellow citizens, impoverished through no fault of their own.

In short, given the misuse of investable assets by the rich, most arguments against the tax seem weak, at best. The more important question is whether and how the states — or whatever financial institutions it may establish — can do better.

As a tool for restructuring the economy, the wealth tax does have fundamental shortcomings. Essentially, they reflect a single weakness: a wealth tax can't, by itself, bring about the institutional arrangements required for a more democratic economy.

Take away property

The tax may raise needed revenue from appropriate sources, but its long-run success depends on the ability of the state and civil society to redirect investment both directly and by regulating markets.

These institutional weaknesses emerge in two principal ways.

First, like any tax, a wealth tax would take away property viewed by people as their own. Some resistance may be alleviated by demonstrating clearly that revenues will improve the social and economic position of the country.

The classic path to that end is to tie tax revenue to purposes related to their source: taxes on companies and individuals to productive investment and housing, taxes on human capital to education programmes.

Nonetheless, experience shows that high taxes provoke high avoidance.

Second, apartheid laws are not the sole cause of wealth disparities. We must also blame modern economies of scale. In many critical sectors — including, for instance, motor vehicle production and banking — it makes little sense to redistribute assets to small, competitive firms. Wealth inequalities reflect, too, the inability of South Africa's highly concentrated financial sector to fund small-scale enterprise, particularly in the black community.

In these circumstances, we must look to other methods of redistributing assets. Above all, such measures involve changes in the structure of ownership and management that would give workers and communities a greater say in the overall investment process.

Measures to that end include laws promoting the establishment of workers, consumer and community organisations; open-book requirement for business and the state at least equal to those in Europe or America; and policies ensuring worker and community input into decision-making about investment, whether by the private sector or the state.

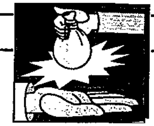
In sum, a wealth tax is only a tax: it can't by itself bring about a more democratic economy. Nonetheless, the proposal deserves serious consideration. We can't afford to reject out of hand any potential solution to South Africa's social and economic problems out of hand simply because of an hysterical reaction from some of the more articulate sections of the public.

DU TOIT ON TAX

Overturning the formula

FM 7/2/92

320



Pierre du Toit is senior tax partner at Arthur Andersen

When the financial services levy was introduced, there was a strong school of thought that it could interfere with market forces. Consequently, the banking community was in favour of some levy that would refer to capital rather than to income — as this would remove the levy entirely from the delicate and volatile operational area of the money markets.

The problem is simple. Any tax on business will be recovered from the consumer in one way or another. In the volatile and finely tuned environment of the money markets, where 0,25% on a rate may make the difference between transacting or not transacting, full recovery of this levy of 0,75% is imperative; while overrecovery will deter the borrower.

We are now several months into this new levy and there is evidence that this opinion was correct. And evidence, unlike opinion, should never be ignored.

The problem is that, in long-term finance, any risk is perceived exponentially and the possibility of a change in the rate of the levy equally assumes a greater significance. It is becoming more common for lenders to add not only the 0,75% to their rate on long-term loans, but to add more to cover against levy increases — and as the lending term lengthens, that "insurance" cover sometimes reaches neurotic proportions. The result is an inhibition in the free flow of funding at a time when the economy is still largely having to fund growth from internal resources.

What can be done about it?

The essence of the problem is that the levy is imposed on gross receipts in an industry that works with the narrowest of margins; so is more than usually vulnerable to fluctuations in input.

There are three ways to address this:

☐ The rate of the levy on each transaction can be fixed for its life. This would be highly impractical, however. Differences between rates levied on various facilities would eventually result in an administrative nightmare. This problem could not be overcome by limiting the fixed rate to longer-term finance because this would bring problems in defining long-term, as well as increase market artificiality by introducing tax considerations. Either way problems will arise from early settlements or roll-overs, and here too the potential for artificiality would be great;

☐ In a narrow-margin environment a "turnover tax" has a disproportionate impact. An alternative is to impose the levy on a net basis — effectively an income tax levy. The distortion would be less though problems may arise in separating finance income from other income — ring-fencing, even of rates, is always a messy tax mechanism;

☐ Finally, one may revert to the industry's original suggestion of imposing the levy rather on capital.

Here too there will be definition problems (for example, what represents capital in the insurance industry?) but I suspect that the best answer is still to be found in this approach.

Market distortion is insidious and must be removed. Capital movement and funding is basic to growth and, for the new SA, growth is essential. Any impediment to the free flow of capital must be rethought.

Can Barend snip taxes without cutting himself?

W/Mail 7/12 - 13/12/92 (320)

As the Budget draws near, Finance Minister Barend du Plessis will be looking for new forms of revenue. One thing he should but probably cannot look at is doing away with medical aid subsidies.

REG RUMNEY *reports*

The central government budget deficit (Rm)

	1990/91		1991/92	
	Budget	Actual	Budget	Projection
Expenditure	72 932	74 396	84 984	86 480
Revenue	64 938	67 130	74 866	72 763
Deficit	7 994	7 266	10 118	13 717
Plus Redemptions:				
Domestic marketable stock	3 229	3 229	4 969	4 969
Other loans (domestic non-marketable stock and foreign loans)	576	368	447	447
	11 799	10 863	15 534	19 133
Less Funds from other sources	–	-319[1]	-950[2]	-1 950[2]
Adjusted financing requirement	11 799	10 544	14 584	17 183
Deficit/GDP (%)	2,8	2,7	3,4	4,5

1) Sale of assets as a result of privatisation
2) Sale of strategic assets and stockpiles

At the limit ... The deficit before borrowing in this fiscal year is around 4,5 percent, leaving little room for tax relief in the Budget Source: ABSA

IT'S guessing time again as the Budget draws near. State President FW de Klerk has committed the government to further tax cuts for individuals and companies.

Can his finance minister, Barend du Plessis, deliver this — beyond making mere cosmetic changes in the top marginal rate?

Most economists think not.

They think that the top marginal rate will be cut, by one or two percent, but that the tax tables will not be changed radically.

So fiscal drag will come to the government's aid again and salary increases will push taxpayers into higher tax brackets even though their salaries may stay the same or even drop when adjusted for inflation.

Old Mutual chief economist David Mohr, for instance, reckons that if government were to change the tax tables to account for fiscal drag it would lose R2-billion and Du Plessis could not find that elsewhere given the demands on the Budget for increases in social spending.

Azar Jammine of Econometrix reckons that cuts in company and personal taxes can only be made up through other forms of taxes, such as the fuel levy or an increase in Value Added Tax.

Putting up the VAT rate would be disastrous. The whole issue of VAT has died down for the moment, but a VAT increase would fan the flames again.

Another source of new revenue in the past has not been new taxes or even increases in existing taxes but eliminating tax loopholes and tax perks.

The Centre for Health Policy estimates that the tax rebate on medical aid payments by employers costs the government between R1,1-billion and R1,7-billion in lost revenue.

The centre would like to see the rebate done away with to restructure the health system, but getting rid of it also provides a nice source of revenue.

Many in the medical profession are likely to oppose such a move vigorously. Removing the rebate would make medical aid even more expensive.

Medical aid is at the heart of private health care, which employs half of South Africa's doctors, 90 per cent of all dentists and most parmacists.

The world is full of economically reasonable moves which have been ruled out by politics.

Also, while the government has been moving away from using tax as an instrument of policy, last year it once again took to using tax breaks as a way of encouraging investment in South Africa.

For instance, Southern chief economist Mike Daly, looking at the coming Budget, reckons there may be a return to the accelerated depreciation formula which was done away with in favour of straight line depreciation in 1990. This means businesses can once again write off 50 percent of an investment in the first year, 30 percent in the second year and 20 percent in the last year. This would help boost new fixed investment in the private sector, which has been declining.

He notes that gold mines only account for one percent or less of tax revenue. In view of the low gold price there should be no increase of revenue in the coming fiscal year from this source. It also means that from a revenue point of view it would be easy to lift "ring-fencing on mines", now at 25 percent of a company's tax base. So mines could use tax losses on one mine to offset profits on another.

The mines are efficient creators of employment and this would help mining capital expenditure enormously, believes Daly.

He agrees some cosmetic tax relief may be forthcoming.

Overall, the percentage of government revenue coming from personal tax could rise to 40 percent or more. This is assuming the increase in the tax take will be more than 20 percent, even after a one percentage point cut in the marginal rate, Daly says.

Total government revenue will then comfortably rise 13 percent, largely because of fiscal drag. Excise duties on alcohol and cigarettes and other luxuries could be increased, and revenue from Customes and Excise could grow by around 15 percent.

Company tax will garner no more than last year.

The other move Du Plessis could make is to scrap import surcharges, which have already been reduced.

The "loss" in tax revenue because of these moves could be R2,5-billion.

That tax loss will have to be recouped through an increase in the fuel levy, by around 15c a litre, as well as above-mentioned increases in excise duties.

Daly put the loss in tax revenue for the 1991/92 financial year at R1,8-billion.

If Du Plessis uses in the 1992/93 financial year the fuel levy and excise duties in the same way he did this financial year there will be an extra R700-million or so. This will have to be financed in some way, possibly going into the deficit before borrowing.

An increase in the fuel levy will artificially boost the consumer price index but it will still be a setback to the Reserve Bank's anti-inflationary drive.

The budgeted increase in government spending will probably be around 12 percent, which is what Du Plessis will expect the inflation rate to be by the end of 1992.

Daly says the deficit before borrowing could be just over four percent, which he thinks is manageable.

ABSA's latest quarterly economic monitor reckons the deficit this fiscal year will be around 4,5 percent. Thus there will be little room for significant tax relief in the coming Budget.

Action on Budget day

THE VAT Co-ordinating Committee (VCC) has declared Budget day on March 18 a day of mass action. And the committee is also planning a food price summit.

These campaigns were finalised at last week's VAT summit held in Johannesburg and attended by 80 delegates representing 39 organisations. W/mail 7/2-13/2/92

The committee is also planning a number of public hearings on VAT in eight centres across the country. (320)

The VCC demands that the VAT rate not be increased and that the zero-rating of basic foodstuffs be extended.

The Congress of South African

W/mail 7/2-13/2/92

Trade Unions this week admitted that the need to broaden the campaign because the VAT campaign seems to be faltering.

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W/Mail 7/2 - 13/2/92

320

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VAT DISASTER

New tax fuels inflation, sends food prices rocketing

(320) AEG 8/2/92

JEAN LE MAY, Weekend Argus Reporter

HOPES that VAT would curb inflation have been shattered by rocketing food prices and by manufacturers reneging on undertakings to pass on tax credits to consumers.

This emerged in a Weekend Argus inquiry this week into food prices. The food price index rose to its highest level in 11 years in December, spiralling to 28,3 percent for the year.

Consumers were assured by Finance Minister Mr Barend du Plessis that R7,5-billion of input credits allowed early last year to manufacturers for capital purchases would be passed on to consumers in lower prices.

However, a spokesman in the Cape Town office of the Receiver of Revenue said this week that there was "no way" tax authorities could tell whether input credits, in fact, had been passed on.

"All we get are the final figures submitted on the completed returns," he said.

Professor Louise Tager, who heads Vatwatch, said many companies and associations had signed their pledge undertaking to pass on credits, but there was no law to compel them.

"Many are public companies and in time the tax situation will be reflected in balance sheets," she said.

Mr Jasper Walsh, consumer spokesman for the Democratic Party, said that, at the time, the DP urged that input credits for manufacturers should be phased in over a full year.

"The government ignored this plea, arguing that the credits would be passed on in lower prices. This is not happening."

The question arose when a source close to the Board of Trade and Industry (BTI) told Weekend Argus that rising input costs in manufacturing and distribution were largely responsible for huge increases in the price of food over the past year.

Deputy Minister of Finance Dr Theo Alant blamed inflation for increases in the cost of living. In a letter to The Argus this week he absolved VAT, saying that in the long term it would curb inflation.

The BTI investigation into rising food prices is limping into its eighth month. Dr Hilgard Muller, who heads the investigation, refused to throw any light on its findings, saying he would be ready to report by April.

One of the problems, according to a spokesman in the office of Economic Co-ordination Minister Mr Derek Keys, was that "three different ministers are involved — Trade and Industry, Economic Co-Ordination and Agriculture. They started with an in-house investigation and then decided we'd have to get in outside consultants as well. And, of course, we've had a change of Ministers."

As usual, there are as many opinions as there are experts.

Mr Louis Heyl of LHA Management Consultants said his firm had looked into the profitability of major companies involved in food processing.

They had found that they were "not all that profitable. Margins are low and returns on investment pretty low".

Another source close to the BTI did, however, provide the clue — rising input costs could be largely responsible for the rise in food prices.

"If you buy a litre of milk, only 30 percent of the unit cost is for the milk," he said.

"The rest is in labour, packaging, cold storage, transport and so on. Labour costs have risen, a lot of packaging is imported and as the rand goes down the price goes up, petrol and electricity costs have risen. These are input costs — and they have risen like rockets."

Since there is no way of checking whether input credits for capital expenditure were passed on, it was "a fairly safe bet" that this was not being done, added the source.

Profit-taking by retailers has come in for a good deal of the blame. Retailers, for their part, shunt the responsibility on to manufacturers, saying there is not enough competition.

The statistics are frightening: Last year, food went up

Turn to page 3

From page 1

28,3 percent, with meat up 38,8 percent, vegetables 33,1 percent, grain products 16,9 percent, fish and seafood 19,4 percent and fruit and nuts a staggering 58,4 percent.

The significant figures are that retail prices are increasing faster than producer and manufacturer prices in the food chain. AEG 8/2/92

The Central Statistical Services found that the agricultural component in the Producer Price Index (PPI) went up 12 percent last year while the manufacturing component went up 14,9 percent.

However, the food component in the Consumer Price Index went up 28,3 percent.

Although many experts have cast doubt on the accuracy of CSS statistics, Mrs Ina Wilken, assistant director of the council, has no doubt they are accurate.

"Until August 1990, we did regular food price surveys through a firm of consultants and published the results. We stopped then because we ran out of money — our funding has been cut by a third in the last three years — and the price of food has rocketed since then. I see a connection.

"Vatwatch has been doing surveys since last July, but they'll stop in March. We'll start abbreviated surveys again then," said Mrs Wilken.

About 70 percent of all food sold in the country is rung up on the tills at Pick 'n Pay, OK Bazaars and Checkers.

In the three months before the introduction of VAT on September 30, retailers added 9,4 percent to food prices, the Consumer Council found.

Mrs Sheila Baillie of the Housewives' League agreed that retailers were stepping up prices. The league's monthly survey of the cost of a typical "shopping basket" of 45 cheapest possible items showed this quite clearly, she said.

However, Dr Piet Botha of P B Botha and Associates, another firm hired to help the BTI investigation, said the profitability of the major food retailers — Pick 'n Pay, Checkers, OK Bazaars, Woolworths, Shoprite and Spar — was "a matter of public record".

He had found that average profitability was between 2 and 4 percent, which he did not consider excessive.

IMF warns SA against high taxes

S Times 9/2/92

From Simon Barber in Washington

ANY attempt to redistribute wealth in South Africa through a state spending spree, spiralling wage demands or increased rates of taxation will be self-defeating, a study prepared by the International Monetary Fund warns.

The report, Economic Policies for a New South Africa, suggests that, even if South Africa's economic policymakers get most other things right, unchecked wage growth and budget deficits will seriously impede the development of a more equitable society.

In its timing and contents, the study is clearly designed to deliver a healthy jolt of reality to South Africa's economic debate. Significantly, the authors do not think the nationalisation question is worthy of discussion.

In a blunt message to both unions and employers, they state: "The effect of high wages could be to raise the inequality of income distribution by keeping a much larger proportion of the working population underemployed and, through lower economic growth, by limiting the scope for fiscal redistributive spending."

Likewise, the more resources the state "appropriates for current expenditures", the fewer there will be for "capital accumulation" — which, in turn, means "less growth to generate resources in the future".

As for taxes, the "net burden" on whites — the portion of their tax bill for which they get nothing back from the budget — is 23 percent, among the highest in the world.

To heighten it further could have a growth-crippling "disincentive effect".

A better way to raise revenue is by improving the efficiency and equity of the tax system, broadening the tax base and changing the mix between direct and indirect taxes, says the report.

Cutting fat off the budget — administrative costs and salaries and defence outlays being the most obvious places to start — can also help. However, the authors are not particularly hopeful that a new South African government is going to shrink the removal of apartheid-spawned duplications notwithstanding.

To counter the expectations raised by South Africa's political transformation, the authors demonstrate that, even assuming per capita social expenditures are made the same for all, the net increase for blacks will be extremely limited.

Positing, optimistically, a growth rate of four percent in 1995, plus a pupil-teacher ratio of 30 to 1 and a standard teacher salary of R26 229, equalised annual per capita education expenditures at public schools would work out at around R1 377.

While, for whites, that would represent a precipitate drop nearly of two-thirds from the 1990 figure fo R4 087, for blacks it would be an increase of just R470 from R907, or a little under half as much again.

The corollary to this finding — which is also echoed in public health and social pension expenditures — is that "redistribution policies alone will not be sufficient to ensure a sustained overall improvement in living standards".

Rather, such expedients "will need to be supported by policies aimed at placing the economy on a higher growth path that would generate employment ... and provide the budgetary base for raising the level of social spending."

SUNDAY TIMES, February 9 1992 9

Foreign investor tax jitters knock finrand

BDay 10/2/92 (320)

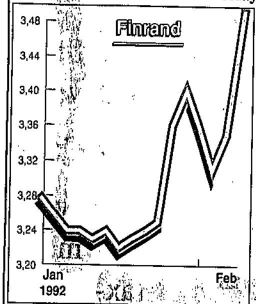
THE finrand took another knock on Friday, plunging to a 13-month low of R3,58 to the dollar as foreign investor uncertainty over tax on interest payments continued to undermine the market.

The investment unit recovered slightly from its Friday low to end a volatile week's trading at R3,48 to the dollar. Thursday's close was R3,44.

Dealers said the foreign investment unit came under pressure from another major bout of European selling.

They said that it could take a few days for the market to recover from the recent volatility as a major sell-off always "hung over the market for a while".

SYLVIA DU PLESSIS reports that the surge in the sale of gilts by non-residents, following confusion over the tax position, has been confirmed by JSE statistics released on Friday.



Graphic: FIONA KRISCH Source: I-NET

SHERIDAN CONNOLLY

In the week ended January 31, during which the financial rand fell to a low of R3,40, non-residents' bond sales, as recorded on the exchange, more than doubled to R62,849m from the previous week's R26,168m.

Foreign investment unit jitters were triggered by reports that foreigners had to pay tax on interest earned. Although Inland Revenue moved to clarify the situation, pointing out that not all interest paid or accruing to non-residents was taxable, nervousness persisted on talk that the Reserve Bank was probing non-resident clients' investments for tax purposes.

The JSE statistics, which reflect only that portion of the financial rand market where non-residents transactions are executed through the exchange, reflect gilt purchases of R74,395m from R57,999m as other offshore investors took advantage of the cheaper financial rand.

Senekal, Mouton & Kitshoff partner Neels Heyneke said there had been renewed foreign interest in SA gilts ahead of the weekend and a little buying as the financial rand fell further, but large foreign investors remained wary.

"The institutional money will be watching the political process here very carefully."

He added that if the Eurobond issue announced recently by the Development Bank of Southern Africa was successful, it would attract an improved buying surge from overseas.

Cosatu all set to challenge State over VAT promises

SHARON SOROUR
Labour Reporter

320 ARCG 10/2/92

COSATU, the country's largest trade union federation, will have to challenge the government and "stop it in its tracks" if value added tax is increased, according to assistant general secretary Mr Sam Shilowa.

In an interview in the latest edition of S A Labour Bulletin, Mr Shilowa said the government had "not kept its word" to the public or to the VAT Coordinating Committee.

"They promised a poverty relief programme would be in place in six months, but only one organisation has been paid about R200 000. There is simply no programme in place."

The tax had not been reduced as promised and it had not brought down inflation, he said.

"The general strike last year was the first round in the fight between Cosatu and the government. And, depending on how they react to our demans laid out at the time, we cannot rule out another general strike."

Cosatu would make "clear demands" at the National Economic Forum, including the restructuring of the economy "to benefit the poor", a moratorium on retrenchments and the issue of a living wage.

The government was "blocking" Cosatu's participation in Codesa, but they had applied formally to join.

"The feeling in Cosatu is that, even although we are not a political party, our decisions and our policies actually have an impact on the direction of political negotiations," said Mr Shilowa.

If Cosatu's application to join Codesa was rejected, the federation might "find itself still in the situation of making an input through the ANC-/SACP/Cosatu alliance".

Mr Shilowa said: "There can be no justification for excluding us from Codesa if they accept other non-political parties."

Taxpayers to fund bulk of sponsorship

EDWARD WEST

TAXPAYERS will fund a substantial bite of Sasol's sponsorship of the Jordan Formula One Grand Prix team.

Tax consultant Michael Steyn said yesterday if the sponsorship amounted to $10m, the actual cost to Sasol could be $1,36m while government would have to foot the balance as tax rebates.

Sasol public affairs spokesman Jan Krynauw did not disclose the cost of the sponsorship yesterday, but said it was less than the speculated $10m.

Steyn said Sasol would qualify for the 100% write-off against tax of all advertising and promotional costs accorded to all companies.

It would also be able to claim an 80% rebate for sponsoring an international event in SA which attracted overseas sportsmen and visitors.

This meant that, notwithstanding the 48% company tax rate, Sasol could be due for a 180% rebate on its sponsorship.

Price Waterhouse tax consultant Tienie Lategan said most companies battled to get the full 80% rebate and normally only received 30% to 40%. He believed the rebate would soon be phased out.

Krynauw did not deny the company would receive tax rebates, but said interest costs and the unclear nature of the legislation considerably reduced Sasol's ability to receive full rebates. (320)

He said one of the main objects of the sponsorship was to promote the export of Sasol products overseas and gain foreign exchange. BDay 12/2/92

Sasol chemicals and solvents are used in various engine and body parts of the Formula One car.

Krynauw said the sponsorship of Formula One sport, generally accepted as the most technically advanced sport in the world, would promote Sasol internationally as a hi-tech company.

This was essential to the joint ventures it hoped to enter with overseas companies and to the new export markets opening up.

War on VAT goes on

Sowetan 13/2/92 (320)

TOP trade union, church, civic and political leaders are expected to give verbal evidence during a two-day public hearing on Value Added Tax starting in Johannesburg tomorrow.

Leaders who will give evidence are SACP general secretary Mr Chris Hani, Cosatu general secretary Mr Jay Naidoo, Nactu general secretary Mr Cunningham Ngcukana, ANC general secretary Mr Cyril Ramaphosa and Reverend Frank Chikane of the SACC.

The VAT Co-ordinating Committee yesterday said it believed public policy-making should be public.

They said it was crucial that the public be given an opportunity to contribute to debates on all matters of public policy - including economic issues such as tax.

"In the past, policy in South Africa had been made by individuals behind closed doors with only a pretence at consultation," said the committee.

The organisation has also commissioned expert reports on VAT and its implementation.

"These, together with the evidence from the public hearings and written submissions, will be included in a report to be presented to the State President and major local and international organisations," said the VCC.

Hearings start on VAT

THE public hearings on VAT, due to take place in all major cities tomorrow and Saturday, is expected to be well supported, the Co-ordinating Committee on VAT says. B/Day 13/2/92

Public figures such as Chris Hani of the SACP, Jay Naidoo of Cosatu and Cyril Ramaphosa of the ANC will give evidence. (320)

The committee said the evidence would be included in a report to President F W de Klerk.

Talks with France and Hungary

SA seeks new tax deals to lure investors

B/Day 13/2/92

(320)

LESLEY LAMBERT

SA is negotiating new tax agreements with its trading partners in an effort to attract foreign investment.

Inland Revenue director Ian Meiklejohn confirmed yesterday his department was negotiating double tax agreements with countries where no agreements existed.

Inland Revenue commissioner Hannes Hattingh and leading tax officials were in France and Hungary last week to start negotiating the agreements, which would be more attractive to foreign investors than the current taxation method, he said.

A similar agreement with Taiwan was near finalisation. Negotiations with other major trading partners, including Eastern nations and the US, which terminated its double tax agreement when it imposed sanctions on SA, were likely to follow.

"SA is getting back into international traffic and we need to negotiate agreements which will encourage foreign investors to come here," Meiklejohn said.

He declined to comment on the terms of the agreements because these would have to be approved by Cabinet.

Most double taxation agreements are based on the standard OECD model where the signatories agree to limit the taxation of foreign investors' income to a certain percentage of that income.

While SA has maintained tax agreements with some countries — such as the UK, Israel, Germany and the Netherlands — during the sanctions years, investors from other countries have to pay normal income tax on interest earned from SA investments other than gilts.

On dividends, foreign investors pay non-resident shareholders' tax of 15% or less if there is a double agreement with the investor's home country. In most cases they are also taxed in their home countries.

Recent warnings that the tax authorities would continue to enforce the existing method of taxation sent the financial rand plummeting as disgruntled investors became bulk sellers of the currency unit.

The pending Taiwanese agreement is based on the standard OECD model but others, particularly those with European countries, may follow the more recent international trend in which the sole right of taxation is limited to the resident country.

If this is the case, foreign investors will not be taxed in SA and South Africans investing in foreign countries will not be taxed abroad on investment income.

Responding to concern that this could give foreign companies an unfair advantage over local companies, Meiklejohn said this could happen where the rate of tax imposed by the foreign investors' resident country was lower than SA's.

In the past, SA had a 10% withholding tax on foreign investors' interest income. But it was merely granted as a credit on assessment if the interest was subject to normal income tax.

Some tax experts say Inland Revenue should reinstate a low fixed-rated withholding tax on foreign investors' local investment income but exempt it from normal income tax.

This would make it easier for investors, many of whom are not disclosing their investments, to submit returns. The fiscus would then collect more revenue, they say.

Higher taxes seen in new SA

CT 14/2/92 (320)

Business Editor

THERE can be little doubt that direct taxation will rise in the new SA to speed up redistribution of income, Attie de Vries, professor of managerial economics at the University of Stellenbosch Business School, said yesterday.

Speaking at Sanlam's national brokers' convention in Somerset West, De Vries listed problem areas which might develop for the financial sector.

"As part of this scenario one must accept that the impoverishment of those in the higher income bracket will not only continue but accelerate and that the performance of the life and pension industry over the past 10 years cannot be repeated."

However, De Vries pointed out, change would also bring more opportunity. Higher black incomes would mean "the growth of a gigantic new market" for the insurance industry.

Nationalisation was still a possibility "but in my opinion it is quite unlikely."

There was a much greater possibility that prescribed investments would be reinstated for the life insurance industry, at a lower rate than the market rate, which would affect the sector's profit growth.

An alternative to this would be "the imposition of some kind of capital profit tax on the assets held by the financial sector on behalf of its investors."

De Vries said it was possible that SA's economic and financial infrastructure might deteriorate. "In spite of this, SA still has an advantage over most developing countries."

It was important to guard against excessive pessimism. "Ultimately SA is greater than the sum of all its parts. It is not a banana republic. There are too many plus factors.

"Its infrastructure is relatively well developed and its population has so much potential.

"This is an extremely exciting period to live in SA as long as we are prepared to accept and meet the challenges."

CLOSE CORPORATIONS
FM 14/2/92 320

The axe falls

Inland Revenue is putting into effect 1990 Income Tax Act amendments that make employers deduct Paye tax from payments to close corporations (CC) defined as "labour brokers."

Application forms for exemption will be available from May 1 and Paye must be deducted from July 1.

The amendments, explains John Hanssen of the office of the Commissioner for Inland Revenue, were intended to create uniform tax treatment in the labour broking business and will prevent CCs being used as a means of evading or postponing tax.

If a member of the CC provides a personal service to a client, the CC will now be regarded as a labour broker.

Tax has been evaded, for example, when specialist employees, such as engineering draftsmen, came to SA to perform work on an expatriate basis and left after their contracts expired. As the law stood, the ultimate employer/client was not required to deduct Paye from fees paid to the CC. So the CC assumed the contract to provide personal services, passing on payment to the member who frequently evaded the tax simply through non-disclosure.

The interposition of the CC also allowed tax payments to be postponed because it had to pay only provisional tax, not monthly Paye tax.

The definition of labour broker in the amendments to the Act corresponds with the definition found in labour legislation. It is so broad a definition that — unqualified — it

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would catch in the net even independent practitioners of a profession or trade, if carried on through the mechanism of a CC.

To remedy this problem, Revenue has provided for an exemption procedure.

The requirements are that the labour broker must:

- ☐ Carry on an independent trade;
- ☐ Be registered as a provisional taxpayer;
- ☐ Be registered as an employer for Paye purposes under the Act; and
- ☐ Have submitted all tax returns up to date — in other words, have a clean record.

CCs falling within the definition of labour brokers, which have grounds for exemption, should begin to plan their application as advised by Deloitte Pim Goldby's *Tax News*. But Hanssen asks that applications for exemption should not be submitted to Revenue offices before May 1. ■

Withdrawal of tax deductions may cost SA exporters R4bn

B/Day 14/2/92

SA COULD lose R4bn in export business over the next two years because of the withdrawal of tax deductions for marketing costs, the SA Foreign Trade Association (Safto) said. (320)

A scheme whereby certain marketing expenses can be deducted from taxable income ends on March 31.

Safto GM membership and information services Anne Moore told a conference on export incentives Safto wanted further talks with government on the issue.

A limited survey conducted by Safto showed that 200 of its clients estimated they would lose R2,4bn in turnover over the next two years, she said.

Moore said if this estimate was extended to a national level, exports worth R4bn could be in jeopardy.

LESLEY LAMBERT reports that the cost of disadvantages experienced by SA exporters justified a certain amount of export development assistance, Trade and Industry deputy director-general Gerrie Breyl said yesterday.

"The government realises that a booming export-led economy will require a real partnership between government and industry as well as a long-term commitment from government's side to smooth the road for its exporters," Breyl told delegates at an export incentive conference in Johannesburg yesterday.

However, he added that government's acceptance and implementation of the IDC's industrial policy proposals could "lead to a lesser need for export assistance and could therefore leave room for downward adjustments to the General Export Incentive Scheme (GEIS) over the longer term".

Breyl stressed, however, that government would stick to its commitment to maintain GEIS until March 1995. While the Uruguay round of GATT could result in a new code on subsidies, this would not affect the commitment, he said.

LLOYD'S OF LONDON 320

Taken to task

Lloyd's has set up groups to work on the radical overhaul, as recommended by a task force last month, of the insurance market. It has even bowed to criticism which followed its initial rejection of the task force's plan to streamline the Lloyd's governing body and create a separate regulating watchdog. That is now on the agenda.

The working groups have until June to decide on proposals the task force wants in place by the beginning of next year.

The task force's mandate was to look at the next five to seven years. For Lloyd's to hold its position, assuming 5% inflation and 3% growth in the main economies, will require a 50% increase in capacity to £15bn by 1997, says the report.

To this end, the main proposals were:

☐ Limiting losses. All names will have to pay 0,25% of their overall premium limit into a stop-loss fund. This will put a cap on losses over a four-year period, equal to 100% of annual gross premiums. Anything over that will be met by the fund but, should it run out of money, losses will revert to the name — *in extremis* unlimited liability is thus retained. The stop-loss fund levy will be imposed on top of the existing 0,5% contribution to the £500m Lloyd's central reserve fund and the 0,6% for market expenses;

☐ Spreading funds and therefore risk among a greater number of syndicates;

☐ Names should be entitled to regular meetings, full information about how their money is being managed and the right to veto major underwriting deals;

Continue

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☐ Reduce costs by 30%. These have been pushed up by the proliferation of syndicates and agencies. Costs to members in syndicates which wrote £100m a year were only 4% of gross premiums. At £10m a year, this went up to 10%; and 320

☐ Corporate membership. To reach £15bn capacity by 1997 will require at least 5 000 new names — and the fallout from the bad years may yet take a further toll. Allowing corporate membership is a long-term objective and the task force envisages that, in return for their limited liability, corporate members will put up more capital reserves than sole trading names. ■

LABOUR BRIEFS

Public hearing on VAT today

W/Mail 14/2-20/2/92

■ Public hearings on Value-Added Tax kick-off in Johannesburg this morning at the Legal Resources Centre.

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Jay Naidoo will give evidence for the Congress of South African Trade Unions, Chris Hani for the South African Communist Party and Cyril Ramaphosa for the African National Congress.

According to Bernie Fanaroff of the Co-ordinating Committee on VAT, the hearing has been widely advertised, and they hope that many people will come forward to present their views.

One of the key reasons for the hearing is to start a practice of "public debates on public policy", an idea foreign to most South Africans, says Fanaroff.

Public airs criticism at VAT hearings

320

Own Correspondent CT 15/2/92

JOHANNESBURG. — The first day of two days of public hearings on VAT got underway throughout the country yesterday with most participants criticising the new tax system and calling for changes.

Organiser of the public hearings Ms Luci Nyembe said most people had chosen to submit their comments over the telephone.

Ms Nyembe said most people who submitted arguments before commissioners of the Co-ordinating Committee on VAT, which represents over 104 civic, consumer, trade union, medical and welfare organisations, criticised the new tax.

She said the participants had presented a uniform message calling for the scrapping of VAT on basic foods, medicine and services such as water and the removal of refuge.

Provide for your years of retirement

SI Times [Buss] 16/2/92

320

ONE of the most neglected areas in personal financial planning is retirement planning.

This is the view of Abri Meiring, manager legal services of Old Mutual and spokesman for the Institute of Life and Pensions Advisors.

He worries about those members of pension funds who have been lulled into a false sense of security that their companies will provide for them so they can maintain the same standard of living they have enjoyed while working.

There is a substantial gap between real income and pension and few people realise the difference in time. Their dilemma is aggravated by the eroding effect of inflation on a fixed pension.

Mistaken

Estate planning is another neglected area. Mr Meiring says this is especially true since the relaxation of estate duty in the late 80s.

"The mistaken belief is that it is only the very wealthy who need to worry about estate planning.

"Estate duty is only payable on assets over R1-million and the duty is 15%, but with inflation constantly adding to the value of agricultural and residential property, more people are moving into the estate duty bracket without realising it. These are the people with problems."

Mr Meiring says South Africans may be facing estate taxes in the near future without having provided for them.

"Most people need the advice and assistance of professionals to avoid the trauma of a liquidity squeeze in their estates," he says.

The Mouton Committee is looking at future options for South Africa regarding retirement provision. Mr Meiring says the government may not provide a pension fund whereby the State will look after the aged. The country does not have the resources for this provision due to the disparity between earners and non-earners.

People will therefore have to provide for their own pensions, except perhaps for a basic safety-net type of provision.

Unfortunately, most people do not provide for their old age. Private pension provision will not develop without encouragement and this, says Meiring, has to be through meaningful incentives.

"A direct incentive like the tax-contributions to pension and retirement annuity funds is of major socio-economic importance not only for private individuals, but also for the state."

Mr Meiring says the fiscus has gone out of its way over the last couple of years to make pension provision more attractive.

Spouse

Expanding on the question of estate planning, Mr Meiring says the need for provision to be made for executors' fees which have recently been increased from 2,5% of the gross value of the estate to 3,5%. Another important aspect is to consider nominating the spouse as a beneficiary of a life policy because the pay-out is quicker.

If the policy is left to the spouse in the will, 3.5% is payable to executors and the pay-out is delayed by probate.

VALUE FOR YOUR MONEY

Ways for the rich to beat estate duty

(320)

S/Times [Buss] 16/2/92.

By WILLEM BOONZAIER

THE writers of this column are fellows of the Institute of Life and Pension Advisers. The Institute aims to maintain the professional standards of competence and ethics of those engaged in personal financial planning.

WILLEM BOONZAIER

THERE is great uncertainty about the route a new government will follow as regards a wealth tax in particular and the economic (and tax) structure in general.

Political volatility and the risk of nationalisation contribute nothing to alleviate uncertainty.

It seems that some form of wealth tax will be implemented. However, it may be unwise to take any estate planning steps that will result in high costs now and risk the planner's objective not being achieved.

Daughters

The major costs are usually incurred when assets are transferred to an estate-planning vehicle, such as a trust or company.

Let us examine the case of a couple who are married in community of property, have three daughters married to wealthy businessmen, and who own these major assets:

- A R1,5-million house in Northcliff.
- Shares in a shareblock scheme valued at R1,5-million (including a holiday mansion recently built).
- A share portfolio valued at R1,5-million.

All these assets have high growth potential, entailing an ever-increasing estate-duty liability. Since they already own the assets, little can be done to avoid estate duty should one or both of them die now.

However, steps can be taken to avoid estate duty on the growth of the assets should the couple live for several years to come.

There are several possibilities:

- They could dispose of the assets to their children.

The disadvantage of such a step is that they would lose control of the assets. This could be overcome by building a pre-emptive right into the sale transaction. This may, however, not prevent the children from encumbering the assets — for example, taking a bond or a lien over them.

In addition, the high value of the assets may add to estate-duty problems the children already have. This, therefore, does not seem to be a sufficiently flexible method to achieve the objective of avoiding estate duty.

- A private company could be floated and the assets sold to it by way of an outstanding loan.

The holders of the ordinary shares in the company would be the children and control would be retained by the parents through the issue of preference shares to themselves.

Rights

In practice, one would issue 120 ordinary and 180 preference shares since both figures are divisible by any number by two to six. It is threfore possible to divide the shares equally among any number of children from two to six.

In this way growth in their estates is limited inasmuch as the preference shares will be valued at the nominal value for estate duty while the market value of the assets will be reflected in the ordinary shares.

Obviously, the outstanding loan, if not redeemed, would be an asset in their estates.

Since the preference shares would give them sufficient voting rights to outvote the ordinary shareholders, they would retain control of their assets.

A disadvantage of this method of limiting growth in an estate is the cost involved. Transfer duty on the fixed assets would be calculated at 5% on the market value of the assets as opposed to 3% in the case of an individual or a trust.

The transfer of the shareblock shares and those in the share portfolio would attract stamp duty of 1% on their market value.

Audited financial statements have to be prepared annually — an additional cost.

The children might be saddled with an estate-duty problem since they already own assets of great value in their own names.

- One or more inter vivos trusts could be used to achieve the same objective as in thee previous two cases, at the same time providing flexibility in the estate plan.

The law of trusts in South Africa is not codified (contrary to most other western countries). This ensures flexibility.

Dog

By having the trust deed carefully drafted, control of the assets can be secured by a so-called dog-collar trust, without any negative estate duty implications.

The trust also offers the ideal instrument to skip generations in order to prevent the children from being saddled with an estate-duty problem as indicated in the previous two instances.

In spite of the Margo Commission's recommendation that "generation-skipping devices" such as trusts should be deemed to terminate every 15 years when a capital transfer tax would be payable, it seems improbable that existing trusts — those set up before the introduction of such legislation — will be affected. The reason is that the commission urged protection for "existing rights".

- Either spouse could avoid estate duty by merely b queathing the assets direct to the other spouse inasmu as such a bequest wou qualify for a deduction terms of section 4(a) of t Estate Duty Act.

Although such a beque would reduce estate-duty l ability, it would merely def it until the other spouse death.

The third example give here appears to be the mo suitable method to lim estate-duty liability for wealthy person.

Community

However, in the light of th uncertainty the recommen dation is that the planner se up trusts at this point, but no take any steps to transfer an assets to them.

Once clarity is obtaine about the issues affecting estate planning, the suggested route could be implemented or adjusted.

The fact that the couple are married in community o property makes the avoidance of estate duty less essential than if they were married out of it.

It all hinges on 25%

A TECHNOLOGICAL agreement has been signed between Durban-based Gelmar and Germany's Hettich of Kilchlengren for the assembly of concealed hinges in furniture.

Gelmar has installed an automatic assembly line.

SA's market for hinges is estimated at R30-million and Gelmar hopes to capture about 25% in its first year.

Hettich is the world's largest furniture hardware maker and its products are popular in SA.

S/Times (Buss) 16/2/92

The agreement will give Gelmar access to research and technology carried out by Hettich.

Eager to do business

SAFTO will host a trade conference of its members and a 30-man delegation from the Congo tomorrow.

The Congolese team, members of the Union Nationale des Operateurs Economiques du Congo, arrived in SA last Friday.

They are eager to meet manufacturers or producers of food, laboratory equipment, pharmaceuticals, automotive spare parts, agricultural produce and feed stocks, construction materials, bricks and tiles and office requisites.

The conference will be held in Safto's Johannesburg offices.

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Set your sights on ways to lighten the heavy tax burden

320

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S Times (Buss) 16/2/92

THE salaried employee usually cries that there is absolutely nothing he can do to ease his tax burden, but is is not true.

There are several legal ways to make sure your hard-earned money stays with you, but tax changes occur so frequently it is vital to seek the opinion of a consultant if you are in a position to plan your tax affairs.

The biggest change in recent years is the complete separation of the incomes of married couples for tax purposes. The fact that married women pay a top rate of only 38% is plenty of justification for her to hold assets in her own name.

It means a doubling up of the tax free lump sums from pension and provident funds that a couple can be entitled to. But, warns Kessel Feinstein's personal financial planning advisor Cheryl Howard, couples should be careful not to rush into the wholesale transfer of assets from husband to wife — or vice versa — to reduce the tax liability on the income.

Limited

The law provides that the income from any such capital transfers which were made solely or mainly for the purpose of tax avoidance would be fully taxed in the donor's hands.

"In other words, the onus is on you to prove that an asset transfer to your spouse was not done for tax reasons but for some other non-tax grounds such as to protect assets against creditors in the event of insolvency of the donor.

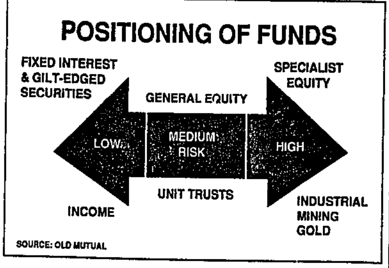
Planning in advance is the best option today, especially that there are now benefits to be had because of separate taxation.

At present, a man's tax-free contribution to a retirement annuity is limited to the maximum of R1750, or R3500 less the amount paid into a pension fund, or 15% of all non-retirement funding income. A wife's monetary limits are exactly half.

But contributions to an RA should be made in the husband's name first, due to the higher contribution level and tax rate. Should the wife have other income, she can also contribute in her own name.

Employees paying SITE only will no longer fill in an income tax return form, and reclaiming overpaid SITE is problematic. So, if you are contributing to a retirement annuity, make sure your employer knows about it and adjusts the SITE deduction to take the RA contributions into account.

Your employer is obliged to do this on your behalf: no Receiver of Revenue directive is any longer required.



Even executives need to look ahead

CONTRARY to what one might expect, many company executives ignore their own financial planning in favour of the responsibility for the corporate future.

This neglect is largely due to a shortage of time but also because they are often no better skilled than anyone else at handling their personal affairs.

because their benefit structures are not tailored to their requirements. They might also follow the advice of partially informed friends or business associates which can be totally inappropriate for them.

Mr Trevor Buckland, Old Mutual's manager corporate of executive consulting, says while he

Sport may lose sponsors as tax rebates are axed

S/Times 16/2/92 (320)

By CHARLES LEONARD

SPORT might suffer sweeping cuts in sponsorship following a government announcement this week that sport sponsors may no longer claim hefty tax rebates.

A boycott-busting scheme introduced in 1986 to encourage sponsorship of international events offered sponsors rebates of up to 80 percent. But the return of South Africa to world sport prompted the government to end the incentive.

"We are experiencing the total collapse of boycotts, resulting in a flood of applications which make unrealistic demands on state funds through tax concessions," Finance Minister Barend du Plessis and National Education Minister Louis Pienaar announced.

Mr Clive Grinaker, chairman of Grinaker Sports Management, the marketing agents of the National Olympic Committee of South Africa, said: "In the short term it will have a detrimental effect on sport sponsorship and it will certainly leave a vacuum."

One possible effect was that certain sponsors would reconsider their positions regarding international sporting events, he said.

Mr Jacques Sellschop, group executive of Altron, one of the biggest tennis sponsors, said: "The tax dispensation of the boycott years have enabled corporations like Standard Bank and Altech to identify with tennis.

"Without these dispensations they would find it virtually impossible to fund events such as we have had in the past. The sudden withdrawal compels us to review our position."

Sports promotor Keith Brebnor said another outcome would be that certain international sporting events may dry up in SA.

"We might lose some big tournaments and never get them back again," he said.

Mr Grinaker added that the announcement would dramatically change the face of the formerly blossoming sport sponsorship industry.

"Sponsors will now refocus their budgets and will no longer sponsor events where they don't get proper business returns," he said.

However, the government announcement said prospective sponsors could still benefit from tax breaks of up to 48 percent through advertising in sports events.

1991 revenue collections 'on target'

SHERIDAN CONNOLLY

REVENUE collected during the first 10 months of the current financial year was on target, figures from the Central Statistical Service showed.

Collections during the 10 months to the end of January amounted to 81,5% of the amount voted for the year to March 31 1992. This compared with 82,9% collected during the corresponding period of the previous financial year. 320

A CSS breakdown showed revenue collected by the exchequer increased by 8,8%. Inland Revenue receipts increased by 10,9%. Customs and excise duties, on the other hand, yielded 6,2% less than last year.

With two months to go to the end of the financial year and VAT revenue starting to filter in, financial authorities are confident collections for the year will be on target.

During the 10-month period, the Exchequer's deficit before borrowing and debt repayment amounted to 91,4% of the deficit voted for the year. This compared with 42,2% last year. BDay 17/2/92

The number of Exchequer issues increased by 17,9%. Exchequer issues exceeded revenue collected by 15,2%.

Banks clear way for tax avoiders (320)

S|Times [BUSS] 16|2|92.

By CURT VON KEYSERLINGK

BANKS are taking steps to allow future non-resident depositors to avoid tax on interest they earn in South Africa.

A banker says: "Whether or not the depositor is liable for tax depends on the mechanism used to place his funds in a bank.

"In many cases the wrong procedure was followed. It would have been just as easy to avoid tax."

A non-resident wishing to deposit money in SA usually places his funds in a foreign bank. The foreign bank is instructed to place the money in an SA bank. If the transfer of funds from the foreign to the SA bank takes place abroad, the investor is not liable for tax on interest.

Liable

The reason is that the Receiver of Revenue deems the source of the funds to be foreign. This may happen where the SA bank has an account with a foreign one. But if a non-resident places money in an SA bank which does not have an account with his foreign banker he must take care. The foreign bank may use another SA bank to transfer the funds.

If this transaction takes place in SA, the investor is liable for tax because the Receiver deems the source of the funds to be here.

Tax may be avoided if the depositor's foreign bank places the funds with another foreign bank where the SA one has an account. The funds are deemed to have been sourced from abroad.

A statement by the Receiver says: "If the creditor makes the funds available to the debtor outside SA and the debtor transfers the funds to SA for use here, the source is outside SA and the interest is not subject to tax.

"If, on the other hand, the creditor transfers funds to SA and makes them available to the debtor in SA the source is in SA and the interest is subject to tax."

Under these guidelines interest on foreign funds trapped in the net under the foreign debt standstill would have been taxable because most were transferred at least once from one SA account to another.

But they were exempted from tax in the second interim debt standstill arrangement in 1987.

The Receiver makes it clear that interest on deposits in SA banks by emigrants or foreigners who earned money in SA is taxable even if they no longer live here.

Low

A banker says the finrand has weakened because many non-residents have pulled their funds out of SA.

"They are not transferring their funds into gilts even though these instruments are exempt from tax. They fear that the money could be seized by the Receiver to pay tax on interest earned in the past.

"For the same reason these depositors are taking out funds to reinvest in SA banks under procedures where the deposits would be deemed to be foreign sourced."

The finrand hit a two-year low this week of R3,82.

One of the reasons is anxiety of non-residents about tax.

It is expected that downward pressure on the finrand will continue because many foreigners have term deposits, which they continue to withdraw on expiry.

A banker says: "The Receiver has botched this issue. He is chasing money away for little extra revenue. The White Paper on the Margo Report recommended abolition of the 10% withholding tax to encourage foreign loans and said it brought in only R30-milllion a year."

VAT: Fears of industrial action

320 CT 17/2/92

Own Correspondent

JOHANNESBURG. — GST's replacement with VAT could have a severe impact on industrial relations this year, a trade union leader told the Co-ordinating Committee on VAT at its public hearings on Friday.

Nactu general-secretary Mr Cunningham Ngcukana said higher wages would be demanded by workers to offset the impact of VAT.

More than 650 people gave evidence over the weekend at the VAT hearings in centres around the country.

Cosatu general-secretary Mr Jay Naidoo told the Johannesburg hearing the government's intransigent response to calls for negotiations on VAT "has urged our members to consider escalating the campaign to include an attack on the entire tax system".

Public speaks on VAT

Sowetan 17/2/92

(320)

MORE than 600 people have given evidence at VAT public hearings which started on Friday, the VAT Co-ordinating Committee said at the weekend.

At the six centres for which figures were available, 272 people came to give evidence personally, while 370 phoned in to the toll-free lines and 12 letters were received.

Many callers offered alternatives to the present structure of VAT. - *Sapa.*

Creating new wealth only cure for poverty

320

CT 17/2/92

By HANS MIDDELMANN

WHY are so many South Africans desperately poor?

One naive answer appears in a recent two-part article by Dr Neva Makgetla (Cape Times, February 5 and 6).

"There are two interrelated causes of poverty in South Africa," she says: "Unemployment and starvation wages. Both derive in large part from the extraordinary concentration of wealth in a few hands. In effect, a few hundred white men currently own most of the economy."

In other words, the poor are poor because the rich are rich. In particular, the "few hundred white men" are the culprits, which would seem to make them a legitimate, if not mandatory target for liquidation. We are assured, however, that no-one proposes to liquidate them, only to rob them, like Robin Hood, to a reasonable extent.

Wealth tax?

Hence the proposals for a wealth tax: a percentage levy on the assets (regardless of income) of the largest private groups and a similar levy on net personal wealth exceeding a certain amount — say R200 000. A further tax is suggested on "human capital" embodied in education.

The details need not detain us. It is the idea that something significantly useful can be achieved by transferring resources from haves to have-nots that has to be refuted.

The picture of a small group of white men holding the masses in bondage has some appeal for unsophisticated people, but it belongs in the realm of fiction. Equally false is the notion that there is a fixed pool of capital assets or wealth, a disproportionate share of which has been grabbed by a minority, leaving little or nothing over for the rest.

The truth is that the poor would be even worse off if no capital assets had been accumulated by the rich. The affluence of the minority is a mitigation of poverty, not the cause of it. It has been said that one thing worse than being exploited by a capitalist is not being exploited by a capitalist.

Four arguments posed against the creation of a wealth tax

This is the second and concluding section of an article by Dr NEVA SEIDMAN MAKGETLA of the Department of Economics at Wits University assessing the advantages and disadvantages of a wealth tax. It first appeared in the journal Work in Progress of December 1991.

The headline from one of the articles by Dr Neva Seidman Makgetla which appeared in the Cape Times recently.

Robbing rich Peter to pay poor Paul is not a feasible solution to the problem of poverty, because there are too few Peters and too many Pauls.

The solution is to be found in the fact that the pool of wealth is indefinitely expandable. The prime object of policy should therefore be to enable the mass of the people to share in the creation of new wealth.

This is the kernel of the message put out in a paper just published under the auspices of the International Monetary Fund (IMF) entitled "Economic Policies for a New South Africa".

Simon Barber says in his summary of this paper (Cape Times, February 11) that the IMF will be loath to help the present or any future SA government finance anything that might smack of "instant gratification". The challenge is to lay the foundations for sustained, long-term economic growth.

Some sound advice follows: reduce government spending; bring down inflation through monetary policy; be firm with spiralling wage demands; lower protective trade barriers, and so on. We must acknowledge, says the IMF, that redistribution can be achieved only through growth, not vice versa.

This is the wisdom of the modern world, born of disillusion with collectivist experiments. Regrettably it is not widely understood or emotionally pleasing. "Let 'the people' take over the control of the instruments of production. Let us produce basic goods and services for the poor, eliminating what is unnecessary". So runs the old utopian argument. The former communist countries followed it during the last 70 years. It bankrupted them all quite recently.

Let us see what Dr Makgetla, who teaches at Wits University in the Department of Economics, has to say about this. Although her article is ostensibly about a wealth tax, even she concedes that it has limited usefulness and a number of weaknesses and disadvantages. The thrust of her article is rather towards a change in the structure of ownership and management so as to eliminate what she regards as inadequate and inefficient investment policies and "the misuse of investable assets by the rich," and to give workers and communities a greater say in the overall investment process".

It is not clear how this "input" by workers and communities is to take place, nor how the input by different groups of workers in different industries and regions is to be co-ordinated. A market economy, in the words of Hayek, creates a spontaneous order, inadequate as it may be; but if one rejects the market as the best available and flexible method of achieving growth and coping with change one is left only with a central directing authority. The authority is made up, not of workers or communities, but of people acting in their name, people who "know" what should be produced, what is unnecessary and what is desirable.

Whatever the faults of existing economic policy — and they are many — a dispensation as envisaged by Dr Makgetla would doom the majority of people in South Africa to deepening poverty and frustration in an unwieldy, unworkable and internationally unacceptable regime.

When Messrs De Klerk and Mandela are exposed to the scrutiny of business leaders at international conferences, they experience reality and tend to react positively and in unison.

When they return home, elements of fairyland intrude. Mr Mandela is confronted by the goblins of sanctions, nationalisation, redistribution, people's power and all the rest of it; Mr De Klerk is assailed by accusations of bad faith on the one hand and of selling his white compatriots down the river on the other. They share a remarkable common South African patriotism when they face the outside world. When they are at home, the lingering internationl politics of the last few decades seem to demand a public distrust of each other. If they could speak and act in unison at home, too, what rapid progress we would make!

Nucleus of new SA

I am concerned here with the economy which cannot flourish unless the political scene reaches stability. And in the field of economic policy Mr Mandela has the larger role to play. He should be more confident of the inherent good sense of the mass of his constituents who have watched what happened in Eastern Europe and in the African countries that adopted socialist policies.

Everyone wants to be better off and many of them are succeeding most remarkably. South Africa does not consist mainly of impoverished blacks looking for handouts. There is a growing middle class of business and professional people, building up their own stock of assets and operating in a "capitalist" market — running taxis, doing backyard repairs, operating spaza shops and small establishments of one kind or another, accumulating some capital.

They are the nucleus of the new South Africa and should be lauded as such. They are also the potential employers of the the unskilled and uneducated masses who make up the millions of unemployed. Their outlook on life is more akin to that of the IMF economists than the discredited advocates of communism.

□ *Hans Middelmann is a Cape Town businessman.*

Super tax savings for the super tax payer

STAR 17/2/92 (320)

By Tim Tomlins
a director of Berns Block

Although retirement annuities, funded by regular premium payment throughout one's working years, are considered efficient tax-saving investments, a single premium retirement annuity taken out in the year of one's retirement could prove to be a super-efficient tax-saver.

This situation arises when a senior executive, on his retirement, receives a large cash commutation from his pension fund as well as other amounts from retirement annuities or a provident fund which, together, will exceed the overall tax free allowance of R120 000 or R4 500 x number of years membership of the fund.

In these circumstances, the excess is subject to tax at the retiring executive's average rate of tax in the year of his retirement.

The average tax is determined by adding together the salary he earned before his retirement and the pension received during the rest of that tax year and other taxable income, that is investment income.

Minimum

The higher this total taxable income, the higher the tax payable on a sliding scale and consequently, the higher the average tax rate applied to the lump sums.

The objective at retirement is to reduce the taxable income to a minimum in the year of retirement, thus reducing the average rate and the amount of tax payable on the lump sums.

In the past, it was standard procedure for retirees to bring about this reduction by retiring early in the new tax year and electing to have their pensions paid to them annually in arrears.

This had the effect, in nearly all cases, of reducing their taxable income so that the minimum marginal rate became their average rate (that is, 15 percent in 1991/92).

However, the Receiver of Revenue has recently made it very clear that this type of arrangement is not acceptable.

In a letter dated July 4 1991 the Receiver stated that "for taxation purposes, the commuted portion of the annuity (lump sums) and the first instalment of the annuity (pension), whether payable monthly, quarterly or annually, to which a retiring member becomes entitled, is taxable in the year of assessment in which the member retires, regardless of the fact that such first instalment may only be paid in the ensuing year of assessment."

The only option that is thus still open to retirees is to reduce their taxable income by maximising their allowable deductions, that is their medical and physical disability deductions, pension fund contribution (current and back-dated), retirement annuity fund premiums (current and re-instated) and any donations made by them to educational institutions.

Under normal circumstances, all these deductions, if fully applicable, would have only a limited effect on reducing the taxable income of the taxpayer.

However, at retirement the taxable portion of the retiree's lump sum falls under the definition of income to which the deductable contribution to a retirement annuity fund may be applied, that is 15 percent of taxable non-retirement funding income.

This means that where a retiring senior executive has a taxable lump sum of say R850 000, the 15 percent rule would go a long way to reducing his taxable income in the first year of his retirement.

It could quite possibly reduce his average rate to the minimum tax rate and have the effect of reducing his tax by R1,62 for every R1 contributed in the form of premium to a single premium retirement annuity.

This is then clearly a more efficient tax saving than the maximum of 43c for every R1 contributed in the form of ongoing premiums during a taxpayer's working years.

The effect of the single premium retirement annuity can be illustrated as follows:

Tim Tomlins . . . he notes that the Receiver of Revenue has made his feelings clear.

A	Total lump sums received on retirement:	
	⅓ Pension Fund	R600 000
	Provident Fund	370 000
		R970 000
	Less tax free allowance	R120 000
	Taxable excess lump sum	R850 000
B	Total income in year of retirement:	
	Salary (1 month)	R 18 000
	Pension (11 months)	132 000
	Net taxable income	R150 000
	Tax payable (1991/92)	R 55 100
	Average Rate 36,73%	
C	Deductable Single Premium Retirement Annuity contribution (SPRA):	
	Taxable excess lump sum	R850 000
	Taxable non-pensionable Pension	132 000
		R982 000
	Therefore, 15% of R982 000 =	R147 300
D	Total income in year of retirement (with SPRA):	
	Salary (1 month)	R 18 000
	Pension (11 months)	132 000
		R150 000
	Less deductable SPRA	147 300
	Net taxable income	R 2 700
	Tax payable (1991/92)	R 405
	Average Rate 15%	
E	TAX SAVINGS	
	Tax paid on lump sums (R850 000)	
	@ 36,73% (average rate)	R312 205
	@ 15% (average rate)	R127 500
	Saving	R184 705
	Tax paid on income	
	R150 000 @ 36,73%	R 55 100
	R2 700 @ 15%	R 405
	Saving	R 54 695
	Tax tax saving =	R239 400
	Cost of SPRA	R147 300
	Net benefit	R 92 100

(ie R1,62 tax saved for every R1 invested in a Single Premium Retirement Annuity)

There are just a few days left

STAR 17/2/92

By Mike Anderson,
Senior Manager,
Syfrets Investment
Management Services

You have just a couple of days left to save tax this year through a retirement annuity.

An investor in what is effectively a private pension fund can contribute annually in advance to get relief this tax year.

Part of the year's premium that you pay this month is deductible against this year's income even though the contractual term of the RA stretches into next year. That's why February has become the time to review retirement planning.

This tax relief applies whether you work and contribute to a pension, are self employed or simply have taxable investment income. Key RA features are:

- Highly adaptable in regard to the amount of contributions, the number of years of contribution (minimum one year), and when the benefits will be payable (any time between the 55th and 70th birthday):
- One-third of the proceeds of an RA can be taken as a lump sum; the balance must be used to purchase an annuity:
- Different RAs may have different retirement dates, thus allowing for those who wish to continue working after retirement and who will not need all the proceeds at the same time.

Benefits: The State encourages the purchase of RAs by allowing tax advantages:

1. The one-third of a RA that can be paid as a lump sum is allowed partially tax-free. A maximum of the greater of R120 000 or an amount calculated by multiplying R4 500 by the number of years the taxpayer was a member of the RA fund is available tax-free to the taxpayer member but this ceiling is cumulative of all lump sums derived from the member's Pension Fund, Provident Fund and RA Funds. This is particularly attractive to a younger person to consider a RA.

2. If you are a single or married man or single woman, your RA contributions receive relief in the form of a deduction calculated as follows:

The greatest of:

(a) 15 percent of non-pensionable taxable

(b) R3 500 less allowable contributions to Pension Funds, or

(c) R1 750

3. If you are a wife with enough of your own taxable income (and pay SITE), you can get tax relief on your own RA contribution as above except for 2 c)

(a) 15 percent of non-pensionable taxable
(b) R3 500 less allowable contributions to Pension Funds, or
(c) R1 750

3. If you are a wife with enough of your own taxable income (and pay SITE), you can get tax relief on your own RA contribution as above except for 2 c) read R875 per year regardless of whether your husband has his own RA. Any income derived by a wife as a result of a donation, settlement or other disposition made on or after March 20 1991 by the husband will be taxed in the hands of the husband.

On maturity of an RA: Of the sum paid out, one third can be taken in cash. Tthe rest must be invested in a life annuity. Annuity rates are fixed at the time of purchase, which means timing is critical.

There are a number of drawbacks with compulsory life annuities, as they are called. On a straightforward purchase which brings in a taxable fixed monthly sum for life, rates are the highest. But should you die, even say a year after the life annuity is bought, your capital dies with you. Lower rates apply to the life annuity option which is guaranteed for 10 years during which, should you pass on, your wife or dependents receive the monthly payments. After 10 years you are back to the situation where the payments stop when you do. So what you have saved in tax during the years when you have been paying in to your RA has to be considered against what you will pay in tax once your RA has matured and your compulsory life annuity purchased. You have in fact deferred tax.

UAL and Syfrets recently came out with two schemes linked to unit trusts. One is an equity-linked RA which offers tax-deductible investments in one or more of their unit trusts, switching them as you see fit. And you are allowed to stagger withdrawals of your retirement benefit between ages 55 and 70.

The other is the equity-linked life annuity (underwritten), also linked to unit trusts, that helps your maturing annuity outpace inflation. And a major benefit is that the annuitant does not lose the benefit to the insurer on death. The surviving spouse can opt for the annuity to be paid for life or the full current value of the annuity investment will be paid to the nominated beneficiaries in the form of an accelerated annuity.

Tax rebates withdrawn

CAPE TOWN — Sports sponsors will no longer be eligible for tax rebates as SA's readmission into the international sporting arena gains momentum.

Finance Minister Barend du Plessis and National Education Minister Louis Pienaar said the incentive scheme introduced in 1986 would now fall away.

Sponsors were offered tax rebates of up to 80%.

The Ministers said their departments had been inundated with applications for sponsorships. (820)

"We are experiencing the total collapse of boycotts, resulting in a flood of applications which make unrealistic demands on state funds through tax concessions," they said. (292)

The Ministers said prospective sponsors could still benefit from tax breaks of up to 48% through advertising in sports events. — Sapa. BDay 17/12/92

Pay rises shrink each year — survey

BDay 17/12/92

DIRK HARTFORD

AVERAGE wage increases have steadily declined from 17,9% in 1988 to 16,1% in 1991 and the national average settlement this year is likely to be between 13% and 14%, labour consultant Andrew Levy's latest wage settlement survey shows.

In the second half of last year the average level of settlement was 15,3%.

Industrial action featured in 63% of negotiations monitored and the use of go-slows increased to 34% of the action monitored, as against 22% previously.

Productivity

Overtime bans were also a favoured union tactic, the report said.

Whereas the 1980s were dominated by "pattern bargaining" — where negotiators tend to follow national and sectoral trends rather than hammering out agreements specific to local needs — the 1990s were likely to see shifts towards "effort-reward bargaining", where issues such as labour productivity and the trade off between jobs and wages could be more decisive.

The report said settlements in the mining and metal industries last year "exploded the myth that there is some inherent right for wages to automatically keep pace with inflation, irrespective of the state of the industry."

This year Levy expects a critical issue for wage bargainers will be the control of government expenditure and the restructuring of the private sector — and the effect these will have on employment.

A social contract at a national level, the report argues, could trade responsible wage bargaining for greater responsibility over job security, training and development.

In addition, alternative benefit programmes designed to meet the specific needs of union members and allowing greater participation of the unions in their management, will be important.

In this sphere, unions will "seek schemes that provide for savings that are available in times of emergency" and where they are represented by "individuals they have come to trust".

Govt's revenue collection back on target

STAR 18/2/92

320

By Sven Lünsche

Government revenue collection is back on target judging from state expenditure and income figures released in the latest Government Gazette.

From April to January government revenue totalled R59,75 billion compared with R55,72 billion for the same period in the 1990/1 fiscal year.

During the first 10 months of the current year the government has thus collected 81,5 percent of its budgeted income of just over R73 billion. At the same stage last year income had reached 82,9 percent of the budgeted total.

While the figures do not give a detailed breakdown of tax collections — including the income from VAT — they show that total inland revenue was up by 10,9 percent to R53,29 billion (R48,81 billion).

Income from Customs and Excise, however, was 6,2 percent less than last year at R6,41 billion (R6,84 billion).

Government expenditure continues to run ahead of budgeted targets. In the first ten months of the fiscal year the government spent R72,34 billion, 19,1 percent more than in the comparative period in the 1990/1 fiscal year.

Finance Minister Barend du Plessis has budgeted for total expenditure of R85,35 billion in the current year and is set to ask Parliament to approve additional budgets before the end of the month.

The deficit before borrowing during the first ten months has thus surged to R12,6 billion and is already amounting to 92 percent of the budgeted deficit for the year as a whole.

Consumer TRENDS

FILLING COFFERS:

The Consumer Council recovered more than R3,7 million during 46 000 investigations on behalf of consumers who were dissatisfied with business transactions last year. — Trends Reporter.

FRUGAL FEMALES:

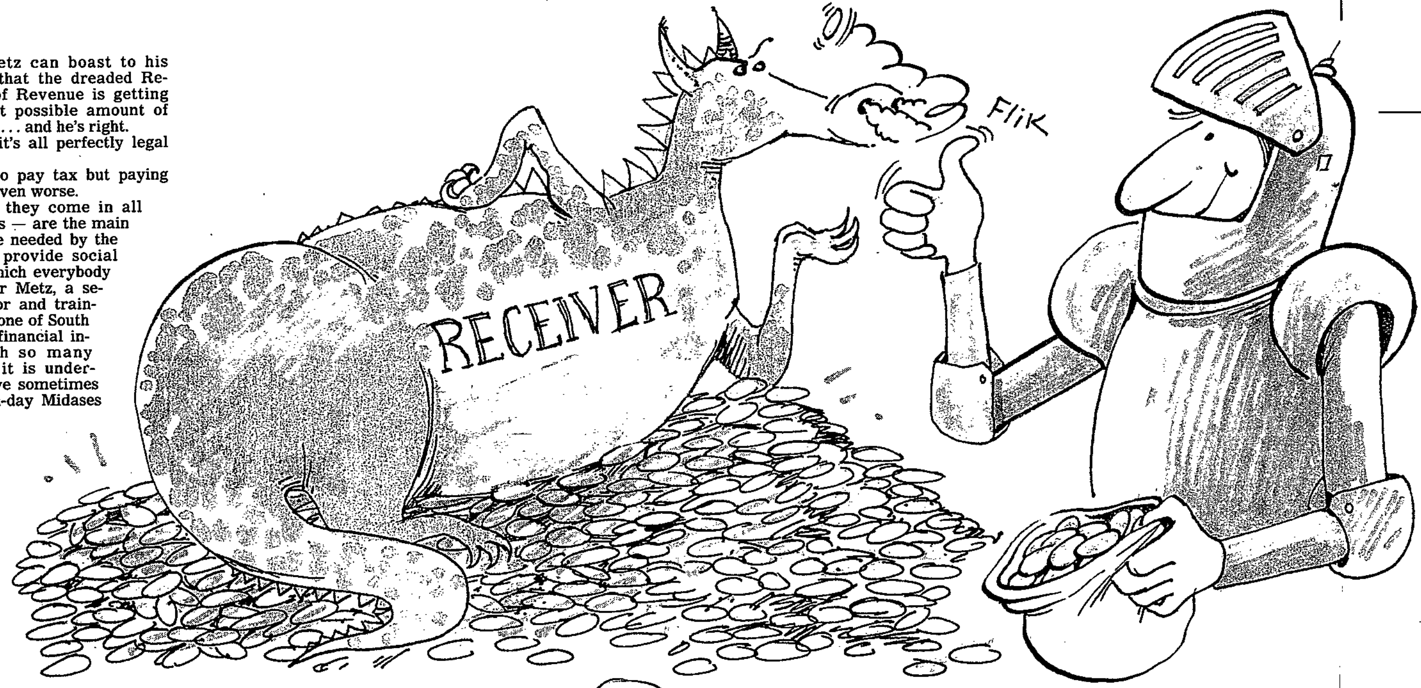
Women are better than men at managing money, says a survey of spending in Britain. It also scotches the myth about Scots stinginess: Britain's thriftiest people are East Midlanders. — Daily Mail.

THRIFTY SHOPPERS:

A test of wills between Russian consumers and producers is under way. Faced with an abundance of goods, but at prices they can ill afford, consumers are opting to buy as little as possible. — Sapa-Reuter.

How to beat the tax monster

BEAT THE SYSTEM Consultant and author Ralf Metz says tax avoidance is your right. **PAULA FRAY** reports.



STAR 18/2/92

320

RALF Metz can boast to his friends that the dreaded Receiver of Revenue is getting the least possible amount of money from him ... and he's right.

What's more, it's all perfectly legal and above-board.

No-one likes to pay tax but paying too much tax is even worse.

Taxes — and they come in all shapes and guises — are the main source of income needed by the Government to provide social services from which everybody benefits, says Mr Metz, a senior legal advisor and training specialist at one of South Africa's largest financial institutions. With so many taxes, he says, it is understandable that we sometimes feel like modern-day Midases — except that what we touch turns not to gold but to taxes.

"Although there are just and valid reasons for paying income tax, it can be safely said that nobody likes paying taxes — and nobody likes paying more tax than is absolutely necessary," he adds.

And, says Mr Metz, tax avoidance is your right.

Tax EVASION is not.

"Tax evasion is a criminal act," he says. "If you know the income tax system you don't have to resort to tax evasion to save tax.

"It is the right of every taxpayer to arrange his affairs in such a way as to pay the minimum amount of tax that is legally required of him."

For the average taxpayer, income tax legislation is very confusing.

And the detailed tax return we have to complete at the end of the tax year does not help to alleviate this confusion.

But, says Mr Metz, if you know the ground rules and apply them, you will ensure that you pay only the amount of tax for which you are legally liable.

In his book "Paying less tax made simple!" (Struik Timmins, R39,99), Mr Metz gives practical suggestions on how to beat the taxman. They are easy enough for even the most confused taxpayer to understand.

Mr Metz points out that you will only need to pay tax if your taxable income exceeds the tax threshold.

In his book, he answers such controversial questions as:

- How can the ordinary salaried employee reduce his taxable income?
- Does it pay to have a company car?
- Does tax on fringe benefits take away the "benefit"?
- When does a married woman become a married person and how does this affect her tax bill?

Wine-bottle plan here soon

Eat, drink and save money. That's the message being sent out to consumers as thousands of tons of empty wine bottles are collected, cleaned, sterilised and sold back to the industry.

Last year Western Cape schoolchildren collected more than 105 000 bottles during a six-month drive. With each bottle giving a 10c return, they earned almost R17 000 in prizes and refunds.

This year the Cape recycler, Ecobott, plans to extend the competition to schools in Natal and the Pretoria-Witwatersrand-Vereeniging area. The move to collect wine bottles for re-use — rather than smash them for recycling — is growing fast, says Ecobott sales director Horst Klos.

TRENDS REPORTER

Good buys / Bad buys — CONSUMER BASKET

Good news for Johannesburg commuters. R38 season bus tickets will be reintroduced permanently from March 1 for a monthly ticket with unlimited rides. This means a consumer using the bus twice daily for 22 days a month pays 86c a ride.

- At OK, Table Top Big T Steakburger (1 kg) will sell at R10,49 instead of R13,19; Harvestime Cut Corn (1 kg) will sell at R6,19 instead of R8,39; Instant Nespray Full Cream Milk Powder (1 kg) will sell at R15,79 instead of R17,69; Pot O'Gold Instant Coffee (750 g) will sell at R6,99 instead of R7,69.
- At Spar Rama margerine (1 kg tub) will sell at R6,99 instead of R8,13; C&B Mayonnaise (750 g) will sell at R4,99 instead of R5,99; Ricoffy (750 g) will sell at R7,99 instead of R8,79 and Glenryck Pilchards (425 g) will sell at R1,69 instead of R2,35.
- At Checkers, Yellow Band ice-cream (5 l) will sell at R11,99 instead of R17,99; Escort Shoulder Bacon (250 g) will sell at R3,99 instead of R5,20; Escort Pork sausages (500 g) will sell at R4,99 instead of R6,79; Harvestime peas and baby carrots (1 kg) will sell at R7,29 instead of R9,52.
- At Pick 'n Pay Dogmor (10 kg) will sell at R15,99 instead of R19,99; Pick 'n Pay cat food (170g) will sell at 79c; Pick 'n Pay smoked mussels (105 g) will sell at R2,59 instead of R3,25; Escort beef sausages (500 g) will sell at R4,99 instead of R6,35.

State tax collections back on target

Business Staff (320) ARG 18/2/92

GOVERNMENT revenue collection is back on target judging from State expenditure and income figures released in the latest Government Gazette.

From April to January government revenue totalled R59,75 billion compared with R55,72 billion for the same period in the 1990/91 fiscal year.

During the first 10 months of the current year the government has thus collected 81,5 percent of its budgeted income of just over R73 billion. At the same stage last year income had reached 82,9 percent of the budgeted total.

While the figures do not give a detailed breakdown of tax collections — including the income from VAT — they show that total inland revenue was up by 10,9 percent to R53,29 billion (R48,81 billion).

Income from Customs and Excise, however, was 6,2 percent less than last year at R6,41 billion (R6,84 billion).

Government expenditure continues to run ahead of budgeted targets. In the first 10 months of the fiscal year the government spent R72,34 billion, 19,1 percent more than in the comparative period in the 1990/91 fiscal year.

Finance Minister Barend du Plessis has budgeted for total expenditure of R85,35 billion in the current year.

VAT is (320) rejected by public

Sowetan 19/2/92

By JOE MDHLELA

THE public hearings conducted by the Congress of South African Trade Unions at the weekend revealed that the general public rejected the implementation of Value Added Tax.

After the first day of hearing evidence, 654 people had made contributions.

The statement said at centres where figures were available, 272 people personally gave evidence, 370 phoned in and 12 letters had been received.

The general secretary of Cosatu, Mr Jay Naidoo, SACP leader, Mr Chris Hani and Nactu's general secretary, were among some of the leading figures who gave evidence.

Tax on foreign investors is under review

3 / Day 19/2/92

SHERIDAN CONNOLLY

INLAND Revenue officials were reviewing "the universal taxability of earnings on non-residents", Finance Minister Barend du Plessis said yesterday.

Addressing the investment conference, Du Plessis said he was awaiting clarification from the Commissioner of Inland Revenue concerning tax on foreign residents.

He said although it was policy to tax such investments at their source, the world had changed since SA's isolation and it was necessary to review the country's position.

Du Plessis said government was committed to getting the corporate tax rate to around the 40% level. Although there was scope for tax relief, only limited funds were available to finance tax relief projects — fiscal drag, import surcharges and personal and corporate tax rates were some areas that would be investigated before next month's Budget, he said.

Du Plessis said the economy had not yet bottomed out and the upswing expected this year would be modest and gradual. Although SA's potential growth rate would be limited by the economic performance of its main trading partners, conditions in the world economy would still be favourable and a slight rise in international commodity prices would hopefully benefit the volume of SA exports.

With irreversible reform under way, traditional and new markets were opening up to exporters, he said. Manufacturing exports showed great potential and would be further stimulated by tax incentives for export-oriented projects.

Du Plessis said GDP would show positive growth in 1992 following negative growth rates of the past two years. The crisis in agriculture would put pressure on growth prospects and any expansionary phase would need to be nurtured.

In the past, nominal wages had increased at a much faster rate than the rate of inflation and had not been linked to productivity. This adverse factor had caused distortions in the economy.

Private consumption expenditure would

☐ To Page 2

Tax review

☐ From Page 1

grow in 1992 but, because of the poor performance in agriculture, this growth could be expected to be only modest.

Du Plessis said SA was en route to greater financial stability. He said the country's re-entry into the international financial market environment via recent Eurobond issues had been a great success.

A sustained higher level of foreign exchange reserves would enable government to continue its policy of maintaining a stable effective exchange rate.

Du Plessis' speech boosted the financial rand yesterday and it staged a small comeback. It closed at R3,61 a dollar compared to Monday's R3,77 close.

(320)

VAT hearing hailed a success

STAR 20/2/92

Consumer Reporter 320

The first public hearing on Government policy — last weekend's survey on Value Added Tax — has been labelled an "outstanding success" by the organisers.

Although statistics and papers are still being collected around the country, Cosatu spokesman Lisa Seftel said an estimated 900 to 1 000 representations had been made during the two-day public hearing.

A report on the hearing is being compiled and a formal memorandum will be delivered to the State President before Budget Day on March 18.

On the first day alone, 654 people gave evidence to the commissioners at various points in the country, according to the VAT Co-ordinating Committee. Results from Pietersburg and Port Elizabeth were not included.

More evidence was received on Saturday, said Cosatu.

On Friday, 272 people came to deliver their evidence in person, 370 called in on the toll-free lines and 12 letters were received.

"A number of regions have phoned in to say they wish to continue the public hearings during the coming week and are arranging commissioners to go out to smaller towns," said a spokesman for the VCC.

"The response is far above the normal level of response received for inquiries by statutory bodies. It shows that the public has seriously considered the VAT issue and has a well-thought out point of view which has not been heard up to now," said the VCC.

Ms Seftel said the hearings had not only been successful because of the number of people who had made representations but also because of the range of people involved.

Callers reportedly came from a broad spectrum of public interest groups.

No response was received to the invitations extended to Finance Minister Barend du Plessis and Government to make representations.

"Big business also failed to respond," said the VCC.

Among those giving evidence was Cosatu secretary-general Jay Naidoo who said that Government's refusal to reopen talks on VAT meant Cosatu was "seriously" considering stepping up its fight for an overhaul of the entire South African tax system.

"VAT has led to an increase in the cost of living of all people and has had a detrimental effect on poor people in particular."

He said Cosatu hoped public submissions at the VCC public hearings "would be a powerful indicator to the Government that it is not only fruitless but dangerous to keep the door (of negotiations on VAT) closed".

Immediate changes Cosatu wanted to see were:

- No VAT on basic foods, water, electricity, medicines and medical supplies.
- Special provisions for small business.
- Adequate poverty relief programmes which were properly negotiated.

Codesa costs citizens plenty

TAXPAYERS were set back almost R3,5-million to provide for Codesa up to December 31. 320

Delegates seem to have enjoyed sumptious food during and between Codesa meetings, as the bill for their "snacks" amounted to R61 700 alone, the Minister of Constitutional Development, Mr Gerrit Viljoen, revealed in parliament. South 20/2-26/2/92

The largest expense though was not the food, but the rent, furniture, offices, electricity, sound and lighting, and flowers and plants — at R1,2-million.

The other major expenses were accommodation (R905 580), travel (R822 400) printing and stationery (R157 000), professional services (R119 000) and hiring of equipment (R86 000).

Probe into tax corruption demanded

ARG 21/2/92

THE Democratic Party has demanded a commission of inquiry into alleged tax corruption in the Department of Inland Revenue. (320)

Mr Robin Carlisle (DP Wynberg) said in the Part Appropriation debate that if the Minister of Finance did not appoint such a public commission, this could be seen as a cover-up of government corruption.

A former employee who had taken the Department of Inland Revenue to court over allegations of corruption had been silenced by a R164 000 payment and promises of a departmental investigation. — Sapa.

Retirement annuities and tax planning

Strict controls limit chances of minimising tax

320

BDay 21/2/92

PETER STEPHAN

MANY people think of tax planning as a way of limiting their tax liability in the short term — next month's salary cheque or year-end income tax return.

In fact, tax planning can be divided into three broad categories: short-term employee tax planning (through fringe benefits), retirement planning and estate planning.

Over the last couple of years the scope of structuring employees' salary packages to minimise tax has been restricted by Inland Revenue in its effort to equate payments made in cash to those made in kind.

The loopholes have been closed so effectively that cynics among tax experts say employee tax planning is virtually dead.

Employers looking at salary structures should look longer term to retirement planning for staff.

There are four main investment vehicles available for those wishing to make provision for their retirement: pension funds, retirement annuities, provident funds and deferred compensation.

BDO Spencer Steward tax director Matthew Lester says although most employees belong to a pension fund, it is often not sufficient to maintain one's standard of living through retirement. This is specifically true in an inflationary environment.

Average

A typical pension fund based on 2% of an average salary over the last three working years, multiplied by the years of service, will only yield 80% of the average salary as a full pension after 40 years' service.

Old Mutual senior legal analyst Peter Stephan says few retiring employees build up this length of service, the average being around 15 years.

This means a pension of less than 30% of salary.

Assuming inflation remains constant (at 15% a year), the buying power of such a pension will be halved every four years.

In order to provide adequate resources for retirement, one would need to invest at least 15% of before-tax salary in retirement funds of one form or another, and the spread of investments depends on the individual's requirements.

The effect of inflation on senior citizens has become so visible that the authorities established a commission to recommend solutions.

The Mouton commission's findings show that in 1990, of the 9-million people formally employed in the economy, 2-million had no formal retirement provision.

Factors such as the economic slump, retrenchments and job-hopping are adding to the dilemma, with more people taking early retirement benefits and not reinvesting the money.

In 1988, there was a pre-retirement leakage of R1,5bn (see graph).

Tax and insurance experts say the need for greater retirement planning is essential.

However, short-term tax planning and retirement planning are not the only issues which need to be addressed.

Estate planning is also becoming an important issue. There has been much talk about increasing taxes on the wealthy as a form of redistribution of wealth.

Imperative

Tax experts say a combination of the threat of higher taxes and inflation make it imperative for individuals to consider estate planning.

They predict the use of trusts will increase, because a trust never dies, thus overcoming the estate duty threat, and it freezes the value of assets within the trust, thus overcoming the effects of inflation.

Call to probe 'lax tax office'

CT 21/2/92 (320)

By BARRY STREEK

A PUBLIC inquiry into alleged corruption and inefficiency in the Department of Inland Revenue was necessary because people were unwilling to give evidence to an intra-departmental committee, Democratic Party MP for Wynberg Mr Robin Carlisle said yesterday.

The integrity of certain tax officials in Cape Town had been questioned by the Supreme Court, he said during the part-appropriation debate in Parliament.

If the Minister of Finance, Mr Barend du Plessis, did not appoint a public inquiry he would "become party to what will be perceived as a cover-up".

Mr Du Plessis and his Director-General knew there was a most serious situation in their department becuase the Supreme Court had told them so.

Sued by an employee, Mr T N Foster, who claimed he had been denied promotion for being overzealous in tracking down tax dodgers, the department had agreed to investigate Mr Foster's allegations and pay him R164 000, but in return had demanded his perpetual silence.

The department had appointed a one-man committee, Mr P J Botha of the Department of Justice. He did not doubt Mr Botha's integrity, but "appointing a career civil servant to investigate other career civil servants" could not meet the court's requirements in respect of the independence of investigating personae.

"All of the people who have given me information on tax corruption refuse absolutely to give evidence to an intra-departmental inquiry," he said, but all of them would give evidence to a public commission of inquiry.

Mr Carlisle also said cheating on taxes had become part of South Africa's national life and tax evasion and corruption in the Department of Inland Revenue had cost the country billions in lost revenue.

HOUSE OF ASSEMBLY

QUESTIONS

†Indicates translated version.

For written reply:

General Affairs:

Number of taxpayers

20. Mr K M ANDREW asked the Minister of Finance: 320

What was the (a) number of individual taxpayers in each income category, (b) tax assessed in each income category expressed as a percentage of total tax assessed, and (c) total amount of tax assessed in each income category, in respect of the 1988-89, 1989-90 and 1990-91 tax years, respectively?

B40E

The MINISTER OF FINANCE:

(a), (b) and (c) See attached schedule under cols. 233 and 234.

Capital gains/tax-free income

36. Mr G C ENGEL asked the Minister of Finance:

In respect of the latest specified tax year for which information is available, (a) what is the amount of capital gains recorded by (i) individual and (ii) corporate taxpayers and (b) what is the total amount of tax-free income or allowances, by category, granted by the Government?

B105E

The MINISTER OF FINANCE:

(a) (i) Individuals: The information is not available.

(ii) Corporate taxpayers: R1 770 171 694

(b) Tax-free Income: R11 259 500 187

Allowances granted in terms of the Income Tax Act, 1962: 320

Marketing allowance (section 11*bis*) R879 260 109

Economic Development (section 21*ter*) R31 169 927

Films (section 24F) R50 371 727

Sponsorships (section 18B) R16 249 117

Leasehold Improvements (section 11(g)) R40 177 484

Note:

(1) The allowances represent only those granted to companies and close corporations. Allowances granted to individuals, are not available.

(2) All the amounts (excluding the sponsorship allowance) relate to the 1990-tax year, and represent 55% of the total number of companies and close corporations, registered for tax purposes.

(3) The allowance in respect of sponsorships represents allowances approved during the 1989/90 financial year.

HOUSE OF ASSEMBLY

Total budgetary allocation: National Health

46. Mr M J ELLIS asked the Minister of National Health:

(1) What was the total budgetary allocation for health matters, including additional appropriations and amounts recovered from other Government Departments for agency work, for (a) each province, (b) each of the self-governing territories, (c) each of the own affairs administrations, (d) the South African Development Trust and (e) the Department of National Health and Population Development for the period 1 April 1990 to 31 March 1991;

(2) what are the estimated figures in each case for the period 1 April 1991 to 31 March 1992?

B87E

continue ——→ p 235/6

ANALYSIS OF THE NUMBERS OF TAXPAYERS AND TAX ASSESSED IN INCOME GROUPS

	TAX YEAR 1991				TAX YEAR 1990				TAX YEAR 1989			
Taxable Income Group R	Number	% Total	Tax R'000	% Total	Number	% Total	Tax R'000	% Total	Number	% Total	Tax R'000	% Total
LOSS	9 921	1,19	0	0,00	23 062	1,31	0	0,00	28 116	1,25	0	0,00
0 – 5 000	92 214	11,08	1 263	0,01	218 236	12,38	3 479	0,02	225 958	10,03	5 525	0,04
5 000 – 10 000	5 608	0,67	4 657	0,05	25 866	1,47	12 560	0,08	68 622	3,04	23 648	0,17
10 000 – 15 000	18 401	2,21	13 362	0,14	79 293	4,50	53 494	0,36	344 415	15,28	241 596	1,73
15 000 – 20 000	31 241	3,75	42 539	0,45	122 928	6,97	180 601	1,21	348 167	15,45	552 710	3,96
20 000 – 25 000	41 162	4,94	86 305	0,90	221 147	12,54	603 924	4,03	254 812	11,31	749 746	5,37
25 000 – 30 000	43 617	5,24	141 377	1,48	197 133	11,18	847 852	5,66	212 805	9,44	952 022	6,82
30 000 – 35 000	42 198	5,07	203 099	2,13	175 599	9,96	1 067 565	7,12	173 634	7,70	1 079 842	7,74
35 000 – 40 000	49 358	5,93	326 613	3,42	149 054	8,45	1 185 407	7,91	139 477	6,19	1 133 740	8,13
40 000 – 45 000	82 170	9,87	697 792	7,31	121 147	6,87	1 201 123	8,02	104 812	4,65	1 052 511	7,55
45 000 – 50 000	82 964	9,97	855 544	8,97	95 975	5,44	1 144 753	7,64	81 044	3,60	976 596	7,00
50 000 – 60 000	127 081	15,27	1 665 726	17,46	127 731	7,24	1 901 011	12,69	103 045	4,57	1 541 797	11,05
60 000 – 70 000	78 912	9,48	1 349 629	14,15	72 227	4,10	1 374 603	9,17	56 966	2,53	1 091 731	7,83
70 000 – 80 000	47 133	5,66	1 001 993	10,50	40 814	2,31	952 635	6,36	33 770	1,50	791 021	5,67
80 000 – 90 000	27 122	3,26	693 092	7,26	25 119	1,42	696 297	4,65	20 913	0,93	582 514	4,18
90 000 – 100 000	16 210	1,95	483 267	5,07	16 513	0,94	530 006	3,54	13 322	0,59	428 786	3,07
100 000 – 150 000	27 157	3,26	1 077 181	11,29	32 661	1,85	1 394 960	9,31	27 842	1,24	1 196 460	8,58
150 000 – 200 000	5 570	0,67	345 735	3,62	9 373	0,53	616 357	4,11	8 271	0,37	545 544	3,91
200 000 – 250 000	2 054	0,25	171 915	1,80	4 057	0,23	357 774	2,39	3 404	0,15	300 277	2,15
250 000 – 300 000	932	0,11	97 861	1,03	1 892	0,11	208 693	1,39	1 608	0,07	178 519	1,28
300 000 – 350 000	495	0,06	61 799	0,65	983	0,06	129 951	0,87	889	0,04	117 048	0,84
350 000 – 400 000	290	0,03	42 725	0,45	675	0,04	104 592	0,70	547	0,02	83 783	0,60
400 000 – 450 000	181	0,02	30 185	0,32	422	0,02	74 996	0,50	319	0,01	57 018	0,41
450 000 – 500 000	104	0,01	19 854	0,21	281	0,02	55 960	0,37	221	0,01	44 545	0,32
500 000 +	403	0,05	127 071	1,33	846	0,05	285 791	1,91	677	0,03	222 600	1,60
	832 498	100,00	9 540 584	100,00	1 763 034	100,00	14 984 384	100,00	2 253 656	100,00	13 949 579	100,00
	Data I.R.O. 53,61% of all registered taxpayers are reflected in this table				Data I.R.O. 83,34% of all registered taxpayers are reflected in this table				Data I.R.O. 94,02% of all registered taxpayers are reflected in this table			
	Statistics in respect of taxpayers of earning less than the applicable standard income tax on employees (SITE) limit are not available and therefore not reflected in these figures.											

Educational trusts take over from bursaries

TRUSTS, although mainly formed for estate planning benefits, can also help in financing the cost of education, says KPMG Aiken and Peat tax partner Alister MacKenzie.

The demise of various tax-free educational benefits — such as awarding bursaries to children of employees which, from March 1 1992, will no longer be exempt from tax — has made trusts a more attractive option. BDay 21/2/92

MacKenzie says although income from a trust is taxed in the hands of the planner, thus giving it no tax advantage initially, any interest income payouts or distributions would be taxed in the hands of the trust beneficiaries — for example, the children or grandchildren of the planner. (320)

The following example explains how tax savings can be achieved:

Assume one has a student at university who is a grandchild of the trust planner and the annual cost of fees, residence and other related costs is R22 000 a year.

Also assume the trust earns sufficient interest income to make a distribution of R22 000 a year.

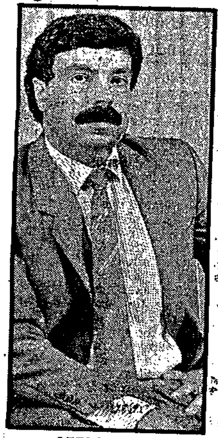
- The trust's income is reduced by R22 000, thus reducing the planner's income for tax purposes by R22 000. Assuming his top marginal rate of tax is 43%, he makes a tax saving of R8 600 (tax on R22 000 less the R2 000 interest exemption);
- The student would have to pay tax on the R22 000, which, assuming he has no other income, would be R2 225 (also after the R2 000 interest exemption);
- The overall tax saving is thus R8 600 less R2 225, equal to R6 375.

The above example would also work for the planner's own children, as long as they are over 21 years.

ALISTER MACKENZIE

Proposed abolition of concessions causes dismay

BDay 21/2/92 320



ABRI MEIRING

INLAND Revenue's proposal that certain tax concessions on retirement annuities be abolished has been greeted with dismay by life offices.

Old Mutual legal services manager Abri Meiring, who is also the convenor of the Life Offices Association (LOA) tax committee, says: "We do not need any disincentive for private pension provision.

"Inflation and the high cost of living are making provision for retirement difficult enough."

Revenue's view is that the deduction of up to 27,5% of total income allowed for pension fund contributions by employers and employees, is "adequate".

In other words, the fixed tax deduction of R3 500 (less pension fund contributions) and R1 750 for retirement annuities could be discontinued from the end of the 1997 tax year.

Revenue's argument has been reported to be that the fixed amount deductions were not intended to be used as a supplement to pension fund contributions and were retained only to protect existing rights of deductability when the 15% rule was introduced in 1979.

It says the rules on fixed amount deductions complicate determination of the maximum deductible annuity fund contribution.

Ironically, taxpayers hardest hit by the proposed amendment would be existing members of pension funds who also contribute to RAs to bolster retirement provision.

Dropped

The LOA, in discussion with Revenue, has requested that the proposals be dropped and the current deduction formula remain unchanged.

Alternatively, it has requested the deduction formula be completely overhauled.

Meiring says if the fixed amount deductions are withdrawn the 15% maximum allowable deduction on annuities should be increased to 20% for people below the age of 50 and by an additional 1% for every year over 50, with a maximum of 30% reached at age 60.

"Important, too, is that RA contracts affected before March 1 this year be protected and excluded from any amendment to protect vested rights," he says.

One positive proposal from Inland Revenue, which will be placed before Parliament in the current session, is that a husband be allowed to claim his wife's RA contribution, in certain circumstances, despite the separate taxation of married women.

Meiring says the proposal would be valuable where a husband is not a member of a pension fund and where his wife's contribution to an RA, together with his own contribution, could be deductible up to 15% of his taxable income.

Southern Life assistant GM Nigel Scott says if Revenue goes ahead with its decision to deny the people their "top-up" contributions to RAs, it could result in the state having to bear an increased burden, due to a greater number of people being unable to support themselves in their old age.

Financial Mail

TAX

FM 21/2/92

Straws in the wind

(320)

There are few white taxpayers in this country who needed the International Monetary Fund to tell them that they are overtaxed. It has long been a fact of life, a cause of resentment and a reason for reducing investment.

The process of tax reform that began with the Margo Commission report and which aimed, among other things, to streamline tax collections has long been on the backburner. So taxpayers can look to no relief from greater efficiencies at the Department of Inland Revenue — which would at least have been salutary.

Instead of greater collection efficiencies, both government and the tax authorities have launched themselves into a process that can probably be best described as fiscal terrorism. Tax rulings have become almost impossible to obtain; there is a substantial element of retroactive taxation which violates all principles of equity; those who invest in retirement annuities to provide for old age are increasingly subjected to tighter rules — while private-sector pension funds have periodically to pay additional taxes to meet Exchequer extravagance.

Public-service pension benefits, by contrast, are another matter entirely.

Where tax liabilities are in dispute and interest accrues, it does so at 18% compounded annually for the taxpayers and it is not deductible. If tax liabilities are found to have been excessive, the Exchequer pays only a nominal interest rate — which is taxable.

The army worms (national servicemen with accounting qualifications who are assigned to Inland Revenue) are now being co-ordinated and sent out to search with greater vigour. Everything from stamp duty to air tickets comes under their scrutiny nowadays. Transgressions, however innocently perpetrated, are treated with increasing harshness.

The motivation, of course, has its roots in flagging Exchequer receipts and the end of reform, which should have streamlined the process of collection. But that is cold comfort for those taxpayers increasingly subjected to a scrutiny that borders on oppression. Collection efficiency is one thing, fiscal terrorism quite another.

The excesses of the IRS in the United States led eventually to the enactment of laws preventing the sort of conduct that is becoming commonplace in this country. We have in the past called for statutory protection for taxpayers. Its need has increased.

A tax revolt in the townships has already seriously threatened local government. If it were to spread to whites, the benefits of Codesa will be thin indeed. ■

Row brews over state economic moves

W/Mail 21/2 – 27/2/92 (320)

The Congress of South African Trade Unions has demanded an end to what it terms unilateral economic restructuring by the government as the start of what could be a new campaign on the scale of the anti-VAT drive of last year. **REG RUMNEY** *reports*

THE African National Congress/Congress of South African Trade Unions/South African Communist Party alliance this week launched in earnest a campaign to force the government to consult it on all aspects of the economy.

The alliance claims the government's moves in the economic sphere are part of a plot to tie any future government's hands and entrench white power.

Some — not all — of the claims being made are as dicey as the more fevered allegations made about Value-Added Tax. But the campaign could take on the dimensions of the VAT campaign, which drove home an important point about how groupings in the ANC see negotiation.

The introduction of VAT itself, though a change from one form of sales tax to another, was painted as major economic restructuring. This time the alliance has fixed on the pending "sell-off" of state forests.

The "privatisation" — or rather "corporatisation" or "commercialisation" — of the forests has been raised at the Convention for a Democratic South Africa (Codesa) by the SACP.

The SACP said the cabinet was on the point of considering a proposal to corporatise the forestry department, which is part of Water Affairs and Forestry Minister Magnus Malan's portfolio.

The SACP, reminding that Malan is no stranger to secret projects, accused him of indecent haste in wanting to push through the proposals to "pre-empt" democracy.

Making no distinction between the terms, the SACP has accused the National Party government of wanting to dilute any future government's control over state assets.

Fuelling the fire, a leaked document on a meeting between Malan and the Forestry Council, representing timber industry interests, appears to underline Malan's "indecent haste".

"The minister stated that he was determined to get this whole matter settled by July 1992 as any delay beyond that date could mean that nothing would ever happen."

Southscan, a weekly newsletter close to the ANC, carries a report this week which claims a Bill to corporatise state forests was to be pushed through parliament but that its tabling was hurriedly postponed.

Southscan also mentions armaments parastatal Armscor as a possible target for privatisation.

The economic forum campaign is founded on an apparently widespread belief within ANC circles that the government is approaching a two-pronged strategy to head off the ANC at the pass. A key part of this, it is understood, is to refuse to negotiate on any socio-economic matters.

Cosatu this week pulled together a number of disparate strands to support its argument that the government is unilaterally restructuring the economy.

Cosatu cited the government's refusal to meet with the Co-ordinating Committee on VAT; withdrawal from the housing forum set up by the Independent Development Trust and Development Bank of South Africa; the Bill removing the legal right to social pensions; Manpower Minister Piet Marais' rejection of an economic forum on the grounds that it would retard economic growth; and a statement by a Privatisation Unit spokesman that privatisation was being promoted "in no uncertain terms".

Magnus Malan ... in hot water

"They lend weight to the claim that the government has made private undertakings to bodies such as the International Monetary Fund and World Bank to restructure the country's economy along certain lines, in advance of democratic elections.

"It also strengthens suspicions that the government plans to manipulate the country's economic resources, through selective dispensing of socio-economic patronage, to win votes in future elections, and therefore doesn't want to submit itself to a process of co-determination on these issues."

Democratic Party spokesman Ken Andrew is sceptical. "It probably does occur to members of government from time to time that if they want to achieve certain objectives they will have to move quickly.

"I don't think on the scale on which various things are being done gives evidence of a grand plan to restructure the economy."

The government, he points out, has been nominally in favour of privatisation for quite some time now. It has even been criticised by free-marketeers for delaying privatisation.

He points out that commercialisation and corporatisation are not the same as privatisation.

A commercialised company remains under state control.

If any future government wanted to it could quite easily reincorporate a 100 percent state owned company in the central government. A privatised company would have to be re-nationalised.

Commercialisation, he says, normally takes most effort and time. Iscor could be privatised relatively quickly because it was already run on commercial lines.

A Privatisation Unit spokesman confirms that Armscor is being rationalised and commercialised. The state forests would first have to be commercialised. According to a Forestry Department spokesman this could take a year or more to do.

So quick privatisation of those groups would not be an option. Telkom, formerly the telecommunications arm of the Post Office, could be privatised quite quickly. It is — almost — merely a matter of issuing shares.

Andrew says the government clearly had political motives in raising its most recent foreign loans. And he refers to Nedcor chief economist Edward Osborn's caveats about raising foreign capital. But this doesn't mean the amounts will be crippling in terms of the broad economy.

He sees the ANC groups grabbing at a political opportunity, as they did with VAT.

ANC economic adviser Alan Hirsch this week addressed a trade seminar by law firm Webber Wentzel. Speaking in his private capacity Hirsch noted that any future government will have to be committed to policies initiated by this government. For instance, an ANC government will be committed for 10 years or so to whatever proposals recently made to the Uruguay round of the General Agreement on Tariffs and Trade (Gatt) by the present government if Gatt accepts these proposals. The ANC, however, was not consulted.

New housing: VAT perk ends March 30

MG 22/2/92

JUST over a month remains for new-home buyers to take advantage of a major VAT concession. Tony Bosman, regional manager of NBS Developments in the Cape, said: "Many do not know they need only pay six percent VAT on houses completed and sold before March 31 this year."

He warned that only hours later, on April 1, the full 10 percent VAT would be payable by anyone signing up for a new home.

"The saving for those buying now is considerable — R8 000 on a R200 000 house and R10 000 on a R250 000 purchase.

"This means, that since the removal last year of transfer duty on properties following the introduction of VAT, the next few weeks will be the most critical period for taking full advantage of the lower costs."

A conveyancing attorney explained that the introduction of VAT on new houses meant an increase of costs to buyers in spite of the abolition of transfer duty.

The concession on VAT until March 31 was designed to soften the effects of the tax during a transitional period.

Mr Bosman said: "NBS Developments, by planning ahead and, in fact, escalating its building programme, is able to offer completed houses to buyers within the remaining time.

"Anyone starting from scratch now, is unlikely to complete the house within the stipulated period.

'VAT undertaking broken'

(320)

JEAN LE MAY, Weekend Argus Reporter

THE Rev Allan Hendrickse, former chairman of the Ministers' Council in the House of Representatives, has claimed that Finance Minister Barend du Plessis did not keep an undertaking he gave the Labour Party about reducing VAT on municipal services. ARG 22/2/92

"We met the minister the evening before parliament rose last year and he agreed to our request that VAT would not be charged on the first R100 of water and electricity accounts," said Mr Hendrickse.

He said he had pointed out that Mr Du Plessis's decision not to charge VAT on property transactions would benefit whites and that some adjustment should be made for the benefit of coloured people.

"In return we undertook to support the 'sunset clause' which gave the minister the right to make decisions about VAT after parliament rose. We have since discovered that Mr Du Plessis did not keep his promise."

The question arose because a Bellville ratepayer has been threatened with legal action by the municipality because he has refused to pay rates.

The ratepayer told Weekend Argus that he read in The Argus VAT supplement last year that VAT was "apparently" not payable on the first R100 of water and electricity accounts. This information was based on a statement made by Mr Hendrickse about his discussion with the minister.

In the Afrikaans version "apparently" was omitted.

A spokesman for Bellville municipality said it was within the law in charging VAT on municipal services.

Your Money

YOUR RETURNS: *Increased penalties and new complexities promise torrid time*

More pressure on taxpayers

STAR 22/2/92

(320)

IF YOU thought completing tax returns was a nightmare, brace yourself for even greater sweat and anxiety.

COMPLIANCE with income tax returns has always been onerous. And Prof Hennie Coetzee, tax-practice partner at KPMG Aiken and Peat, believes it is likely to become even more so, particularly for taxpayers whose income extends beyond a straight salary.

Additional pressure on the taxpayer will come from the penalty for the late return of tax forms — now R2 000.

Prof Coetzee said the huge scope of economic and financial needs of a "new" South Africa could be expected to place great demands on the taxpayer, notwithstanding the Government's stated intention of reducing rates of individual and corporate tax.

Estate duty

He said: "The tax authorities are tightening up in every area from fringe benefits to tax planning schemes to ensure tax collection is as efficient as it can be.

"We can also expect attention to be given to taxing so-called wealth by raising the gifts tax and estate duty, and introducing a capital transfer tax and a capital gains tax.

"If ever there was a time to consider immediate and long-term efficient estate and tax planning, it is now."

Prof Coetzee said taxpayers should take note of a shift away from the principle that it "is the right of every taxpayer to so order his affairs as to minimise his tax liability".

This famous dictum, also known as the Westminster Principle, first expressed by Lord Tomlin in a celebrated 1936 British judgment, became a cornerstone of tax practice in South Africa.

Prof Coetzee said this was gradually ceasing to be the case.

In Britain since the 1980s, the Westminster Principle had given way to the principle of "commercial purpose" and was now part of British tax law.

"Although the Westminster Principle has not yet been tested in our tax courts, the principle of commercial purpose is gaining precedence in local tax practice," Prof Coetzee said.

"We are now advising all our clients to be much more aware of the commercial purpose when considering effective estate and tax planning.

"You can seldom go wrong with planning that demonstrates a genuine commercial purpose and which clearly is not based solely on tax avoidance.

"But we have to accept that the commercial purpose motive undercuts the popularly held precept that tax avoidance is acceptable, but tax evasion is illegal.

"I believe we can kiss that distinction goodbye.

"In the view of some Revenue officials, tax avoidance is still tax evasion and every effort is being made to curtail schemes that smack solely of either form of planning. All sorts of schemes — among them investment in plantations and the purchase of aircraft — are currently being investigated."

All this could have unpleasant consequences for taxpayers when completing the IT12 tax return form.

Prof Coetzee said that one of the form's questions, in particular, would cause concern. It read: "Did you enter into any transaction or scheme whereby your tax liability was either reduced or postponed?"

"The answer has to satisfy the Receiver of Revenue completely. An inadequate answer undoubtedly will lead to a call for more information and possibly disallowance of any tax benefit claims."

Incomplete

Prof Coetzee said individuals dealing with such intricacies in completing the IT12 form should bear in mind that, by prescription, a correctly completed tax form precluded an assessment being re-opened after three years.

"On the other hand, if the IT12 form is incorrect or incomplete, the prescription falls away, and an assessment can be reopened even years afterwards — and any infraction may incur back-dated interest."

● NOTE: A tax, financial or estate planning advisory service provided by employers for employees, which costs no more than R500, does not constitute a fringe benefit.

Southern Life reports big portfolios returns

STAR 22/2/92

PENSION and provident funds invested in Southern Life's market-linked portfolios gained from the strong performance of the JSE and achieved excellent returns ranging from 35,5 percent to 48,2 percent for the year to 31 January 1992.

Annual yields on lump-sum investments ranged from 35,5 percent on the R2,75 billion Managegrowth Portfolio, to 38 percent for the Unique portfolios, and from 43 percent for Southern's High Opportunity Portfolio (Shop to 48,2 percent on the all-share Equigrowth Fund.

General manager (investments) Paul Beachy Head, said the performance of all four funds reflected the success of Southern Life's equity strategy of being fully invested in quality shares.

He said the variations in performance were due to the different client requirements for the four products.

Industrial shares

"Shop and Equigrowth clients, for example, have a higher performance volatility tolerance because of their different liability profiles and hence a greater exposure to shares," said Mr Beachy Head.

Compared with the inflation rate of some 16 percent for the period, these yields provided substantial real returns for investors — more than double in the case of the diversified Managegrowth fund, while the Equigrowth return was more than three times the rate of inflation.

Mr Beachy Head said South African industrial shares had been influenced by two main factors over the past year.

"Firstly, Wall Street reached record levels as a result of the global victory of capitalism and declining US short-term interest rates.

"Secondly, our domestic political process was perceived to improve the long-term economic prospects of the country," he said.

Southern's fund managers correctly anticipated both these factors, and as a result their strategy proved highly successful, said Mr Beachy Head.

He cautioned that "the rate of growth of industrial shares is not sustainable at the present high levels.

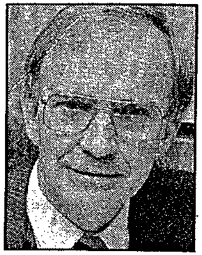
"However, continued disciplined adherence to our proven investment philosophy will continue to generate above-average returns for our pension and provident fund clients," he added.

be an annual taxable R5 200 in tax. at a high price "for a cou- weeks, buyers may won- hood or have other unusu- normal activities at other times.

Barend 'bent on stimulating share purchases'

STAR 22/2/92 (320)

JACQUES MAGLIOLO



BAREND DU PLESSIS: MST cut expected.

AT THIS time of year stockbrokers start to get nervous. The Budget is only a month away and usually results in an abundance of rumours, speculation and boardroom meetings on possible tax cuts.

Of particular interest to stockbrokers are the market securities tax (MST), capital gains and corporate taxes.

The much-publicised MST is imposed by government on investors purchasing any investment instrument, including ordinary and preference shares and debentures.

"We expect the Minister of Finance to cut MST by 0,5 percent," says Mike Brown, economist at Frankel Max Pollak Vinderine. This would leave MST at 0,5 percent which he believes will be removed in the next Budget.

Analysts are adamant that the Minister's objective is to promote the purchase of shares by reducing JSE-related taxes. They cite 1990's removal of a tax on dividends as an example and that "prominent sources" do not believe a capital gains tax will be introduced this year.

However, not everyone is so optimistic. Sanlam economist Pieter Calitz says: "Every profession hopes to get some tax reduction, but this is more optimistic than realistic."

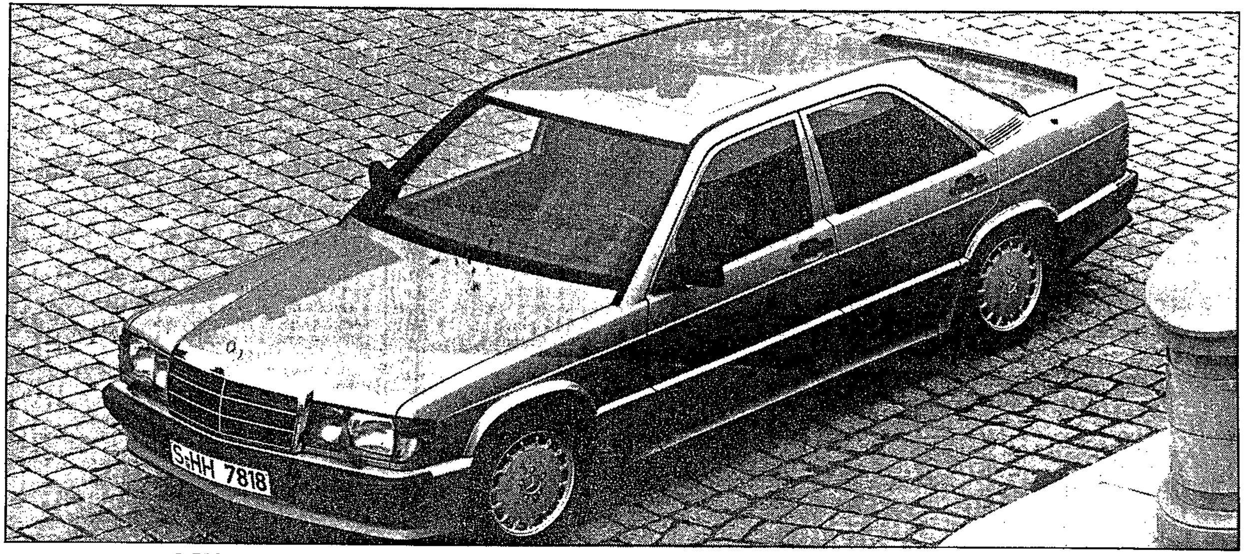
He says there will be only marginal adjustments, until "there is clear direction from Codesa".

But, one way for the National Party to gain confidence with the ANC would be to introduce some form of wealth tax — in the guise of a capital gains tax.

"There is a strong possibility that the Budget will include an announcement on capital gains," said Mr Calitz.

While any direct tax on purchase of shares obviously reduces incentives to invest in the market, the tax burden on the individual must surely have an indirect effect on volumes and liquidity.

... new column by ERNEST J MAZANSKY, senior tax partner, Kessel Feinstein.



A FAST BUCK: It may seem extravagant, but a second company car in the family could result in a tax saving.

Car for wife could save you money

STAR 22/2/92

(320)

AS IS well-known, a company car is subject to fringe benefits tax. The current rule is that the amount to be included in income for tax purposes is 1,2 percent per month of the value of the car.

Generally speaking, the value of the car is the cost to the employer, excluding GST or VAT. On an annual basis, therefore, the amount which is included in the employee's income is 14,4 percent of the value of the car.

Where the employee bears the cost of all fuel for private purposes, the monthly taxable benefit is reduced by R120 and if he bears the full cost of maintaining the vehicle, the monthly deemed values are reduced by R85.

Thus, if the employee bears the cost of both petrol for private purposes and maintenance, on an annual basis, the tax benefit is reduced by R2 460.

If, in lieu of a portion of his salary and/or an increase of a bonus, the employee were to receive a second car for the use of his spouse, the employee could find that he is in a favourable tax position.

The reason for this is that, assuming the employee or the spouse bears the cost of the private use of petrol and maintenance as discussed, the taxable benefit in respect of the second car will be far less than the cost of running such a car.

Thus, for example, assume that the employee is offered a second car with a value excluding VAT for R30 000 for use by his spouse on the basis that the employee bears the petrol and maintenance costs. It would not be unreasonable to assume that had the employee purchased the car himself on a 48-month hire-purchase agreement and had borne the insurance and licences in respect of the car, the car would have cost, say, R14 000 a year, which would be paid for using after-tax money.

If the employee were to take a salary sacrifice in this regard, the cost would also be R14 000 a year, except it would be on a pre-tax basis. As against this, there would be an annual taxable benefit of 14,4 percent reduced by R2 460 because the employee bears the cost of petrol and maintenance. Thus the taxable benefit would be only R1 860 per annum.

In summary, therefore, the employer's taxable income will fall by R14 000 and will increase by R1 860, giving a net reduction of a little over R12 000 a year. Assuming a maximum marginal rate of tax at 43 percent, the employee will have saved approximately R5 200 in tax.

INTEREST UP, TAXES DOWN: *It's looking as if virtuous frugality will have its rewards*

At last, a good year for savers

STAR 22/2/92. 320

With puny returns and the Receiver awaiting his punitive chop, it hardly paid to be thrifty. But the wheel is turning — and money in the bank could make you richer, not poorer.

SIGNS are growing to indicate that 1992 could be a good year for both savers in fixed deposits and investors in the share market — something that has not happened jointly for many years.

Savers in particular would like to see better returns. For years they have suffered from the effects of negative interest rates and high taxation — even when deposit rates became positive, high tax rates still meant a return below the inflation rate — and have been growing poorer rather than richer.

But at last there are signs that the monetary and fiscal authorities are trying to help savers, and to make it worth their while to put their money in savings accounts and fixed deposits instead of spending it.

The most obvious sign of the better treatment lies in the determination of the Governor of the Reserve Bank.

Dr Chris Stals aims to maintain positive interest rates — above the inflation rate — and at the same time curb inflation.

Businessmen and house buyers may complain bitterly that this has resulted in their paying high interest on their loans. But really they have little to complain about.

In the past, when interest rates were negative, they were actually being subsidised by savers and anybody else who did not have the bargaining power to get inflation-related remuneration.

Now savers at least have the satisfaction of knowing they no longer subsidise these people.

However, they are still not getting their full rights. Although bank lending rates are now positive, deposit rates are still below the inflation rate. But this is mainly the result of the recession. Once the economy picks up, this situation should change dramatically. Bank lending should start rising strongly, which should result in the banks scrambling for savings, and deposit rates should move appreciably higher.

Even so, this alone does not mean that savers will be able to reap the full rewards of their virtuous behaviour. There will still be the income tax man lurking to grab his share.

But there have been strong signs that the Government has at last woken up to the fact that South Africans have been heavily over-taxed for several years and that this needs to be put right.

The State President indicated when he opened Parliament that a big effort would be made this year to reduce taxation. The drastic cuts in the white education budget, in defence spending and Armscor, and the offer of only a 7,5 percent pay increase to the public service, all suggest the whip is finally being cracked.

So the evidence is strong that the Budget could contain significant tax cuts to boost the economy (and prepare the ground for a possible general election).

Senior public servants mutter about the need to give special assistance to savers, but so far it appears they have failed to devise any realistic way of doing this — other than holding thumbs.

Taking everything into account, the chances are that for the first time in more than a decade, savers this year will get a square deal.

Share investors also should do well this year. There is much talk that share prices are too high, and that another 1987-style collapse could be around the corner.

But one of the features of company reporting in recent months is the extent to which recession-hit companies have been able to pull the rabbit out of the hat and show maintained, or even increased, profits. There were two good examples this week of this.

After a bad first half, chemical giant AECI sharply increased its profits in the second half and should at least maintain profits this year.

Palabora Copper had to cut some of its quarterly dividends last year, but made good all these reductions by declaring a sharply increased final.

These are not the only examples of companies showing good recoveries in spite of difficult trading conditions. Consequently one would be chary of forecasting any major weakness in share prices.

Rather, the signs of a belated recovery in the American economy, the expected tax cuts in the coming Budget together with this country's improved foreign business relations all point to a slow but steady increase in economic activity this year. And this need not be halted by next month's referendum.

The stirrings in the base metal prices in the past few days, the 50-point jump on Thursday in the Dow Jones — the indicator of American share prices — to a new peak of 3281 and reports of improved economic activity all indicate the mighty US is stirring.

And South Africa should start feeling the benefits fairly soon. This country is a major supplier of commodities such as manganese, ferro alloys, iron ore, platinum and chrome.

At present the supply pipeline for these commodities is virtually empty. As a result, even a small improvement in demand overseas could lead to an upsurge in production in this country as efforts are made to meet the expected orders.

This could well provide the kick-start the country needs. And the expected increase in exports of manufactured goods could also help.

'Scandalous' slur — minister

Political Staff (32D)

ALLEGATIONS by a Democratic Party MP that the government had created a class of Afrikaner tax untouchables were the most scandalous he had heard in Parliament, the Minister of Finance, Mr Barend du Plessis, said yesterday.

He said during the mini-budget debate that the statement by the MP for Wynberg, Mr Robin Carlisle, was a slur on his integrity, his office and tax officials.

CT 22/2/92

"This statement says I myself and my predecessors as ministers of finance over 40 years have refrained from properly taxing Afrikaners to promote affirmative action and help Afrikaners."

The matter was so important that the DP should take up the allegation at the highest level.

"We will not allow the matter to rest.

"We will not allow the Anton Ruperts, the Sanlams and the Gencors to be abused in Parliament."

Tax office findings to be made public

320

CT 22/2/92

By BARRY STREEK

THE findings of the investigation into allegations of corruption at the Cape Town tax office will be made public, subject to the legal requirements of secrecy, the Minister of Finance, Mr Barend du Plessis, said yesterday.

He emphatically denied any cover-up and he accused the Democratic Party MP for Wynberg, Mr Robin Carlisle, of confusing the legal requirements of secrecy about an individual's taxes and income with a cover-up.

Mr Du Plessis also said during the mini-budget debate that Mr Carlisle owed the head of the committee investigating the allegations, Mr P J Botha, an apology.

Mr Botha was president of the regional court and had the highest integrity, but Mr Carlisle had said officials were unwilling to give evidence before him.

Mr Carlisle said on Thursday that people who had given him information on tax corruption refused absolutely to give evidence to an intra-departmental inquiry and he called for a public inquiry into corruption and inefficiency in the Department of Inland Revenue.

DP finance spokesman Mr Ken Andrew said that Mr Carlisle had specifically said he was not doubting Mr Botha's integrity.

BUSINESS

Doom and gloom but tax cuts look likely

320
ARG 22/2/92

Concern over government's growing fiscal dilemma

Business Staff

TAX cuts will be forthcoming in next month's Budget — in spite of the drought, the depressed economy and the need to bolster social upliftment programmes.

That's the inescapable conclusion emerging from close scrutiny of the factors relevant to the Finance Minister's deliberations as he prepares for March 18.

Budget watchers are understandably concerned over government's deteriorating fiscal dilemma — a situation which is set to worsen further as a consequence of the drought.

But, some leading economists argue, fears of a massive additional burden being placed on taxpayers in the 1992/93 Budget are unfounded, because:

■ The timing of the Referendum suggests that the Budget is bound to have vote-catching characteristics.

■ For the first time in 11 years, government will slash its spending. This week's education expenditure cutback shock is only the tip of the prudence iceberg.

■ Falling international oil prices offer scope for new sources of tax revenue.

■ A substantial Budget deficit will be incurred, which deficit will, however, be readily financed for domestic and international financial market sources.

■ The green light from the IMF takes a lot of the strain out of the overall financing picture.

Scope therefore exists for further reductions in both marginal income tax rates for individuals and company tax rates.

An increase in the State fuel levy of at least 10c a litre looks likely — a measure which would boost government revenue by more than R1 billion.

Nor would an impost of this magnitude require an equivalent rise in the retail price of petrol, since international oil prices are weakening as discord within OPEC persists.

Even so, a R15 billion Budget deficit cannot be discounted.

That's a figure equivalent to 4 percent of the projected gross domestic product.

So high a deficit will be defended on the grounds that the economy is still in a downswing and that it would exert some contra-cyclical effect.

The authorities will also argue that it will be entirely manageable.

A R15 billion deficit would be augmented by redemptions of government loans in the coming fiscal year totalling R5 billion, thereby raising the total financing requirement to R20 billion.

The Public Debt Commissoners, which are expected to fund roughly R9 billion of the deficit in this fiscal year, could repeat this performance in 1992/93, which leaves R11 billion to be sought from the capital markets.

A significant part of the R5 billion of maturing debt is believed to be held by the banking sector and this could easily be rolled over, since the demand for bank credit is expected to be weak, thereby increasing the demand for bonds which have liquid asset status.

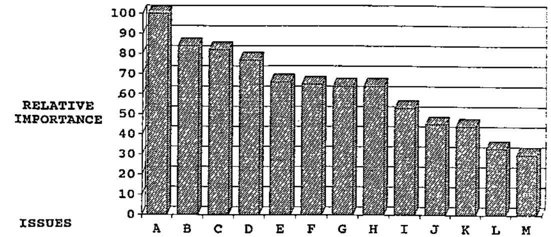
This would leave R6 billion to be raised, between R2 billion and R3 billion of which could come from overseas sources. January's R890 million international bond issue will almost certainly be followed by other such issues in the year ahead.

Which leaves R3 billion to R4 billion to be raised from local financial institutions.

Institutional cash flows will be R35 billion in 1992, only 17 percent of which would need to be placed in government stocks to cover the deficit.

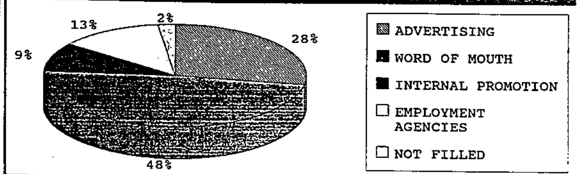
The interest bill on all these borrowings will be formidable.

ISSUES IMPACTING ON BUSINESS IN 1992



Local economic conditions (A) was reported to be the biggest issue that would impact on business in 1992. Other issues were: B interest rates, C inflation, D value of the rand, E change in international perceptions of South Africa, F competition from local business, G access to capital, H transport costs, I increase in minimum wages, J stock shortages, K cost of new technology, L import quotas, M competition from other regions. Survey. See Page 1.

STAFF VACANCIES FILLED



Fight against bursary tax carries on

By DON ROBERTSON

BUSINESS and industry are continuing their battle for the repeal of legislation which will make bursaries taxable in the hands of the recipient from March 1.

Amendments relating to bursaries were included in the Income Tax Act passed in the middle of last year. They were based on the Margo Commission's findings on fringe benefits tax. The commission recommended that bursaries offered to employees for tertiary education be taxed. S/Times (Bus)

Educationists reacted strongly to the proposed tax and hoped that it would be reviewed. 23/2/92

Many businesses and the SA Chamber of Business (Sacob) have failed in their pleas to Finance Minister Barend du Plessis for the tax changes to be dropped.

Abuse

When the changes were proposed it was claimed that bursaries had been abused because they were often offered to children of all employees without regard to the receiver's merits.

It was said that employees would accept a tax-free bursary in return for a reduction in salary or future increases. Another claim was that bursaries were often offered only to dependants of top management.

The Department of Finance said "such an arrangement represents tax avoidance which has reached such proportions that the relevant exemption can no longer be justified".

But business has not given up the battle.

Bob Wood, chairman of the taxation committee at Sacob, says Mr Du Plessis was asked last November to review the legislation. The matter was raised again with the Deputy Finance Minister Theo Alant this month.

Desperate

Sacob hopes to meet the Commissioner of Inland Revenue to discuss possible changes.

George Stegmann, director of personnel and public affairs at Delta Motor Corporation, says: "When one considers the desperate need for educated individuals in the SA economy, the shocking legacy of Bantu education, and the acknowledgement by the State that it cannot shoulder the country's educational burden on its own, then one fails to understand the logic of what is effectively a fundamental attack on employer-provided educational assistance."

Delta offers high school and tertiary education bursaries for all its employees. The cost to the company is about R1-million a year.

Mr Stegmann disagrees with the Department of Finance about the benefits to top management. He says Delta's scheme specifically excludes the children of senior executives and managers.

Delta has made representations through the Midland Chamber of Industries and Sacob to Mr Du Plessis for the tax to be dropped.

"Delta does not intend to let this matter rest. The company is formulating fresh representations to the Minister of Education and Culture and the Minister of Finance. We urge other employers to to the same." 320

Computer

Dick Bradley, managing director of time management and payroll group Accsys, says SA needs educated people desperately. The tax could force many people to forgo a tertiary education.

Mr Bradley says that in terms of the legislation, a secretary on a computer course will not be taxed, but an apprentice attending a technikon will be.

Justin Cowley, a tax partner at accounting firm Ernst & Young, says the new law raises several practical difficulties about employment conditions attached to bursaries. He hopes the Act will be "revisited".

"Any money going into education is a good investment."

No room for lower taxes — Sanlam

CT 24/2/92

(320)

By ARI JACOBSON

The Minister of Finance Barend du Plessis will have little opportunity to lower taxes in the coming budget, says Sanlams chief economist Johan Louw in its economic survey for February.

"If Du Plessis does intend to lower some taxes it simply means he will have to raise other taxes."

This was so he said because income will rise by 13,5% in the following 1992/93 budget year while expenditure will increase by 12,5% — providing for a deficit before borrowing of 4,5% of gross domestic product (the accepted level is 3%).

Louw's expectations in the coming budget include:

- A one percentage drop in the top rate of individual tax to 42%.
- Higher fuel levy implying higher petrol prices.
- Increase in excise duty.

He does not envisage a rise in the Vat rate, a change in the company tax rate or the scrapping of import surcharge laws.

"Sanlam doubts the government can afford it."

Louw describes the coming budget "mildly stimulating" which will allow the government to reciprocate by dropping interest rates slightly.

Further Louw points out that economic growth is still performing poorly and that the drought will retard recovery.

In this regard he calls for an assistance plan to solve the drought as the consequences will also impact on food supplies, employment and SA's balance of payments."

He adds that Sanlam has "drastically cut the assurance premiums to farmers for the duration of the drought — while cover levels will remain the same."

Tax relief on the cards for married couples

(320)

CT 24/2/92

SEPARATE taxation of investment income is on the cards for couples married in community of property, says Chris Nixon, CE of the Focused Finance Group.

Proposed amendments to the Income Tax Act, scheduled to be passed by Parliament this year, provides for investment incomes to be split equally and taxed separately.

The proposed changes were published in the Government Gazette on February 7 this year.

Legislation will be retroactive to the start of the 1992 tax year, except in the case of rental income, where the amendments will apply from the 1991 tax year.

Tax payable

Couples who stand to benefit from the above rental income concession, have until December 31 this year to apply to the Commissioner of Inland Revenue for a reassessment of their 1991 income.

Nixon cites an example of a 60-year-old couple, married in community of property, where the husband receives a pension of R60 000 per year. Income from investments (all in his name) totals R10 000 plus a net rental income of R12 000 per year. His wife earns no income.

Under the old system, for the 1992 tax year R23 000 tax would have been payable. Taking the proposed amendments into account, the combined tax payable drops to R19 020 — a saving of R3 980.

No tax break due in Budget

LINDA ENSOR

CAPE TOWN — Finance Minister Barend du Plessis is likely to give a moderate impetus to economic recovery in his March Budget, but will have little scope for tax concessions, Sanlam chief economist Johan Louw says in the latest Economic Survey. BDay 24/2/92

The current Survey is largely devoted to a preview of the Budget.

Louw expected tax revenue to rise by about 13,5% in the 1992-93 financial year, with government expenditure increasing by a budgeted 12,5%. This would result in a fairly large budget deficit of about R15,6bn — or 4,5% of GDP — which would act to stimulate the economy.

Louw's expectations include a drop in the top personal tax rate to 42% from 43% and a drop in tax rates at lower income levels; a further reduction in the rates of import surcharges; increases in the fuel price levy and excise duties and an extension of investment allowances.

No change is foreseen in the company tax rate, but Louw said company profits should improve as a result of the budget.

The Budget's moderate stimulation of the economy should enable the monetary authorities to follow a less strict policy and a 1% reduction in bank rate by the end of March was forecast. The prime overdraft rate was expected to fall to 17,5% by year end while inflation should fall to 14,5% from 15,3% in 1991. 320

Louw said the drought could delay the recovery, but he expected improved economic activity later this year and predicted an average real economic growth rate of about 1% for 1992 (minus 0,6% for 1991).

Lower exports of agricultural products, continuing weak commodity prices and an expected uninspiring performance of the gold price would mean the excellent export performance of the past few years would not be repeated in coming months.

Merchandise imports would increase as the recovery gained momentum. Louw predicted a current account surplus on the balance of payments of R4bn this year compared with the estimated favourable R7bn in 1991 and R5,8bn in 1990.

The increase in foreign loans would compensate for the decline in the surplus on the current account.

BDay 25/2/92

Refunds on overseas VAT

(320)

WILLIAM GILFILLAN

A LOCAL company formed recently to help SA businesses claim back VAT paid during business trips to the UK and other parts of Europe, has been inundated with inquiries.

"Most South Africans had been unaware that they could obtain VAT refunds on expenses such as hotel accommodation, car hire, and office accommodation," Vatclaim International MD Tony Bates said.

He added VAT refunds could also be obtained on expenses for professional and secretarial services, exhibition costs, training, and warehousing.

Vatclaim — which has been backed by Safren and Safto — prepares and submits claims on behalf of SA businesses to the relevant overseas authorities.

It takes 25% of the VAT refund as its commission.

Suggested 5% wealth tax on 20 richest families interests ANC

DIRK HARTFORD

THE ANC said yesterday it was "very interested" in a proposal that a 5% wealth tax should be slapped on the 20 richest families in SA. (320)

According to the Labour Research Service (LRS), leading consultants to the trade union movement, this alone would bring in more than R500m a year — enough to employ 100 000 jobless people in a public works programme.

The LRS said that in 1991 the total worth of SA's 20 richest families increased by 57% from R6,9bn to R10,8bn. But it added this was a "conservative estimate" of their total wealth, as it was based on their holdings in their own "family businesses" listed on the JSE. Many of these families, according to LRS, had built up substantial interests outside the JSE in the form of overseas investments, cash deposits, fixed interest securities, property and unlisted companies.

The ANC's Saki Macozoma said the ANC was as interested in seeing how the 20 richest families responded to the proposal, as it was in the proposal itself.

Cosatu's Neil Coleman said the tax burden had increasingly fallen on the poor and the entire system needed to be overhauled. He said a wealth tax could not be looked at in isolation, but needed to be seen in the context of the whole tax system.

The LRS cited Liberty Life's Donald Gordon, Pick 'n Pay's Raymond Ackerman, Ventron's Bill Venter, the Keeley Group's Fred Keeley and FSI's Jeff Liebesman as examples of family businesses where the founders were still closely involved.

In addition, LRS named businesses where control was held by the children or grandchildren of the founders — like the Oppenheimer's Anglo American, the Rupert's Rembrandt, the Hersov's and Menell's Angolvaal and the Mowszowski's Elcentre.

The Oppenheimer family leads the pack with R2,87bn in wealth.

25/2/92

320

The MINISTER OF FINANCE:

(1) (a) (i) (aa) 18

(bb) 15

(ii) The secrecy provisions contained in section 4 of the Income Tax Act, 1962, prohibit the disclosure of such information.

(b) R10 852 708

(c) The expenditure which serves as a basis for the determination of the concession must in the first instance comply with the general deduction formula contained in section 11(a) or (b) of the Income Tax Act, before it can be considered for the sponsorship allowance.

Furthermore, the Minister of Finance in consultation with the Minister of National Education, must be satisfied that the cultural event which is being sponsored, is of an international nature. The guidelines which the Act prescribes in this regard are the following:

(1) it must be an event which is commonly participated in on an international basis;

(2) a substantial number of the participants or the key participants must be non-residents of the Republic; and

(3) the holding of the event must be of material advantage to cultural activities in the Republic.

(2) Yes: R 449 780
R 270 000
R1 350 000
R 180 000
R 150 300
R 75 600
R 26 828
R 495 000
R 826 500
R 121 500
R 30 000
R 450 000
R1 287 200
R3 380 000
R1 760 000

SAP: guard duty at homes of MPs

3. Mr M RAJAB asked the Minister of Law and Order:

(1) Whether any members of the South African Police performed guard duty at the homes of members of Parliament in 1990 and 1991; if so, in respect of each of these years, (a) why, (b) at whose request and (c) how many (i) policemen and (ii) homes were involved;

(2) whether he will disclose the names of the members of Parliament involved; if not, why not; if so, whose homes were so guarded in 1990 and 1991, respectively?
D21E

The MINISTER OF LAW AND ORDER:

(1) Yes.

(a) The nature of threats against individual members, their families and property necessitated the (guard) duties.

(b) Requests by individual members were carried out after evaluation and with the Minister's approval.

(c) (i) 1990 — 74 policemen
1991 — 237 policemen

(ii) 1990 — 62 policemen
1991 — 234 policemen

(2) No, the disclosure of their names could expose them to intimidation.

HOUSE OF ASSEMBLY

QUESTIONS

†Indicates translated version.

For written reply:

General Affairs:

Transfer of trial cases: Natal Supreme Court

38. Mr M A TARR asked the Minister of Justice:

Whether any cases of (a) murder, (b) assault with intent to do grievous bodily harm, (c) culpable homicide and (d) attempted murder, related to political violence, were transferred from the Natal Supreme Court to other divisions of the Supreme Court in South Africa for hearing in 1990; if not, why not; if so, what are the relevant details in each case?
B124E

The MINISTER OF JUSTICE:

No.

Crimes committed within the area of jurisdiction of an attorney-general must be tried within that area of jurisdiction. Where the Minister of Justice deems it in the interest of the administration of justice, he may in terms of section 111(1) of the Criminal Procedure Act, 1977 (Act 51 of 1977), direct that a trial be removed to the area of jurisdiction of another attorney-general. In practice such directions are normally issued when crimes are committed by the same person(s) in the area of jurisdiction of more than one attorney-general, in order to centralise the trials.

Crime statistics in 1991

49. Mr L FUCHS asked the Minister of Justice:

(1) How many persons were convicted of (a) murder, (b) culpable homicide, (c) rape, (d) assault with intent to do grievous bodily harm, (e) common assault and (f) theft in each province in 1991;

(2) how many of the above persons were members of the (a) White, (b) Coloured, (c) Indian and (d) Black race group?
B101E

The MINISTER OF JUSTICE:

(1) The information is not readily available in the Department of Justice. In an effort to be of assistance to the Honourable Member, the following information was obtained from the Central Statistical Services:

Period: 1 July 1990 — 30 June 1991

Crimes	*Total number of convictions*	*Cape*	*Natal*	*Transvaal*	*Orange Free State*
(a) Murder	2 681	1 063	508	903	207
(b) Culpable homicide	3 051	1 282	629	899	241
(c) Rape	4 661	1 720	552	1 950	439
(d) Assault with intent to do grievous bodily harm	43 926	19 220	5 158	15 587	3 961
(e) Common assault	36 381	15 513	5 098	11 656	4 114
(f) Theft	114 145	41 155	21 750	41 036	10 204

(2) The information is no longer separately kept for each race group by the Central Statistical Services.

Cont. —

of what statutory provisions or regulations; if not,

(2) whether the management board of a model B school may impose compulsory school fund contributions as a requirement for admission at such a school; if so, in terms of what statutory provisions or regulations;

(3) whether he will make a statement on the matter?

B166E

†The MINISTER OF EDUCATION AND CULTURE:

(1) No;

(2) no;

(3) no.

Departmental schools: African language as subject

*3. Mr K M ANDREW asked the Minister of Education and Culture:

How many (a) schools falling under the control of his Department were offering, and (b) pupils were taking, an African language as a subject in 1991?

B192E

The MINISTER OF EDUCATION AND CULTURE:

(a) 923.

(b) 150 863.

White teacher-training colleges: African language

*4. Mr K M ANDREW asked the Minister of Education and Culture:

Whether any White teacher-training colleges offer an African language as a course subject; if not, (a) why not and (b) what steps are being taken in this regard; if so, (i) which colleges, (ii) what African languages are being offered and (iii) how many student teachers took such language courses in 1991?

B193E

†The MINISTER OF EDUCATION AND CULTURE:

Yes,

(i) Boland College of Education
Port Elizabeth College of Education
Bloemfontein College of Education
Edgewood College of Education
Durban College of Education
Natal College of Education
Onderwyskollege Pretoria
Onderwyskollege Goudstad
Johannesburg College of Education
Onderwyskollege Potchefstroom
College of Education for Further Training,

(ii) Xhosa, Southern Sotho, Zulu, Northern Sotho and Tswana,

(iii) 1 265.

White old-age pensioners: means test

*5. Mr B B GOODALL asked the Minister of Health Services and Welfare:

Whether any steps are being taken by her Department to adjust the means test for White old-age pensioners; if not, why not; if so, what steps?

B254E

The MINISTER OF HEALTH SERVICES AND WELFARE:

No.

When social pensions were increased as recently as 1 October 1991 the income leg of the means test was extended.

QUESTIONS

†Indicates translated version.

For written reply:

General Affairs:

320

Revenue/expenditure categories

35. Mr G C ENGEL asked the Minister of Finance:

In respect of the 1991-92 budget year, (a)(i) which categories of revenue have fallen short of or exceeded the budgeted target and (ii) by how much in each case, (b)(i) which categories of expenditure have fallen short of or exceeded budgeted amounts and (ii) by how much in each case, (c) how will the additional deficit be financed or has it been financed and

(d) what is the latest estimate of the Government deficit before borrowing as a percentage of the gross domestic product?

B104E

The MINISTER OF FINANCE:

Since there will be a full report on the course of the 1991/92 financial year in my next Budget Speech, it is premature to answer this question at this stage.

In the meantime, I attach a copy of the press release on the course of state finances for the first nine months of the 1991/92 financial year, released on 17 January 1992.

320

Information release on the course of the 1991/92-budget for the first nine months of the financial year

Issued by the Minister of Finance, Mr B J du Plessis, MP

1. *Introduction*

In accordance with its aim to report regularly on the course of the state finances and, more specifically, the annual Budget, the Department of Finance has already issued two information documents during the current financial year. This statement reports on the course of the 1991/92-Budget for the period April to December 1991; it will be the last report for the current financial year until the next Budget Speech.

2. *Update on the 1991/92-budget*

2.1 *Total expenditure*

On previous occasions it was mentioned that the total expenditure level for the 1991/92 financial year could amount to R85,984 billion, which is 15,1 per cent above the revised estimated expenditure level of R74,731 billion for the 1990/91 financial year. This figure includes the contingency reserve of R1,2 billion, as well as the provision of R1,95 billion to be financed from the reduction in strategic reserves.

Total exchequer issues in the first nine months of the 1991/92 financial year amounted to R62,443 billion, which represents an increase of 18,5 per cent on the issues for the corresponding period in the 1990/91 financial year (see table 2) and accounts for 72,6 per cent of the total estimated amount of R85,984 billion. A mere mechanical projection of the growth in expenditure for the full financial year on the basis of this growth rate, would be very misleading. Although this growth of 18,5 per cent appears to be relatively high, it should be kept in mind that the total exchequer issues for the first nine months of the 1990/91 financial year increased by only 10 per cent, so that this year's growth is from a relatively low base. The quarterly analysis of total exchequer issues illustrates this point (table 1).

Although 18,5 per cent can in no way be regarded as an indication of the eventual growth in budgetary expenditure, it might in fact now appear that the Government will have to ask Parliament on 17 February 1992 to approve a substantial larger additional budget than was envisaged by way of the contingency reserve of R1,2 billion. The expected higher-than-budgeted expenditure requirements are related mainly to higher spending pressure on health, intergovernmental grants to Black Local Authorities, and interest on the public debt. As indicated below, these higher expenditures will not bring about any further financing pressures.

2.2 *Total revenue*

In the previous information release, which appeared in October 1991, total revenue was estimated at R74,156 billion, after provision had been made for the lowering of the VAT rate to 10% and for the additional revenue from excise duties and from the fuel levy. This amount represents an increase of 11 per cent above the actual collections of R66,8 billion in the 1990/91 financial year.

Total exchequer receipts for the period April to December 1991 amounted to R52,767 billion, which is 7,6 per cent higher than the corresponding period for 1990/91 (see table 2).

After an increase of only 0,7 per cent in the first quarter of the present financial year, receipts were up by 8,2 per cent and 13,4 per cent respectively in the second and third quarters of the 1991/92 financial year (see table 1). Although it is expected that this rising trend will be continued in the last quarter, it would at this stage appear that collections for the 1991/92 financial year will probably be even lower than the above-mentioned R74,156 billion, a phenomenon which clearly relates to cyclical factors.

2.2.1 *Value Added Tax*

In analysing the receipts from Value Added Tax (VAT), various factors need to be taken into account. Some of these are:

— VAT which is collected in a specific month, for example October, must be paid over to Inland Revenue before the 25th of the following month (i.e November) and therefore will be reflected in the November revenue figures only. (320)

— Some businesses pay VAT on a monthly basis, and others on a two-monthly basis, while farmers pay their VAT over to Inland Revenue only on a bi-annual basis.

At this stage the collections from VAT for two months only are known, namely R1,2 billion for November and R1,8 billion for December 1991. The fairly large difference between these two figures is attributable mainly to technical problems experienced in the first month in which VAT was collected and which, in terms of the previous paragraph, had an effect on the figures for the second month. The largest portion of VAT collected by Customs and Excise in November, was paid over only in December. The same also happened in respect of transfers and repayments that took place electronically. Furthermore, no VAT was paid back to the TBVC states in November, with the result that the December payment included two months' VAT. The seasonal effect should also be borne in mind, for example, the fact that early Christmas shopping was done in November already, which resulted in higher VAT collections than for example in October.

From the previous paragraphs it will be clear that the VAT collections for the first few months after introduction should be interpreted with great caution. It would, however, at this early stage appear that the estimated revenue from VAT (after having allowed for the lower rate and other concessions) is fairly close to target.

2.3 *Difference between exchequer issues and receipts*

The difference between issues and receipts therefore amounted to R9,666 billion for the period April to December 1991, compared with a revised estimate (which appeared in the October information release) of R11,828 billion for the total "gross" deficit before borrowing. Since higher levels of expenditure and lower levels of revenue are now expected, the "gross' deficit before borrowing for the 1991/92 financial year will now be higher than this revised estimate. The total financing requirement will consequently also be higher. However, in order to establish the effect of the deficit before borrowing on the capital market, the expenditure to be financed from the reduction of strategic stockpiles should be deduced from the "gross" deficit before borrowing.

The relatively large difference between exchequer issues and receipts for the first nine months of the current financial year can be ascribed to two factors, i.e. the specific seasonal nature of issues in the current financial year and the cyclical influence on revenue collections. It should however be borne in mind that exchequer issues for the first nine months of the financial year include expenditure regarding aforementioned R1,95 billion. Funds to be obtained from the reduction of strategic stockpiles, are however not yet transferred to the Exchequer and thus not included in the exchequer receipts for the first nine months of the financial year.

Loan redemptions during the period April to December were as follows:

	R million
Bonds	70,4
Domestic stock	3 785,1
Foreign loans	275,1
Loan levy	0,2
Total redemptions	4 130,8

The total *gross* financing requirement (new loans plus redemptions) for the first nine months of the 1991/92 financial year amounts to R13,797 billion.

Financing to the amount of R18,049 billion (excluding treasury bills and including roll-overs) has already been obtained during this period (inclusive of PIC loans), made up as follows:

	R million
Bonds	3,9
Domestic stock	17 221,5
Foreign loans	821,8
Loan levy	2,0
Total financing	18 049,2

As indicated, there is a relatively large difference ("surplus") between the financing obtained for the period up to 31 December 1991 and the financing requirement for the same period. Even after provision has been made for further redemptions of government stock scheduled for February, the funds already acquired are sufficient to accommodate the expected overshoot of the budgeted contingency reserve (i.e. higher-

than-budgeted expenditure level), as well as lower-than-expected revenue collections. For the remainder of the current financial year there will be no further pressure from the side of the Central Government for financing.

3. *Conclusion*

For the first nine months of the 1991/92 financial (320) year, total exchequer issues showed an increase of 18,5 per cent and total exchequer receipts an increase of 7,6 per cent over the corresponding period in the previous financial year, while the difference between issues and receipts amounted to R9,666 billion.

Although the growth rate of 18,5 per cent cannot be regarded as an indication of the growth in state expenditure for the 1991/92 financial year, it would however appear that the budgeted contingency reserve of R1,2 billion will be exceeded by a substantial amount.

With regard to total revenue, it would appear that for the current financial year, there is an even lower collection of revenue than was expected when the VAT rate was reduced and excise duties and the fuel levy were increased.

These factors will however bring about no further financing pressure up to the end of the financial year, since the difference between the financing requirement up to 31 December 1991 and the financing obtained for the same period, has shown a relatively large surplus.

As in the past, debate and speculation continue on the 1992/93-Budget and the measures that the Government can and should adopt regarding tax adjustments. Experience in South Africa, as in other countries, has shown that it is not desirable to respond to such speculation outside the context of a budget, since this will merely give rise to further speculation and could even benefit some parties and disadvantage others. The 1992/93-Budget, to be tabled in Parliament on 18 March 1992, offers the appropriate opportunity.

TABLE 1

Exchequer issues and receipts (quarterly)

This table has been compiled from the Statements of Receipts in and Transfers from the Exchequer Account published monthly. Any analysis of these statements should bear in mind that they are shown on a cash flow basis, i.e.:

(a) Total Exchequer issues:

Total issues do not represent actual expenditure. Late issues and surrenders in respect of a specific fiscal year result in total issues (as shown here) differing from the actual expenditure figures as shown in the Budgetary documentation.

(b) Total exchequer receipts:

The receipts for month X do not include amounts in transit for that month, but include those in transit for month (X-1). This means that the April figure of each fiscal year includes the "in transit" figure for March (the previous fiscal year).

Proceeds from privatisation, other capital revenue and loans are excluded from these figures.

(c) Difference between issues and receipts

As a result of (a) and (b) this does not represent the actual deficit before borrowing.

TOTAL EXCHEQUER ISSUES

(R million)

	1987/88	% growth	1988/89	%growth	1989/90	%growth	1990/91	%growth	1991/92	%growth
Apr-Jun	11 944	18,5%	12 979	8,7%	16 395	26,3%	17 478	6,6%	21 089	20,7%
Jul-Sep	10 983	22,4%	12 974	18,1%	15 746	21,4%	18 354	16,6%	21 065	14,8%
Oct-Dec	11 346	23,2%	12 937	14,0%	15 758	21,8%	16 858	7,0%	20 279	20,3%
Jan-Mar	13 666	12,2%	17 715	29,6%	17 900	1,0%	21 706	21,3%		
Total	47 940	18,7%	56 604	18,1%	65 799	16,2%	74 396	13,1%		

TOTAL EXCHEQUER RECEIPTS (320)

(R million)

	1987/88	% growth	1988/89	%growth	1989/90	%growth	1990/91	%growth	1991/92	%growth
Apr-Jun	7 291	5,9%	8 773	20,3%	11 986	36,6%	14 302	19,3%	14 399	0,7%
Jul-Sep	10 445	18,3%	13 236	26,7%	16 850	27,3%	18 969	12,6%	20 517	8,2%
Oct-Dec	9 270	8,9%	12 298	32,7%	14 202	15,5%	15 747	10,9%	17 851	13,4%
Jan-Mar	10 617	6,8%	13 904	31,0%	17 963	29,2%	17 776	−1,0%		
Total	37 623	10,2%	48 210	28,1%	61 000	26,5%	66 794	9,5%		

DIFFERENCE BETWEEN ISSUES AND RECEIPTS

(R million)

	1987/88	1988/89	1989/90	1990/91	1991/92
Apr-Jun	4 653	4 206	4 409	3 176	6 691
Jul-Sep	539	(262)	(1 104)	(615)	547
Oct-Dec	2 076	639	1 556	1 111	2 428
Jan-Mar	3 049	3 811	(63)	3 930	
Total	10 317	8 394	4 798	7 602	

( )Surplus

+Deficit

TABLE 2

Exchequer issues and receipts (cumulative)

This table has been compiled from the Statements of Receipts in and Transfers from the Exchequer Account published monthly. Any analysis of these statements should bear in mind that they are shown on a cash flow basis, i.e.:

(a) Total Exchequer issues:

Total issues do not represent actual expenditure. Late issues and surrenders in respect of a specific fiscal year result in total issues (as shown here) differing from the actual expenditure figures as shown in the Budgetary documentation.

(b) Total exchequer receipts:

The receipts for month X do not include amounts in transit for that month, but include those in transit for month (X-1). This means that the April figure of each fiscal year includes the "in transit" figure for March (the previous fiscal year).

Proceeds from privatisation, other capital revenue and loans are excluded from these figures.

(c) Difference between issues and receipts

As a result of (a) and (b) this does not represent the actual deficit before borrowing.

TOTAL EXCHEQUER ISSUES (cumulative)

(R million)

Period	1987/88	% growth	1988/89	%growth	1989/90	%growth	1990/91	%growth	1991/92
April to:									
Jun	11 944	18,5%	12 979	8,7%	16 395	26,3%	17 478	6,6%	21 089
Sep	22 927	20,3%	25 952	13,2%	32 141	23,8%	35 832	11,5%	42 154
Dec	34 274	21,3%	38 889	13,5%	47 899	23,2%	52 690	10,0%	62 433
Mar	47 940	18,6%	56 604	18,1%	65 799	16,2%	74 396	13,1%	

TOTAL EXCHEQUER RECEIPTS (cumulative) (320)

(R million)

Period	1987/88	% growth	1988/89	%growth	1989/90	%growth	1990/91	%growth	1991/92
April to:									
Jun	7 291	5,9%	8 773	20,3%	11 986	36,6%	14 302	19,3%	14 399
Sep	17 736	12,9%	22 008	24,1%	28 836	31,0%	33 271	15,4%	34 916
Dec	27 006	11,8%	34 306	27,0%	43 038	25,5%	49 018	13,9%	52 767
Mar	37 623	11,5%	48 210	28,1%	61 000	26 5%	66 794	9,5%	

DIFFERENCE BETWEEN ISSUES AND RECEIPTS

(R million)

	1987/88	1988/89	1989/90	1990/91	1991/92
April to:					
Jun	4 653	4 206	4 409	3 176	6 691
Sep	5 192	3 944	3 305	2 561	7 238
Dec	7 268	4 583	4 861	3 672	9 666
Mar	10 317	8 394	4 798	7 602	

Guarantees/sureties: Ciskei

81. Mr K M ANDREW asked the Minister of Foreign Affairs:

(1) Whether any guarantees or sureties were given directly or indirectly by the Government or any Department or agency of the Government to any person or organization for (a) loans granted, (b) lines of credit granted and (c) other specified financial services rendered to (i) the Government of, (ii) any Government Department of, (iii) a development corporation in and (iv) any other specified person or organization in Ciskei in the 1990-91 financial year; if so,

(2) (a) what amounts were involved in each case and (b) what was the total amount outstanding in terms of such guarantees or sureties as at the latest specified date for which information is available;

(3) whether foreign currencies are involved in any of these guarantees or sureties; if so, (a) what currencies, (b) how much is involved and (c) who is responsible for bearing the potential cost of exchange rate fluctuations?

B226E

The MINISTER OF FOREIGN AFFAIRS:

(1) (a) No.

(b) Yes, a guarantee in respect of overdraft facilities to the Government of Ciskei.

(c) No.

(2) (a) R262 Million.

(b) R262 Million.

(3) No

(a), (b) and (c) fall away.

Guarantees/sureties: Venda

82. Mr K M ANDREW asked the Minister of Foreign Affairs:

(1) Whether any guarantees or sureties were given directly or indirectly by the Government or any Department or agency of the Government to any person or organization for (a) loans granted, (b) lines of credit granted and (c) other specified financial services rendered to (i) the Government of, (ii) any government Department of, (iii) a development corporation in and (iv) any other specified person or organization in Venda in the 1990-91 financial year; if so,

continue →

Separate taxation will have far-reaching effect

B/Day 26/2/92 (320)

GLYNN HERBERT

FOR THE tax year ending February 29 1992, a married woman who earns income from her investments will, for the first time, have that income taxed in her own hands. She will not be required to have it added to that of her husband.

Until February 5 1992 there was much debate on how income accruing to the joint estate of spouses married in community of property was to be treated. But on that day the Commissioner for Inland Revenue announced he would request the Finance Minister to recommend to Parliament an amendment to the Income Tax Act.

The proposed legislation is retroactive and has a major bearing on taxpayers whose marriage is in community of property and who must make a second provisional tax payment at the end of February.

When the new rule comes into effect, income earned from a joint trade will be deemed to accrue to them in the ratio in which they share profits and losses in the conduct of their trade. Rental income (which, by definition, is income from a trade) is specifically excluded, and is deemed to accrue to spouses in equal shares.

One exception to the second rule is that where any asset, for whatever reason, does not form part of the joint estate, any income earned from that asset will accrue to the spouse who is entitled to the use of that asset.

In this context, it has become practice to exclude bequests made by a deceased in a will from any community of property which may exist in the marriage of the beneficiaries. Such a bequest and the income which arises from it are now deemed to accrue to such beneficiary and not the joint estate.

Deductions and allowances made in the determination of the spouses' taxable income are deemed to be permissible deductions and allowances in the determination of that spouse's taxable income. That is, deductions for retirement annuities and any other allowances determined by reference to the quantum of the income.

A pension, retirement annuity, a benefit from a provident fund and the taxable amount of a purchased annuity are now deemed to be income from a trade in the hands of the spouse to whom such benefit is paid.

The dates when the proposed legislation will become effective are, in the case of income from a trade, the tax year ending February 28 or June 30 1991. For investment income, such as interest, the effective date is for years of assessment ending on or after February 29 1992.

In the case of rental income the effective date is also February 28 or June 30 1991.

Taxpayers who have submitted their 1991 tax returns may request the commissioner to amend their assessments. This request must be made by both taxpayers in writing before December 31 1992.

The effect of this proposed legislation is extremely far-reaching in that a certain class of taxpayer is now favoured over other taxpayers purely on account of the basis of their marriage.

Central Statistical Service figures show that by 1986 "white" marriages in community of property exceeded 55%. Coloured and Asian marriages in community of property exceeded 90%, and the majority of black marriages are regarded as still being in community of property. One of the major reasons for this phenomenon is simply the cost of the drafting by an attorney of an antenuptial contract and its registration in a Deeds Office.

There are considerable benefits which accrue to taxpayers in terms of this new dispensation. The maximum marginal rate for married women is only 38% compared to 43% for men. Benefits would be particularly substantial where the married woman's income is relatively low, and also in cases where the couple is retired.

The commissioner is quick to point out that the anti-avoidance provisions still stand. Nevertheless, one can only speculate whether a successful farmer who is married in community of property, can now so arrange his affairs to be able to demonstrate that he and his wife farm in a 50:50 partnership. (In this year of the great drought are there any successful farmers?) If this can be achieved he could then be laughing all the way to the bank.

An intriguing situation will arise where an old-style male chauvinist husband has already pocketed and spent the income of the joint estate. Where exactly will his spouse find the money to pay her own tax bill? Shades of the bad old days when husbands were wont to expropriate their wives' wage packets each pay day. The scenarios are endless.

Separate taxation is here with a vengeance. The changes made by the 1984 legislation to marriages in community of property were hailed by feminists as a major breakthrough. It was supposed to have put wives back on an equal footing with their husbands.

But just maybe, from the wife's point of view, being married in community of property may once again have taken on a whole new meaning.

□ **Herbert is tax partner at KPMG Aiken & Peat.**

VAT confusing small firms

Bibau 26/2/92

AN OPINION poll conducted by the Urban Foundation has indicated that the VAT system has caused confusion and dissatisfaction among small businessmen. (320)

A statement yesterday said a poll conducted among the Sunnyside Group, a national alliance of about 50 small business associations, gave the main reasons for the dissatisfaction as being the high cost of complying with VAT, the complexities of administering the system and the harshness of the penalties.

Sunnyside Group taxation committee chairman Ian Hetherington said the majority of group members did not understand how the tax worked and had difficulty with the registration process. Another factor was the high cost of VAT compliance for small businesses.

The survey showed that half the respondents to the poll believed the tax in its present form would curtail the expansion of small businesses and informal sectors.

The overall impression was that the VAT system was designed to be suitable to large corporations. — Sapa.

Minister denies ANC has role in SA passports

330

THE African National Congress played absolutely no part in issuing South African passports, the Minister of Home Affairs, Mr Gene Louw, said in parliament.

Replying to a question by Mr Douglas Gibson (DP Yeoville) yesterday, he said he had noted a newspaper report which alleged that the ANC issued passports in co-operation with his department.

MG 27/2/92

The Department of Home Affairs was not consulted for comment by the newspaper and the report was a "misrepresentation" of the facts.

The ANC had submitted applications for passports and other travel documents to his department on behalf of its members from time to time. The ANC's role was purely an administrative one and applications were considered by the department in the normal way.

The ANC played no part in the processing. — Sapa.

Tax on zoning profit?

Staff Reporter 320 CT 28/2/92

PROPERTY-OWNERS whose plots are rezoned so that their market values are enhanced may have to pay a form of tax if the Cape Town City Council gets its way.

It resolved yesterday, after a lively debate, to ask the administrator to reintroduce enhancement levies, which are also known as "betterment fees".

The administrator will be asked to reintroduce the levies "at least up to the year 2001, when existing zoning rights will lapse", and a property will have rights to be used only for what it is already used for.

Thus if one has a house being used as a house on a commercially-zoned plot, after 2001 the zoning reverts to single residential.

Alternatively, the motion said, the date of this lapse of zoning rights should be moved forward from 2001 to 1995.

Poor start for VAT

Sowetan 27/2/92

(320)

THE new VAT tax has had a very poor start among small businessmen and in the informal sector.

Among the main reasons for this have been the cost of complying with VAT, the complexity of registration and administration, and the harshness of the VAT Act penalties.

This has emerged from an opinion poll conducted among members of the Sunnyside Group, a national alliance of some 50 small business associations.

The group has joined the VAT-Coordinating Committee in calling for the new tax system to be made simpler and fair, particularly to the poor and disadvantaged.

The chairman of the group taxation committee, Mr Ian Hetherington, said: "The poll indicates confusion and dissatisfaction with VAT and the need for a full analysis of VAT on small business.

"Our member organisations, which represent several thousand small businesses, indicated that the majority of their members did not understand how the tax works, and had difficulty with the registration process."

Another significant factor to emerge was the high cost of VAT compliance for small businesses, who are usually critically dependent on minimising overheads.

He said the introduction of the tax had been the direct cause of many small businesses losing customers.

Those small businesses whose turnover was below the minimum requirement for registration of R150 000 a year were still often asked by their clients to provide the tax invoices defined by the VAT Act.

In response, he added, some these small firms registered voluntarily, some satisfied their customers without a tax invoice, but about 25 percent of them lost those clients who demanded the invoice.

VAT summit to be held

B/Day 28/2/92

A SUMMIT to discuss rocketing food prices in the wake of VAT was to be convened by the co-ordinating committee on VAT on March 5, Cosatu said yesterday.

(320)

The summit would be held in Hillbrow and issues to be discussed would include the causes of the food price increases, and the possibility that the zero-rating of basic items would be lifted at the end of March.

A report on food price increases and the cause of the hikes would be submitted during the summit.

Discussions would also centre on plans to tackle the price increases, including meetings with the agricultural sector, food processors, retailers and other relevant government departments and parastatals, responses to the drought, and a public campaign. — Sapa.

Food prices and VAT tax summit

Sowetan 28/2/92

A SUMMIT on rocketing food prices is to be convened by the Coordinating Committee on VAT on March 5, the Congress of South African Trade Unions said yesterday.

The day-long summit will be held in Hillbrow, Johannesburg, and issues to be discussed will include the causes of the food price increases, and the possibility that the zero-rating of basic items would be lifted at the end of March.

According to a Cosatu statement, since the introduction of VAT, food prices in South Africa have rocketed.

"Food has gone up 28 percent since last year, meat 38 percent and fruit and nuts over 50 percent.

"Although this is an issue which vitally affects us all, there has been no effective public response."

A report on food price increases and the cause of the hikes - commissioned by the Coordinating Committee on VAT - would be submitted during the summit.

Discussions would also centre on plans to tackle the price increases, including meetings with the agricultural sector, food processors, retailers and other relevant Government departments and parastatals; responses to the drought; and a public campaign. - *Sapa*

Don't just laugh off a wealth tax

W/Mail 28/2 - 5/3/92 (320)

Is the idea of a wealth tax so off the wall? No, but it won't solve our economic woes, argues

REG RUMNEY

SUGGEST a wealth tax and hear the roars of rage from South Africa's mainstream press.

That, indeed, has been the reaction to a Labour Research Service (LRS) article which advocates a wealth tax on the richest families, such as the Oppenheimers, the Hersovs, Menells and Mowsowskis.

The LRS says: "A five percent wealth tax on just the 20 richest families would bring in over R500-million per annum — enough to employ 100 000 unemployed workers for a year in a Public Works Programme! It is time for a wealth tax."

True, the LRS's suggestion has a Peronist flavour. It smacks of the macro-economic populism that brought ruin to South American countries. It targets only the very rich for a tax based on their assets, rather than their income.

Why should the less wealthy be let off, if the objective is to reduce economic disparities which arose from apartheid? Why target Liberty Life founder Donny Gordon, whose wealth is at the very least the result of his own ingenuity, rather than, say, Jan X, resident of Waterkloof and former director-general of a government department which vigorously carried out apartheid policy?

The LRS article has been contrasted with the findings of an International Monetary Fund report on South Africa. It says that white South Africans shoulder a heavier tax burden than blacks.

The IMF paper — *Economic Policies for a New South Africa* — does not rule out redistribution, and shows IMF thinking does not embrace the ultra-free-market idea that growth itself will necessarily be enough to put right past inequities.

However, it lays stress on reordering social spending on different race groups and redirecting budget priorities — eg spending less on defence, rather than vastly increased social spending funded by much higher taxes.

The IMF paper looks at South Africa's tax burden in comparison to other countries. It notes that tax as a percentage of South Africa's wealth creation as measured by the gross domestic product is more or less in line with other middle-income countries.

But in South Africa the proportion of tax raised by individual income tax and corporate income tax far outstrip that of other middle income countries.

"In contrast, other countries raised substantially more revenue through social security and wealth taxes than did South Africa."

The reference to wealth taxes shows that is some scope for this type of surcharge, though the IMF paper leaves the matter hanging.

An article at the end of last year in *Work in Progress* by Neva Seidman Makgetla, an economist at the University of the Witwatersrand, gave another perspective.

Seidman Makgetla pointed out: "At least from the turn of the century, most of Europe had a wealth tax of between 0,7 and 2,5 percent. For 30 years, the Germans had an additional surcharge of one percent a year to provide loans to refugees from World War II. A similar tax has now been reimposed to assist the eastern provinces."

Also, though in favour of at least seriously considering a wealth tax, she was compelled to remark: "In sum, a wealth tax is only a tax: it cannot by itself bring about a more democratic economy."

It is a pity the LRS should have given redistribution opponents an easy target with its inflammatory, almost flippant, approach to a serious facet of the economic debate. Equally, that doesn't mean the idea of a wealth tax should be abusively dismissed.

Employee bursary tax comes into effect

WMail 28/2 – 5/3/92 (320)

By PORTIA MAURICE

EMPLOYER-ASSISTED bursary holders could be taxed from this week, putting education further out of the reach of low-income workers.

By amending the Income Tax Act, the government has abolished almost all tax-free educational assistance by employers to their employees, dependants or third parties. The change, enacted last year, comes into effect on March 1.

Managing director of salaray package consultants International Compensation (IC), Keith Clubb, this week slammed as "absolute nonsense" department of finance accusations that the assistance schemes had been abused. Clubb also questioned the silence of employer bodies and political organisations on the issue.

It is estimated that employers spend about R1,5-billion on educational assistance a year. A survey of 165 companies by IC suggests that five out of 10 technikon students, seven out of 10 white university students and almost all black students at university rely on some form of employer sponsorship.

"The government's insensitivity is appalling. It is unbelievable that these programmes should come under direct attack at a time when the country's economy desperately needs educated people," Clubb said.

Before the change, bursaries from companies were not taxable in the hands of the recipient. Now, said tax consultant Ian McKenzie, employees who receive bursaries for themselves or their children could be taxed between 15 and 43 percent, depending on the income level.

A single university student who receives a full bursary of more than R11 500 with an employment contract after study could also lose some of it to tax.

The IC survey shows that many companies are still considering the new law and whether or not to discontinue disbursements.

Gloomy outlook for tax relief

Claire Gebhardt
Business Staff

(320)

ARG 29/2/92

JOHANNESBURG. — Twenty years of double-digit inflation has effectively spelled the end of the pampered South African lifestyle, experts said this week.

In real terms, it now takes two incomes to match the single income of the 1960s and the middle class suddenly find they cannot afford to keep their homes, educate their children or get sick.

Meanwhile, the redundancy slips continue to be handed out and year end salary increases, once taken for granted, have become an impossible dream for many.

Even the rich are disillusioned as they face calls for their hard won gains to be handed over to the working poor.

The ANC is looking at a proposal that the 20 richest families in South Africa pay a 5 percent wealth tax.

The end result is that after two decades of hardship, the beleagured consumer is desperate for relief in the form of tax and interest rate cuts.

Will he or won't he get them? The debate raged on this week.

Some tax experts bluntly told Weekend Argus to forget about tax cuts — "Barend simply doesn't have the money."

And economists dashed hopes of pre-budget interest rate cuts as they pondered this week's disappointing inflation and money supply figures.

The gloomy prognosis is that the long-expected bank rate cut may now not take place at all this year.

The governor of the Reserve Bank, Dr Chris Stals, will want to see a margin of at least 2 percent between bank rate and the consumer price index.

This means inflation would have to fall from its current 16 percent to at least 14 percent for a one percent bank rate cut to 16 percent, they say.

Meanwhile, money supply growth has ballooned to a preliminary 14,7 percent in January from an upwardly revised December growth rate of 12,7 percent.

The severly depressed state of the economy was underlined this week with news that supermarket chain Checkers might be forced to weigh up liquidation if it is forced to accede to workers' pay demands.

OK and Southern Sun workers may have to forgo pay increases entirely this year if management has its way.

Three major motor manufacturers, Volkswagen, Mercedes-Benz and Samcor, are already working a three or four day week in an effort to save jobs in accordance with a union-negotiated moratorium on retrenchment.

MONEY
MATTERS

MAGNUS
Heystek

Assets' future less of a worry than inflation

320

STAR 29/2/92

HOW SAFE are your assets and investments in the new South Africa? What will happen to them under a black government? These are the questions most often asked today, especially among the middle and upper class. And whites particularly ask them with a sense of anxiety and downright fear.

The situation is not helped by headlines that proclaim "One-third tax on assets" should the ANC come to power. This suggestion, by a lone delegate at an ANC conference in the eastern Cape, has been turned into a full-blown gospel among many people.

Other rumours abound. A capital gains tax on everything from property and shares to luxury cars and deposits in bank accounts; confiscation and redistribution of so-called "white assets"; even retribution for wrongs of the past.

Personally, I do not believe the worst-case scenario sketched above will come to pass. I don't have any insight into ANC economic thinking, but I'm sure they have enough foresight not to contemplate any such moves, which would amount to economic suicide.

By now the ANC, or any black political organisation with a chance to be part of a future government, must have acquired enough wisdom to discard such thinking. But you might ask if the investment playing field could be altered by a future government, and in what way.

Dividend tax and prescribed assets

Firstly, I think a tax on dividend income could be reintroduced — even in the near future. This exemption benefits only the very rich and those who can afford to invest in the Stock Exchange. Very little black money finds its way to the JSE.

In contrast, fixed investments in banks and building societies do attract tax, apart from the first R2 000 of interest.

Politically, this is a very sensitive area, and I do foresee some form of income tax on dividends in the future. But that should not cause any loss of sleep: it was only about two years ago that dividends acquired their current tax-free status.

Secondly, we could see the reintroduction of some kind of "prescribed assets" in life and pension funds. Also, not something to cause undue worry: Government requirements about where large institutions should invest part of their money were also abolished only two years ago.

Thirdly, while some form of capital gains tax could be introduced in the near future, it will obviously apply only where actual accrual has enlarged a capital sum. Here, too, I won't lose much sleep.

What does make me toss and turn is the continued threat of a growing inflation rate. This Government has not been particularly successful in keeping inflation down. So what chance does a future government — which is likely to use increased expenditure as its primary form of redistribution — have of keeping

[redacted]

INVESTMENT INCOME: *If your wife has any, it won't be added to yours*

Bliss! Married couples enjoy taxman's bounty

(320)

Big savings ~~are to~~ be had but the anti-avoidance provision will be enforced, so get professional advice, urges MAGNUS HEYSTEK.

STAR 29/2/92

THE taxman has given married taxpayers with investment income a belated Christmas present. He could also, inadvertendly, have given marriages in community of property a major boost.

Proposed amendments to the Income Tax Act, scheduled to be passed by Parliament this year, provide for investment incomes to be split and taxed separately.

No longer does a married woman with investment income have to add that income to that of her husband, where it normally is taxed at a much higher rate.

In addition, it was announced by the Commissioner of Inland Revenue, this ruling will be made retroactive and it will apply in the tax year which ends today.

This has a major bearing on couples married in community of property and who have to make provisional payments.

It will also lead to substantial savings on income tax paid.

These amendments have been welcomed by married women and the income tax fraternity alike.

Says Chris Nixon, chief executive of the Focused Finance Group: "The amendments clear up the uncertainty surrounding the taxation of married couples married in community of property."

In the case of rental income, the amendments will apply from the 1991 tax year.

Couples who stand to benefit from the above rental income concession have until December 3 this year to apply to the Commissioner of Inland Revenue for a reassessment of their 1991 joint incomes.

Example

Both spouses have to apply in writing.

The tax savings in terms of the proposed amendments are quite far-reaching.

Mr Nixon cites the example of a 60-year-old couple married in community of property, where the husband receives a pension of R60 000 a year.

Income from investments (all in his name) totals R10 000 plus a rental income of R12 000 a

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Married couples get tax bounty

(320)

STAR 29/2/92

year. His wife earns no income.

Under the old system, for the 1992 tax year, R23 000 would have been payable. Taking the proposed amendments into account, the combined tax payable drops to R19 020 — a saving of R3 980.

Mr Nixon urges all married couples in community of property to take these concessions into account when calculating their provisional payments and, if applicable, to apply immediately to the commissioner for a reassessment of their 1991 incomes.

6-year impasse on film ventures tax deductions

STAR 29/12/92 (320)

HELLOISE TRUSSWELL

THE long-standing impasse between 38 000 taxpayers who invested an estimated R1 billion in tax-driven film enterprises and the Commissioner of Inland Revenue comes to a head next month in a test case on an appeal set down in the Special Income Tax Court.

The nub of the case is that in spite of earlier rulings embodied in the Income Tax Act, the commissioner has issued an assessment disallowing deductions and allowances on an investment in film ventures.

At issue are income tax rulings from the commissioner's office which confirm that costs incurred by the taxpayer in the production of a film can be written off over three-years.

In terms of the law, costs incurred in marketing and distribution can be written off immediately and, with the exporters' allowance, another 75 percent of incurred expenditure.

Taxpayers who invested in film ventures have not been assessed for the past six years.

Commissioner for Inland Revenue Hannes Hattingh, anxious not to pre-empt the test case, comments:

"About three years ago all these cases were referred to Inland Revenue in Johannesburg. The Receiver was instructed not to issue assessments until the issue was resolved. It takes time to get all the relevant information. Six years is a long time, I agree.

"But we are now in a position to issue assessments, not in all cases, but some."

In the test case initiated by taxpayers represented by Henry Vorster, senior partner in the legal firm Hofmeyer Van der Merwe Inc and Professor of Tax Law at Rand Afrikaans University, the taxpayers will appeal against the disallowance of the film deductions and allowances.

Mr Vorster explains: "The Commissioner has ignored these rulings which date back to 1985 and which, at no stage, have been withdrawn from the Income Tax Act. It is unfortunate that an administration can sit for six years without issuing assessments to 38 000 taxpayers simply because they have invested in films.

"The investments were encouraged by Revenue with written approval by the commissioner."

Hannes Hattingh plays his cards close to his chest: "The rulings we gave then still stand. No deduction will be allowed in respect of marketing expenditure after March 31 1992.

"For the purposes of assessments, we will look at each film scheme. On the facts that emerge, we will decide whether we should permit the allowances or disallow them."

Mr Vorster believes that because it became unaffordable or because it has become political, the commissioner no longer issued assessments which took into account the rulings.

The taxpayer is strongly disadvantaged in taking up the cudgels against the commissioner, says Mr Vorster.

"The onus of proof that the commissioner is wrong is on the taxpayer. It is often a difficult onus to discharge. Every provision in the Income Tax Act favours the revenue department."

It is common cause that substantial investments were made in ventures of this sort. Some taxpayers have invested as much as R30 million in films. One is even rumoured to have an exposure of some R40 million.

Should the court find in favour of the taxpayer, is it likely that the outcome will be applied to all similar cases?

"There is nothing that compels Revenue to accept what the court says," says Mr Vorster.

Does Mr Hattingh suspect a scam in these investments?

"I don't want to comment, but we are looking into each case and then we will decide."

Will a test case help others who have invested in films?

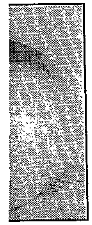
It is hoped, says Mr Vorster, that the legal issues will be accepted by the commissioner.

Should the tax court rule in favour of the taxpayer, would the commissoner overrule this judgment and change the rules retrospectively?

Mr Hattingh commented: "No, we would not do this, except in cases where an important tax principle is at stake.

HANNES HATTINGH: Commissioner for Inland Revenue agrees six years is a long time.

coming to head



Saturday Star February 27 1992

VALUE FOR YOUR MONEY

New RA rules bring problems for couples

S|Times (Buss) 1/3/92 (320)

By NIGEL SCOTT

The writers of this column are fellows of the Institute of Life and Pension Advisers, which aims to maintain the professional standards of competence and ethics of those engaged in personal financial planning.

SEPARATE taxation of married women brought with it unforeseen problems.

One concerns a married woman whose contributions to a retirement annuity (RA) fund are paid by her husband.

Two common reasons may be that she no longer receives a taxable income and is therefore unable to claim her own contributions as a deduction. Alternatively, her husband may be over 70, in which case he is no longer eligible for RA fund membership.

So the wife joins the fund and the husband pays her contributions.

Married couples in this position have a problem because the Income Tax Act makes no provision for the deduction of contributions to an RA fund made by one taxpayer on behalf of another.

The Department of Inland Revenue used to allow the deduction of contributions by a husband on behalf of his wife in certain circumstances. This practice was discontinued from March 1, 1991.

After discussions with Inland Revenue, it has been agreed to propose an amendment to the Income Tax Act in terms of which such contributions will be deductible if the wife has either no or insufficient taxable income to claim the deduction herself.

This concession is available only if the married woman became a member of the fund before March 1, 1992. In addition, the deduction claimed by the husband will not be allowed after the 1997 year of assessment.

In other words, a five-year period of grace has been allowed. It was done to avoid prejudicing taxpayers who relied on either the joint taxation provisions or the departmental practice in the past.

Pension

If the amendment is passed, which it almost certainly will be, taxpayers will have adequate time to arrange their financial planning accordingly.

Another problem may arise for members of pension and provident funds.

The maximum amount a married person may deduct from his or her income for contributions to a retirement annuity fund is the greater of:

A — 15% of income from non-retirement funding sources

B — R3 500 less current pension fund contributions or

C — R1 750

Most employees have little or no income from sources other than their employer. Furthermore, in most cases, the pension contributions made by them and/or their employer are based on their full remuneration.

Consequently, item A does not apply to most taxpayers since their income is retirement funding. They therefore rely on items B or C to determine their maximum deductible contribution to an RA fund.

The Commissioner intends proposing an amendment to the Income Tax Act in terms of which items B and C will not apply after the 1997 year of assessment.

NIGEL SCOTT: assistant general manager, Southern Life

This will mean that if a taxpayer's only income is a salary and the contributions to a pension fund made by himself or by his employer are based on his full salary, he will not be entitled to claim a deduction for RA fund contributions.

The Commissioner argues that when item A was introduced in 1979, B and C were retained purely to protect existing rights of deductibility.

He believes the time has come to remove them since it was never intended that they be used as a supplement to pension fund contributions.

In other words, the deductibility should be available only to those taxpayers who are not members of a pension or provident fund.

Logic

Although there may be some merit in the logic of the Commissioner's argument, it ignores several important practical realities. We do not have a system of compulsory pension preservation in this country. Since the average South African changes jobs every seven years and a significant loss of pension benefits occurs, some form of additional funding is necessary.

The most obvious to use is an RA fund. The Commissioner's intention to deny such employed persons the deduction of their "top-up" contributions to an RA fund will discourage a necessary form of saving. In the long run it could result in the State's having to bear an increased burden because of a greater number of people being unable to support themselves in old age.

TRANSNET ORDERED TO REPAY MILLIONS

By BILL KRIGE

TRANSNET has been ordered by the commissioner for Inland Revenue to repay millions of rands incorrectly deducted from the pay packets of thousands of Spoornet employees. (320)

The unexpected bonus, which must be paid by the end of April, results from the discovery of irregularities by tax consultants hired by the SA Railways and Harbours Workers' Union (Sarhwu). S/Times 1/3/92

About 60 000 of Spoornet's 160 000 workers belong to the union.

Tax consultant Eric Fleet believes the repayments could amount to R60-million. The same irregularities could surface in the current tax year.

Mr Andre Freemantle, general manager of Spoornet's Cape Midland's region, blamed over-deductions on "administrative problems" and said there would be a one-off payment in April.

Discrepancies centre on IRP2 forms, which indicate an employee's marital and parenting status. Thousands of the forms were never issued, depriving employees of automatic rebates of R2 100 for a spouse and R100 for each child.

VAT summit on high cost of food

(320) ARG 2/3/92

The Argus Correspondent

JOHANNESBURG. — The second phase of the VAT Co-ordinating Committee's campaign against aspects of the tax begins on Thursday with a summit which will look at the controversial increases in the price of food.

"Since the introduction of VAT, food prices have rocketed.

"Food has gone up 28 percent since last year, meat prices have increased by 38 percent and fruit and nuts by more than 50 percent.

"Although this is an issue which vitally affects us all, there has been no effective public response," said the VCC.

The summit was proposed at the last VCC meeting, which "identified that the introduction of VAT had contributed considerably to increasing food prices".

The summit will be held in Johannesburg and will discuss the possibility that the zero-ratings of eight basic foods — including mealies, milk and legumes — will be lifted at the end of March.

A report on food price increases and the possible causes will be presented at the summit.

OPINION

'Frightening' deficit prospects leave the Government little choice, writes **Azar Jammine**

Barend's taxing nightmare

STAR 3/3/92

(320)

IN the countdown to Budget Day on March 18, the scenario for the 1992/93 fiscal year that must be confronted by Finance Minister Barend du Plessis looks disturbing.

The final count of credits and debits for the past 12 months may well disclose a budget deficit as high as a record R15 billion.

And the deficit in 1992/93 threatens to climb higher still.

Due to the weakness of economic performance, it seems likely that State revenues will continue showing a decline in real terms if existing tax structures are left unaltered.

Yet, with the ANC and other political bodies likely to be extensively consulted about what they would like to see in the Budget, there is probably going to be more pressure than ever before on the Government to increase social spending by a significant amount.

Moreover, with the economy still struggling to extricate itself from recession, there will also be a lot of pressure on Government to kick-start the economy out of its misery.

In such circumstances the Government runs the risk of a massive budget deficit in the 1992/93 fiscal year.

In a worst-case scenario, in which Government spending keeps increasing by 19 percent while revenues keep rising by no more than 5 percent, the Government could be faced with a deficit for the next 12 months of between R25 billion and R30 billion.

The implications of deficits of this magnitude — for the burden of public debt, inflation and interest rates — is frightening.

Even though this may represent the worst-case scenario, the message is clear.

Unless taxes are raised significantly, the Government's finances stand to be in a lot of trouble.

With the prospect of such a huge fiscal deficit in 1992/93, it seems ever more improbable that the Government can continue trying to meet the 1994 targets set out in the pledges made by the National Party in its 1989 election manifesto to reduce taxation in a five-year series of tax cuts.

Besides difficulties in financing the deficit, it would be politically unacceptable in the context of Codesa and allied developments for the Government to announce tax cuts which could be construed as increasing the inequality in the distribution of income.

Indeed, the only way in which the Government could afford to reduce income or corporation taxes would be to raise taxes of a different kind.

So what are the options?

The head of the Department of Finance, Gerhard Croeser, let a cat out of the bag several weeks ago when he speculated on the need to raise the rate of VAT to 13 percent.

With the kind of deficit now looming, Mr Croeser's suggestion was not as wayward as initially met the eye.

One could even argue that if income and corporation taxes were to be reduced further, then in the context of the massive size of the prospective fiscal deficit, an increase in the VAT rate to 13 percent could be far from sufficient — and a rate more in the order of 15 percent or even 17 percent would have to be considered.

As a rule of thumb, each 1 percent hike in the VAT rate should add an additional R2 billion to the fiscus, if one ignored the depressing effect which such a hike might have on the economy.

Mr Croeser's suggestion may, however, be politically insensitive at this stage.

One alternative would be to raise sharply the VAT rate on many goods deemed as non-essential, but to leave at 10 percent or even reduce the VAT rate on essentials such as food. Whether even this amendment would satisfy political forces opposed to VAT is open to question.

The other alternative would be to raise taxes of a completely different form. The Government may decide to introduce some of the additional taxes which the ANC's economic policy think-tank has floated.

The more obvious ones are a capital gains tax (whose possible introduction the Government is reportedly already examining), a capital transfer tax and a minimum tax on corporations.

Moreover, the introduction of taxes such as these, which have the ANC's backing, would have the added political advantage of being seen as an important concession by the Government to take into consideration some of the suggestions made by other political groups in its efforts to reach a democratic political compromise.

The third change in tax which might be contemplated for the March budget, which we believe to be a virtual certainty, is a further increase in the fuel levy.

Ever since it was brought to the Government's attention that the percentage of South Africa's fuel price which was accounted for by the fuel levy was lower than in most other countries, increases in the fuel levy have been seen by the Government as a prime means of raising additional revenue outside of traditional income tax.

A few years ago only about a quarter of the fuel price went to the State as a levy. This figure has risen to 37 percent.

Yet the average European fuel levy accounts for 45 percent of the pump price.

Accordingly, the Government could construe this as implying further scope for hikes in the fuel levy. An increase of 10 to 15 cents per litre in the levy is therefore highly likely.

As long as the Government's share of the economy keeps rising, taxes must rise — leaving ever less disposable income available to promote economic growth.

Especially at a time when the economy is already reeling under excessive taxation, the reality is bound to dawn on the various players in the economy sooner or later that so long as this merry-go-round of higher State spending and commensurately higher taxation continues, South Africa will be unable to attain a higher growth plane in the long term. □

● **Dr Azar Jammine is director of the Econometrix research unit.**

Lifting of VAT exclusions to be challenged

B/Day 3/3/92 (320)

KATHRYN STRACHAN

THE VAT co-ordinating committee is holding a meeting on Thursday to discuss soaring food prices and to express its dissatisfaction with the way in which VAT has been applied to basic foods.

Committee spokesman Lisa Seftel said participating organisations were primarily concerned about what would happen when the temporary zero ratings on basic foods were lifted at the end of the month.

At present only brown bread and mealie meal have been permanently excluded from VAT. Another eight basic foods were excluded temporarily and the co-ordinating committee has requested that government extend the period.

According to Seftel, government decided to lift the exclusions at the end of March because it predicted its poverty relief programmes would be established by then. But Seftel claims that by end January the state had spent only R15m of the R22m allocated to the programmes.

Seftel said the "summit" of VAT co-ordinating committee participants would focus mainly on consumer groups, who would discuss forming a united consumer front to approach producers, wholesalers, retailers and relevant government departments.

The summit will be held at 10am on Thursday at the Park Lane Hotel. The meeting will be opened by Operation Hunger executive director Ina Perlman.

Tax proposal is ditched

(320)

LINDA ENSOR

INLAND Revenue has decided not to pursue its controversial proposal to discontinue the fixed amount tax deductions of R3 500 (less pension fund contributions) and R1 750 for retirement annuities from the end of the 1997 tax year.

B/Day 4/3/92

This was confirmed yesterday by Revenue's Ian Meiklejohn.

A storm of protest from life offices greeted the proposal, which was first mooted towards the end of 1991.

The Life Office's Association also expressed its opposition to the step, saying it undermined the process of private pension provision.

Pension fund members who contributed to RAs to augment their retirement provision would have been especially hard hit if the measure were introduced.

Revenue based its suggestion on the view that the fixed amount deductions were no longer justified as the total deduction of up to 27,5% of total income allowed for pension fund contributions was considered adequate.

SA needs a fair tax system that caters for social needs

B/Day 6/3/92.

NEIL COLEMAN

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A DISTURBING tendency has emerged in the mainstream media to overreact on sensitive issues, particularly economic ones. This has the effect of closing off debates, rather than encouraging a creative interaction of opposing ideas.

The Business Day editorial of February 26 attacks me for "intellectual dishonesty" and "economic naivete" for daring to suggest our taxation system needs restructuring. In case this were not enough, the editorial casts aspersions on my personal background.

In a report the previous day I indicated Cosatu had not discussed the type of wealth tax proposed by the Labour Research Service (a 5% tax on the wealthiest 20 families) but that we were concerned the tax burden had been shifted over time from companies to individuals, and from the rich to the poor.

This is borne out by a comparison of taxation levels in recent years. In 1975, company income tax (including mines) comprised 51% of revenue. By 1990 it had plummeted to 24%. On the other side, sales tax combined with individual income tax had rocketed to 63% of revenue in 1990, from 36% in 1980. Whichever way one interprets these figures, they suggest that the super-rich (whether at the corporate or individual level), have been contributing a declining share to the fiscus, while ordinary South Africans, both poor and middle income, are being taxed to the hilt.

This is not to suggest that a wealth tax is a panacea for all SA's socio-economic inequalities. Far from it. A restructuring of our taxation system can achieve the desired results only if it is accompanied by a reorientation of our economy on to a higher growth path.

Attempts to create an equitable distribution of income and social welfare, purely through the use of fiscal measures, in the face of a shrinking economy and growing population, will ultimately have the result which many businessmen have been warning against — stifling investment and economic development. Taxation used as a blunt redistributive instrument, without being accompanied by the necessary economic growth, would probably vindicate the predictions of the harbingers of doom.

Before Business Day irreparably injures my reputation by offering me a regular column, these remarks need to be put in context. Even if our economy moves on to the "high road", something for which Cosatu is arguing, adjustment of the taxation system will be needed to address massive inequalities with which a new government will be confronted.

Firstly, according to the recent IMF report, SA appears to have virtually the lowest level of property and wealth taxes in the world. Together with social security taxes and royalties, these comprise only 1,4% of GDP in SA, compared with 7,88% in selected middle-income countries, and 13,81% in industrial countries (average for 1980-1988). Therefore, despite the hysteria which has accompanied debate about a wealth tax in SA, such a tax is widely used in other parts of the world as a redistributive mechanism.

However, the form of wealth tax which is used should be consistent with the broader process of economic restructurng. For example, a capital gains tax would, apart from being a source of revenue, also encourage productive investment and job creation instead of speculation in shares and property. Similarly, a tax on dividends would encourage companies to reinvest profits.

Secondly, taxation of workers, black and white, has rocketed in recent years. Labour Research Services calculates, for example, that an African worker (married with two children) earning R1 800 a month in 1991 would pay R147,50 in PAYE, as compared to R61,54 PAYE in 1988 out of basic wage of R1 183. (This calculation is based on a 15% annual wage increase.) In this example, the worker would pay 58% more tax, as a proportion of income, than four years earlier. Bracket creep is hitting growing numbers of low-paid workers.

At the same time, indirect taxes are rapidly rising as a proportion of the fiscus — from 14% of revenue in 1980 to 29% in 1990. The IMF study shows this is at least a third more than that of selected middle-income countries, and double that of African and Asian countries, taken as a percentage of GDP. The situation is now probably even more unfavourable, considering the IMF figures cover only the 1980-1988 period.

Indirect taxation ignores income and ability to pay. It taxes all — super-rich or super-poor — equally. This form of regressive taxation was taken to absurd lengths with the introduction of the undifferentiated 10% VAT rate last year, a rate which we are told will soon be going up. This is in spite of the fact that every other country in the world which uses VAT, with the exception of New Zealand (with its advanced social security network), taxes basic necessities at a low rate and luxury commodities at a high rate. The 16-million South Africans living below the poverty line (according to Development Bank of Southern Africa estimates) with virtually no security net, will not be encouraged by Business Day's claim that VAT is fair because it taxes all equally!

Further, VAT has been implemented in a way which doubly benefits the rich and the corporate sector, at the expense of the poor and unemployed. The immediate and total exemption from VAT on capital goods (again unique in the world) created an estimated R7,5bn windfall for big business.

We were told this would encourage large-scale investment and job creation. Leaving aside the fact that the predicted surge in economic activity has not materialised, it is not difficult to see that structuring of VAT in SA is bound to create unemployment rather than jobs. VAT raises labour costs, and cheapens capital by exempting capital goods. This will encourage the replacement of labour by capital.

The implementation of VAT is yet another example of how our taxation system is structured with total disregard for social realities and development priorities.

Thirdly, we should be more cautious before boasting about the redistribution of wealth which is said to have happened in recent years. If any redistribution has indeed taken place, it has been marginal and a drop in the ocean when measured against SA's staggering socio-economic inequalities.

Even the IMF report suggests that despite certain shifts (many of which, incidentally, were the result of bitter struggles by workers and their unions), SA still has possibly the greatest level of socio-economic inequality in the world. This assessment is based on the Gini Co-efficient, a widely used standardised measure of income distribution.

The report estimates that white per capita income was nearly 1 000% that of black per capita incme in 1989. Despite shifts in social spending, per capita social expenditure on whites continues to be several hundred percent that of blacks.

The IMF report also reveals that when economic indicators are compared for SA and relatively poorer neighbours such as Zimbabwe and Botswana, citizens of these countries are as well off, or better off, than black South Africans. Even poverty-stricken Namibia compares favourably in the IMF analysis.

These harsh realities need to be seriously addressed if we are to meet the challenges facing SA in this period of transition. Until we start addressing the critical problems confronting our country, on the basis of real social needs rather than perceived ideological paradigms, we will continue talking past each other.

☐ **Coleman is Cosatu's information officer.**

No tax relief on school fees

(32°) Own Correspondent

DURBAN — Tax relief will not be given to parents for the compulsory fees they pay for their children at the approximately 2 500 House of Assembly schools which become semi-private from next month, Natal Receiver of Revenue Geoff Grant warned yesterday.

Commenting on answers by Education Minister Piet Marais to queries about "Model C" schools, he said fees were considered domestic or private expenses which were "specifically prohibited as a deduction in terms of section 23(b) of the Income Tax Act".

Schools will not be required to collect VAT on fees. BDay 10/3/92

Another concern of parents and teachers was that Model C schools' earnings and trust funds would be taxed, but Grant said these would exempt.

Political comment in this issue by J Jones. Newsbills by C Reynierse. Headlines and subediting by D Armour. All of Times Media Ltd, 11 Diagonal St, Johannesburg.

Cast slams chamber for planning to meet Codesa

THEO RAWANA

THE Central Witwatersrand Metropolitan Chamber was jumping the gun by meeting Codesa, Civics Association of Southern Transvaal (Cast) general secretary Dan Mofokeng said in Johannesburg yesterday.

Reacting to reports that the chamber would meet Codesa this week to discuss a possible basis of contact, Mofokeng said the chamber, being a local forum, should have left that task to national or more regional bodies.

Sapa had quoted chamber CEO Vic Milne as saying: "We feel that the Witwatersrand is such an important area strategically and economically that it might be worthwhile for us and Codesa that we both know what the other is doing." BlDay 10/3/92

Mofokeng said: "It is incorrect and immature for the chamber to put views to Codesa; it is not fit to represent all the interests of SA on a local level. It should leave that to regional or national bodies."

The national body, which possibly would be called the Civics Association of SA, would meet in Johannesburg this weekend, he said.

Sapa reports the chamber will meet tomorrow to hear reports of all committees, including one on the forthcoming visit of the World Bank reconnaisance mission.

The chamber is seeking a compromise arrangement on the World Bank after certain members demanded they should have direct contact with the mission, Milne said.

Creditors sue Wolnit

B Day 10/3

THE directors of Wolnit, a liquidated subsidiary of Rentmeester, are being sued in the Pretoria Supreme Court for almost R2m for allegedly recklessly carrying on

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Trebbob Beleg[...] disclose the bo[...]

Tax clerk jailed for 'perfect' GST fraud

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ARG 12/3/92

ANDRE MARTIN
Staff Reporter

A FORMER Receiver of Revenue tax clerk, convicted on four counts of fraud involving R269 100, has been sentenced in the Cape Town Regional Court to an effective three years' jail.

Ronald Wayne Tiltman, 26, of Victoria Road, Bantry Bay, who was employed at the Receiver for eight years, pleaded guilty in January. He was sentenced yesterday to five years' jail, with two years suspended for five years.

Tiltman pretended last April that Marine West had erroneously paid general sales tax twice, on vessels they had purchased.

Later in May Tiltman opened a savings account at Nedperm Bank in Rondebosch by pretending to be Thomas Jones, who would administer the R269 100 which the Receiver of Revenue owed Marine West.

In mitigation of sentence a probation officer, Mrs M Smith, said Tiltman committed the "perfect crime, which would never have been discovered if Nedperm's head office had not made enquiries".

She recommended to the court that Tiltman be given a heavy fine and 1 500 hours of community service.

Magistrate Mr W A de Klerk said: "In such a case it is my conviction that the effect of punishment as a deterrent is of special importance.

"The public is concerned about the hard-earned money they paid to the Receiver of Revenue and if there is corruption the whole taxpayer community is on their hind legs."

Tiltman was released on R5 000 bail pending an appeal.

Mr S Schrock prosecuted. Mr A Hall represented Tiltman.

THE BUDGET FM 13/3/92

Hobson's choices (320)

Of the many unsatisfactory ways in which Finance Minister Barend du Plessis may attempt to increase tax revenue in fiscal 1992/1993, perhaps the worst is a minimum tax on companies (MTC).

The previous MTC was imposed as a one-off tax in the 1988/1989 tax year to hit companies which benefited from special allowances and then paid large dividends. However, most major incentives and allowances have since been removed, including the initial investment allowances, lifo accounting, accelerated depreciation, the export marketing incentive and the previous concessionary treatment of consumable stores and work in progress.

So the justification for the tax has largely fallen away.

Deloitte Pim Goldby tax partner Willem Cronje says a minimum tax cuts across recognised fiscal principles — a view supported by Ernst & Young tax partner Ian MacKenzie — and could come close in SA's circumstances to ending the rule of law in company taxation.

It does not take account of the way company accounts are structured and should be opposed as strongly as possible by the private sector.

Nedbank chief economist Edward Osborn endorses this view.

Kessel Feinstein tax partner Ernest Mazansky sees a further problem if — like the previous MTC — it is defined as the excess of dividends declared over the sum of tax paid (in the previous year) plus dividends received. Where no dividends were received,

continue →

the MTC was charged at 25% of the excess of dividends paid over tax paid, with certain exemptions.

This would hit private companies which had declared dividends out of large reserves accumulated over many years, after the tax on dividends was abolished on March 1 1990 — to pre-empt a possible reintroduction of that tax.

Mazansky argues that it is not necessary for MTC to be based on the excess of dividends over tax. It could be related to tax paid as a percentage of profits — if the percentage were materially less than the nominal rate of 48%. But this would give rise to serious problems of definition, as tax is paid according to taxable income, not according to profit — which often differs substantially from the former because of timing differences and other accounting issues.

The debate goes all the way back to the Margo report — which declined to give unconditional endorsement to an MTC. The report noted that the real need was to eliminate remaining incentives and concessions which reduced the company tax rate.

An increase in VAT, which would bring in significant additional income, would be even more controversial. It has only recently been introduced — in politically unfavourable circumstances. To raise the rate from 10% to 13% after only six months — as Finance Director-General Gerhard Croeser recently hinted — could bring in R6bn and a revolution.

A higher tax on petrol is generally expected and there is no doubt that more revenue can be milked out of this easily administered indirect tax. But it cannot be supposed that a further 10c or so on every litre of petrol can alone solve the problem.

As the SA Chamber of Business pointed out in its recent comprehensive budgetary analysis, fiscal drag has borne heavily on the after-tax earnings of the middle-income group, which deserves relief rather than an increased impost. Of course, even to leave tax rates unchanged during a year when inflation is likely to be 12% or more, is to inject another dose of fiscal drag.

The company tax rate at 48% is higher than the rate in major industrial countries, with disincentive influences on local investment. And government is shackled by its commitments to continue reducing both individual and corporate tax rates.

Perhaps the least damaging way to cope with this desperate situation, says Osborn, is to say outright that there must be a moratorium on government's commitment to reduce corporate and personal tax rates. This at least would be honest and leave the technical fabric of the tax system intact. ■

Church campaign on VAT injustice

Staff Reporter CT 13/3/92

THIRTEEN different religious denominations have combined to form the Churches' Committee on Value Added Tax and have drawn up a declaration on the injustice of the tax.

They are to embark on a campaign in the city next week to convince the public that VAT on basic foods and health care for the poor is immoral.

"Depending on the government's reaction to our campaign we might have to deliver our demands in person to Mr Barend du Plessis" said Ms Leslie Liddell, committee co-ordinator.

The declaration demands that the government:

- Abandons its threat to terminate, on March 31, the zero-rating of the few foods that are tax exempt.
- Extends the list of tax-exempt food.
- Exempts all health care for the poor.

The declaration has been signed by prominent church leaders, including Archbishop Desmond Tutu, and has been endorsed by the Western Province Council of Churches as well as many independent churches and organisations. (320)

Higher wealth taxes would add little to the nation's kitty

BDay 13/3/92

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MARIUS VAN BLERCK

TAX IS an emotive subject. For this reason, emotive off-the-cuff suggestions on future tax policies sometimes evoke overreaction in the financial Press. The issue of SA's fiscal policy is so important to our economic future and the wellbeing of all our peoples that this form of action and reaction must be avoided.

On the other hand, it is essential that in our emerging democracy there be a healthy, open debate on taxation. Indeed, it is a refreshing sign of the times that, after more than a century of political debate dominated by racial issues, politicians, businessmen, unionists and citizens in general are becoming more aware of the need to examine fiscal policy.

For these reasons, it is reassuring that the contacts which the SA Fiscal Think Tank have had with the major players in the political arena (including government, the ANC, Inkatha, the CP and the DP) over the past year have indicated they are all paying careful attention to formulating rational fiscal policies.

On the trade union side, it is also refreshing to note the contribution of Cosatu information officer Neil Coleman to the debate (Business Day, March 6) where he argued that a restructuring of our taxation system can achieve the desired result (of redressing inequalities) only if it is acompanied by a reorientation of our economy on to a higher growth path.

Growth is not simply an important factor, it is the essential factor. My research indicates there is a direct correlation between government's ability to extract revenues from an economy and the state of development of that economy.

For example, in 1987 SA central government revenue as a percentage of GDP was 24,6% — up from 21,4% in 1975. The corresponding figure for industrialised countries in 1987 was 27,4% while that for developing countries in Africa was 21,61%. It is clear that in SA the proportion of revenue which government can extract is substantially higher than in less developed countries but lags behind that yielded by industrialised countries.

In the years that our economy experienced real growth the yield increased relatively painlessly. But since the beginning of the slump in the mid-'80s the yield has slipped. Growth is thus of great importance to the fiscus. These contentions are borne out by the January 1992 IMF report on economic policies for a new SA.

When dealing with the subject of property and wealth taxes, it is necessary to be cautious and to ensure total accuracy since, of all taxes, these tend to generate the most emotive debates. For this reason it is unfortunate that Coleman interpreted IMF comments that "other countries raised substantially more revenue through social security and wealth taxes than did SA" as indicating that, in his words, "SA appears to have virtually the lowest level of property and wealth taxes in the world".

The fact is that SA has an extremely low level of social security taxes, while the property tax level (which includes wealth taxes) falls in between that prevailing in the more highly developed countries and that in the developing countries.

The low level of social security taxes (surely fruitful ground for fiscal research) is sufficient to reduce the sum of these two tax categories to a low level.

As with the overall tax yield, this research indicates that there is definite scope for increasing property and wealth taxes provided we achieve real growth in SA, but such taxes never make a material impact on overall tax collections. Even in the Organisation for Economic Cooperation and Development (OECD), such taxes at central government level yield only about 1,8% as a percentage of GDP.

Three other statements by Coleman deserve comment. Firstly, he correctly points out that there has been a substantial shift in the tax burden from corporate tax to other forms of tax in recent years. This shift has resulted from a number of factors including declining profitability and fiscal drag, among others, but it is interesting to note that SA is far from unique in this respect.

While personal tax in SA generated about 50% more than corporate tax in 1987, in the OECD this multiple was on average about 400%. This tendency seems to have come about through an acceptance that it is simplistic to view either companies or individuals as "bearing" the tax burden. In reality, economic activity bears all taxes, and governments merely seek the most efficient points from which to siphon such taxes, one of which is the individual pay point.

Secondly, he advocates taxation on dividend income. The exception of dividends from tax is no holy cow, and while there are mixed views on the subject, the proposition deserves serious evaluation.

What should be remembered is that it is a worldwide trend to eliminate the economic double taxation of corporate earnings and that, if dividends are to be taxed, it would be wise to implement some form of imputation system to relieve such double taxation.

Thirdly, Coleman raises the possibility of a differentiated VAT rate, taxing basic necessities at a low rate and luxuries at a higher rate. Such systems are common worldwide and informal calculations by me last year indicated that a 5% rate on necessities and a 15% rate on other transactions could yield about 40% more than the current single rate system. Once again, this area offers great scope for research and analysis.

Incidentally, Coleman deduces that VAT raises labour costs and cheapens capital. Since labour costs are not subject to VAT, and since capital costs are in effect similarly treated as a result of the input credit system, VAT is neutral between labour and capital.

☐ Besides the areas of taxation identified here as worthy of research, there are dozens of other aspects of fiscal policy which require thorough academic analyses. With this in mind, the SA Fiscal Association launched a competition last year for the best post-graduate tax thesis at an SA university. A prize of R4 000 will be awarded to the 1992 winner, and R2 000 will be awarded to the relevant university.

Details of the 1992 competition will shortly be sent to all SA universities. Universities interested in obtaining details in the interim should fax Danie Erasmus at (011) 333-0104.

As a further measure to contribute to a higher standard of fiscal debate, the SA Fiscal Association last year launched the SA Fiscal Think Tank. The objective of the thinktank is to contribute in an impartial manner to the ongoing development of fiscal policy, and, as noted above, a wide range of political contacts made over the past 12 months has resulted in some progress towards this objective. Those interested in more details on the think tank and its research should fax Ernie Lai King on (011) 783-2180.

☐ **Van Blerck is tax consultant to Anglo American, chairman of the SA Fiscal Think Tank and founding editor of the SA Tax Review.**

LATEST VAT TAKE

FM 13/3/92
(320)

After averaging R1,5bn in October and November, the first two months it was collected, VAT revenue in December rose to nearly R2bn. The increase was due to (somewhat subdued) festive spending.

VAT was introduced on September 30 but the first collections were reflected in November figures. Collections for November-January total more than R5bn. This is R200m up on the R4,8bn collected in the same period of the previous fiscal year and in line with revised expectations after the reduction in the VAT rate from 12% to 10%.

GST collections earlier in the year totalled R10,6bn. Though GST revenue is still trickling through, the bulk was collected over the first seven months of the fiscal year.

GST collections showed only a tiny increase over those in the comparable period of the previous fiscal year — R10,4bn. This was due to the recession and postponed spending on goods that benefited either from input credits (capital and intermediate goods) or from the lower rate at which VAT is levied compared with GST at 13%.

Beskrywing van voorgestelde grondgedeeltes wat by die regsgebied van die Stadsraad van Bronkhorstspruit beoog ingelyf te word

Begin by baken geletter A op Kaart A1390/1909 van die Restant van Gedeelte 3, groot 386,8490 hektaar, van die plaas Oude Zwaans Kraal 542 JR; daarvandaan algemeen ooswaarts en algemeen suidwaarts met die grense van die volgende eiendomme langs sodat hulle in hierdie gebied ingesluit word: Die genoemde Restant van Gedeelte 3 (Kaart A1390/1909) van die plaas Oude Zwaans Kraal 542 JR, Gedeelte 32 (Kaart A11372/1984) en Gedeelte 31 (Kaart A7806/1984) beide van die plaas Tweefontein 541 JR, die dorp Bronkhorstsbaai-dorpsgebied (Algemene Plan A2953/1971), Restant van Gedeelte 19 (Kaart A1173/1966), groot 179,7392 hektaar, van die genoemde plaas Tweefontein 541 JR, die volgende gedeeltes van die plaas Groenfontein 526 JR: Gedeelte 5 (Kaart A2543/1950), Gedeelte 61 (Kaart A601/1988), Gedeelte 60 (Kaart A600/1988), Gedeelte 12 (Kaart A6999/1968), Gedeelte 13 (Kaart A7000/1968), Gedeelte 14 (Kaart A7001/1968), Gedeelte 15 (Kaart A7002/1968), Gedeelte 16 (Kaart A7003/1968) en Gedeelte 17 (Kaart A7004/1968), die volgende gedeeltes van die genoemde plaas Tweefontein 541 JR: Restant van Gedeelte 12 (Kaart A7729/1945), groot 295,1537 hektaar, Gedeelte 15 (Kaart A8054/1949) en Gedeelte 5 (Kaart A762/1908), Gedeelte 4 (Kaart A4195/1959) van die plaas Mullershoop 544 JR, Gedeelte 24 (Kaart A3600/1941) van die plaas Rooipoort 555 JR, Genoemde Gedeelte 4 van die plaas Mullershoop 544 JR en Gedeelte 23 (Kaart A3599/1941) van die genoemde plaas Rooipoort 555 JR, tot by die suidoostelike baken van laasgenoemde eiendom; daarvandaan algemeen weswaarts en noordwaarts met die grense van die volgende eiendomme langs sodat hulle in hierdie gebied ingesluit word: Genoemde Gedeelte 23 (Kaart A3599/1941) van die plaas Rooipoort 555 JR, genoemde Gedeelte 4 (Kaart A4195/1959) en die Restant van die plaas Mullershoop 544 JR, Groot 866,9987 hektaar, (Kaart A2189/1959), die plaas Oudou Boerdery 626 JR en die genoemde Restant van Gedeelte 3 van die plaas Oude Zwaans Kraal 542 JR, tot by die baken geletter A op Kaart A1390/1909 van die laasgenoemde eiendom, die beginpunt.

G. M. VAN GINKEL,
Sekretaris: Afbakeningsraad.

(Verwysing: 12/2/9/4/13)

Description of the proposed portions of land intended to be incorporated into the area of jurisdiction of the City Council of Bronkhorstspruit.

Beginning at beacon lettered A on Diagram A1390/1909 of the Remainder of Protion 3, in extent 386,8490 hectares, of the farm Oude Zwaans Kraal 542 JR; thence generally eastwards and generally southwards along the boundaries of the following properties so as to include them in this area: The said Remainder of Portion 3 (Diagram A1390/1909) of the farm Oude Zwaans Kraal 542 JR, Portion 32 (Diagram A11372/ 1984) and Portion 31 (Diagram A7806/1984) both of the farm Tweefontein 541 JR, the Town Bronkhorstbaai Township (General Plan A2953/1971), Remainder of Portion 19 (Diagram A1173/1966), in extent 179,7392 hectares, of the said farm Tweefontein 541 JR, the following portions of the farm Groenfontein 526 JR: Portion 5 (Diagram A2543/1950), Portion 61 (Diagram A601/1988), Portion 60 (Diagram A600/1988), Portion 12 (Diagram A6999/ 1968), Portion 13 (Diagram A7000/1968), Portion 14 (Diagram A7001/1968), Portion 15 (Diagram A7002/ 1968), Portion 16 (Diagram A7003/1968) and Portion 17 (Diagram A7004/1968), the following portions of the said farm Tweefontein 541 JR: Remainder of Portion 12 (Diagram A7729/1945), in extent 295,1537 hectares, Portion 15 (Diagram A8054/ 1949) and Portion 5 (Diagram A762/1908), Portion 4 (Diagram A4195/1959) of the farm Mullershoop 544 JR, Portion 24 (Diagram A3600/1941) of the farm Rooipoort 555 JR, the said Portion 4 of the farm Mullershoop 544 JR and Portion 23 (Diagram A3599/1941) of the said farm Rooipoort 555 JR, to the south-eastern beacon of the last-mentioned property; thence generally westwards and northwards along the boundaries of the following properties so as to include them in this area: The said Portion 23 (Diagram A3599/1941) of the farm Rooipoort 555 JR, the said Portion 4 (Diagram A4195/1959) and the Remainder of the farm Mullershoop 544 JR, in extent 866,9987 hectares, (Diagram A2189/1959), the farm Oudou Boerdery 626 JR and the said Remainder of Portion 3 of the farm Oude Zwaans Kraal 542 JR, to the beacon lettered A on the Diagram A1390/1909 of the last-mentioned property, the point of beginning.

G. M. VAN GINKEL,
Secretary: Demarcation Board.

(Reference: 12/2/9/4/13)

DEPARTEMENT VAN STAATSBESTEDING

No. 753 **13 Maart 1992**

Staat van Inkomste ingevorder gedurende die tydperk 1 April 1991 tot 31 Januarie 1992.

Tesourie, Pretoria.

DEPARTMENT OF STATE EXPENDITURE

No. 753 320 **13 March 1992**

Statement of Revenue collected during the period 1 April 1991 to 31 January 1992.

Treasury, Pretoria.

Inkomstehoof	Head of Revenue	Begroting Estimate	Maand Januarie Month of January		Totaal 1 April tot 31 Januarie Total 1 April to 31 January	
		1991–92	1992	1991	1992	1991
		R	R	R	R	R
Staatsinkomsterekening	***State Revenue Account***					
Binnelandse Inkomste:	Inland Revenue:					
Belasting op inkomste	Tax on income	44 817 200 000	4 291 099 731	4 027 271 718	35 157 524 631	30 954 851 718
Leningsheffing, 1989–94	Loan Levy, 1989–94	—	—	2 158 135	2 032 358	2 422 935
Verkoopbelasting	Sales tax	19 444 000 000	48 846 000	2 178 679 099	10 552 912 482	15 183 310 013
Belasting op toegevoegde waarde	Value added tax	—	1 983 964 793	—	5 167 848 128	—

Inkomstehoof	Head of Revenue	Begroting Estimate 1991–92	Maand Januarie Month of January 1992	Maand Januarie Month of January 1991	Totaal 1 April tot 31 Januarie Total 1 April to 31 January 1992	Totaal 1 April tot 31 Januarie Total 1 April to 31 January 1991
		R	R	R	R	R
Ander belastings:	Other taxes:					
Belasting op buitelandse aandeelhouers	Non-resident shareholders' tax	430 000 000	38 285 369	33 347 933	295 336 225	375 776 635
Rentebelasting op buitelanders	Non-residents' tax on interest	—	—	(1 096 857)	37 826	714 239
Onuitgekeerde winste	Undistributed profits	—	501	1 594 802	365 617	2 252 115
Geskenkbelasting	Donations tax	6 000 000	979 101	721 421	4 764 872	5 566 790
Boedelbelasting	Estate duty	75 000 000	7 890 718	5 542 838	69 857 426	73 303 077
Handelseffekte	Trade securities	175 000 000	10 633 521	12 457 400	169 474 083	203 304 880
Seëlregte en gelde	Stamp duties and fees	655 000 000	51 068 452	57 324 777	597 485 722	536 464 151
Hereregte	Transfer duties	675 000 000	92 960 956	59 651 007	749 588 827	631 552 191
Diverse	Miscellaneous	—	—	—	—	—
Mynverhurings- en eiendomsregte	Mining leases and ownership	320 000 000	(3 928 655)	20 239	219 209 634	283 655 243
Rente en dividende	Interest and dividends	55 000 000	2 819 884	3 371 141	53 236 897	52 959 420
Heffings	Levies	9 000 000	786 415	708 861	13 751 791	13 175 615
Terugvorderings van lenings en voorskotte	Recoveries of loans and advances	56 000 000	1 878 527	1 955 528	. 31 671 446	63 349 183
Departementele bedrywighede	Departmental activities	994 000 000	198 908 922	54 679 832	986 224 920	1 033 303 339
	R	67 711 200 000	6 726 192 235	6 438 387 874	54 071 322 885	49 415 961 544
Min: Betalings aan selfregerende nasionale state	*Less:* Payments to self-governing national states	1 075 200 000	148 436 917	76 309 257	1 068 494 917	757 404 257
Totaal: Binnelandse inkomste	Total: Inland revenue R	66 638 000 000	6 577 755 318	6 362 078 617	53 002 827 968	48 658 557 287
Doeane- en aksynsregte:	Customs and excise duties:					
Doeanereg	Customs duty	2 635 000 000	191 174 760	164 218 361	2 311 368 812	2 099 553 500
Aksynsreg	Excise duty	3 555 000 000	233 475 985	334 542 135	2 621 238 995	2 517 409 353
Bobelasting	Surcharge	1 409 000 000	101 613 710	146 271 441	1 216 401 388	1 752 286 865
Diverse	Miscellaneous	233 000 000	161 623 018	26 825 170	500 184 731	174 730 658
Brandstof heffing	Fuel levy	4 620 000 000	480 600 994	309 460 560	4 254 896 498	3 290 792 577
Gewone heffing	Ordinary levy	111 000 000	5 056 976	22 647 539	50 956 923	96 919 145
	R	12 463 000 000	1 173 545 443	1 003 965 206	10 955 047 347	9 931 692 098
Min:	*Less:*					
Bedrag tot krediet van Sentrale Inkomstefonds	Amount to the credit of Central Revenue Fund	—	—	—	—	223 500 000
Betalings ingevolge Doeane-unie-ooreenkomste	Payments in terms of Customs Union Agreements	4 233 000 000	873 728 750	764 967 062	4 499 022 000	2 951 791 812
Totaal: Doeane- en aksynsregte	Total: Customs and excise duties R	8 230 000 000	299 816 693	238 998 144	6 456 025 347	6 756 400 286
	R	74 868 000 000	6 877 572 011	6 601 076 761	59 458 853 315	55 414 957 573
Suid-Afrikaanse Ontwikkelingstrustfonds	South African Development Trust Fund	50 000 000	15 023 182	198 268	57 495 883	57 317 666
Fonds vir Sorghumbiernavorsingsfonds	Sorghum Beer Research Fund	1 200 000	—	—	—	—
Toewysings uit brandstofheffing:	Allocations from fuel levy:					
Oliebesoedelingsfonds	Oil Pollution Fund	6 000 000	—	—	—	—
Suidwes-Afrika	South West Africa	10 000 000	—	—	—	—
TBVC-lande	TBVC Countries	140 000 000	—	—	—	—
	R	207 200 000	15 023 182	198 268	57 495 883	57 317 666
	R	75 073 200 000	6 892 595 193	6 601 275 029	59 516 349 198	55 472 275 239
Inkomsterekening: Volksraad	***Revenue Account: House of Assembly***					
Binnelandse inkomste	Inland revenue	—	1 634 619	348 247	154 200 180	145 196 904
Inkomsterekening: Raad van Verteenwoordigers	***Revenue Account: House of Representatives***					
Binnelandse inkomste	Inland revenue	—	1 798 845	1 859 228	27 401 995	28 933 585
Inkomsterekening: Raad van Afgevaardigdes	***Revenue Account: House of Delegates***					
Binnelandse inkomste	Inland revenue	—	62	494 056	6 206 725	5 381 963
	R	—	3 433 526	2 701 531	187 808 900	179 512 452
Groottotaal	Grandtotal R	—	6 896 028 719	6 603 976 560	59 704 158 098	55 651 787 691
Rekonsiliasie met opgaaf gepubliseer by Goewermentskennisgewing 490 in *Staatskoerant* van 14 Februarie 1992:	Reconciliation with statement published by Government Notice 490 in *Government Gazette* of 14 February 1992:					
In Transito, 31 Maart 1991	In Transit, 31 March 1991	—	—	—	198 934 099	—
In Transito/Te veel oorgedra, 31 Desember 1991	In Transit/Overremitted, 31 December 1991	—	(407 309 863)	—	—	—
Invorderings soos hierbo	Collections as above	—	6 896 028 719	—	59 704 158 098	—
	R	—	6 488 718 856	—	59 903 092 197	—
In Transito/Te veel oorgedra, 31 Januarie 1992	In Transit/Overremitted, 31 January 1992	—	452 904 435	—	452 904 435	—
In Transito Inkomsterekening: Administrasies	In Transit Revenue Account: Administrations	—	(6 073 231)	—	(184 375 374)	—
In Skatkisrekening ontvang	Received into Exchequer Account R	—	6 935 550 060	—	60 171 621 258	—

No. 754 **13 Maart 1992**

STREEKTENDERRAAD

Die Minister van Staatsbesteding het kragtens artikel 3 van die Wet op die Staatstenderraad, 1968 (Wet 86 van 1968), mnr. H. J. Carstensen met ingang van 1 Maart 1992 as lid van die Streektenderraad: Kaapstad aangestel om die Provinsiale Administrasie van die Kaap die Goeie Hoop te verteenwoordig.

No. 754 **13 March 1992**

REGIONAL TENDER BOARD

In terms of section 3 of the State Tender Board Act, 1968 (Act 86 of 1968), the Minister of State Expenditure has appointed Mr H. J. Carstensen as member of the Regional Tender Board: Cape Town with effect from 1 March 1992 to represent the Provincial Administration of the Cape of Good Hope.

No. 755 **13 Maart 1992**

STREEKTENDERRAAD

Die Minister van Staatsbesteding het kragtens artikel 3 van die Wet op die Staatstenderraad, 1968 (Wet 86 van 1968), mnr. W. E. J. Burgess met ingang van 1 Februarie 1992 as lid van die Streektenderraad: Kaapstad aangestel om die Administrasie: Volksraad te verteenwoordig.

No. 755 **13 March 1992**

REGIONAL TENDER BOARD

In terms of section 3 of the State Tender Board Act, 1968 (Act 86 of 1968), the Minister of State Expenditure has appointed Mr W. E. J. Burgess as member of the Regional Tender Board: Cape Town with effect from 1 February 1992 to represent the Administration: House of Assembly.

No. 816 **13 Maart 1992**

Staat van Ontvangste in en Oordragte uit die Skatkisrekening vir die tydperk 1 April 1991 tot 29 Februarie 1992.

Tesourie, Pretoria.

No. 816 **13 March 1992**

Statement of Receipts into and Transfers from the Exchequer Account for the period 1 April 1991 to 29 February 1992. (320)

Treasury, Pretoria.

ONTVANGSTE—RECEIPTS

Inkomstehoof	Head of Revenue	Maand Februarie / Month of February		Totaal 1 April tot 29 Februarie / Total 1 April to 29 February	
		1992	1991	1992	1991
		R	R	R	R
Skatkissaldo, 31 Maart 1991	Exchequer Balance, 31 March 1991	—	—	2 707 707 237	—
Skatkissaldo, 28 Februarie 1992	Exchequer Balance, 28 February 1992	9 230 927 037	—	—	—
Staatsinkomsterekening	***State Revenue Account***				
Binnelandse Inkomste	Inland Revenue	3 989 333 066	3 782 068 710	57 280 697 176	52 589 172 869
Doeane en Aksyns	Customs and Excise	1 191 206 950	991 369 520	7 601 953 437	7 829 005 240
	R	5 180 540 016	4 773 438 230	64 882 650 613	60 418 178 109
Suid-Afrikaanse Ontwikkelingstrustfonds	South African Development Trust Fund	15 023 182	198 269	62 501 485	72 572 183
	R	15 023 182	198 269	62 501 485	72 572 183
	R	5 195 563 198	4 773 636 499	64 945 152 098	60 490 750 292
Ander Ontvangste	***Other Receipts***				
Skatkisbiljette	Treasury Bills	9 889 084 219	—	68 545 554 169	—
Leningsheffing 1989–94	Loan levy 1989–94	—	—	2 032 358	—
Obligasies:	Bonds:				
Onbepaalde Termyn Skatkis-obligasies	Indefinite Period Exchequer Bonds	82 000	—	1 031 100	—
Onbepaalde Termyn Nasionale Verdedigingobligasies	Indefinite Period National Defence Bonds	1 224 500	—	4 449 400	—
Binnelandse Geregistreerde Effekte:	Internal Registered Stock:				
12%, 2004/5/6	12%, 2004/5/6	(16 000 000)	—	4 267 277 004	—
		—	—	(1 344 356 000)	—
12,5%, 1995/96	12,5%, 1995/96	16 000 000	—	4 705 984 142	—
		—	—	(495 531 000)	—
13%, 2009/10/11	13%, 2009/10/11	—	—	5 517 500 000	—
		—	—	(1 104 249 000)	—
6,5%, 1992	6,5%, 1992	—	—	360 000 000	—
		—	—	(39 872 000)	—
10%, 1991	10%, 1991	—	—	66 200 000	—
				(2 226 000)	
11,5%, 1999/2000	11,5%, 1999/2000	—	—	1 399 000 000	—
		—	—	(282 463 000)	—
14,5%, 1993	14,5%, 1993	500 000 000	—	675 802 942	—
		(11 855 000)	—	(14 552 000)	—
12%, 1994	12%, 1994	510 000 000	—	2 928 000 000	—
		(39 053 000)	—	(262 142 000)	—
13,5%, 2015	13,5%, 2015	750 000 000	—	2 796 570 000	—
		(150 040 000)	—	(583 869 000)	—
10,5%, 1992	10,5%, 1992	—	—	500 000 000	—
		—	—	(21 104 000)	—
14%, 1994	14%, 1994	—	—	500 000 000	—
		—	—	(21 104 000)	—

Inkomstehoof	Head of Revenue	Maand Februarie / Month of February		Totaal 1 April tot 29 Februarie / Total 1 April to 29 February	
		1992	1991	1992	1991
		R	R	R	R
14%, 1995	14%, 1995	–	–	300 000 000	–
		–	–	(18 539 000)	–
14%, 1997	14%, 1997	500 000 000	–	800 000 000	–
		(47 273 000)	–	(74 771 000)	–
13%, 1996	13%, 1996	260 000 000	–	260 000 000	–
		(26 527 000)	–	(26 527 000)	–
Buitelandse Lenings en Kreditte:	Foreign Loans and Credits:				
1991–1994	1991–1994	–	–	139 250 000	–
1991–1996	1991–1996	–	–	682 528 223	–
1997	1997	896 300 000	–	896 300 000	–
Vasgestelde Statutêre Toewysings, 1990–91	Fixed Statutory Allocations, 1990–91	–	–	19 373 779	–
Terugstortings, 1985–86	Surrenders, 1985–86	–	–	28 049	–
Terugstortings, 1989–1990	Surrenders, 1989–1990	–	–	155 527	–
Terugstortings, 1990–1991	Surrenders, 1990–1991	–	–	785 060 627	–
	R	13 306 690 719	–	96 152 097 320	–
*Min Diskonto R.S.A. Effekte	*Less Discount R.S.A. Stocks	274 748 000	–	4 291 305 000	–
	R	13 031 942 719	–	91 860 792 320	–
	R	18 227 505 917	–	156 805 944 418	–
Inkomsterekning: Volksraad	***Revenue Account: House of Assembly***				
Binnelandse inkomste	Inland revenue	1 634 620	348 247	154 200 180	145 196 904
Oorplasing vanaf Staatsinkomsterekening	Transfer from State Revenue Account	772 678 600	569 383 000	8 733 598 400	7 388 237 000
Terugstortings, 1989–90	Surrenders, 1989–90	–	–	209 528 809	–
	R	774 313 220	569 731 247	9 097 327 389	7 533 433 904
Inkomsterekening: Raad van Verteenwoordigers	***Revenue Account: House of Representatives***				
Binnelandse inkomste	Inland revenue	1 798 845	1 859 228	27 401 995	28 933 585
Oorplasing vanaf Staatsinkomsterekening	Transfer from State Revenue Account	430 000 000	231 000 000	3 632 000 000	3 082 694 000
Terugstortings, 1986–87	Surrenders, 1986–87	–	–	9 132 250	–
Terugstortings, 1989/90	Surrenders, 1989/90	–	–	24 013	392 859
	R	431 798 845	232 859 228	3 668 558 258	3 112 020 444
Inkomsterekening: Raad van Afgevaardigdes	***Revenue Account: House of Delegates***				
Binnelandse inkomste	Inland revenue	62	494 056	6 206 725	5 381 963
Oorplasing vanaf Staatsinkomsterekening	Transfer from State Revenue Account	105 258 000	40 000 000	1 435 258 000	1 161 000 000
Terugstortings, 1989–90	Surrenders, 1989–90	–	–	8 474 981	3 200 612
Terugstortings, 1988–89	Surrenders, 1988–89	–	–	–	7 738 386
	R	105 258 062	40 494 056	1 449 939 706	1 177 320 962
Rekening vir Provinsiale Dienste: Kaap	***Account for Provincial Services: Cape***				
Provinsiale inkomste	Provincial revenue	–	31 234 423	347 940 996	282 427 533
Oorplasing vanaf Staatsinkomsterekening	Transfer from State Revenue Account	191 183 000	107 231 000	3 105 183 000	2 749 231 714
Terugstortings, 1989–90	Surrenders, 1989–90	–	–	36 062 591	–
	R	191 183 000	138 465 423	3 489 186 587	3 031 659 247
Rekening vir Provinsiale Dienste: Natal	***Account for Provincial Services: Natal***				
Provinsiale inkomste	Provincial revenue	–	72 788 560	229 975 595	259 025 887
Oorplasing vanaf Staatsinkomsterekening	Transfer from State Revenue Account	140 431 000	150 784 000	1 484 819 000	1 370 784 000
	R	140 431 000	223 572 560	1 714 794 595	1 629 809 887
Rekening vir Provinsiale Dienste: Oranje-Vrystaat	***Account for Provincial Services: Orange Free State***				
Provinsiale inkomste	Provincial revenue	–	8 041 850	63 398 278	53 266 120
Oorplasing vanaf Staatsinkomsterekening	Transfer from State Revenue Account	122 249 000	80 000 000	1 125 594 000	935 000 000
Terugstortings, 1990–91	Surrenders, 1990–91	–	–	39 925 270	–
	R	122 249 000	88 041 850	1 228 917 548	988 266 120
Rekening vir Provinsiale Dienste: Transvaal	***Account for Provincial Services: Transvaal***				
Provinsiale inkomste	Provincial revenue	–	93 229 044	428 044 534	512 716 769
Oorplasing vanaf Staatsinkomsterekening	Transfer from State Revenue Account	373 412 000	266 058 000	3 976 711 000	3 283 866 000
Terugstortings, 1989–90	Surrenders, 1989–90	–	136 738 299	188 003	144 809 710
Terugstortings, 1990–91	Surrenders, 1990–91	–	–	1 948 725	–
	R	373 412 000	496 025 343	4 406 892 262	3 941 392 479
	R	20 366 151 044	–	181 861 560 763	–
Totaal (insluitende Aanvangsaldo)	Total (including Opening Balance) R	29 597 078 081	–	184 569 268 000	–

UITBETALINGS—ISSUES

Dienste	Services	Begroting Estimates 1991–92	Maand Februarie Month of February 1992	Maand Februarie Month of February 1991	Totaal 1 April tot 29 Februarie Total 1 April to 29 February 1992	Totaal 1 April tot 29 Februarie Total 1 April to 29 February 1991
		R	R	R	R	R
Staatsinkomsterekening	***State Revenue Account***					
Begrotingsposte	***Votes***					
1. Staatspresident	State President	17 419 000	1 750 000	1 325 000	17 263 000	14 750 000
Statutêre Bedrag	Statutory Amount	205 000	17 000	17 000	196 000	187 000
2. Parlement	Parliament	45 046 000	448 000	3 255 000	45 046 000	38 643 000
Statutêre Bedrag	Statutory Amount	26 200 000	2 440 000	2 183 000	25 812 000	24 095 000
3. Buro vir Inligting	Bureau for Information	41 595 000	4 500 000	3 500 000	40 194 000	35 000 000
4. Buitelandse Sake	Foreign Affairs	5 023 131 000	280 000 000	307 000 000	4 708 000 000	3 593 674 800
Statutêre Bedrag	Statutory Amount	2 572 000	215 000	166 000	2 365 000	1 826 000
5. Staatkundige Ontwikkelingsdiens	Constitutional Development Service	14 257 000	1 513 893	1 121 667	21 573 107	12 338 334
6. Weermag	Defence	9 187 096 000	950 000 000	950 000 000	8 108 000 000	7 713 000 000
7. Mineraal- en Energiesake	Mineral and Energy Affairs	896 092 000	20 100 000	41 239 640	874 719 000	1 012 041 000
8. Kantoor vir Privatisering	Office for Privatisation	4 064 000	599 000	500 000	4 067 000	4 063 000
9. Justisie	Justice	527 108 000	50 108 000	24 373 000	527 108 000	430 873 000
Satutêre Bedrag	Statutory Amount	37 500 000	3 100 000	2 000 000	37 500 000	38 600 000
10. Korrektiewe Dienste	Correctional Services	1 275 032 000	116 000 000	—	1 219 500 000	878 166 000
11. Administrasie: Volksraad	Administration: House of Assembly	8 430 906 000	337 879 600	569 383 000	8 298 799 400	7 388 237 000
12. Finansies	Finance	1 537 164 000	250 060 000	132 739 268	1 455 689 000	1 180 973 268
Statutêre Bedrag	Statutory Amount	15 846 538 000	4 038 026 447	2 958 308 972	17 709 627 299	14 116 812 623
		(2 741 000 000)	(274 748 000)	(117 551 000)	(4 291 305 000)	(2 867 250 000)
13. Oudit	Audit	500 000	—	—	425 000	—
14. Streekontwikkeling	Regional Development	966 055 000	120 000 000	—	631 830 000	—
15. Mannekrag	Manpower	300 543 000	7 300 000	20 000 000	295 598 000	289 000 000
16. Administrasies: Raad van Verteenwoordigers	Administration: House of Representatives	3 750 788 000	430 000 000	231 000 000	3 632 000 000	3 082 694 000
17. Administrasie: Raad van Afgevaardigdes	Administration: House of Delegates	1 378 957 000	30 000 000	40 000 000	1 360 000 000	1 161 000 000
18. Polisie	Police	4 631 833 000	330 000 000	—	4 594 000 000	3 022 620 000
19. Waterwese en Bosbou	Water Affairs and Forestry	374 874 000	27 000 000	33 000 000	334 000 000	315 000 000
20. Handel en Nywerheid	Trade and Industry	1 914 883 000	84 000 000	212 000 000	1 682 000 000	1 797 000 000
21. Onderwys en Opleiding	Education and Training	3 295 681 000	300 000 000	10 000 000	3 159 000 000	2 536 023 000
22. Binnelandse Sake	Home Affairs	281 435 000	44 000 000	30 000 000	279 000 000	186 000 000
23. Vervoer	Transport	1 496 275 000	90 000 000	121 000 000	1 412 000 000	1 393 000 000
24. Openbare Werke en Grondsake	Public Works and Land Affairs	1 842 061 000	132 000 000	152 000 000	1 763 000 000	1 800 000 000
25. Nasionale Gesondheid en Bevolkingsontwikkeling	National Health and Population Development	632 713 000	75 000 000	55 000 000	627 057 000	531 000 000
Statutêre Bedrag	Statutory Amount	—	—	—	—	225 000
26. Beplanning, Provinsiale Sake en Nasionale Behuising	Planning, Provincial Affairs and National Housing	746 205 000	51 000 000	32 623 000	539 000 000	392 791 000
Statutêre Bedrag	Statutory Amount	9 612 161 000	474 289 000	407 029 000	9 221 307 000	8 084 127 000
27. Landbou	Agriculture	253 770 000	18 000 000	18 000 000	259 000 000	284 014 000
28. Ontwikkelingshulp	Development Aid	6 335 366 000	147 639 000	443 864 000	6 335 366 000	4 791 992 000
Statutêre Bedrag	Statutory Amount	655 534 000	54 628 000	50 152 000	600 908 000	551 672 000
29. Kommissie vir Administrasie	Commission for Administration	160 578 000	32 724 000	25 000 000	159 378 000	340 335 000
30. Verbetering van Diensvoorwaardes	Improvement of Conditions of Service	2 875 134 000	585 404 000	1 069 405 366	982 612 000	1 358 198 076
Statutêre Bedrag	Statutory Amount	464 898 000	352 986 000	197 044 000	451 612 000	197 044 000
31. Sentrale Ekonomiese Adviesdiens	Central Economic Advisory Council	4 640 000	200 000	—	3 245 000	—
32. Nasionale Opvoeding	National Education	299 601 000	17 000 000	17 000 000	243 872 000	199 500 000
33. Omgewingsake	Environment Affairs	168 505 000	14 731 750	14 000 000	154 475 250	158 310 000
	R	85 354 915 000	9 474 656 690	8 175 228 913	81 816 144 056	68 954 825 101
*Min Diskonto RSA Effekte	*Less Discount RSA Stocks	2 741 000 000	274 748 000	117 551 000	4 291 305 000	2 867 250 000
	R	82 613 915 000	9 199 908 690	8 057 677 913	77 524 839 056	66 087 575 101
Staande Toewysings	***Standing Appropriations***					
Suid-Afrikaanse Ontwikkelingstrustfonds	South African Development Trust Fund	50 000 000	15 023 182	198 268	57 495 884	72 572 183
Uitbetalings, SA Ontw. Trust 1990–91	Issues, SA Developm. Trust 1990–91	—	—	—	5 005 601	—
Fonds vir Sorghumbiernavorsing	Sorghum Beer Research Fund	1 200 000	—	—	—	—
	R	51 200 000	15 023 182	198 268	62 501 485	72 572 183
	R	82 665 115 000	9 214 931 872	8 057 876 181	77 587 340 541	66 160 147 284

Inkomstehoof	Head of Revenue	Maand Februarie Month of February 1992	Maand Februarie Month of February 1991	Totaal 1 April tot 29 Februarie Total 1 April to 29 February 1992	Totaal 1 April tot 29 Februarie Total 1 April to 29 February 1991
		R	R	R	R
Ander Uitbetalings	***Other Issues***				
Skatkisbiljette	Treasury Bills	7 251 217 000	—	64 196 452 150	—
Skatkisbiljette- Laat Aanvraag	Treasury Bills- Late Issue	—	—	579 290 000	—
Leningsheffing	Loan Levy	3 406	—	262 962	—
Betaling ingevolge artikel 10 (1) (e) van Skatkis Wet	Payments in terms of section 10 (1) (e) of Exchequer Act	—	—	263 488	—
Betaalmiddele Bydrae, I.D.A.	Currency Subscription, I.D.A.	—	—	4 840 754	—
Betaalmiddele Bydrae, I.B.R.O	Currency Subscription, I.B.R.D.	—	—	10 137 532	—
Betaling ingevolge artikel 10 (1) D Wet 66 van 1975	Payments in terms of section 10 (1) D of Act 66 of 1975	8 185 839	—	56 676 016	—
I.M.F.: Valuta Aanpassing	I.M.F.: Valuation Adjustment	—	—	810	—
Finansiewet 120 van 1991	Finance Act, 120 of 1991	—	—	1 800 000 000	—
Oordrag vanaf Skatkisrekening na Stabilisasierekening	Transfer from Exchequer Account to the Stabilization Account	58 296 595	—	58 296 595	—
Belastingdelgingsertifikate	Tax Redemption Certificates	—	—	4	—
Belegging artikel 10 (1) (a) Wet 66 van 1975	Investment section 10 (1) (a) of Act 66 of 1975	879 103 588	—	879 103 588	—
Obligasies:	Bonds:				
Onbepaalde Termyn Skatkis-obligasies	Indefinite Period Exchequer Bonds	3 352 300	—	36 598 700	—
Onbepaalde Termyn Nasionale Verdedigings-obligasies	Indefinite Period National Defence Bonds	1 024 350	—	11 583 350	—

Inkomstehoof	Head of Revenue	Maand Februarie Month of February 1992	1991	Totaal 1 April tot 29 Februarie Total 1 April to 29 February 1992	1991
		R	R	R	R
Onbepaalde Termyn Senior Burger Spaarobligasies	Indefinite Period Senior Citizens Savings Bonds	2 056 500	–	31 356 000	–
Binnelandse Geregistreerde Effekte:	Internal Registered Stock:				
Aflossing, Mei 1991:	Redemption, May 1991:	–	–	66 442 632	–
R038, R040, R043, R044, R045, R047, R055, R059, R064, R066, R070, R083, R085, R089, R093, R097, R100, R101, R103, R104, R106, R111, R113, R119, R124, R126, R133, R141	R038, R040, R043, R044, R045, R047, R055, R059, R064, R066, R070, R083, R085, R089, R093, R097, R100, R101, R103, R104, R106, R111, R113, R119, R124, R126, R133, R141				
Aflossing, Junie 1991:	Redemption, June 1991:				
R104, R142	R104, R142	–	–	75 682 600	–
Aflossing, Julie 1991:	Redemption, July 1991:				
R147	R147	–	–	113 020	–
Aflossing, Augustus 1991:	Redemption, August 1991:				
R100, R138	R100, R138	–	–	2 000 028 500	–
Aflossing, Oktober 1991:	Redemption, October 1991:				
R101, R028, R059	R101, R028, R059	–	–	830 881	–
Aflossing, November 1991:	Redemption, November 1991:	–	–	1 817 284 648	–
R061, R041, R119, R064, R066, R045, R044, R070, R083, R055, R101, R103, R104, R100, R111, R106, R093, R097, R124, R043, R141, R038, R126, R133, R142, R147, R138, R028, R059	R061, R041, R119, R064, R066, R045, R044, R070, R083, R055, R101, R103, R104, R100, R111, R106, R093, R097, R124, R043, R141, R038, R126, R133, R142, R147, R138, R028, R059	–	–	–	–
Aflossing, Januarie 1992:	Redemption, January 1992:				
R150	R150	–	–	143 522 004	
Aflossing, Februarie 1992:	Redemption, February 1992:				
R150, R120	R150, R120	3 244 806 538	–	3 244 806 538	–
Buitelandse Lenings en Kredite:	Foreign Loans and Credits:				
1985–91	1985–91	–	–	146 341 463	–
1988–91	1988–91	–	–	4 492 219	–
1989–92	1989–92	–	–	12 213 308	–
1990–99	1990–99	1 007 578	–	2 046 319	–
1982–86	1982–86	797 249	–	1 619 155	–
1989–90	1989–90	–	–	22 818 967	–
1983–85	1983–85	554 341	–	1 125 826	–
1982	1982	1 729 099	–	2 272 919	–
1983–89	1983–89	966 368	–	6 877 704	–
1983–91	1983–91	–	–	88 339 223	–
Uitbetalings, Statuter 1990–91	Issues, Statutor 1990–91	–	–	12 215 514	–
Uitbetalings, 1985–86	Issues, 1985–86	–	–	6 966	–
Uitbetalings, 1986–87	Issues, 1986–87	–	–	2 370	–
Uitbetalings, 1987–88	Issues, 1987–88	–	–	1 071 429	–
Uitbetalings, 1990–91	Issues, 1990–91	–	–	204 408 428	–
	R	11 453 100 751	–	75 519 424 582	–
Totaal Staatsinkomsterekening	Total State Revenue Account R	20 668 032 623	–	153 106 765 123	–
Inkomsterekening: Volksraad	*Revenue Account: House of Assembly* R	772 678 600	569 383 000	8 733 598 400	7 388 237 000
Inkomsterekening: Raad van Verteenwoordigers	*Revenue Account: House of Representatives* R	430 000 000	231 000 000	3 632 000 000	3 082 694 000
Finansiewet 42 van 1991	Finance Act 42 of 1991	–	–	59 843 102	–
Inkomsterekening: Raad van Afgevaardigdes	*Revenue Account: House of Delegates* R	105 258 000	40 000 000	1 435 258 000	1 161 000 000
Rekening vir Provinsiale Dienste: Kaap	*Account for Provincial Services: Cape* R	191 183 000	138 465 423	3 453 123 996	3 031 659 247
Finansiewet 120 van 1991	Finance Act 120 of 1991	–	–	37 151 538	–
Rekening vir Provinsiale Dienste: Natal	*Account for Provincial Services: Natal* R	140 431 000	223 572 560	1 714 794 595	1 629 809 887
Rekening vir Provinsiale Dienste: Oranje-Vrystaat	*Account for Provincial Services: Orange Free State* R	122 249 000	88 041 849	1 188 992 278	988 266 119
Finansiewet 120 van 1991	Finance Act 120 of 1991	–	–	8 938 034	–
Rekening vir Provinsiale Dienste: Transvaal	*Account for Provincial Services: Transvaal* R	373 412 000	359 287 045	4 404 755 534	3 796 582 769
Finansiewet 120 van 1991	Finance Act 120 of 1991	–	–	213 542	–
	R	2 135 211 600	1 649 749 877	24 668 669 019	21 078 249 022
Totale	Totals R	22 803 244 223	–	177 775 434 142	–
Skatkissaldo, 29 Februarie 1992	Exchequer Balance, 29 February 1992 R	6 793 833 858	–	6 793 833 858	–
Totale	Totals R	29 597 078 081	–	184 569 268 000	–

tic rein- Mr Turner could well have ... meaningful for the industry.

With VAT it's all so much easier now . . .

STAR 14/2/92

(320)

THE introduction of VAT has made easier the realisation of equity in a building without disposing of it.

Up until now, this could only be achieved at significant cost.

By realising equity without disposing of the building is meant turning some of the capital growth into cash for other use without selling the building itself.

The general rule is that interest paid may only be claimed as a deduction for tax purposes if the related loan is used to acquire an asset which produces taxable income or is otherwise used in a business context.

Thus, for example, if a particular person owns, say, a building comprising offices and/or shops and takes out a bond on the property in order to finance the purchase of another rent-producing property, the interest will be allowed to be deducted for tax purposes.

But if the particular individual wishes to buy, say, a holiday home then the interest on that bond will not be tax deductible becuase the loan is being used to finance a domestic asset.

The same, obviously, applies if the bond is taken out on the holiday home.

If, however, the individual were to sell his

This is the second in our series of how to reduce income tax. It was prepared by ERNEST J MAZANSKY, B Com B Acc H Dip Tax Law CA (SA), senior tax partner, Kessel Feinstein

rent-producing building to a new company or close corporation, of which he was the sole owner, and the sale were to be at market value, he could arrange for the mortgage bond to be taken out by the new company or close corporation.

Thus, for example, assume he sold the building to his company or close corporation for R1 million and caused the company to take out a bond for, say, R300 000.

The net effect of this is that he himself would receive R300 000 in cash and his company or close corporation would owe him the balance of R700 000.

As far as the company or close corporation is concerned, the loan has been incurred in order to finance the purchase of a rent-producing asset and therefore the interest will be allowed as a deduction to the company or close corporation.

It does not matter that the individual himself will use the proceeds of R300 000 to buy a holiday home.

Prior to the introduction of VAT such a sale would have been very expensive as the company would have had to pay transfer duty of 5 percent — in this example R50 000.

However, provided both the seller (that is the individual), and the purchaser (that is his company or close corporation), are registered for VAT purposes, the sale of a commercial building is treated as the sale of a business as a going concern.

This means that it is zero-rated for VAT purposes.

Thus the only real costs of entering into these arrangements are the relatively minor costs of forming a company or close corporation and paying the conveyancing costs.

These costs are minimal when compared to the tax saving which is now achievable by reason of the fact that in substance the individual is managing to obtain a tax write-off in respect of interest on a bond effectively financing the purchase of his holiday home, even though legally and for tax purposes this is not what has happened.

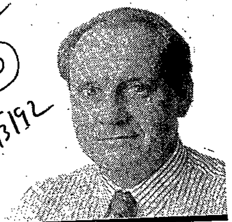
Budget Blues for smokers, drinkers, drivers

MONEY MATTERS

MAGNUS *Heystek*

320

STAR 14/3/92



PREPARE for the Budget Blues when the Budget is delivered on Wednesday. Especially if you happen to smoke, drink and drive a car.

Already President de Klerk has warned that it is bound to be an austere Budget.

This warning should be taken seriously.

Marginal rate

Although there is still a slim chance that the top marginal rate of 43 percent for individual tax could be reduced to 42 percent, such a move will have to be accompanied by tax increases elsewhere.

Three years ago, Minister of Finance Barend du Plessis pledged a reduction in the top marginal tax rate from 45 percent to 40 percent over a five-year period. So far he has kept his promise.

But the tight economic conditions under which the country is labouring makes it very difficult to reduce income tax even further.

Like President Bush of the United States, he might be forced to renege on this promise — or at best, postpone it for a year or two.

The length and depth of the current recession is seriously effecting Government revenue from most of its traditional sources.

Company taxes have been badly hit by the business slowdown while revenue from private individuals is bound to be seriously affected by widespread retrenchments, unemployment and lagging salary increases.

The depressed state of the gold mining industry, which up to about 10 years ago was a major source of revenue, does not hold out any hope either.

Two choices

The Government basically has two choices.

It can cut back sharply on expenditure (which it has been unable to do for 10 years running) or it can increase revenue by increasing taxes (which it has done for 10 straight years running).

The effect of fiscal drag, together with the increase in fringe benefit taxation, has had a severe impact on the middle to upper income earners.

For example, in 1986 a married taxpayer earning a salary of R60 000 paid over about 19 percent of this salary to the Receiver.

By the end of 1991, assuming the salary had increased in line with inflation, the tax burden would have risen to just under 30 percent.

No wonder so many people are landing up in the debtors' courts.

Without raising the tax brackets, fiscal drag will again push more taxpayers into higher tax brackets.

Under normal political conditions the obvious source would have been an increase in the rate of Value Added Tax (VAT).

But, considering the political opposition to such a move, this is likely to be avoided by the Government for the time being.

That leaves very little choice but to increase taxes on petrol, liquor and cigarettes.

Expect a hue and cry from these industries when the announcement is made, but there is no alternative.

Fuel levy

Petrol has become Barend's du Plessis's favourite source of income tax, very much in line with world trends.

Despite the recent increases in the fuel levy, the tax paid on SA's petrol is still relatively low by world standards.

It is also an almost invisible tax.

Other sources of revenue could include a capital gains tax on property and share dealing transactions, a loan-levy on "wealthy" taxpayers, as well as a minimum tax on companies.


I'LL HAVE TO TAKE THIS AWAY, BUT HERE'S SOME COMPENSATION...
320
14/3/92
PEANUTS
TAX PAYER
WHISKY
TAYLOR

Churches bid to stop VAT

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CT 14/3/92

Staff Reporter

A CAMPAIGN to urge the government not to impose VAT on staple foodstuffs for the very poor was launched by Western Cape church leaders at St George's Cathedral yesterday.

Milk, beans, lentils, canned pilchards, mielies and samp are zero-rated for VAT at present but the government has said it intends imposing the tax on all foodstuffs except maize meal and brown bread from April 1.

Tax on basic foods and health care "would be fatal" for many of the poor, said the Right Reverend Martin Lund, moderator of the Presbyterian Church.

Mr Lund read a statement by the Churches' Committee, which includes leaders from the Roman Catholic, Anglican, Methodist, Lutheran, Presbyterian, Congregational, Moravian and Dutch Reformed Mission Churches.

"We do not dispute the fact that in general VAT may be a better system of taxation than GST," Mr Lund said. "Our concern, however, is that VAT as applied in South Africa adds to the already heavy economic burden on the poor.

"Instead of being graded to make the poor pay less and the rich more, it shifts part of the burden of taxation away from the bosses onto the shoulders of the working class."

ANC president Mr Nelson Mandela has accepted the Churches' Committee's invitation to speak at a lunchtime inter-faith service in the Metropolitan Methodist Church on Friday.

The church leaders called on the state to "tax the poor fairly" instead of increasing their dependency on charity and "thereby maintaining a sub-economic class".

The ANC in the Western Cape welcomed the initiative of the Churches' Committee on VAT and joined in their demands that zero-ratings on food be extended and that health care for the poor should be tax exempt.

"VAT was introduced without proper consultation or negotiation and imposed on an economic system badly in need of restructuring and regeneration," ANC Western Cape chairman, Dr Allan Boesak, said in a statement.

"VAT, indeed, is further proof that this government is unfit and incompetent to rule South Africa."

He said the government had imposed the burden of administering VAT on the small business sector "which has played an extremely important role in the regeneration of economic activity and the provision of employment all over the world".

What was needed in South Africa was a transition to a society based on democratic process.

"Only in this way can we begin seriously to meet the need for participative economic restructuring," Dr Boesak said. — Sapa

Tax scam: R100 000 saved

320

CT 14/3/92

Staff Reporter

MORE than R100 000 could have been lost to the government had an alleged tax scam not been uncovered in the Receiver of Revenue's office in Cape Town last year, Receiver of Revenue Mr Ernst Conradie confirmed yesterday.

A Cape Times investigation uncovered irregularities in the payment of GST on private vehicle sales.

According to papers before the Magistrate's Court yesterday, the difference between the GST paid and money that ought to have been paid was R100 857.91.

Mr Conradie said members of the public affected had repaid about R100 000.

Churches fight for no VAT on basic food

(320)

S Times (CM)

By KURT SWART

AN inter-denominational committee of churches opposing the reimposition of Value Added Tax on basic foods started a "Don't Crucify the Poor" campaign this week.

The campaign was launched at St George's Cathedral on Friday with a press conference and a placard picket on the steps.

15/3/92

Other actions will include a picket focusing on mothers and children tomorrow and another focusing on pensioners on Thursday.

The church leaders will participate in the Cosatu/ANC "People's Budget" march from the Grand Parade on Wednesday and the campaign will draw to a close next Friday with an Ecumenical service at the Methodist Church on Greenmarket Square.

ANC president Mr Nelson Mandela is scheduled to speak at the service.

The campaign aims to arouse public consciousness to the "injustice of VAT in terms of what its application to basic foods and health care will mean for the poor".

The commitee said Christians in the Western Cape had formed the Churches' Committee on VAT and had drawn up a declaration of concern for the poor and needy. Church leaders had signed the declaration on behalf of their churches and large numbers of ordinary church members had also signed it.

Threat

The declaration included specific demands that the government abandon its threat to terminate on March 31 the zero-rating on the few foods that were presently tax-exempt, extend the list of tax-exempt foods and totally exempt from taxation all health care for the poor.

Said the committee: "We do not dispute that in general VAT may be a better system than GST. Our concern, however, is that VAT as applied in South Africa adds to the already heavy economic burden on the poor.

"Instead of being graded to make the poor pay less and the rich more, it shifts part of the burden of taxation onto the shoulders of the working class."

If the church campaign was ignored by the government, the state would be "blatantly choosing to trample the heads of the poor into the dust".

The imposition of VAT on basic foods and health care would be "fatal" for many of the poor.

According to the Labour Research Centre at least 16 300 000 people in South Africa were living below the breadline and in need of financial help to survive.

The government had set aside R200 million for poverty relief programmes but this would have little effect as the amount worked out at only R2,25 a person.

ARG 16/3/92 (320)

Business calls for immediate tax cuts

DEREK TOMMEY

JOHANNESBURG. — Strong pressure is being put on the government by business to give the economy a kick start by lowering income tax in this week's Budget.

The call made today by Gavin Relly, chairman of AECI, is his annual statement to shareholders for an immediate boost to growth and employment, is representative of the appeals being made to the government by heads of industry.

Mr Relly does not call directly for a cut in tax, but says the need for an immediate boost to the economy is even more acute now than a year ago because manny of South Africa's trading partners are mired in recession.

"Progress in implementing major programmes to reduce backlogs in housing, education and electrification has been painfully slow as many of the impediments remain unresolved," he says.

Other businessmen who have been hit by economic sluggishness and especially by the four percent drop in retail sales in real terms last Christmas have been making similar representations and urging a cut in income tax.

The South African Chamber of Business (Sacob) has even suggested that income tax tables should to be changed right after the Budget (instead of waiting until June, as usually happens) so that the reductions it wants will have an immediate effect.

One reason business is seeking tax cuts is that the Reserve Bank has made it clear it has no intention of cutting interest rates to stimulate the economy.

While a small reduction in rates may be in the offing to help confidence, there is no likelihood of major cuts.

It seems, therefore, that the only way the economy can get an immediate boost is by lowering taxes.

This, in fact, is becoming a matter or urgency because one of the main causes of the recession is the persistent over-taxation of South Africans in recent years.

Every Budget Day the Minister of Finance stands up in parliament and announces a cut in income tax rates.

But every year taxpayers end up paying more because the tax rates have not been lowered enough to offset the effects of inflation.

Last year this resulted in South Africans paying three to six percent more tax than the previous year.

While a three percent rise in tax payments in real terms may not seem all that much, it mounts up when it happens year after year.

In 1985-86 a person earning R20 000 a year paid 19,2 percent of it in tax.

Last year a person earning the same amount in real terms paid 24,5 percent in tax.

The average rate of tax of someone earning R40 000 in 1985-86 was 28,8 percent. Last year the average tax rate of someone earning the equivalent amount was 32,8 percent.

This highlights the steady transfer of wealth from the ordinary person to the government in recent years and helps account for much of the sluggishness in the economy.

However, there seems a good chance that this wealth transfer is about to be reversed.

President De Klerk said at the opening of parliament in January that the government would do all it could to reduce tax.

And the drastic cuts that are being made in government spending suggest he is trying to keep his word.

Business calls for immediate tax cuts

STAR 16/3/92

By Derek Tommey

(320)

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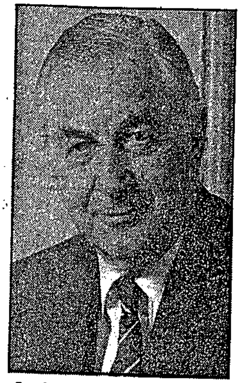

Gavin Relly . . . immediate boost needed

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President FW de Klerk said at the opening of Parliament in January that the Government would do all it could to reduce tax.

And the drastic cuts that are being made in government spending suggest he is trying to keep his word.

Last week he warned that the Budget could be a tough one.

But these remarks are seen as applying more to the public service and other bodies dependent on state spending.

Another reason why a tax cut seems likely is that with the economy so seriously underperforming, any improvement in activity should lead to enhanced revenues.

So any loss of revenue as a result of tax cuts could soon be recovred.

Finally, as this week's referendum has been showing, the National Party is increasingly dependent upon the support of English-speaking South Africans.

If it wants to woo them further, a cut in income tax would be one of the main ways of doing so.

Revenue collections below target

B Day 16/3/92 (320)

SHERIDAN CONNOLLY

REVENUE collected during the first 11 months of the current financial year was below target, exchequer figures released on Friday by the Central Statistical Service (CSS) showed.

Collections during the 11 months to February amounted to 88,4% of the amount voted for the financial year to end-March. This compared with 90,2% for the same period the previous financial year, figures showed.

Revenue collected by the exchequer was 8,5% higher in the 11-month period of the current financial year than in the year before. A CSS breakdown showed inland revenue increased by 10,2% while customs and excise revenue decreased by 2,9%.

Exchequer issues for the 11-month period exceeded revenue collected by 18,0%, while issues in the same period of the previous financial year exceeded revenue collections by 10,4%.

The final figures for revenue collected during the 10 months to January showed an 8,8% increase against the previous year.

The final figures showed revenue collected in the first 10 months of the current financial year amounted to 81,5% of the budgeted amount, compared with 82,9% for the corresponding 10 months of the previous financial year.

Nedbank chief economist Edward Osborn said the lag in revenue was far higher than initially anticipated.

Revenue collected to date was about R62,2bn and with a March estimate included, revenue for the full financial year to end-March should be between R72bn and R73bn.

With expenditure for the year estimated to be about R87bn, the budget deficit for the current financial year could be in the order of R13,5bn, Osborn said.

However, because it was not yet known what the extent of revenue from the sale of strategic stocks was, the deficit could be about R1bn less leaving the deficit in a potential range between R12,5bn and R13,5bn, he added.

Osborn said the size of the budget deficit would have serious implications for the next financial year. The exchequer was now in a very serious financial position and would have to do the utmost to curb its expenditure levels.

In order to contain expenditure, it would be important that salary increases for the civil service be kept as low as possible, he said.

The government's supply-side reforms and the political limitations on increasing the rate of VAT offered the government limited room to increase the level of its revenue, he added.

The length and depth of the recession had taken their toll on gross revenue prospects. The expected upturn in the economy had been delayed and the economy would only show signs of picking late in the year, said Osborn.

ANC rules out company tax hike

(320)

BT 16/3/92

Few tax changes likely

ALTHOUGH much is needed to boost Revenue's coffers, it is unlikely that any major tax changes will be announced in the Budget on Wednesday, tax experts say.

They believe politics and broad economic issues will dominate Finance Minister Barend du Plessis' speech and that unpalatable tax measures will be left for a less politically volatile mini-budget.

The fact the Budget is not being used by government as a political tool to sway voters' opinions in the referendum is regarded as an indication of how few concessions will be made. President F W de Klerk has already warned it will be "tough and difficult", and that government has little room to manoeuvre.

Ernst and Young tax partner Ian MacKenzie says the often mentioned capital gains tax will probably be discussed but not implemented. He believes draft legislation and an open discussion period will precede a final decision.

Delayed implementation would give taxpayers a date by which to value their assets and arrange their affairs before becoming liable for the tax.

KPMG Aiken and Peat tax partner Hennie Coetzee says capital gains is not a lucrative or efficient source of income for the fiscus but makes sense politically, because it would be seen to tax the wealthy.

Du Plessis has promised that company and personal tax rates will not rise in the current financial year, but are unlikely to fall.

BDO Spencer Steward tax partner Matthew Lester said there was a possibility of a tax surcharge being added to tax liability to increase revenue without incrgasing the tax rate.

MacKenzie says market talk that Revenue would introduce a minimum tax on companies is a self-perpetuating rumour. "With many incentives gone, there is no need for a minimum tax."

Petrol and luxury items are the likely source of higher levies.

Coetzee says government will also target tax shelters, and tighten up on tax avoidance opportunities.

Few tax changes seem likely

B/Day 16/3/92 (320)

GILLIAN HAYNE

ALTHOUGH much is needed to boost Revenue's coffers, it is unlikely that any major tax changes will be announced in the Budget on Wednesday, tax experts say.

They believe politics and broad economic issues will dominate Finance Minister Barend du Plessis' speech and that unpalatable tax measures will be left for a less politically volatile mini-budget.

The fact the Budget is not being used by government as a political tool to sway voters' opinions in the referendum is regarded as an indication of how few concessions will be made. President F W de Klerk has already warned it will be "tough and difficult", and that government has little room to manoeuvre.

Ernst and Young tax partner Ian MacKenzie says the often mentioned capital gains tax will probably be discussed but not implemented. He believes draft legislation and an open discussion period will precede a final decision.

Delayed implementation would give taxpayers a date by which to value their assets and arrange their affairs before becoming liable for the tax.

KPMG Aiken and Peat tax partner Hennie Coetzee says capital gains is not a lucrative or efficient source of income for the fiscus but makes sense politically, because it would be seen to tax the wealthy.

It would have to be implemented as a

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fait accompli if the fiscus is to benefit, says BDO Spencer Steward tax partner Matthew Lester.

Du Plessis has promised that company and personal tax rates will not rise in the current financial year, but are unlikely to fall. Lester said there was a possibility of a tax surcharge being added to tax liability to increase revenue without increasing the tax rate. MacKenzie says market talk that Revenue would introduce a minimum tax on companies is a self-perpetuating rumour. "With many incentives gone, there is no need for a minimum tax."

With major changes in direct taxes unlikely, the fiscus is bound to look at indirect taxes to boost its cash flow. The tax consultants spoken to unanimously agreed the VAT rate would not be tampered with. But they predicted it would rise by 1% to 2% later in the year, either in a mini budget or when the Income Tax Act is promulgated in June or July.

This leaves petrol and luxury items as the likely source of higher levies.

Coetzee says government will also target tax shelters, and tighten up on tax avoidance opportunities.

With scope for new taxes thin, and stringent policing already in place, the closing of loopholes in tax legislation seems the only way to boost revenues. It is also one of the two remaining areas suggested by the Margo Commission which has not been acted upon.

Coetzee says it is likely the current method of calculating the average rate of tax at which lump sum payments are taxed on retirement may be changed. At present, with a little tax planning, the average rate can be as low as 15% for a highly paid executive. If the calculation is measured over three years, as suggested by Margo, the fiscus will benefit.

It is also possible that Revenue will split individual activities into passive and active categories, which cannot be mixed. Under this method, an individual would no longer be able to reduce his other remuneration through the loss made on his tax shelter. The use of trusts may also come under the spotlight (another of Margo's suggestions), although how Du Plessis will approach the issue is unclear.

Cosatu pays for trains for marchers

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Labour Reporter

COSATU has paid for the use of trains to Cape Town tomorrow to allow people to get to the "People's Budget March" free of charge.

Cosatu regional secretary Mr Alan Roberts said people attending the march would not have to pay provided they boarded one of the trains specified by Cosatu.

The trains are: Train number 0466 leaving Khayelitsha at 12.10pm, train number 0470 leaving Khayelitsha at 12.20pm, train number 9546 leaving Mitchell's Plain at 12.02pm, train number 3520 leaving Paarl via Bellville at 11.08pm, train number 0184 leaving Retreat via Rondebosch at 12.42pm and train number 0536 leaving Retreat via Athlone at 12.18pm.

ARG 17/3/92

Return of teachers unlikely

(322)

STAR 17/3/92

By Abel Mabelane
East Rand Bureau

The chances that 19 white teachers, withdrawn from Katlehong after a number of them were attacked, will return are remote because of escalating violence, says a Department of Education and Training spokesman.

The teachers were removed after Schalk Dippenaar, of Kathorus College, was attacked and set alight by a group of youths. He died last week.

"There is no way the department can send these people into a volatile area such as Katlehong where people are killed daily," the spokesman said.

He was reacting to demands from pupils of Kwadukathole, Fumana and Sijabulile secondary schools who last week said they wanted their teachers back and would protect them.

The spokesman said the schools from where the teachers had been removed were experiencing a shortage and were not operating effectively.

The teachers are now reporting daily at the area office in Alberton.

Taking the pain out of reclaiming on VAT

BDay 17/3/92

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VATBACK, which K&G refers its clients to for reclaiming VAT on their trips to EC countries, will reclaim VAT on clients' behalf on a number of services.

Hotel accomodation, meals, conference facilities, training courses, car hire, petrol and secretarial services are all eligible for VAT reclamation.

Vatback takes 25% commission for its services and promises clients it will forward the refunds to clients within 30 days of receipt by its overseas offices.

Registered

The company claiming is required to be a registered business in a non-EC country, and must be in posession of a certificate of status issued by the Department of Inland Revenue.

Vatback can obtain this for its clients.

There must be confirmation from a company official that the expenses claimed were legitimate, and a special power of attorney should be signed authorising Vatback to act on the company's behalf.

The VAT envelope with the original receipts will be collected on request by local Vatback offices.

Claims must be made annually or quarterly.

Vatback has offices in Johannesburg, Durban, Port Elizabeth and Cape Town, as well as connections and offices in Europe and America.

Barend may push up tax liability on retirement gratuities

STAR 17/3/92

Finance Staff 320

One of the revenue-raising areas that Finance Minister Barend du Plessis may address in his Budget tomorrow is adjustments to retirement planning mechanisms that could materially affect the financial prospects of people on the verge of retirement.

Looking at likely options open to the Minister to tap funds that would help meet an expected revenue deficit, chartered accountants KPMG Aiken & Peat tax partner Hennie Coetzee said: "Retirement planning is one of the areas in which recommendations by the Margo Commission on tax reform have not been implemented.

"The first step in this direction came last year when taxpayers going into retirement lost the option to spread payment of any taxable portion of certain lump sums over three tax years.

"Margo's suggestion was that retirement gratuities, including gratuities payable out of insurance policies, should be treated as if they were lump sums from pension, provident or retirement annuity funds, and taxed at the beneficiary's average tax rate for the preceding three years of assessment.

Amendments

"Now there are strong indications that two likely areas due for amendment are:

- The rate at which retirement lump sum payments are taxed, based on the taxpayers average rate of income, and
- A 'capping' of the 15 percent allowance from retirement annuity payments that can be used to reduce the taxable amount in the year of retirement to a finite maximum amount, which might be as little as R50 000.

"Both measures could impact quite materially on the retirement planning of executives on the point of retiring right now.

"In these instances, people retiring in the early part of the 1992-93 financial year may need to consider taking immediate stock of their tax commitments and to retire as quickly as possible to take advantage of prevailing rules."

Mr Coetzee said that if these measures came in, they would severely limit the opportunity of the taxpayer to reduce the average rate of tax applied in the year of retirement.

Deductions

"The standard procedure now is to allow the taxpayer to deduct a maximum contribution of 15 percent of income from 'non-retirement funding' to a retirement annuity fund. If such a contribution is made in the year of retirement, this may influence the rate at which the lump sum pension payment will be taxed.

"On a pension payout of R1 million, not uncommon today, the taxpayer therefore can deduct a maximum amount of R150 000 which is made to a retirement annuity fund.

"Thus, the R150 000 is set off against, for example, an annual salary of R190 000, and effectively reduces taxable income relating to income (other than the lump sum) in the year of retirement to R40 000.

"The rate of tax on R40 000, being his other taxable income, is then applied to the R1 million pension pay-out, only R30 000 of which is tax free.

"If, on the other hand, the RA contribution is capped at, say R50 000, the same taxpayer's annual income in his final year would be reduced to only R134 000. The difference in tax rate is dozens of percent and would have a massive impact on the tax paid on a pay-out of R970 000 after the tax-free R30 000 is deducted.

"Taxpayers likely to be in this situation should seriously consider making their RA contribution immediately, and not wait for February 28, 1993," Mr Coetzee said.

Provincial ... 430

(1) Yes ... are ... ible site for ... in ... boxes for ... planned for ... 1993.
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...*sfontein*—1 000 additional ...es will be installed during 1992/93.

Pierre van Rynveld—1 000 additional boxes will be installed during 1992/93.

Hennopsmeer —Negotiations are in progress to procure new accommodation in which 8 350 boxes will be provided.

Post office: Bramley

*6. Mr P G SOAL asked the Minister of Posts and Telecommunications:

Whether, with reference to the reply to Questions No 342 on 21 May 1991, any progress has been made in regard to the construction of the post office and postmen's depot in Bramley, Johannesburg; if not, why not; if so, what progress? B341E

The MINISTER OF POSTS AND TELECOMMUNICATIONS:

No. In view of the capital cost of the project and other priorities alternative options to solve the accommodation problems were researched. In the process an agreement was concluded with the lesser of the present post office premises to provide more spacious and upgraded accommodation in the existing complex, which should be available by the end of this year.

New questions:

Public telephones: repair costs

*1. Mr P G SOAL asked the Minister of Posts and Telecommunications:

(1) What was the estimated cost of repairing public telephones in the Republic during the latest specified 12-month period for which information is available;

(2) whether he will make a statement on the matter? B372E

The MINISTER OF POSTS AND TELECOMMUNICATIONS:

(1) R15 734 841 for the period 1 April 1991 to 30 September 1991

(2) Yes. I would like to request the general public not to damage Telkom SA's public payphones on purpose and to assist the company with information regarding the damaging of the apparatus by vandals. The payphone service meets the needs of persons who do not have a private telephone service at their disposal and who need to make emergency calls. It is also the most effective communication medium for persons who are travelling and wish to keep in contact with their residences, family members and employers.

Telkom SA requests the public regularly through the media to support the Company in their efforts to combat vandalism.

VAT on medical services: pensioners

*2. Mr M J ELLIS asked the Minister of Finance:

(1) Whether he has received representations from any organizations to remove value-added tax on medical services for pensioners; if so, from which organizations;

(2) whether he is considering the matter;

(3) whether he will make a statement on the matter? 320 B376E

The MINISTER OF FINANCE:

(1) Representations have been received from organizations requesting the removal of value-added tax on medical services but none of the representations appear to relate only to medical services for pensioners.

(2) The matter is not being considered at this stage.

(3) The decision to impose VAT on medical services was not taken lightly. In the original proposals which were released by the Government in June 1990 for comment, it was proposed that medical services be exempt from VAT. The Medical

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Association of South Africa in its representations to VATCOM requested a zero-rating, but this request could not be accommodated as it would not only have reduced the tax base, but would also have placed practitioners in a better position than they had been under the GST system as they paid GST on their purchases. The Association stated that it preferred the standard rate to an exemption and it was accordingly decided to follow this route.

Provision has been made both within and outside the tax system to provide targeted relief for medical expenses incurred by pensioners. More than 80 per cent of our population is treated in State and provincial hospitals and local authority clinics. These institutions are heavily subsidized and approximately 90 per cent of their expenditure is financed out of State revenue. The nominal charges paid to these institutions by pensioners and others for the medical treatment and which covers approximately 10 per cent of the costs have been exempted from VAT. The income limits of the means tests which allow persons to qualify for the subsidized services were increased when VAT was introduced to R27 492 and R16 500 for families and single persons, respectively. A greater number of pensioners therefore qualify for this concession.

The facilities referred to above are generally not available to pensioners in the higher income brackets but they are entitled to income tax relief for their medical expenses. Pensioners over the age of 65 years may claim all the medical expenses they pay as a deduction. Pensioners of 65 years and younger may claim a deduction in respect of all medical expenses which exceed 5 per cent of their taxable incomes. The income tax relief as a result of the deduction exceeds the benefit they would have enjoyed had the medical expenses been zero-rated and it further targets the relief to those pensioners who have the highest medical expenses. (320)

Air pollution: new policy

*3. Mr M J ELLIS asked the Minister of National Health:

(1) Whether her Department is at present involved in the drafting of a new policy for the control of air pollution; if so, (a) when did it commence drafting this policy and (b) when is the policy likely to come into effect;

(2) whether there has been any delay in the drafting of the policy; if so, what were the causes;

(3) whether she will make a statement on the matter B377E

The MINISTER OF NATIONAL HEALTH:

(1) No, (a) and (b) fall away;

(2) falls away;

(3) no.

Alternative national service

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

Whether, with reference to the reply to Question No 3 on 26 February 1991, any additional form of alternative service (a) has been introduced and/or (b) is envisaged for persons refusing to serve in the South African Defence Force; if so, what is the nature of this alternative service? B378E

The MINISTER OF DEFENCE:

(a) and (b) No.

Automation of farm lines: Hoedspruit

*5. Mr P G SOAL asked the Minister of Posts and Telecommunications:

Whether, with reference to the reply to Question No 5 on 28 May 1991, it is still the intention to (a) commence the automation of the farm lines in the Hoedspruit area during April 1992 and (b) complete the project during the first half of 1993; if not, (i) why not and (ii) when is it anticipated that the project will be (aa) commenced and (bb) completed? B379E

The MINISTER OF POSTS AND TELECOMMUNICATIONS:

(a) Yes; has already begun.

(b) No;

(i) Due to an unexpected increase in demand, the project cannot be com-

Rumours fly about tax on dividends

EDWARD WEST (320)

SPECULATION that a tax on dividends will be reintroduced in today's Budget has led many companies to take defensive action by distributing their general reserves.

Accounting firm KPMG Aiken & Peat tax spokesman Noel de Charmoy said yesterday the firm had advised clients to distribute their general reserves ahead of the Budget because of persistent rumours.

Although the source of the rumours could not be traced, the advice was given to "play it safe", said Charmoy. If the tax were reintroduced, government would probably reintroduce undistributed profits tax, he said. BDay 18/3/92.

Taxes on dividends were scrapped in the 1990 Budget.

If not reintroduced today, Charmoy believed taxes on dividends were inevitable.

Ernst & Young spokesman Roger Bramwell concurred with this view, but he did not believe the tax would be introduced in today's Budget. Many companies had distributed their general reserves in anticipation of the eventual reintroduction of dividend tax, he said.

Bramwell believed government would instead today introduce a loan levy or, as it was previously known, a minimum tax on companies, repayable in seven years to boost its revenues. The previous minium tax on companies was imposed as a one-off tax in the 1988/89 tax year on companies which benefited from special allowances and then paid large dividends.

Tax writer and consultant Michael Stein said he was pretty certain dividend tax would be reintroduced, but he had heard no new rumours of it happening today.

JSE president Roy Anderson said the possible introduction of the tax would be unfortunate because it would be a disincentive to invest in the JSE.

Frankel, Max Pollak, Vinderine chairman Sidney Frankel said "no way" in response to the speculation.

Deloitte Pim Goldby spokesman Willem Cronje said though he had no firm knowledge of the reintroduction of the tax today, its introduction was not a question of whether, but when and how.

Budget likely to hold little joy for taxpayer

BILLY PADDOCK

CAPE TOWN — Today's Budget is unlikely to hold much joy for the taxpayer as Finance Minister Barend du Plessis tries to juggle limited resources.

Revenue is extremely tight and the options for increasing the size of the cake are almost nil as government is constrained by political tensions not to increase VAT.

Du Plessis had promised taxpayers he would reduce personal and company tax by five percentage points over five years, but this year — the third — he might not be able to even give that, having backed down in the face of 1991's anti-VAT campaign.

He might choose to raise the threshold level of personal taxation as a hedge against inflation, but do little to contain the effects of fiscal drag.

The only areas left for Du Plessis to squeeze a bit more money from are the fuel levy and excise duties on liquor and tobacco. He is likely to announce increases in these.

Any extra funds from the further sale of strategic stockpiles he might have used to ease the burden and push into social spending, will be absorbed by the drought and the need to import maize and wheat.

The Minister is expected at least to keep social spending level in real terms, as any reduction would wipe out the small effects of the past two years' attempts to close the racial gap. (320)

Business Day will produce a special Budget edition tomorrow, including a supplement containing the full speech by Finance Minister Barend du Plessis. For all the Budget news, and expert analysis and opinion, don't miss Business Day tomorrow.

President F W de Klerk said last week the Budget would be tough and that there was "little room to manoeuvre". He also

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☐ From Page 1

said there was a great need to increase social spending, especially in the area of health and welfare.

It is expected that Du Plessis will announce that funds from own affairs administrations will increasingly be transferred to general affairs, as with education.

Poverty relief is expected to be increased and could be channelled through pensions equalisation.

A further major expense the Finance Minister will have to account for will be for the security forces and the new plan to combat crime.

Overall, he will continue the process of reform started two years ago. The trend will be to go for growth through further stimulus to export-orientated business.

New Economic Co-ordination Minister Derek Keys's influence will be seen in the Budget as it seeks new ways to stimulate the economy "and get a surge of growth we can build on", as one Minister put it.

● Comment: Page 8

Taxing the trusts

THE GOVERNMENT is to introduce tougher tax measures against business trusts, Mr Du Plessis said.

He said the Margo Commission had recommended these trusts be treated as companies for tax purposes, and that this had been accepted by the government.

"The dimensions that business trusts are assuming and the associated potential loss of revenue require the implemention of certain measures with respect to the taxation of these trusts. More particulars will be given in the Income Tax Bill to be submitted later this year," he said.

He said it was also intended to take the fourth step in phasing out the surcharge on non-gold mining companies, and that the formula rate for gold mines be adjusted downwards to bring it more into line with the present company tax rate. — Sapa

(320) ARGT 19/3/92

ANC hails several allocations

STAR 19/3/92

By Duma Gqubule

The ANC has welcomed the increased allocations to health, education and housing in the Budget.

Its Department of Economic Policy (DEP) said yesterday the allocations were broadly appropriate, but expressed doubts the money would be properly spent.

"The central issue is the way these allocations are spent and managed. We have no faith in the ability of the departments responsible to deliver the services in an effective and efficient way."

On social welfare expenditure, the ANC said it was outrageous that pensions were still allocated differentially on racial lines.

"We feel that the additional R2 billion it would have cost to reach parity at existing white levels would make a significant contribution to the alleviation of poverty."

The DEP expressed concern that no attempt was made to exempt basic foodstuffs from VAT.

"We assume that his (Finance Minister Barend du Plessis') earlier announcement that the current exemption on eight basic foodstuffs due to be lifted at the end of March will therefore hold."

The DEP repeated the call made in an earlier 1992/93 Budget preview for an open and democratic budgetary process, proper public expenditure planning within the framework of a national development strategy and effective management of public spending.

"None of these were satisfactorily addressed in this year's budget," the ANC said.

Hand of Keys seen in Barend's tax proposals

STAR 19/3/92

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By Derek Tommey

A stockbroker last night said yesterday's Budget was like a cheap currant bun. "It has some currants in it — but you had to look hard to find them."

One of the currants was the proposal to reduce from 10 years to five years the period in which mining houses and other investors have to hold shares in order to be exempt from paying tax on the proceeds from the sale of the shares.

A broker said this was a major concession. Its importance was that it would enable the mining houses and any other long-term investor to convert their shareholdings into cash without having to pay a penalty.

It would also result in a larger supply of shares to the stock exchange.

This should lead to a broader market and smaller price fluctuations from minor trades. It should also help reduce some of the upward pressure from institutional money on share prices.

Another currant was the proposal to speed up the rate of depreciation in terms of Section 37 E of the Income Tax Act on specific projects.

Taken together, these proposals suggest that the Government is going out of its way to help those mining houses and other organisations with large share portfolios and major investment programmes.

One company to benefit should be Gencor. It is planning to build a huge stainless steel plant and a large aluminium plant.

It also has major plans for investment in oil. These projects will require large capital outlays.

Consequently, the generation of cash from the sale of shares plus the increased rate of depreciation will make the financing of these projects much easier.

Other mining houses and large institutions such as Anglo American, JCI, AECI and Sentrachem, which are contemplatng major projects, also stand to benefit.

But one cannot help seeing in these proposals the hand of Derek Keys, the former chairman of Gencor, and now Minister of Trade and Industry.

Also helping to sweeten the Budget slightly were the reductions in the rate of tax on non-mining companies.

The surcharge is being lowered from five to three percent, which means the effective tax rate on these companies is now 49,44 percent.

Marius van Blerck, tax adviser to Anglo American, said last night these proposals indicated that the Government was doing all it could to protect its tax base and was granting concessions on a highly selective basis.

But he believed these tax concessions, together with the positive result of the referendum, could lead to a significant improvement in the investment climate in coming months.

One bright spot on the JSE in the coming months is likely to be the building and construction sector.

The announcement that R3,2 billion could be spent on low-cost housing in the next 12 months was a bull point for the sector, and should also help stimulate the economy.

Women, elderly benefit in Budget

STAR 19/3/92

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A reshuffle of tax brackets will benefit mainly married women and the over-65s. TOM HOOD reports from Cape Town.

ALMOST R1,5 billion will be given away to taxpayers, including married women and the over 65s, as a result of income tax changes in the Budget.

Main benefit involves R1,225 billion given from a reshuffle of tax brackets to compensate for fiscal drag (inflation).

Married women will now pay the same tax as unmarried women on their investment income and save R195 million while the elderly get additional rebates worth R30 million.

Both married and unmarried taxpayers gain from tax bracket changes.

Finance Minister Barend du Plessis said tax relief over the past two years was focused on the neutralisation of fiscal drag and where possible even a real reduction of the direct tax burden on individuals.

The outcome was a lowering of the top marginal rate of tax to the present 43 percent.

Because of the limited funds available this year, it had been decided to target relief on those who had been most exposed to fiscal drag, said Mre Du Plessis.

A move was also being made towards a simpler tax rate structure with fewer and wider income bands. This also required some minor adjustments to the tax rebates.

As an illustration of the proposals, a married person with two children and a taxable annual income of R35 000 whose income rose by 10 percent from 1991-92 to 1993-93 would find the average tax rate under the old scales would have risen from 15,1 to 16,7 percent.

But under the new scale it dropped to 14,9 percent and the tax payable dropped by R655 in 1992-1993.

Mr du Plessis said intention was gradually to bring the tax scales for married women in line with those for unmarried women and this would go ahead this year.

The scale for married women with a taxable income up to and including R40 000 would be brought in line with that for unmarried persons.

In the process, however, the top marginal rate for married women would be raised from 38 to 40 percent to bring it closer to that for unmarried women.

The primary rebate would be raised from R800 to R900 and all married women with a taxable income of R80 500 or less would benefit.

A married woman with a R30 000 taxable income and whose income rose by 10 percent and whose average tax rate under the old scales would have risen from 21,9 to 23 percent, would find her average tax rate falling to 21,3 percent and she would pay R570 less tax this year.

Mr du Plessis said the separate taxation of married women women had considerably improved the tax position of the working married woman.

He said the government was fully aware of the deteriorating income position of many elderly people who with great sacrifice had made their own provision for retirement.

This year it was proposed to increase the additional rebate for the over 65s from R2 100 to R2 500.

As a result of the changes, a married couple above 65, each having a separate taxable income above these thresholds and who enjoyed the maximum interest concession, would in future become liable for tax only when their joint taxable income rose above R46 173, compared with the present R41 258. □

'All South Africans will pay dearly'

320

MICHAEL MORRIS
Political Correspondent

ARCG 3/2
19/3/92

THE Budget will further squeeze taxpayers and burden future generations with debts because of the "profligacy and inefficient economic mismanagement of this government", the Democratic Party said in sharp reaction to the Budget.

Unshackling itself from its referendum alliance with the National Party, the DP made no bones about what it described as "a bad news" Budget.

Chief DP finance spokesman Ken Andrew declared in a stinging three-page statement: "The government talks glibly about efficient management and fiscal discipline, but proceeds to do exactly the opposite."

There was no immediate reaction to the Budget from the Conservative Party last night as it smarted from its humiliating defeat in the referendum.

But the DP, which helped despatch the right wing alliance at the polls, took at a swing at the government.

Said Mr Andrew: "The government has lost effective control of State expenditure and all South Africans are going to have to pay dearly for the continuing mismanagement of our economy by the government."

The government was "living beyond its means", mortgaging South Africa's future by borrowing R8,9-billion this year to spend on current expenditure.

"The cost of State debt has already more than doubled over the past four years — and this trend is going from bad to worse."

He said individual income tax had risen by 54 percent in two years and that "despite these large tax increases, social old-age pension parity has not been achieved, food relief for starving people remains inadequate and often doesn't reach them, and the price of fuel is to increase once again".

While the government said it wanted the private sector to generate wealth and economic growth, "it continues to appropriate an increasing share of gross domestic product for itself". This share now amounted to about 29,5 percent of Gross Domestic Product — up one percent since last year.

He said that in spite of claims by Mr Du Plessis of progress in eliminating fiscal drag, "income tax on individuals is to rise by R6,5-billion — nearly 50 percent faster than the rate of inflation".

However, Mr Andrew acknowledged positive features in the Budget, including allocations to education, housing and drought relief.

Alliance threatens huge mass action

STAR 19/3/92 (320)

CAPE TOWN — Unprecedented levels of mass action, including a national strike, would be initiated by the ANC/SACP/Cosatu alliance if the Government refused to meet the demands contained in the Peoples' Budget by June or July, Cosatu general secretary Jay Naidoo said yesterday.

Addressing a press conference in response to the, he said the Budget presented by Finance Minister Barend du Plessis had not addressed the demands raised by the three movements.

Mr Naidoo said that, following the landslide "yes" majority in the referendum, the Government should enter into "decisive negotiations with the democratic movement on major socio-economic issues facing our people".

The alliance's key demands include an end to unilateral restructuring of the economy, Government involvement in an Economic Negotiation Forum to debate key economic issues, no VAT on food, electricity, medicines and medical services, the reduction of food prices and the equalisation of pensions.

Tito Mboweni, of the ANC's economic policy department, said the ANC rejected the Government's unilateral adoption of fiscal policy without more representative involvement.

He said social expenditure in key areas such as social welfare and poverty relief, pensions, employment creation, health, education and housing showed "precious little evidence" of the Government's commitment to meet pressing social needs.

The ANC had proposed a Fiscal Commission to examine different tax options. While it had no specific policy in favour of a wealth tax, the movement believed in shifting the tax burden from the individual to "those who can afford it".

Dr Bernie Fanaroff of the Co-ordinating Committee of VAT said the Budget had failed to address major demands such as a zero-VAT rating on food, services, medicines and medical services, properly planned poverty and drought relief schemes and the stablisation of food prices.

He said the committee would seek meetings with the Minister of Finance, control boards and other bodies to pursue its demands. —Sapa.

● The Budget would force trade unions to take a much tougher stance during metal industry pay talks which begin today, secretary of the Confederation of Metal and Building Unions Ben Nicholson said. He said the Budget would have a negative impact on workers' pockets.

Bitter-sweet pill will be hard to swallow

STAR 19/3/92

320

While some aspects of the Budget have been welcomed, a higher fuel price and other increases may have a severe ripple effect. PAULA FRAY reports.

CONSUMERS, already in a critical financial position, would be hard hit by the increase in the fuel price, consumer bodies said last night.

The Government's decision not to extend the VAT zero-rating of eight basic foodstuffs was also criticised although consumer bodies welcomed the unchanged VAT rate, lower personal tax and concessions regarding pensions, allowances and transfer duties.

However, consumers were handed a bitter-sweet pill last night when the Minister announced, among others:

- A 9c/l increase in fuel and 8c/l increase in diesel;
- No extension on the temporary VAT zero-rating of eight basic foodstuffs; and
- Various increases in the price of certain luxuries including beer, hard liquor, cigarettes and soft drinks.

Prices

"The SA National Consumer Union said consumers were in a critical financial position. "Unemployment, inflation and rapidly increasing food prices create great problems and many consumers actually face famine. The belt can no longer be tightened as, for many consumers, it is already at its tightest."

Although the union welcomed the fact that the VAT rate remained unchanged, it regretted that the temporary relief involving eight basic foodstuffs, which were zero-rated for six months, had been terminated.

"Consumers not only hoped that the exemptions would be made permanent, but that they would be extended to include all basic foods, medical services and medicines, water and electricity," said union chairman Lillibeth Moolman.

Last night, the ANC said it was "deeply concerned" that the Minister had not mentioned plans to exempt basic foodstuffs. The lifting of the temporary exemption would have "extremely detrimental effects on the incomes of the poor", said the ANC.

Housewives' League president Lyn Morris said the Government had until March 31 to extend the VAT zero-rating. "To lose those will not be good for the consumer," she said.

The fuel increase also came under severe attack.

"The increase of 9c/l in the fuel levy is regrettable. It will provide the ideal peg to justify increased prices. The escalating effect of the higher fuel price will hit consumers very hard," said Mrs Moolman.

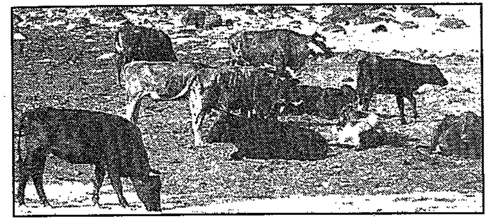
The league also expressed concern. "The 9c/l is less than expected but it is still going to have a ripple effect and affect inflation," said Mrs Morris.

According to Mrs Moolman, the highest priority at hand should be to stimulate the economy in order to create jobs and simultaneously control the money supply in order to fight inflation: "It does not appear as if the Budget will meet these requirements to the required extent."

Mrs Morris said the Budget could have been worse.

"We are very happy he has left VAT at 10 percent," said Mrs Morris, who noted the increase did not have to be announced in the Budget and could be announced later.

She said that, in view of the small amount spent from the R220 million allocated for poverty relief last year, it was important that the R440 million allocated yesterday be utilised correctly and speedily. "I agree it has to be spent properly but people are dying of malnutrition. Will they still be mucking around in 1996 and still not have spent all of it? I feel something is not just quite right there," said Mrs Morris.



R1 billion to fight drought disaster . . . but the Government has been advised to use some of it to subsidise imported maize.

She also called on the Government to use some of the R1 billion put aside for the drought disaster reserve to be used to subsidise imported maize at a consumer level.

"The league feels strongly that there is no way that the lower-bracket consumer can afford an increase in mealie meal and would appeal that part of the R1 billion be used as a consumer's subsidy to keep the price down so that people are not faced with a basic food rocketing sky high with the imports."

Income

The Consumer Council described the budget as "fair", if the Government's limited sources of income, the increased demand for its services and the state of the economy were taken into account.

"To be able to give, the Minister of Finance also had to take," said Consumer Council executive director Jan Cronje.

"No increase is ever popular with consumers, so the council cannot welcome the higher fuel price. Owing to its ripple effect on the economy, price hikes over a wide front can be expected," he said, appealing to business to try and absorb the increase as far as possible. □

Govt income from taxes less than expected

STAR 19/3/92 (320)

By Sven Lunsche

CAPE TOWN — Government income from taxes was over R2,1 billion less than expected in last year's Budget, Mr du Plessis said.

However, personal tax continued to contribute an ever greater portion of total tax income, as fiscal drag more than wiped out the one-percent cut in the marginal tax rate in last year's Budget.

Switchover

Mr du Plessis said the switchover from GST to VAT and lower company profits had reduced the budgeted tax revenue level by R2,15 billion to R64,5 billion in 1991/2.

Total revenue for the past year, comprising income from taxes and customs and excise duties, was R73,2 billion, 9,6 percent higher than in 1990/1.

For the year ahead the Government has budgeted for a 15,8 percent increase in tax revenue to R84,8 billion, excluding transfers from the strategic oil fund.

Volumes

In the past fiscal year SA's higher trade volumes with the rest of the word had lifted income from Customs and Excise duties by R500 million above the budgeted estimate to R8,75 billion.

Mr du Plessis said the introduction of VAT had gone exceptionally smoothly.

Nevertheless, the combined income from GST/VAT over the year at R18,4 billion was R1 billion below budgeted level, which Mr du Plessis said was due to the reduction in the VAT rate from 12 to 10 percent.

Taxes from non-mining companies were about R1,1 billion lower than budgeted, which Mr du Plessis ascribed to slightly lower company tax and poorer company profits.

Breakdown

Providing a breakdown of tax contributions to total revenue, he said personal income tax last year made up 38,2 percent of tax revenue in 1991/2, compared with 33,1 percent in 1990/1.

The share of the main indirect tax — GST/VAT — in total tax revenue fell from 27 percent in 1990/1 to 25,1 percent in 1991/2.

Motorist seen as easy prey for Govt taxation

STAR 19/3/92

Consumer Reporter 320

The Government came under fierce attack last night for, yet again, increasing the fuel price.

Consumer bodies warned that the 9c/litre increase in fuel and 6c/litre increase in diesel would have a ripple effect on the price of goods and services and, in turn, on inflation.

The Automobile Association said the increase underscored the fact that petrol was the Government's favourite source of taxation without regard for the motorist and the inflationary effect on the economy.

The AA said the already over-burdened motorist had no choice but to accept this adjustment which increased the fuel tax percentage of the pump price from 35,6 to 39 percent.

"This is nearer the figure of 45 percent mentioned by the Minister in the 1991 Budget as his goal when comparing it with overseas fuel tax," said the AA.

The Democratic Party said that while the Government's need to raise additional revenue

under current circumstances was understood, it objected to the motorist always being viewed as convenient easy prey to fund ever-increasing Government expenditure.

DP transport spokesman Wessel Nel said the increase in the levy on petrol and diesel, which would raise about R939 million in the next year, represented a substantial increase of about 20 percent on the fuel tax component.

It was unfair and short-sighted to extract an ever-increasing price from vehicle owners while allowing the road network to disintegrate, he said.

"A portion of the fuel levy should be set aside as a dedicated fund to cater for the maintenance of the effective road network which, in turn, would act as a stimulus to economic growth."

Motor Industries' Federation executive director Vic Fourie said the increase was "to be expected".

According to the AA, the upward adjustment in price should be seen against a background of misconception of a so-called cheap price of fuel.

In a recent study commissioned by the AA, it was found that in South Africa in 1990, one hour's earnings expressed in equivalent litres of petrol amounted to 7,1 litres. However, comparative figures overseas were France (8,3), Germany (15,8), Japan (14,8), the United Kingdom (12) and the US (28,2).

With the resounding "yes" vote in the referendum, the AA said it expected to see an early lifting of the oil embargo. This should make it possible for the Government to absorb the premium paid on imported crude hidden in the pump price.

Barend's Budget concessions are aimed at the poor

B/Day 19/3/92

320

SIMON WILLSON in Cape Town

320

IN KEEPING with the decisively reformist swing in the referendum, Finance Minister Barend du Plessis has tabled a solidly progressive Budget whose benefits are conspicuously aimed at the less well-off. The proposals anticipate white voters' de facto endorsement of ending discrimination by advancing further the trend of previous budgets towards the restitution of inequalities and the unifying of concessions.

Du Plessis' 1992/93 Budget has been drawn up with the apparent twin objectives of supporting the political reform process and emulating the Reaganite/Thatcherite fiscal policies that are now conventional among most of SA's major trading partners.

Alignment of fiscal policy with government's political initiatives is furthered by targeting the lower income groups and the needy for such tax giveaways as could be afforded this year.

This helps to explain the suspension of any attempt to compensate the majority of taxpayers for the effects of fiscal drag over the past financial year.

Du Plessis makes it clear that the measures taken in the past two Budgets to neutralise the effects of inflation on income tax thresholds had slewed benefits towards those in higher income brackets. The Budget's R1,2bn income tax giveaway is, therefore, concentrated on earners in the R20 000 to R50 000 a year band that has been most exposed to fiscal drag.

Furthermore, the Budget aims to keep political repercussions to a minimum by leaving unchanged the one major regressive tax on the statute books — VAT. Keeping the VAT rate at 10% — at least for the moment — at a time when the exchequer is in dire need of extra revenues, is a significant concession to the principle of protecting those least able to pay more tax.

The bias towards indirect taxation — that is, towards taxing more of the spending and less of the income of both companies and individuals — is increased by measures such as the raising of the fuel levy. It is clear that SA consumers will have to get used to paying a greater proportion of their tax payments through their purchases.

Although this makes paying tax a more visible and conscious act than it is through PAYE, it also makes tax-paying more elective. A consumer can choose whether or not to pay an indirect tax by deciding whether or not to consume.

The Budget also continues to align SA's fiscal policy with the trends established in other Western countries. The minimal income tax concessions announced yesterday match those in last week's British budget when, although faced by a general election early next month, the Major government targeted its minimal income tax giveaways at the very bottom of the scale.

The VAT rate was left unchanged not only because it is a regressive tax but also because the government wants to adapt SA's VAT regime to those of most of SA's trading partners. Above all, the idea is to retain the theoretical simplicity of VAT. Further toying with the rate would prompt further pressure for exemptions and differentiations, and the government's desire for a single-rate, no-exemptions VAT remains.

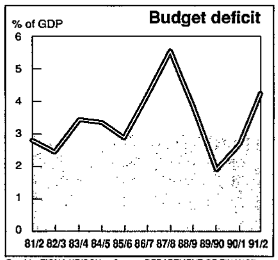
Du Plessis has left open the possibility of raising the basic VAT rate of 10%, but only once an acceptable rate of economic growth has resumed.

Typical VAT rates in European countries straddle 15%, and it can reasonably be expected that the SA rate will be raised to nearer this level once the recession is over.

Ideally, VAT offtakes will rise as consumption recovers, and then the tax's contribution to revenues can be left to grow automatically in parallel with overall economic activity.

Areas where the current straitened state of the fiscus has not allowed greater conformity with international convention include the level of the Budget deficit and the retention of import surcharges.

The Budget deficit, as the accompanying graph shows, is expected to rise to 4,5% of GDP in the coming financial year. This is above the maximum ratio of 3% recommended by the International Monetary Fund (shaded in the chart).



Graphic: FIONA KRISCH Source: DEPARTMENT OF FINANCE

This however, is seen very much as a one-off event enforced by simultaneous recession, reform and drought. The 3% ratio remains an objective.

Meanwhile, there are perfectly respectable precedents for allowing a recession-combating Budget deficit bulge. Both the US and UK, stricken by recessions in their election years, have proposed temporarily to swell their deficit-to-GDP ratios up to almost 5%.

Two features of the Budget herald the fulfilment of President F W De Klerk's promise of "unprecedented discipline" on public spending in the coming financial year.

The first is the looming presence, detectable in all spending proposals in the package, of the Department of State Expenditure. The management plans that each department has to submit to the State Expenditure Department will have the force of formal contracts which any spendthrift department will, clearly, break only at its peril.

The second is the setting aside of a special reserve fund of R250m for civil service retrenchment payouts.

The retention of import surcharges is a fortunate convenience to an exchequer strapped for revenues. As government found out when the surcharges were first introduced, they have almost no effect on physical import volumes. They quickly developed into revenue-raisers, pure and simple, as consumers decided that they would pay the surcharges in order to buy the imports.

On this score, the surcharges continue to generate revenue without exerting a disproportionately depressive influence on an economy approaching resumed economic growth.

There was considerable pressure on Du Plessis to delay the implementation of higher excise duties until the inflationary ripples of such a measure could be minimised. Several analysts called for higher duties to be effective from October this year, when the introduction of VAT is due to fall out of the CPI and trigger a sharp fall in the headline rate of consumer price inflation.

Du Plessis has declined to accept this point of view, and R300m in extra duties are effective from today. The inflationary implications of this were readily accepted; Du Plessis expects it to add up to two percentage points to CPI inflation this year.

As in previous years, Du Plessis will also have had to bear in mind the verdict of the Reserve Bank. Last year's Budget came in for some plain-speaking and not entirely complimentary reaction from one of the bank's deputy governors, and the Bank remains highly vigilant about the Budget's fiscal thrust.

Deputy Governor Jaap Meijer is due to give the bank's first official reaction to the Budget at a public forum later today. The Bank's independence as the nation's monetary authority is now all but enshrined in the constitution, and its assessment of yesterday's package therefore remains crucial to the setting of monetary policy for the rest of the calendar year.

In terms of the pre-eminence of the Bank's self-proclaimed mission to combat inflation, this may be a Budget whose fiscal stance is loose enough partly to neutralise the tight monetary policy of the past two years. This, combined with the inflationary implications of the excise duty increases, seems to spell another year of reluctant and infrequent reductions in nominal official interest rates.

Heavier burden for high-earning wives

B/Day 17/3/92

(320)

GILLIAN HAYNE

ALL taxpayers in lower income brackets will benefit from the reduction in tax rates, but married women earning higher incomes are to face added burdens, tax experts said yesterday.

A married woman earning R50 000 a year will reduce her tax liability by R610 a year. But the benefits start declining on a sliding scale for those earning between R50 000 to R80 500. Married women earning above R80 500 will pay higher taxes.

BDO Spencer Steward tax partner Matthew Lester said the fiscus failed to address the unfair taxation of married women compared to their husbands.

Married men earning up to R100 000 were still paying less tax than married women. A married woman earning R50 000 will be liable for R13 350 tax whereas her male counterpart will only be taxed R12 600.

"There may be separate taxation of married women in SA, but separate and equal taxation of married women has certainly not been achieved," Lester said.

KPMG Aiken and Peat tax partner Pat McGurk believes Du Plessis did not use the right tactic to lure married women into the workplace.

"There are many highly skilled married women who do not think it is worth their while to work because of the high tax rate. The increase in tax on high income earners will only entrench that attitude," he said.

Aged get tax concessions

Sowetan 19/3/92

Own Correspondent

CAPE TOWN — Further tax concessions have been granted to the country's elderly.

The additional rebate for those above the age of 65, which was increased in last year's budget, is to be raised again from R2 100 to R2 500.

In effect this raises the tax thresholds of the elderly to R24 881 from R22 174 for married people, to R21 429 from R19 500 for unmarried people and to R17 292 from R15 084 for married women.

Both spouses are also now entitled to the R2 000 exemption of interest income. (320)

This means that a married couple aged over 65, each having their own taxable income above the thresholds and who are entitled to the maximum interest concession will in future attract tax only when their joint taxable income exceeds R46 173 against the present R41 258.

These concessions are expected to cost the Exchequer R30m this year.

Revenue lays down new rules for lessors

B/Day 19/3/92 (320)

Business Day Reporter

NEW rules on how lessors can write off leased assets were issued earlier this week by Inland Revenue.

Until now, taxpayers acquiring assets have only been allowed a wear and tear deduction.

Coopers Theron du Toit tax partner Koos van Wyk said lessors are in a privileged position in that this deduction may be calculated on the straight line basis on the cost of a leased asset over the period of the lease agreement or the useful life of the asset, whichever is the longer period.

In determining the "cost" of a leased asset on which the allowance will be based, lessors should keep in mind the influence of VAT as well as the provisions relating to any residual value which must be taken into account in determining the rental payable by the lessee, Van Wyk said.

Input tax paid on acquisition of the asset by the lessor is not part of the "cost" of the asset, as the lessor (if he is a vendor for VAT purposes) is entitled to deduct the input tax against any output tax due by him.

Capitalisation of the output tax and the depreciation thereof over the period of the lease will ensure that the lessor is only taxed on his net income.

Fabric imports push Strebel into the red

B/Day 19/3/92

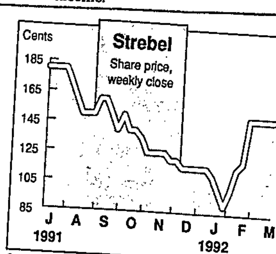
LINDA ENSOR

CAPE TOWN — Clothing accessory and textile manufacturer Strebel Group slipped into the red in the six months to end-December as the severe economic downturn and a flood of fabric imports took their toll on the interim performance.

Turnover dropped 8% which, together with a sharp decline in margins and a rise in finance charges, resulted in the group suffering a 4c loss in earnings a share, radically down from the previous profit of 13,3c.

No dividend (3,5c) has been declared.

Operating income plummeted to R745 000 (R5,1m) and net interest paid rose to R851 000 (R548 000). After a lower tax bill an attributable loss of R599 000 (R2m) was notched. At end-December the group had a gearing of 48%, up from the previous 26%. The current ratio had also deteriorated to 1,8:1 from 2,3:1.



Graphic: FIONA KRISCH Source: I-NET

Chairman Fred Strebel is not optimistic about the next six months.

"Economic and political conditions remain bleak with consumer demand depressed. However, if the recommendations of the Hatty Commission are approved, some relief is expected," Strebel said.

He said the group had continued with its rationalisation and consolidation programme, the positive effects of which would be felt in future.

SAB eyes Zambian brewery

B/Day 19/3/92

LUSAKA — SAB is to buy Zambia Breweries if negotiations with the Zambian authorities succeed.

A German magazine, Brewery Monitor, says that the SA beer giant is interested in acquiring Zambia Breweries' Lusaka plant.

SAB officials and the privatisation committee in Zambia would neither confirm nor deny the report, the weekly Financial Mail reported yesterday.

However, in February the SA Business Development group's publication quoted SAB group international trade manager Mike Muir as saying Anglo American had written to President Frederick Chiluba expressing its interest in acquiring shares in Zambia Breweries.

Special assistant to the president for economic affairs Donald Chanda said he had no information on the matter.

Anglo American Corporation managing director in Zambia Anderson Mazoka said he had no knowledge of the correspondence between Anglo American and President Chiluba.

Zambians interviewed yesterday said they welcomed the news.

"South Africans should set up their own brewery plant in order to offer real stiff competition. We want prices to come down," said one beer-drinker.

Muir said opportunities in Zambia were attractive but that SAB did not have a comprehensive list of these opportunities and had only "secondhand information".

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(Unaudited) 31.12.90 R000	(Audited) 30.06.91 R000
25 140	25 734
3 031	3 042
3 413	2 303
31 584	31 079
14 342	14 124
10	10
30 388	35 513
44 740	49 647
13 156	18 568
31 584	31 079
15 000	15 000
168	172

earnings per share (cents)

Individuals, business given few tax breaks

BDay 19/3/92 (320)

LINDA ENSOR

BUDGET 1992

CAPE TOWN — The Budget gave no tax breaks to individuals except the elderly and for those in the R20 000 to R50 000 income bracket, and predictions that there would not be a further reduction in the company tax rate proved correct.

The rebate for persons over 65 has been raised to R2 500 from R2 100. The only other significant amendment of the tax structure was to bring the tax scale for married women with a taxable income up to and including R40 000 in line with that of married people.

The top marginal rate for married women was raised to 40% from 38% and the primary rebate was raised to R900 from R800.

For companies, the only relief was a downward adjustment in the tax formula rate for the gold mines and the implementation of the fourth phase of the surcharge on non-gold mines. Tax incentives for beneficiation projects were also broadened.

"This is a bad news budget. Government has lost effective control of state expenditure and all South Africans are going to have to pay dearly for the continuing mismanagement of our economy by the government," DP finance spokesman Ken Andrew MP said.

"The overall effect of this Budget will be to squeeze further current taxpayers further and to burden future generations with debts to pay for the profligacy and inefficient economic mismanagement of this government."

Andrew said government was to borrow nearly R9bn to pay salaries and other current expenditure, and future generations would have to pay for the "extravagance". He accused government of living beyond its means as the deficit before borrowing was steadily rising.

Andrew said income tax on individuals would rise by R6,5bn or 22,5% — nearly 50% faster than the rate of inflation. He said individual income tax had risen by an "astonishing" 54% in just two years.

"Government says it wants the private sector to generate wealth and economic growth, but it continues to appropriate an increasing share of gross domestic product GDP for itself.

"This share has increased by about a third over the past decade and now amounts to about 29,5% of GDP — up 1% since last year."

What Barend should have done but didn't

w/mail 20/3-26/3/92 (320)

● From PAGE 1

care, pre-school child care and electrification.

DP finance spokesman Ken Andrew points out there was also no mention of abolishing **Own Affairs** departments.

This he says could have saved an extra billion rand or two.

This is the amount which it has been estimated was necessary to neutralise fully the effect of fiscal drag.

Own Affairs duplications, in particular, affect **education** and **health**.

On health spending, there was no mention of the imbalance between private and public sector spending on health.

South Africa should be moving towards some kind of national health scheme, according to the Centre for Health Policy Studies.

The centre has also estimated that the government loses R1,1-billion to R1,7-billion in potential revenue through **tax rebates on medical aid payments** by employers.

Ending these would have a dual effect of taking a step towards restructuring health care and garnering new revenue.

There was mention of — but no movement on — a **capital transfer tax**, a common tax in other countries.

There was also mention, but again with no specifics, of cutting down on tax breaks which erode the revenue and make tax rates seem much harsher than they really are.

A **withholding tax** was discussed but not implemented.

Review: *The Economy*

The Budget & You

Special business supplement to the Weekly Mail, March 20 to 26, 1992

BUDGET 92

Defence budget relieves military

PAGE 3

No relief on the cards for taxpayers

wmail 20/3 - 26/3/92 (320)

Another year of belt-tightening — that's the Budget medicine for individual tax payers, reports **MONDLI MAKHANYA**

TAXPAYERS got no relief from this week's Budget ... and neither should they expect any next year.

An ailing economy, severe drought, a plunging gold price and government reluctance to touch the political hot potato of Value Added Tax precluded Finance Minister Barend du Plessis from making any significant moves on income tax. Individuals will therefore be paying more income tax this year.

The only significant move Du Plessis made was to trim tax brackets. As part of the equalisation process the top marginal rate for married women increased from 38 to 40 percent and their primary rebate has been increased from R800 to R900. In effect this means only married woman earning more than R80 500 — the top two percent — will pay more tax.

Middle-income earners, who Du Plessis concedes are the hardest hit by bracket creep, are likely to benefit from the further reduction in the number of tax brackets.

Over 65s had their rebates increased from R2 100 to R2 500. Married people over the age of 65 will now only be taxed if their annual income exceeds R24 000 and unmarried people if it exceeds R21 000.

On the tax reform front, the trend towards shifting the tax burden away from the individual ground to halt this year as the top marginal rate remained at 43 percent instead of dropping one percentage point as it has done over the past few years.

While Du Plessis' tax concessions are projected to cost government R1,225-billion in revenue in respect of the adjusted tax table, the concessions to married women will cost R195-million and those to senior citizens R30-million.

Du Plessis did nothing to address the issue of bracket creep — the process whereby one moves into a higher tax bracket every time one's salary is adjusted keep pace with inflation, thus negating the increase. This process — also known as fiscal drag — often leaves individuals worse off than they were before the increase.

Says Ernst and Young senior partner Charles Mackenzie: "They re just sitting and watching inflation collect the money for them."

In fact, notes South African Chamber of Business chief economist Ben van Rensburg, bracket creep will earn the government up to R6-billion this year.

Neither should the individual seek solace in the future. Tax rates are unlikely to alter much in the coming 12 months since the African National Congress and the Congress of South African Trade Unions will undoubtedly have a say in the next Budget. Their constituency is mainly working class and they are unlikely to have much sympathy for high-earning individuals. The drive towards

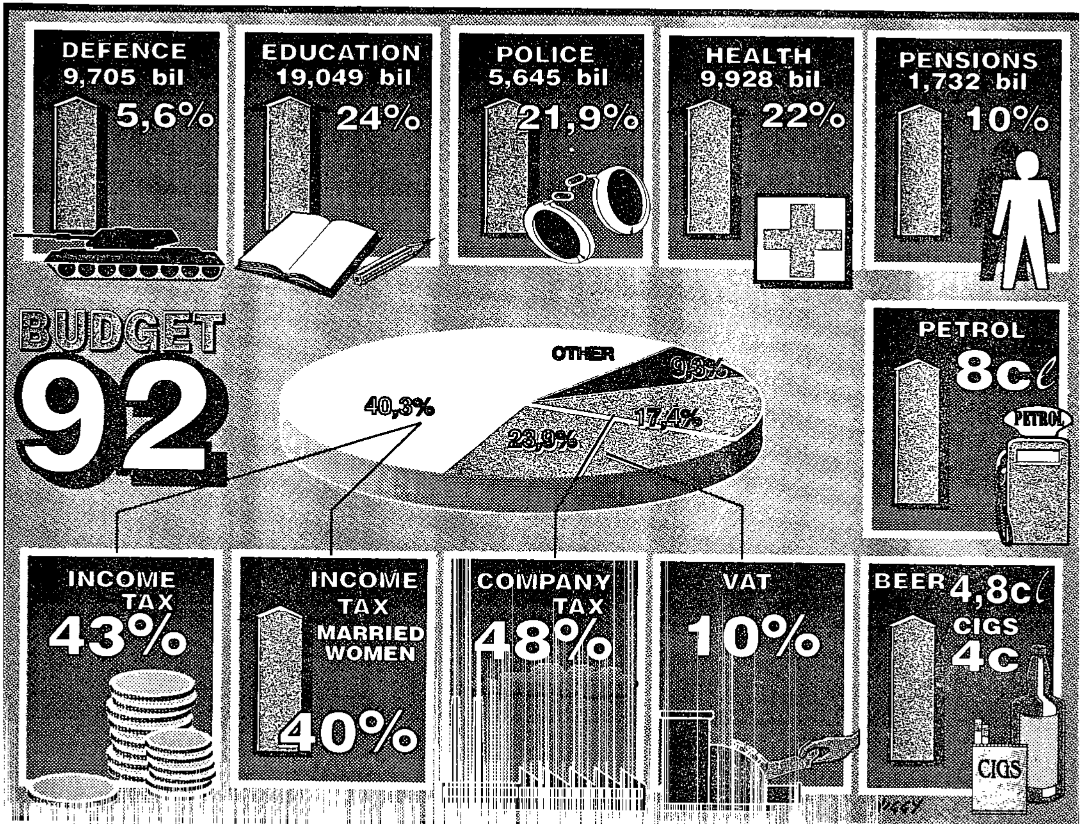
● To PAGE 2

P.T.O

What Barend should have done ...

W|Mail 2013 – 26/3/92

Finance Minister Barend du Plessis did a lot of things in the Budget to make people happy and sad. But here's some things he should have done. **REG RUMNEY** *reports* 320



WHAT Finance Minister Barend du Plessis didn't do (but might have) is as surprising as what he did do.

Let's start with the obvious.

Du Plessis left the rate of Value Added Tax at 10 percent — but announced no zero-rating of food or a continuation of special temporary zero rating of basic foodstuffs.

He seems wedded to the economically correct but politically ham-fisted way of doing things. Keeping the rate at 10 percent while not acceding to demands for zero-rating will not mollify criticism of the handling of the introduction of VAT.

A more subtle way of handling the matter would have been to raise the rate — but make exemptions for basic foods. Now he is stuck with lower revenue from VAT. But he cannot raise the rate for fear of letting loose another union-orchestrated VAT uproar.

The lower revenue from VAT has serious implications for the government's attempt to restructure the economy more in line with world free-market thinking.

Revenue from indirect taxes such as VAT, the thinking goes, should be increasingly more important than direct tax, which decreases incentive and gives people less discretion about where the [illegible]

But the ratio of indirect tax to direct tax fell to around 67:1 in the last fiscal year, from 84:1 in 1989/90. It is estimated that in the 1992/93 fiscal year the figure will once again be around 67:1.

So the trend is away from that recommended by the milestone Margo Commission of Inquiry into tax and long-accepted by government.

In Du Plessis' defence, the amount put aside to aid those hardest hit by imposition of VAT on food has been raised. Du Plessis allocated another R440-million to Health Minister Rina Venter's Nutrition Development Programme.

But of the R220-million allocated to this programme last year, only half has been spent so far. The programme attracted criticism when Du Plessis said last it was aimed at mitigating the hurt to the poor from VAT on food. Doubts about the programme's effectiveness in reaching the poor are not allayed by there still being R110-million in the kitty.

R440-million may not be nearly enough and if it does not find its way to those who need the aid, it is a vain exercise.

Du Plessis could have ended the morally indefensible apartheid in **social pensions**, instead of reducing the gap by 40 percent. The gap between white and black pensions was R79, or 33,6 percent. It is still R52, or 17,7 percent, higher than black pensions. It would have been more than a good gesture to equalise pensions immediately.

Social pensions are an established and viable delivery network of aid to the poor, particularly in the rural areas where women and children rely on often irregular remittances from migrant workers in the cities. Money for grannies in black communities quickly finds its way to a wide circle of dependants, including children.

In view of the drought, which will surely keep food prices high, this is something Du Plessis is remiss in not considering.

In the business community Du Plessis surprised observers by neglecting some useful ways of injecting life into the economy. Supply side moves, such as cutting **direct taxes** on corporations and individuals, went by the board.

True, there is some much needed relief for the more poorly paid workers. The tax tables have been revised to neutralise partly the dreaded "bracket creep" or "fiscal drag". This is the phenomenon in which inflation pushes taxpayers into ever higher tax brackets so that they pay more tax even though their wages are just marking time when adjusted for inflation.

But since the "marginal" or top rates of tax have not been changed, fiscal drag will still hit the higher earners.

There were no new moves to encourage **fixed investment**.

Du Plessis had been expected to lift "ring fencing" of mining companies, so allowing them to use tax losses made on one project for another project, or other tax incentives to spur fixed investment. Post-referendum euphoria will have to do the job alone.

However, further widening was announced this week of the the tax breaks for companies engaged in "beneficiation" for export, that is the export of goods made from South Africa's raw material rather than the raw materials themselves, under Section 37 E of the Income Tax Act.

The Budget speech quotes the Bible on the need for vision. Vision is the one thing inconspicuous in the Budget. For instance, there is no men tion of the possibility of a **state lot tery**. The Democratic Party estimate last year that R500-million could b raised this way for primary healt

● To PAGE 3

INCOME TAX — 1 FM 20/3/92

Lessors beware (320)

Revenue has changed the basis on which lessors of many goods may charge depreciation for tax purposes. Previously, goods that did not qualify for 20% a year straight-line treatment under Section 12C of the Income Tax Act, or 50/30/20 depreciation under S12B (farming equipment), could be depreciated over periods stipulated by Revenue.

Goods qualifying for S12C are essentially plant and equipment used in manufacturing, hotel equipment, and plant used by agricultural co-operatives.

If the lease agreement provided for a residual value, this was added back as a recoupment at the termination of the lease, as income in the hands of the lessee.

Practice note 15 of 1992, issued on March 16, deals with depreciation procedures under S11(e) of the Act, which covers all goods not covered by S12C or S12B. It also records formally the periods of depreciation under S11(e) that have been used in practice.

Lessors must now calculate the value of the goods (net of the recoupment) at the start of the lease, and charge depreciation on that net value. The change will harm cash flows. It was self-evidently more beneficial to enjoy depreciation on the gross value of goods up front and suffer inclusion of the recoupment at the termination of the lease.

KPMG Aitken & Peat tax partner Alister MacKenzie says Note 15 claims that the S11(e) deduction is governed by S23A. In effect, S23A caps the total deduction that lessors may claim under S12C and other categories, by stating that it must not exceed the taxpayer's rental income.

Despite the practice note, MacKenzie argues that rental income from S11(e) assets does not fall within the S23A definition of rental income. Hence, theoretically, the S11(e) allowance is unlimited. In practice, though, care should be exercised in applying this argument, and taxpayers should apply for rulings on the deduction benefit they can obtain — bearing in mind the discretionary nature of allowances under S11(e). ■

STAR 20/3/92 (3.20)

More tax for property owners

CAPE TOWN — The imposition of increased transfer duty on property transfers will affect the individual property owner, according to the president of the Chartered Institute of Management Accountants and managing director of Seeff Trust (Pty) Ltd, Mike Flax.

The transfer of commercial property was generally zero rated so that most of the R160 million expected to be raised from this tax would be paid by individuals, Mr Flax said.

"Although we all expected an increase in the fuel levy, this is rather inflationary. However, the lesser increase in diesel levies and the additional rebate to farmers was welcomed."

Business in general would regard the Budget in a positive light and as mildly stimulatory in that it would not discourage investment.— Sapa.

Barend's failure to extend zero-rating condemned

STAR 20/3/92

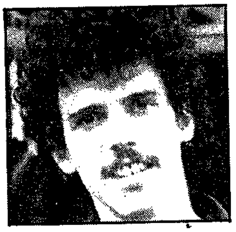
By Paula Fray
Consumer Reporter 320

Consumer organisations have reacted with alarm to the Government's failure to announce in the Budget the extension of the temporary VAT zero-rating on nine basic foodstuffs.

Finance Minister Barend du Plessis announced on the eve of VAT's introduction on September 30 that certain products — samp, powdered milk, mealie rice, whole mealies, dry beans (including soya beans), lentils, fresh milk, canned pilchards and rice — would be zero-rated until March 1992.

Major consumer bodies, the ANC and the VAT Co-ordinating Committee (VCC) had hoped that the Government would consider extending the temporary zero-rating.

National Black Consumers Union president Nonia Ramphomane yesterday said the union was extremely disappointed that the Minister had not clarified the position of the temporarily zero-rated items.


Neil Coleman ... "underhand manner".

"Since last year we have repeatedly asked the Government to cushion the effect (of poverty) on the less well-aid and the unemployed. Unfortunately, the Minister has done nothing."

Mrs Ramphomane believed the VCC would now intensify its campaign for an extension of the zero-rating on the nine foodstuffs as well as other items.

Housewives League president Lyn Morris noted that the Government had until March 31 to extend the exemption. "To lose those will not be good for the consumer," she said.

Cosatu spokesman Neil Coleman noted yesterday that the Minister had omitted, in an "underhand" manner, to tell the public that the exemptions would be lifted. While this had been announced last year, it was never confirmed, he said.

"By glossing over this, maybe he believes the public is naive. But people haven't forgotten. We demand immediate negotiations around food prices, the zero-rating of basic foodstuffs, and the question of zero-rating medicines, medical services, electricity and water."

He said there seemed to be no coherent approach to addressing poverty and starvation. While the Government announced a R440 million poverty programme on the one hand, it took away zero-ratings on the other.

Although the SA National Consumer Union welcomed the unchanged VAT rate, it regretted that the temporary zero-rating of the nine basic foodstuffs had been terminated.


Lynn Morris ... "will not be good".

"Consumers not only hoped that the exemptions would be made permanent, but that they would be extended to include all basic foods, medical services and medicines, water and electricity," said Consumer Union chairman Lillibeth Moolman.

The ANC regretted that plans to exempt basic foods had not been mentioned. Lifting the temporary exemption would have "very detrimental effects on the incomes of the poor".

Medical services VAT to stay

STAR 20/3/92 320

Representations from organisations for Value Added Tax on medical services to be removed were not being considered at this stage, Minister of Finance Barend du Plessis said in the House of Assembly yesterday.

Replying to a question by Mike Ellis (DP Durban North), he said the representations did not appear to relate specifi cally to medical services for pensioners alone.

Mr du Plessis said more than 80 percent of the population received treatment in State-funded hospitals, where pensioners and others paid nominal charges which were exempt from VAT.

Pensioners in the higher income bracket were entitled to income tax relief for their medical expenses.

People aged 65 and older could claim all medical expenses as a tax deduction.

Mr Du Plessis said the Medical Association of South Africa (Masa) had initially requested a zero-rating on all medical services. This could not be accommodated because it would have reduced the tax base, and general practitioners, who previously paid GST on purchases, would be placed in a better position.

Masa then indicated that it preferred the standard VAT rate to an exemption and this course of action was accordingly followed. — Sapa.

INCOME TAX — 2 320

Revenue's rights

FM 20/3/92

A company in financial difficulties will not be relieved of any part of its tax burden on the ground that it has reached a compromise with creditors. The Cape Provincial Division of the Supreme Court has decided that Revenue cannot be bound by "schemes of arrangement" in terms of section 311 of the Companies Act.

Werksmans partner Ira Epstein says a private company, Namex, had been placed in provisional liquidation. An offer, by a third party to the company and its creditors, was

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FM 20/3/92 320

approved under section 311 by the Witwatersrand Local Division of the Supreme Court. (Section 311 compromises are useful both in certain classes of takeover and where a company is in financial difficulties and a purchaser of the shares wishes to obtain control of a company unburdened by debt previously incurred.)

Subsequently, Revenue issued an additional assessment for a fiscal year preceding the date on which the offer was approved. The company argued that Revenue's claim had been dealt with in the same way as other claims, in terms of the offer. However, the court states that it is impossible to imagine a situation where the proposer of a scheme of arrangement could acquire Revenue's rights to claim income tax.

The Cape Supreme Court found Revenue bound by the Income Tax Act to collect taxes due and these rights and duties cannot be transferred to another person. So it could never be empowered to accept part payment and release the debtor company from the balance of its claim, as if he were an ordinary commercial creditor.

The court found, moreover, that it could never have been the intention of the parties to the scheme to regard Revenue as a creditor. And neither the definition of "claim" in the particular scheme nor its wording could bring Revenue within its scope.

Decisions of a provincial division do not constitute binding precedents for other provincial divisions and can always be overturned by the Appellate Division. Nevertheless, the decision is an important one and could be followed.

Creditors or third parties who put forward Section 311 schemes may find it more difficult to reach a compromise if Revenue's claims have to be excluded. In the past, Revenue's claims were either paid in full or dealt with (unchallenged) on the same basis as those of other creditors. ■

Bid to get details of 'secret' grants

B/Day 20/3/92 (320)

LINDEN BIRNS

LEADING members of SA's engineering fraternity are demanding that Trade and Industry Minister Derek Keys lift the veil of secrecy covering 84 projects paid for with taxpayers' money in the form of non-repayable grants to private companies.

Engineering News reports this week it has sent a 400-signature petition to Keys demanding details of 73 projects on which about R41,6m of taxpayer's funds have been spent so far, and for which another R200m has been earmarked over the next five years.

The publication's editor Martin Creamer said in a statement yesterday that for more than two years Engineering News had requested the names of companies which had received, and would receive, non-repayable grants. So far only sketchy details of the spending of R2m on 11 projects had been forthcoming.

The petition, it was hoped, would elicit further information on the remaining 73 projects. Creamer said the 11 recipients known so far had claimed only "puny amounts".

"Our objections centre on the refusal by government to allow a free flow of information relating to state expenditure, to the fact that the identity of recipients is revealed to taxpayers only when the 'final milestone payment' is claimed," he said. If recipients did not claim the "final milestone payment", then their identities might never be known, he added.

Department of Trade and Industry chief director for technology and industrial strategy Hennie Smith said last night the funding was part of the Innovation Support Scheme for Electronics, announced two years ago.

Through the scheme, Trade and Industry undertakes to put up 50% of the development costs of a project, provided the project was for a new invention which would give a local company a competitive edge in domestic and foreign markets.

"We cannot disclose project details as then competitors would hear about the projects, and the entire purpose of the support scheme would be defeated," Smith added.

Because Trade and Industry was providing only 50% of the development funds (in fact, it has given up to only 37% in the past), it did not have the right to disclose project details. That was the prerogative of the firm undertaking a specific project.

Smith said funding was made in the form of non-rapayable grants instead of on a loan basis for two reasons.

Firstly, a similar scheme in France, which operated on the basis of grants being repayable if projects were successful, and written off if they failed, encouraged some firms to declare their projects failures. They would then enter the market with a derivative product, and thus avoid having to repay the grant.

Secondly, SA's Treasury was able to recoup the grant outlay through company and other taxes on the profits of succesful projects, and was able to obviate spending on unnecessary red tape and project policing activities, said Smith.

Nafcoc warns of action if VAT is not softened

WILSON ZWANE (320)

THE National African Chamber of Commerce (Nafcoc) would have no choice but to mobilise its members unless government extended VAT exemptions on basic foodstuffs, a Nafcoc official said yesterday.

Speaking at the 13th anniversary of the Alexandra Chamber of Commerce, Nafcoc senior vice-president Joe Hlongwane said VAT was hardly mentioned in Wednesday's Budget.

He said he had expected a comment on the exemption of basic foodstuffs, which would expire at the end of this month. BDay 20/3/92

Although Nafcoc had not engaged in protest actions before, it would not hesitate to mobilise its members if the VAT concession on basic foodstuffs was phased out.

Hlongwane said he could not understand why government could adopt a fiscal policy without more representative involvement.

"To tax people who are not represented in Parliament is highway robbery," he said.

Sapa reports that the co-ordinating committee on VAT has condemned the 1992 Budget and called for massive consumer resistance to it.

The Budget was "mean-spirited and misleading", and "did nothing to help the poor", the committee said in a statement.

By extending taxation to basic foods and increasing the petrol price the Budget had failed to improve provision for poverty relief.

The committee called on Parliament to "reject this irresponsible and divisive Budget and the Minister responsible for it".

THE BUDGET

Could this be Barend's last stand?

IF SO, IT'S A PITY IT WAS SUCH A NON-EVENT

FM 20/3/92 (320)

Coming after white voters' sweeping endorsement of reform, Wednesday's Budget was bound to be an anticlimax. In the event, this was not only because the referendum result was a hard act to follow but because the Budget was little more than a housekeeping operation. Finance Minister Barend du Plessis had already signalled this when he said early on Wednesday that the Budget would not disturb the "delicately poised economic situation."

What the economy needs, of course, is a radical revamp.

However, within the parameters of the negotiations at Codesa and in the face of vociferous opposition from extra-parliamentary organisations to any "unilateral restructuring," Du Plessis presumably felt he had no option but to take a neutral line. He may well see himself as a caretaker, so confined himself to minor adjustments to the Exchequer Account balance sheet.

But if this is in fact Barend's last Budget, he missed the opportunity to present a case for sound economic management. Though he may not have felt free to make radical changes to policy so close to the creation of an interim government, says Wits' Merton Dagut, he could have outlined the steps needed to solve the deep-seated structural problems in the economy and highlighted the dangers of attempting to deal with them through short-term measures.

Du Plessis' handicap of course is the poor economic record of his own party, which has mismanaged fiscal policy for so long and undermined its own credibility; but he could have passed on to his successors the benefit of experience — his eight years in office and a long line of predecessors who experimented with a variety of interventionist measures.

Perhaps, after the referendum campaign, Du Plessis had lost his flair for drama.

What he achieved was a Budget described by economists as mildly stimulatory. The deficit of nearly R16bn, is 4,5% of GDP, considerably higher than last year's budgeted 3,4% and marginally higher than the actual 4,3%. The net borrowing requirement is lower at R13,2bn because R2,7bn is funded from the NSPF and CEF. This amounts to 3,8% of GDP — almost the same as the revised ratio for 1991-1992.

With loan redemptions of about R5,3bn, the gross borrowing requirement will be R18,5bn, "to be financed chiefly from domestic stock sales of about R18bn, including expected new investments of R10bn by the Public Investment Commissioners. Foreign financing is estimated at about R500m."

This should not unduly strain the domestic capital market.

From a macro-economic viewpoint, though the deficit is excessive in relation to the IMF guideline of 3% of GDP, it comes at a time when demand has been low and the recession protracted. So it is not expected to cause a sudden surge in demand.

But several aspects are worrying. One is that R1bn is being brought forward from the surplus (after borrowing) generated in the previous fiscal year. That means money removed from the system in 1991-1992 will be returned to it in the year ahead. Excessive liquidity has bedevilled monetary policy for more than 18 months now and will presumably continue. This will hold interest rates higher than they would otherwise have been.

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FM 20/3/92 (320)

Another R2bn of the loan surplus was transferred to government pension funds to be reinvested with the Exchequer. The full balance of R3,8bn in the Stabilisation Account is to be transferred to the Contingency Account to reduce the shortfall on the forward cover account.

The second area of concern is that the eventual deficit may prove to be even higher.

Expenditure is budgeted to rise 16,5% to R100bn and revenue 15,7% to R84,8bn. Government's record on spending discipline does not inspire confidence — it may overshoot yet again. And revenue estimates may well be optimistic, says Senekal Mouton & Kitshoff economist Louis Geldenhuys.

This fiscal year tax revenue is expected to be R1,6bn less than originally budgeted, bringing the revised estimate to just over R73bn — 9,65% above actual collections in the previous year.

While there is a reasonable chance of economic recovery later this year, the chance that it will improve enough to yield the revenue Du Plessis wants is less than reasonable.

The third problem about a deficit which is excessive by IMF standards is that it may prove self-perpetuating. Government expenditure tends to snowball because each year's projections are based on the previous year, while revenue collection is at the mercy of economic activity.

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P.T.O.

FM 20/3/92

TAX CHANGES (320)

Fiscal drag lives!

Tax tables in the Budget (see "What you will pay") blandly assume a 10% increase in earnings. But as Deloitte tax partner Willem Cronje points out, inflation is around 14%. Anyone who has achieved a salary increase of this or more is still subject to fiscal drag. This is borne out by government's budgeting for no less than a 27% higher tax take from individuals! Not much of this, argues Cronje, could be drawn from an increase in the number of earners.

Kessel Feinstein tax partner Ernest Mazansky notes the increase in the maximum marginal rate on married women — 40% of taxable income in excess of R50 000 — is in line with the intention government stated three years ago to tax married women at the same rate as single people.

This intention was stated simultaneously with that to reduce the maximum marginal rate on individuals to 40%, on taxable income above R100 000 in 1989 values. Married women's tax has been hiked but the other half of the equation has not been implemented. As a matter of principle, though, the reduction in the number of bands is welcome.

Failure to reduce company tax rates, even nominally, is a disappointment, says Mazansky. It is conventional wisdom internationally that an important way to stimulate growth and employment is to lower tax rates. If government still intends to meet its aim of a 40% corporate rate by April 1 1994 it will have to cut the rate by 8% in the next two Budgets. He doubts this is possible.

Mazansky says many foreign investors are horrified at the large differential between our rates and those in their home countries, which makes them resort to stratagems such as transfer pricing to shift profits from SA abroad. This places an additional strain not only on government revenues but also on the foreign exchange reserves.

The proposal to revise deductions allowable for aircraft, says Mazansky, conforms with government's continued concern with avoidance. Cronje can't see much national benefit in aircraft ownership, anyway.

Mazansky notes that the Tax Advisory Committee is considering relaxing the requirement that expenditure, to be deductible, must be wholly or exclusively laid out for the purpose of trade. This no doubt follows the Appellate Division's harsh decision in the Solaglass case, which hit the deductibility of interest payments within a group.

As a general principle Mazansky now sees no reason for a minimum tax on companies, after the almost total removal of special tax concessions which led to an effective tax rate lower than the nominal rate.

Cronje notes the comment that government is working towards a self-assessment system. Despite the removal of many commissioner's discretions, there are still far too many to make self-assessment feasible.

Cronje adds that the idea for a capital transfer tax to replace both estate duty and donations tax goes back to Margo. A flat rate need not be opposed. However, aggregation of all capital transfers by an individual at a sliding scale could tempt government to establish an undesirably high maximum. ■

LIFE ASSURERS

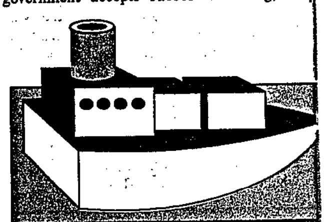
Relief for funds?

FM 20/3/92

Life assurance policyholders could have their eventual payouts boosted handsomely as a sequel to the Budget.

Finance Minister Barend du Plessis indicated that government would study and decide later whether to accept recommendations from a committee headed by his special adviser, Japie Jacobs. These are firmly based on the principle that life offices act as trustees for policyholders' funds — a principle which Du Plessis has endorsed.

The most significant change, assuming government accepts Jacobs' reasoning, is



REVENUE CO

	1991-92 Budgeted Rm
Inland Revenue	
Income tax on:	
Individuals	29 139
Non-mining companies	13 713
Gold mines	490
Diamond and other mines	1 225
VAT/sales tax	19 444
Gold mine leases	140
Stamp duties	655
Transfer duties	675
Other	1 155
Total	66 636
Customs and Excise	
Customs duty	2 635
Import surcharge	1 409
Excise duty	3 555
Fuel levy	4 520
Ordinary levy	111
Miscellaneous	233
Total	12 463
Less: Customs Union payments	4 233
Total	8 230
Total Revenue	74 866

P 1,0

Jacobs wants at least the first two discrepancies removed. He also recommends that life office funds should be divided into three: corporate funds, subject to the company tax rate; the policyholders' fund, taxed at the average marginal income tax rate of individual policyholders; and the non-taxable fund (pension, provident and annuity business).

Three cheers

The three-fund approach is applauded by life offices. The two largest, Old Mutual and Sanlam, theoretically have no corporate funds on which to be taxed but have agreed that a defined (still to be argued) proportion of their considerable free reserves could be treated in the same way as a corporate's shareholders' funds.

Jacobs' report, included in the Budget review, does not mention the expenses issue. It has been suggested that if all life office expenses were treated in the same way as other commercial ventures, it would leave too big a hole in tax collection. But Wessels believes the problem lies in definition: without precise definition, there would be a temptation to allocate the maximum expenses possible to the taxable funds.

Wharton-Hood says the benefits of the dividend and "average" tax proposals will be major — if government accepts them — but cannot be quantified easily. Abri Meiring, Old Mutual manager, legal services, adds: "It brings stability to life office taxation. Previous Budgets have changed the rules every year, so we're delighted."

Jacobs' committee was set up after a building society lobby, led by United's Piet Badenhorst, protested that the playing fields were not level: life offices had advantages which drained savings away from the short-term deposit-taking institutions. Called the Committee on Promotion of Equal Competition for Funds in Financial Markets, it has now come up with a proposal which had life assurers baffled after the Budget.

"The complaints of unfair competition by deposit-taking institutions involve largely the investment instruments marketed by life assurers by way of the taxable fund (according to the trustee principle). In this regard the committee recommends that deposit-taking institutions (DTIs) should be permitted to establish subsidiaries to market such products under the same conditions."

That would not prompt a rush of banks to take out insurance licences. To take the top quadrant of the life office-banking sector: Old Mutual controls Nedbank; Sanlam until recently controlled Bankorp; Liberty posts dividends to Standard; Southern and FNB are partners; Momentum was, until two months ago, an Absa subsidiary, and Absa still owns United's and Allied's insurance arms, with interests in Sage Life and CU Life; and Fedsure is forging closer links with Investec.

Though surprised by the recommendation, Meiring says it may be intended to allow DTIs to enter the sinking fund business generated mainly by municipalities, most of which has gone to life offices. ■

Tax proposals a non-event, says Kruger

320

SHARON WOOD

STELLENBOSCH — The tax proposals in the 1992/93 Budget had been a non-event because there were no earth-shattering changes, Deloitte Pim Goldby director Des Kruger said at a Bureau for Economic Research Budget presentation yesterday.

It was worthwhile looking at what had not changed, he said.

The company tax rate had remained unchanged, which put SA at a disadvantage compared with other countries. BDay 20/3/92

The big surprise had been no tax on dividends.

A capital gains tax had not been introduced but Du Plessis had indicated that a capital transfer tax was being looked at, which was almost the same.

Stellenbosh University economics professor Ben Smit gave economic forecasts for the year ahead. The prime overdraft rate was expected to fall to 17% by year-end, but real interest rates would remain high at about 4%.

Smit forecast a fall in inflation from 16,2% to 12% by the year end.

While growth this year would remain low, a 3%-4% growth rate during 1993 was not impossible provided the agriculture problem was sorted out, inventories were built up and the international economy picked up, he said.

'Lower business tax under new govt'

320 CT 20/3/92

By MAGGIE ROWLEY
Property Editor

PROPOSALS for a minimum business tax, capital gains and dividend tax and an increase in the level of estate and donations tax are likely under a new coalition government, according to chartered accountants M Brey & Associates.

In their guide to the 1992/93 budget published within hours of Wednesday's budget speech, they say the nature of the coalition, which this week's referendum had made more likely by vastly strengthening President De Klerk's hand, made it unlikely that many savings could be effected through reducing the size of the civil service with the elimination of apartheid structures.

"This, coupled with unfavourable economic conditions may well ensure that the current trend in budget policy is retained. Whether this will help long-term growth and stability is open to question."

Brey & Associates say that while retaining the theme "Equity through growth and stability", the 1992/3 budget offered little to stimulate a more positive economic framework for any new government.

Rather it appears to be trying to establish a set of parameters within which any subsequent government will be forced to operate.

"While the budget adopts the IMF programme that redistribution can be achieved only through growth and not vice versa, it assumes that market forces will, largely unaided supply the necessary growth rate."

The budget, they said, also took to heart the IMFs conclusion that to avoid damaging growth prospects the only real option was to re-order social priorities within the budget and cut fat where possible.

However, among other things, the Housing budget was still inadequate especially when linked to the continued commitment to site and service schemes which perpetuated the appalling living conditions of shack communities.

The most modest proposals emanating from the ANC, which was the most likely senior coalition partner in a new dispensation, project tax revenue growing to at least 32,9% of GDP and the far more rapid phasing in of parity in social spending.

"Both the ANC's and the IMFs scenarios for redistributing expenditure within the budget to address social disparities project an economic growth rate of between 3 and 3,5% a year.

"However, the budget did little to put SA onto a path towards sustainable growth.

Poor face another VAT food crisis

(320)

ARG 21/3/92

CLAIRE GEBHARDT
Weekend Argus Business Reporter

NINE days from now the poor will once again pay VAT on eight basic foodstuffs — rice, samp, mealies, dry beans, lentils, canned pilchards and fresh and powdered milk.

A source from the Cape fishing industry emphasised the need for the zero rating on canned pilchards to remain as consumers' ability to acquire other protein-based foodstuffs was being limited by the drought affecting agriculture.

Currently canned pilchard production stands at 60 000 tons a year and has a retail value of around R360 million.

This week a leading tax expert warned that the government faced a classic revolutionary situation where people could start refusing to pay taxes. Mr Pierre du Toit, senior tax partner at Arthur Andersen, said the government should take heed of political protest marches on the budget tax. He told delegates to the Sanlam-/Wits Business School budget review that GST had been totally discredited and this had precipitated the switch-over to VAT.

"VAT is basically a good tax and theoretically we need a broad base with no exemptions but its introduction was politically bungled.

"It is bad to subvert a tax base but political acceptance might have to be bought for VAT.

"The perception that VAT was unacceptable began when the government failed to deliver on poverty relief which was woefully little, implemented too late and didn't reach those in need."

Mr Du Toit warned that if VAT became politically unacceptable, and GST had already been discredited, the country would be in an invidious position — "no state can work without indirect taxation."

He said the authorities were increasingly out of touch. "We have not resolved this problem and yet the zero-ratings on food will fall away on the 31st of this month and there is no question of any more zero rating.

"We may have to compromise on theory and have zero rating on absolute necessities.

Mr Du Toit said the fuel price increase was cause for concern because of its inflationary effect and demonstrated how out of touch the government was with the new political environment.

"The Minister of Finance, Mr Barend du Plessis, has said that the consumer can avoid this tax by going to the supermarket three times a week instead of five.

"He also said that South Africans did not need one car per person to get to work.

"But he overlooks the fact that the great majority of Sowetans do not go to the supermarket even once a week because they have nothing to spend.

"And if he looked at the road between Soweto and Johannesburg he would see 16 people crammed into every vehicle."

Experts doubt claims over tax benefits

TOM HOOD
Business Editor

ARGT (320) 21/3/92

TAX experts dispute official claims that individual taxpayers will benefit by R1,225 billion from a Budget proposal to reshuffle tax brackets to compensate for fiscal drag (inflation).

Syfrets economist Mrs Elmien de Kock says the proposal about individuals' income tax will not provide any real relief from fiscal drag — as evidenced by Finance Minister Barend du Plessis's expectation of a 27,5 percent increase in individual tax receipts.

Examples of the effects of the changes, assuming a salary increase of 15 percent, are as follows for married people:

Taxable Income	Tax Rate %
R30 000	Unchanged at 20
R60 000	Up from 27,8 to 29,1
R120 000	Up from 35,2 to 36

"The Budget provides no relief for a battling consumer as, added to this burden, are the 8c a litre petrol price increase and additional transfer duty on homes," said Mrs De Kock.

Moreover, the reduction in the number of tax bands has created a number of amonalies, says Aiken and Peat tax partner Mr Pat McGurk.

This is clearly shown with married women, whose tax bands were reduced from 15 to 10. There is now only one band, for example, instead of two bands from R40 001 to R45 000 and from R45 001 to R50 000.

'The yo-yo effect of tax savings as a result, he says, is:

Taxable Income	Savings equal
R40 000	R725
R45 000	R675 (down R50)
R50 000	R775 (up R100)
R55 000	R675 (down R100)

"The differences are even more marked in the case of married women," says Mr McGurk.

Concessions to married woman are offset by bad news which leaves them worse off, he says.

They will pay more tax because their marginal rate has increased from 38 to 40 percent.

For example, a woman earning R120 000 will now pay R41 350 tax compared to R40 560, a two percent increase.

Although the marginal rate is lower at 40 percent, it is reached at a level of R50 000 compared to R80 000 for a married man, he says.

'Be prepared for more tax changes'

ARG 21/3/92

HEAVY corporate taxes are deterring foreign investors from developing business in South Africa, according to tax consultant Rob Stretch. (320)

In addition, Mr Stretch, Natal tax partner with Ernst and Young, warned business to be prepared for several more tax amendments by mid-year.

He told delegates to a Budget seminar this week to be prepared to see VAT rise from 10 percent to 16 or 17 percent within four years.

Arguing in favour of relief for new and small business, he said that while the nominal company tax rate had been cut from 50 percent to 48 percent, changes to certain allowances had pushed the effective rate from 40 to about 46 percent.

"This compares with rates like 34 percent in the US, 35 percent for established business in the UK and 25 percent for new business, 37,5 percent in Japan and 36 percent in Germany," he said.

Mr Stretch said the government was about to start investigating in earnest a capital gains tax to replace tax on donations and estates.

ANC warns of big VAT fight

CT 21/3/92 (320)

MR NELSON Mandela, ANC president, threatened yesterday to "destroy the economy" with mass action if necessary to halt the extension of VAT to basic foods.

The government plans to add a 10% value-added tax from March 31 to many basic foods that have been exempt from taxation.

Mr Mandela, speaking to about 300 mainly black pensioners at an anti-tax rally at the Metropolitan Methodist Church in Cape Town, said it was the ANC's duty to protect the poor and it would use unprecedented protests to stop the tax, "even if we destroy the economy".

He said the protests would be more crushing than a nationwide two-day strike in November that virtually brought the country to a standstill. The strike was called to protest the replacement of GST with VAT.

When government leaders made decisions such as imposing new taxes, they should not only consult the ANC, "they must get our express approval," Mr Mandela said.

During an earlier speech to businessmen and diplomats, Mr Mandela said nationalisation remained an option but was continuously being reviewed in the light of opposition from local and foreign investors.

"The ANC has no ideological attachment to nationalisation, and we have to be realistic.

"As long as nationalisation remains our official policy it is not going to be possible to get the co-operation of big business and foreign investors," he said.

He urged business leaders to offer alternatives to nationalisation to redress the inequities between black and white wealth.

● Thousands of workers yesterday besieged central Durban and pledged to occupy factories and firms if demands for a restructured budget and amendments to VAT were not met by the government.

The marches were organised by the ANC/SACP/Cosatu tripartite alliance.

"This budget is a rich man's budget, and we are still hungry," said the ANC's Mr Dumisani Makhaye.

A memorandum was handed to the local Receiver of Revenue for distribution to the State President and the Minister of Finance. — Sapa-AP and Own Correspondent

INAUGURATION ... ANC deputy president Mr Nelson Mandela yesterday at the inauguration of Alexander Sinton High School's ecological project. Picture: STEWART COLMAN

Mandela says tax on food will be fought

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ARG 21/3/92

AFRICAN National Congress leader Nelson Mandela has threatened to "destroy the economy" with mass action if necessary to halt a planned tax on basic food.

The government plans to introduce VAT on many basic foods that have been exempt from taxation until now.

Mr Mandela told a cheering, toyi-toying crowd of 700 at the key West Coast town of Saldanha that if the government remained silent on this issue it would cause turmoil. "We cannot fail to protect our people," he said.

Mr Mandela said the government decision to impose tax on basic foodstuffs had been discussed at length last year with the State President and Finance Minister Barend du Plessis where the problem of poverty and unemployment had been clearly spelled out.

"Now we have a serious drought and seven million of our people are out of employment — where are they going to get money for food?"

The drought was virtually doubling up the price of food in rand terms and insolvent farmers' labourers were joining the unemployed in large numbers.

"It is a serious situation. We say to Barend du Plessis that to tax food is looking for trouble. He is provoking our people. It is a situation we cannnot allow.

"If the ruling party carries out the threat of taxing basic foodstuffs on March 31, we must let them know we will hit the regime and industry very hard. If they close their mouths they will cause turmoil. We cannot fail to protect our people."

Mr Mandela was introduced to the rally by the chairman of the Western Cape region, Dr Allan Boesak, who said he had brought Mr Mandela for them to see so they would recognise him as being their man when he sat in Tuynhuys, the State President's office.

Referring to the past referendum he said: "It is the last time whites will say anything without us; next time we will all say it together.

"That white president sitting in Tuynhuys and that white government sitting in parliament will be the last."

Mr Mandela also identified the plight of fishermen as one of the major problems of the area with which the ANC was grappling, and offered to head a delegation to President De Klerk. "I'm not prepared to see any junior ministers anymore."

Black fishermen, meaning in this case particularly coloured people, who were fortunate enough to be able to work and catch crayfish, sold these to the industry at 29c a kilogram.

"But the industry sells that same kilo for 29 dollars. What exploitation! That is a situation of great concern to us."

Mr Mandela said local leaders had seen the most influential firms in the industry and representatives of government, including the responsible minister, to make the most urgent representations to solve this problem.

"But we are dealing with a regime that has no interest whatsoever in our people. They say of black fishermen who cannot make a living from the sea ... it's their problem.

"There is this question of a quota. Black fishermen are not allowed to have one and that, too, is matter that must be fought." — Sapa.

Businessmen 'should not breathe easy yet'

STAR 21/3/92

FINANCE STAFF 320

WHILE many people might have breathed a sigh of relief that no capital gains tax was introduced in this years' Budget, don't rejoice too soon.

A Government taskforce headed by the Director of Inland Revenue Trevor van Heerden is currently investigating a form of capital gains tax to replace estate duty and donations tax.

This was confirmed yesterday by the Minister of Finance Barend du Plessis.

Addressing the Johannesburg Press Club he acknowledged that such an investigation was currently underway, but said he doubted that such a tax would be introduced.

However, when pressed by questions from the audience, he said that he could not guarantee such a tax would not be introduced, either by the current Government or by an interim government.

"Overseas experience has shown that a capital gains tax is not a particularly efficient tax and does not generate a great deal of revenue for governments," he said.

An announcement in this regard can be expected "within the next month or two", a source told YOUR MONEY.

This view is reinforced by statements made by Rob Stretch, a tax partner at Ernst and Young who warned business people not to be complacent about the new Budget but to be prepared for several more amendments by mid-year.

Stretch told seminar delegates the Government was about to start earnest investigation of a capital gains tax to replace tax on donations and estates.

It would apply to property and marketable security (listed shares) sales and would be in force "within the next two years".

Stretch told delegates that with the establishment of an interim government "in the foreseeable future", it was as well to consider ANC attitudes towards tax.

Piggyback

The organisation had realised that a wealth tax was a disincentive to saving which would not achieve its desired affect.

However, it was actively looking at a "national land tax" which it wanted to "piggyback" on municipal rates with the revenue going to State coffers.

Also on its agenda was a minimum tax on companies to get around the disincentives to profitability in company tax.

He warned delegates to a Budget seminar given by his firm that VAT could rise from the current 10 percent to 16 or 17 percent within three or four years.

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'No' speech lacked vision and courage

STAR 21/3/92

(320)

WHAT a week it was. A referendum and a Budget on top of each other. On Tuesday, ballot boxes were stuffed with votes in favour of reform. The long-term significance of this is very difficult to calculate, but generally speaking, it's bound to be very positive.

Had it been a "no" vote, the consequences would have been fairly straightforward: a long decline into financial stagnation and poverty.

However, joy over the outcome of the referendum was short-lived.

On Wednesday we had a "no" Budget.

It was a Budget that refused to lower income taxes for individuals and companies.

It said "no" to economic growth, foreign investment, lower inflation and a reduction in the Government's share in the economy.

Several analysts described it as an unimaginative and uncreative Budget, lacking in the courage needed to make the "leap of faith" many businessmen thought was needed.

But, as the old saying goes, it's easy to be wise after the event.

Or, as the Americans are fond of saying, there are a great number of Monday-morning quarterbacks.

What should the Minister have done?

Critics have been quick to hammer the Minister of Finance for a sterile Budget, but few have suggested alternatives.

In his Budget speech the Minister referred to the need for vision.

Sadly, his proposals lacked not only vision but courage and innovation too.

A unique opportunity was lost, amid the euphoria over the outcome of the referendum, to redress one of the biggest injustices inflicted on the poor — VAT on food, medicine, and medical and dental services.

Plight

The galloping rate of inflation in respect of food (28 percent) and the imminent withdrawal of the temporary VAT zero-rating of certain basic food items at the end of this month will cause food prices to rise inexorably.

The plight of the poor will be aggravated.

The Budget called for boldness, not sterility.

Ken Walton, tax partner at Ernst & Young, who was my guest on Financially Speaking on Radio 702 after the Budget, had the following suggestions as to what the Minister might (or should have) done.

He should have:

- Zero-rated all food.
- Zero-rated all medical and dental services.
- Increased the VAT rate to 15 percent.
- Replaced the present cumbersome system of individual tax rates with only two rates: 20 percent and 40 percent.

I find it very hard to disagree with Walton's sentiments.

Many other people to whom I spoke after the Budget expressed similar attitudes.

What was needed was a courageous Budget to kick-start the economy and create more jobs.

There is ample precedent. In 1979, then-prime minister Margaret Thatcher inherited high inflation and unemployment from the Labour government in Britain. Within months the top tax rate was cut from 83 percent (98 percent in the case of investment income) to 60 percent.

VAT, which was charged at 8 percent or 12 percent, was increased to a standard rate of 15 percent on everything except food, books and medicine, which were zero-rated, and charities were exempted.

Much the same happened at about the same time in the United States. President Ronald Reagan reduced personal tax rates to encourage gowth and promote incentives to work harder.

Without growth — which once again looks unlikely this year — no political settlement will be safe.

[illegible] salaries up tax curve

Such a drag for the taxpayers

STAR 21/3/92 (320)

DEREK TOMMEY

BECAUSE of fiscal drag and other tax increases, most South Africans will be paying more income tax this year and have about 1 percent less disposable income, says Dr Azar Jammine, an economist with the economic advisory company Econometrix.

Minister of Finance Barend du Plessis is budgeting for a 22,3 percent rise, amounting to about R6 billion, from income tax, he told a seminar yesterday.

This sharp increase is to be achieved not by raising tax rates, but by letting inflation do the job by propelling salaries up South Africa's highly progressive tax curve.

But for the slight increase in tax rebates and the reduction in the number of tax brackets to 10 from last year's 15 and the previous year's 19, the tax burden would have increased by 27,5 percent.

Reducing

Changes made to the tax scales mean that the average tax rate of people in the R25 000 to R50 000 income bracket will increase slightly more slowly than it would otherwise have done. The tax rate of married women in this bracket will even decline marginally.

But on average, fiscal drag will still result in an increase in the average tax rate of individuals of between 0,5 percent and 1 percent, reducing disposable incomes commensurately.

When the rise in the fuel levy and excise duties is taken into account, the decline in disposable income as a result of higher taxes is likely to be around 1 percent.

"This is bound to negate much of the stimulatory short-term effect which the high budgeted growth rate in Government spending is in part meant to achieve," Jammine said.

Tony Twine, also a member of Econometrix, says that in spite of the increase in income taxes, discretionary spending is likely to be little changed from last year's figure, owing to a lower rate of indirect taxation

AZAR JAMMINE: Stimulatory effect negated.

MICHIEL BESTER: Prime rate may fall.

TONY TWINE: Consumers "buying down".

The revenue from indirect taxes affecting individuals is budgeted to rise by only 12,3 percent, which is less than the apparently budgeted 14,5 percent inflation rate.

The result is that the average amount of money people have for discretionary spending should remain in the vicinity of R4,50 for every R100 of income.

However, Twine expects consumers to start "buying down". This is commonplace in the motor industry in difficult economic circumstances, and he believes it is happening elsewhere in the retail trade.

Non-durable and semi-durable goods are expected to reflect downgrading in their product or brand mix.

Obstacle

Another member of the Econometrix team, Michiel Bester, said the high rate of inflation was the only obstacle to a lower prime rate — the rate of interest banks charge their best customers.

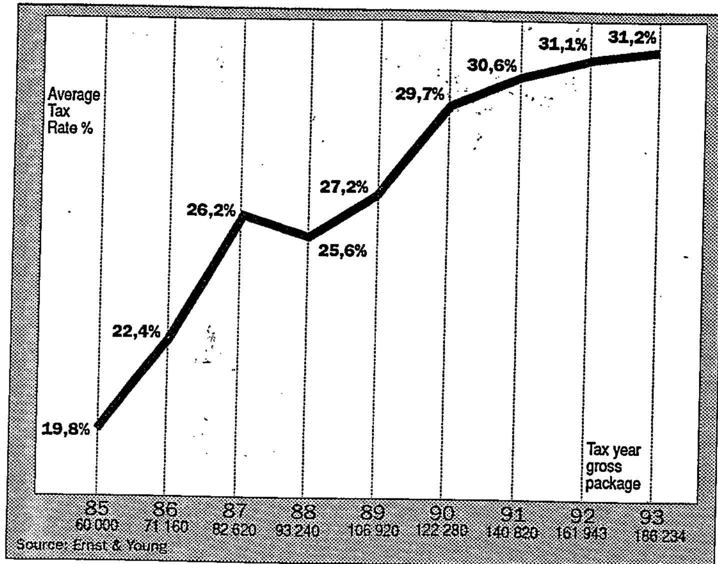
"Prime could decline next week if February's CPI inflation fell close to 15 percent, which is a possibility."

A further decline by the third or fourth quarter was also possible.

Long rates were now benefiting from the re-entry of foreign investors into the gilt market after the referendum and expectations of a lower prime and inflation rate.

The budget deficit as a percentage of GDP is slightly higher than last year, but the new funding requirement as a percentage of GDP is down to 3,7 percent, from 4,3 percent last year.

On balance, long rates will probably go lower in the short term, but are likely to be higher in a year's time, depending on the course of inflation.



WHAT FISCAL DRAG IS DOING TO YOU: From the tax year ending March 1985 to the end of the current tax year, the average tax rate of middle-income South Africa will have risen from 19.8 percent to 31,2 percent. The income a person in this bracket has left to spend after taxation has fallen from 80,2 percent to 68,8 percent — a 12 percent impoverishment.

MONEY MATTERS

MAGNUS *Heystek*

More pain for the poor as the money squeeze tightens

C1 PRESS 22/3/92.

This week's Budget, which has been described as a social conscience Budget in some financial circles, spells hardships for blacks, says MZAMO NXUMALO, Johannesburg manager of a prominent tax firm.

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THE bad news in this year's Budget is the increase in the price of petrol and diesel. That means transport costs go up – making it more expensive to get goods on the shelves and more pricey for the shopper.

Food items that were zero-rated from September 1991 will become subject to VAT as from April 1 – another attack on the pocket of the poor.

The petrol price increase is 8 cents a litre on the coast and 9 cents on the Reef. Diesel goes up 6 cents a litre.

Less money

Fares for taxis, buses and trains will also increase. This is a very worrying development if one takes into account the inflation rate of 16,2 percent. Food prices in January 1992 were 26,2 percent higher than they were in January 1991. These percentages were quoted by Finance Minister Barend du Plessis in his Budget Speech this week.

The increase in prices results in the general populace having less money to save. The Minister said in the 1980s savings were 24,7 percent of the Gross Domestic Product – which is the value of goods and services produced each year in the country.

This percentage had fallen to 18,8 percent in 1991. This means more people are dependent on fewer income-earners, who in turn have less net cash because of increasing prices. Poverty is on the rise.

Value Added Tax (VAT) remains at 10 percent. However, basic food items that were zero-rated from September 1991 will become subject to VAT as from April 1.

These food items are: samp, mealie, rice, whole mealies for human consumption, dry beans, lentils, fresh milk, canned pilchards and powdered milk. This will obviously result in an increase in the price of food.

There is also Excise Duty, which one way or the other will affect blacks. This is a tax included in the price of certain products. On beer the increase is 8 percent – 4,8 cents a litre.

On spirits there has also been an 8 percent increase resulting in price rise of 37,7 cents a 750 ml bottle. The duty on cigarettes is now 2 cents more for 10 cigarettes. Pipe tobacco is taxed 10 cents more a kilogram.

Cooldrinks and mineral waters will be taxed at 2 cents more a litre.

On sorghum beer and sorghum beer powder there will be an excise duty increase of one cent a litre and five cents a kilogram respectively.

A few changes have been made to the taxation of individuals. Take, for instance, married women.

The maximum rate of tax for a married woman has been increased from 38 percent to 40 percent at taxable income of R50 000, instead of R40 000 as before. This is effective from March 1 this year.

The new tax rebates are: married persons R2 225; unmarried persons R1 950; married women R900 and persons over 65 years old R2 500.

Tax rates have been changed so persons in the lower tax brackets will save some tax. The levels of income at which various persons start paying tax have been raised.

Tax rates

- Married persons under 63 years pay tax at income above R12 501 a year.
- Persons 63 years to 64 years start paying tax at above R13 132 a year.
- Persons over 65 years pay tax when income exceeds R24 881 a year.
- Unmarried persons under 63 years pay tax at R10 715 a year.
- Between 63 and 64 years they pay tax at R11 286 a year.
- Over 65 years they pay tax income of above R21 429 a year.
- Married women under 65 years pay tax at R5 264 a year.
- Over 65 years they pay tax at income of above R17 292 a year.

Housing is another area which the Budget tried to tackle.

Houses and flats up to R50 000 will not have transfer duty if they are sold between individuals who are not registered vendors for VAT.

The Budget provides for an amount of R2 153-million for housing projects.

No transfer duty will be payable on the purchase of unimproved land for dwelling purposes if the value is not more than R20 000. All the provisions regarding transfer duty apply as from March 19, 1992.

Taxwise, marriage doesn't pay

S/Times 22/3/92

(320)

This week's Budget was expected to give married women a better tax break. JANET WILHELM argues that it didn't

ONCE again, Minister of Finance Barend du Plessis' Budget message to women is that marriage doesn't pay.

A look at the new tax tables shows that it's still far more profitable for most couples to "live in sin".

Over the past few years, the separate taxation of married women has been phased in and has substantially lightened the tax burden of many families.

Married women are now taxed separately. But they are taxed at a higher rate than their single and divorced friends — or their husbands.

There are three different rates of taxation:

- married women;
- unmarried persons (single men and women), and;
- married persons.

The first two categories are simple. The third is a little more involved as it includes not only married men but single parents.

Single or divorced men who have dependent children fall into this category.

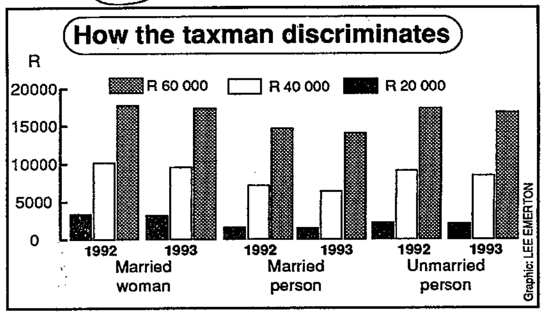
And a woman is classified as a married person — and pays less tax — if she is divorced or single and has children qualifying for rebates.

The annual rebate for children has not changed for years. It is still R100 a child — hardly enough to pay for toothpaste.

But an unmarried couple with children score. Both the man and women are taxed at the lower married persons rate. And both receive the married persons rebate of R2 225. The rebate for a married woman is much less — even though it was increased to R900 this week.

The changes announced this week by the minister bring the tax rates of married women closer to those of single people, but still leave them at a disadvantage compared with their husbands or single parents.

The top rate of tax for married women was increased from 38 percent to 40 percent.



The top rate for everyone else is 43 percent. But married women start paying this top marginal rate at R50 000. Husbands and single parents only start paying the top rate at R80 000. Single people hit the top at R56 000.

THE tax tables have been adjusted slightly. These changes will mainly benefit those in the middle income level. And they do benefit married women. But a look at the graph on this page shows that the discrepancies that were there last year remain.

Take this example of people earning an annual taxable income of R20 000:

After rebates, a married woman will now pay R3 150. Married men and single parents will pay less than half that amount — R1 475. Single people will pay R2 100.

At R40 000, a married woman will pay R9 550. Married men and single parents will pay R6 375 and a single person will pay R8 500.

At the level of R100 000, however, after rebates, a married woman will pay R33 350, married men and single parents R31 075, and single people R34 040.

THE break-even point for married women and single people is around R80 000. At incomes higher than this, married women have a tax advantage over their single friends.

The break-even point between husband and wife is around R120 000. At this level, married women, married men and single parents begin paying the same tax. At incomes much higher than this, married women even start to pay less than their spouses.

Women with higher incomes benefit from this. But only two percent of all tax-paying married women earn over R80 000, according to figures released by the minister this week.

Married women with lower incomes — the bulk of working women — are still no better off

This turns on its head th principle of taxation accordin to "ability to pay" and is onl one of the many anomalies tha have come about because of th different tax tables.

There is no logical reason fo having separate tables, says ta consultant and chairman of th Women's Bureau Workin Group on Women and Tax Mr Zee Cele, who recommends a single tax table as the solution

"This Budget has still faile to address the unfair taxation o married women," she says. "I particularly discriminate against those women wit young children who only wor part-time and women in th income category of teacher and secretaries.

"It does encourage immoral ity. Take a divorced woma with two young children earn ing R30 000 who wants to re marry. Why shouldn't sh choose to cohabit instead? Mar riage would mean she woul have to pay an extra R2 510 i tax.

"Women deserve a bette deal."

Tax cuts of little help to mines

(320) S[Times (BUSS] 22/3/92

By JULIE WALKER

MINING tax concessions will make virtually no difference to SA's mines unless mineral prices climb.

The Budget proposed that the fourth step be taken in phasing out the surcharge on non-gold mining companies, and that the formula rate for gold mines be adjusted to bring it more into line with the present company tax rate.

The most profitable gold mines will benefit from a reduction at the top of three percentage points to a maximum tax rate of 58%. While this is still almost a quarter higher than the top corporate tax rate of 48%, the effect of the tax tunnel reduces its impact.

The first 5% excess of income over expenses is not taxed and is known as the tax tunnel. Many mines fall into this category, sometimes by design, such as balancing their capital expenditure.

Pleased

It allows the mines to continue to provide a small return to investors through dividends while not having to pay tax.

Gold Fields of SA corporate finance director Alan Wright is pleased that the Minister of Finance continued with his previous decisions to bring mining tax closer into line with corporate tax rates, but says that it has only a marginal beneficial effect on his group in view of current low metal prices.

Rodney Yaldwyn, head of mining research at stockbroker Simpson McKie, says that few gold mines pay mining tax because of the squeeze on profits.

"The change will mean slightly lower tax bills for mines such as Driefontein, Hartebeestfontein and Kinross, which are high tax payers. But it won't make any difference to most of the other mines," says Mr Yaldwyn.

Non-gold mines' taxed profits could edge up by a maximum of 1,5%. The maximum rate should come down from the current 50,9% to 49,4%.

"It was disappointing that there was no word on ring-fencing," says Mr Yaldwyn.

Ring-fencing prevents the capital costs of establishing a mine from being offset against the taxable income of another.

Offset

Previously, some mining companies combined contiguous and sometimes non-contiguous mining areas to take advantage of the tax system.

The government put an end to that practice several years ago by decreeing that capex from one mine can be offset only against mining income from that same mine.

This effectively put paid to many new mines on the drawing-boards because of the lowered potential returns and payback times.

Mr Wright says the mining tax advisory committee made appropriate recommendations to the Minister of Finance, but these did not form part of the Budget.

Anglo American tax consultant Marius van Blerck says that now is an ideal time for the government to abolish ring-fencing. At present there is very little mining-tax base because of depressed mineral markets, but when prices do perk up there would be a much greater incentive to invest in mining.

"It would be like mortgaging some of the growth in the tax base now for future rewards," says Mr Van Blerck.

He has some hope that the matter will be given careful consideration before June.

ALAN WRIGHT ... pleased with Minister, but because of low metal prices benefits are marginal

Mandela threatens VAT action

C PRESS 22/3/92

ANC leader Nelson Mandela has threatened to "destroy the economy" with mass action if necessary to halt a ~~planned~~ tax on basic food. 320

Mandela, speaking to about 300 mainly black pensioners on Friday, said it was the ANC's duty to protect the poor and it would use unprecedented protests to stop the tax.

He said the protests would be more crushing than the nationwide two-day anti-VAT strike in November that virtually brought the country to a standstill.

He condemned Finance Minister Barend du Plessis's decision in his 1992/93 Budget to revoke the temporary exemption of certain basic foods – including maize meal, the staple of many poor blacks – from the 10 percent VAT.

"We cannot accept it. We would like to warn that hard days are coming for SA," he said.

Mandela said increased budget allocations for housing, education and health were appropriate, but not enough to start redressing the imbalances of 40 years of apartheid.

The worst drought in decades had already slashed the poor's buying power, he said.

The new tax applies to more items, including medical services, and critics say it hurts the impoverished black majority.

When government leaders made decisions such as imposing new taxes, they should not only consult the ANC, "they must get our express approval," said Mandela, speaking from the pulpit of Cape Town's Metropolitan Methodist Church.

Even though the government was discussing reforms, it remained "insensitive" to the needs of black people, Mandela said. "They are thinking of the interests of whites."

– Sapa-AP-Reuter

SOWETAN RADIO METRO
TALKBACK

Today's talkback topic

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Sowetan 23/3/92

ANC president Mr Nelson Mandela has threatened the Government with mass action unless it backs down on its plans to impose VAT on basic foodstuffs.

He has threatened to destroy the country's economy if necessary.

The Government is withdrawing the tempoarary exemption it granted the anti-Vat lobby after a two-day stayaway last November.

Do you think that negotiations, which are taking place in Codesa, and mass action as threatened by the ANC can go hand-in-hand?

Should negotiation replace mass action in the political process?

Share your opinion with DJ Tim Modise and the nation by phoning the Sowetan/Radio Metro Talkback Show between 7pm and 8pm tonight.

The number is (011) 714-8063.

You can tune in to the programme on FM 96,4 MHz at that time.

Acceptable write-off periods are specified

B/Day 23/3/92

(320)

LINDA ENSOR

CAPE TOWN — Although Inland Revenue has issued a "practice note" for the correct treatment of deductions for the wear and tear or depreciation of leased plant and machinery, completed assessments based on other methods of calculating the deduction will not be reopened.

Deloitte Pim Goldby tax director Des Kruger said one of the significant aspects of the note was that it provided a schedule of acceptable write-off periods for a list of about 76 different items, many of them articles of industrial, construction and agricultural machinery.

The acceptable write-off period for passenger cars and delivery vehicles has been stipulated as four years; for mainframe computers as five years; for personal computers three years and television sets five years.

Where a lease was entered into for a period exceeding the scheduled periods, the leased article would have to be written off over this longer period, Revenue said.

The practice note emphasised, however, that these write-off periods were not applicable to articles for which the deduction allowance was claimable in terms of Sections 12B or 12C of the Income Tax Act.

Inland Revenue said the Section 11(e) deduction could be calculated on the straight line basis on the cost of the leased article to the lessor over the period of the lease where the useful life of the article was sufficiently short to warrant such a procedure.

"In instances where the useful life of the leased article exceeds the period of the lease agreement, the cost of the leased article must be written off over the useful life of the article. The Section 11(e) deduction should be reduced proportionately in the year of acquisition," the note said.

Kruger said another important amendment related to the treatment of residual values. Inland Revenue said residual values — the estimated and agreed upon fair market value of the article at the date of termination of the lease — could not be written off for the purpose of determining the Section 11(e) deduction in the case of those lease agreements where the residual value formed part of the calculation of the rent payable by the lessee.

The cost of the leased article must, therefore, be reduced by its residual value in calculating the Section 11(e) deduction, Revenue said.

Provision was also made for the adoption in certain circumstances of debtor accounting systems in terms of which only finance charges earned by the lessor during a year of assessment would be reflected as "gross income". In these cases the lessor would not qualify for Section 11(e) deductions.

This unpopular tax may be the turning point for consumer rights, says **Mike Siluma**

VAT stirs up a hornet's nest

STAR 23/3/92 (320)

IS THE South African consumer — long suffering under the continuously spiralling cost of living and high inflation — finally making a stand to protect his rapidly shrinking purse?

Events since last October suggest that the controversial introduction of value-added tax may have changed the face of the South African consumer rights movement forever.

The campaign against VAT is probably the biggest launched against a piece of South African legislation yet, both in terms of the number of organisations involved and the scope of its demands.

Before the anti-VAT general strike last November, ANC secretary-general Cyril Ramaphosa urged followers to turn the VAT issue into a "nightmare" for President de Klerk. The subsequent protest action did not reach the levels of a nightmare for Pretoria, but it has certainly turned into a major headache.

In the aftermath of the November strike, the work of the Co-ordinating Committee on VAT (VCC), which enjoys the support of more than 100 organisations, has grown.

Its original demands, such as the zero-rating of electricity, water, medicines and medical services, remain.

In addition the scope of the VCC's operation was broadened at a food price summit this month — the first of its kind — where the 65 organisations present called on the Government not to raise the VAT rate of 10 percent. They also urged Finance Minister Barend du Plessis to extend the life and scope of the current VAT exemption on certain basic foodstuffs, which is due to expire at the end of the month.

After this demand was rejected in the Budget, the VCC has called for massive consumer resistance to VAT.

But it is not only the Government that has come under the scrutiny of the VCC on the cost of food. This month's summit resolved to approach producers, food processors, retail chains and control boards to identify the causes of "excessive food price inflation", the main objective being to bring down food prices.

Describing high food prices as "a matter of national urgency", the VCC blamed the problem on the domination of the food industry by "monopolies and cartels". Similarly, it argued, the control boards could serve the broader interests of the public only if they were stripped of the inordinate influence of producers and processors.

Within VCC circles there is even talk of using pickets to pressure retailers found to be charging "excessive" prices.

Also, the VCC, reluctant to take Government figures as gospel, is to seek an urgent meeting with the Central Statistical Service to discuss the manner of calculating, among other things, the consumer price index.

Other issues on which the VCC plans to focus are medical aid subscription fees and the cost of medicines, negotiation with the authorities for "adequate" poverty-relief measures, pensions parity, improvements to the Unemployment Insurance Fund, as well as special concessions by the taxman to small businesses.

The range of issues tackled by the VCC so far reflect the disparity of organisations involved in the anti-VAT campaign, from trade unions, doctors' associations, traditional consumer bodies, civic organisations to political organisations. Even small business (aggrieved by what it sees as the Finance Minister's bias against it) has made common cause with the VCC.

In a country where things tend to been seen, literally, in black and white, the anti-VAT campaign has cut across racial barriers, bringing together such groups as the Housewives League, the Black Consumer Union and the mainly white Confederation of Metal and Building Unions.

A major factor in the emergence of such a front is that VAT was imposed when most South Africans were reeling from plummeting living standards and increasing poverty, irrespective of their social class or race.

The key difference, of course, between the traditional consumer groups and the present front is that some of the VCC's constituent organisations have shown a willingness to back their verbal condemnation of Government economic policy with action — witness the November strike and the Budget day marches.

In this context union groups such as Cosatu and Nactu, being the best-organised component of the VCC, have played a crucial role. Because of the previous weakness of black political, union and civic groupings, the fight over consumer issues was often left to groups such as the consumer unions and the housewives leagues, which operated mainly as pressure groups which producers and Government could easily ignore.

Now the unions seem to feel that it would be of no use to figh for wage increases on the factory floor only to see them being erod ed by rampant inflation or going to fill the taxman's coffers. And they feel strong enough to take on the authorities over this.

The other milestone in the rise of a consumer movement was the emergence of civic associations in the townships. Using rent boycotts as a leverage against the authorities, the civics have broadened their focus from keeping the cost of services low to demanding a say in the running of the townships. For instance, they have played a key role in the movement to amalgamate white and black local authorities such as in the Central Witwatersrand Metropolitan Chamber, which includes Soweto and Johannesburg.

Since the November strike, the Government has been reluctant to meet the VCC to discuss the VAT issue. But VCC activists believe it is a matter of time before the authorities agree to a meeting — the likelihood being that the longer Pretoria delays the longer the agenda will become. □

Time now for land tax, says Bank economist

GERALD REILLY (320)

PRETORIA — The time for a speedy introduction of a land tax in SA has probably arrived, says Reserve Bank economist Mike Lamont.

Lamont said at a land tax conference at Pretoria University at the weekend, however, that for any degree of effective land taxation there had to be some minimum political support and an administrative capability. A national land tax was suggested to the Margo Commission, but investigation of the tax by local authorities was expressly excluded from the commission's brief.

"The reason why the commission did not consider a land tax on a national or central level remains a mystery," he said. Nevertheless, Lamont said, the fact that SA had no general form of wealth taxation gave ample reason to consider the introduction of a land tax. BIDay 23/3/92

The increasing utilisation of indirect taxes, the shrunken income tax base and heavy reliance on loans also supported its consideration. Of the Margo commission, Lamont said a stage had been reached where the system was seen as being too complicated, unfair and as interfering with economic growth.

Govt set to place tax on basic foods

(320)

By Paula Fray
Consumer Reporter

STAR 24/3/92

The Government plans to go ahead with the lifting of the VAT zero-rating of nine basic foodstuffs next Tuesday, despite the threat of a general strike.

A spokesman for the Finance Ministry confirmed yesterday that the zero-rating would be lifted at the end of the month.

This means only brown bread and mealie meal will remain zero-rated foodstuffs.

Extend

He noted that Finance Minister Barend du Plessis' statement in September had made it clear that the zero-rating of the foodstuffs was a temporary move.

The Minister's statement still stood, he said.

Major consumer bodies, the ANC and the VAT Co-ordinating Committee have called on the Government to extend the temporary zero-rating of these items.

ANC leader Nelson Mandela said yesterday that a statement by him about the economy of the country being destroyed had been quoted out of context.

"A speech I made in the Cape last week has been interpreted as a threat by the ANC to destroy the economy," Mr Mandela said.

"This was not so. What I actually said was that if the zero-rating of certain basic foods was removed, we could not accept that.

"Just as we pulled 3 million people out on the streets before, so we will do it again and that will lead to the destruction of the economy.

"I hope the Government will not put us in this position," he added.

Mr Mandela was referring to the fact that VAT exemptions on certain basic foods are due to expire on April 1.

An Inland Revenue spokesman said legislation enabling the zero-rating of these foodstuffs had stipulated it was in force until March 31.

Mr du Plessis announced on September 29, the eve of VAT's introduction, that certain products — samp, powdered milk, mealie rice, whole mealies, dry beans (including soya beans), lentils, fresh milk, canned pilchards and rice — would be zero-rated until March 1992.

Before it's taxed . . . Thobeka Modikoe with hard-earned provisions. Picture: Alf Kumalo

Mixed views on VAT

320

Sowetan 24/3/92

CALLERS to the *Sowetan/* Radio Metro Talkback Show last night expressed mixed views on the Government's imminent introduction of VAT on basic food stuffs.

Anthony told host Tim Modise that the introduction was necessary because it would have long-term rewards.

He said the Government needed a wider tax base because of the rising unemployment.

Nick from Durban suggested people should campaign against the move, but felt that mass action was not an appropriate option as it would hurt blacks.

Audrey from Westbury suggested that negotiations be held with the Government to resolve the issue.

Mr Neil Coleman, Cosatu's information officer, justified the call for mass action by explaining that South Africa did not have a good social aid plan for the poor.

He said basic food stuffs in other countries were either exempted or charged on a lower VAT rate.

'We must call for a stop to the unilateral restructuring of the economy by the Government.

"This system concentrates a lot of wealth in the hands of the wealthy. This will help to abort the redistribution of wealth when a new political order takes over," he said.

Nadia from Johannesburg felt blacks should campaign against the introduction of VAT on basic food stuff because the Government had channeled tax payers' money to secret funds that perpetuated violence among blacks.

Zero-ratings to go next week

ARG 24/3/92 (320)

The Argus Correspondent

JOHANNESBURG. — The government plans to go ahead with the lifting of the VAT zero-rating of nine basic foods on Tuesday next week in spite of widespread dissatisfaction among consumer and political organisations.

This means only brown bread and mealiemeal will remain zero-rated.

A spokesman for the Finance Ministry confirmed yesterday that the zero-rating would be lifted at the end of the month.

He noted that Finance Minister Barend du Plessis's statement in September last year had made it clear the zero-rating was a temporary move.

The minister's statement still stood, he said.

VAT anger is growing, says Cosatu

8/Day 25/3/92

25/3/92

DIRK HARTFORD and GERALD REILLY

COSATU warned yesterday that apparent plans by government to remove the zero-rating on basic foodstuffs would fuel its anti-VAT programme. (320)

A Cosatu official said the federation was very angry and disturbed by reports that the VAT zero-rating on basic foods would lapse at the end of this month.

"The overall bulk of food being consumed is decreasing, and now (Finance Minister Barend) Du Plessis wants to put the final nail in the coffin of poor people."

She said Cosatu was holding a national economic conference this weekend and the VAT issue would be high on the agenda.

Asked to confirm a report that government would lift the zero-rating of nine basic foodstuffs, a Finance Department source said yesterday provision had been made at the time of VAT's implementation last year for the extra zero-rating of certain basic foods for six months.

There was no indication at this stage of an extension. This meant if there was no "political decision" to the contrary, the foods would be removed from the zero-rated category at the end of this month.

tiation and there is no quick-fix solution to the situation. The problem that we face is that on the one hand we have well-established White local authorities, and on the other we have Black local authorities who have been deprived of finance and adequate services, and we have to marry the two.

Whether the hon the Minister likes it or not, however, there is a clear division between the so-called Establishment approach on the one hand and the community-based approach on the other. It is a reality. The Establishment approach embraces the framework of the Interim Measures for Local Government Act, and its adherents include the provincial authorities, White local authorities and management committees.

On the other side, the broad mass of community-based organisations reject this Act which they see as autocratic and one-sided. They demand negotiations on equal terms, not subject to Government or Establishment dictates. They favour a Codesa approach to local government problems. To be successful we just have to marry these two options. We have to bring them together.

Local government affects everyone's daily life and everyone must be involved in the process. We cannot afford just to say that there is an Act and people must comply with it when, in fact, the people themselves have firmly and thoroughly rejected this Act. Quick answers may be attractive, but they carry with them the sting of rejection by the majority of people, and that will have dire consequences for any system of local government.

Mr R F HASWELL: Mr Chairman, this hon Minister is one of the few who has had the courage and conviction to apologise for the past. Yet he has said little today to convince us on this side of the House that he is fully committed to non-racial and democratic city government. On the contrary, it seems that he wants to postpone democracy for as long as possible. [Interjections.] Perhaps the hon the Minister is in the wrong party. Perhaps he should join the real democrats in a democratic front.

The Government's intransigent attitude towards reform at city level is merely a microcosm of their approach to national reform. Phrases such as "equal votes" and "power-sharing", with which the Government has conned most of the world, have an increasingly hollow ring to them now. We have to share power in the interim and trust in democracy and good government for the new South Africa. The present Government quite apparently will do neither.

Does the hon the Minister accept that the townships are integral parts of our cities? Does he recognise the critical need for city councils and legitimate township structures to jointly manage the transition? If he does, let us have some action which is louder than the Government's increasingly hollow words.

The MINISTER OF LOCAL GOVERNMENT AND NATIONAL HOUSING: Mr Chairman, the hon member for Pietermaritzburg South has now clearly disclosed how verkramp he is. The only argument he could use was the argument that he had proposed as an amendment to this Act last year.

He read a speech which he had prepared yesterday, or quite possibly last year, and which he did not have the opportunity to deliver then.

I go along with the sentiments expressed by the hon member for Pinelands. First of all, there are establishment organisations. They are a reality and we have to deal with them. In conceding this point, however, I am not saying that we should not take cognisance of non-establishment organisations. They are there too and they are also a reality. This tricameral Parliament is a reality, and even its opponents at Codesa have conceded that legislation will have to be passed by it.

How do we deal with these two realities? We encourage them to get involved in serious negotiations with each other. It is an utterly false argument to allege that this particular measure is in any way an obstacle on the road to negotiation. People can start talking to one another if they want to.

As I said clearly in my opening statement, we are not opposed to the idea of amending this legislation. I have linked this to negotiation at national level. Certainly, I know that if I amend this legislation unilaterally, the hon member for Pietermaritzburg South will be the first to criticise me for not consulting with people at national level. So the argument that we are a bunch of verkramptes like him who do not listen with regard to appointments is completely unfounded.

Debate concluded.

QUESTIONS

†Indicates translated version.

For oral reply:

General Affairs:

Military pensions: investigation

*1. Mr R M BURROWS asked the Minister of Finance:

(1) Whether, with reference to the reply to Question No 28 on 26 February 1991, the Committee of Inquiry into Military Pensions has completed its investigations; if so,

(2) whether this committee has submitted a report to him for his consideration; if so, when;

(3) whether the committee considered the revision of the policy of paying military pensions according to categories of educational qualification; if not, why not; if so, what recommendation did it make in this regard;

(4) what other recommendations did the committee make;

(5) whether he will make a statement on the matter?

B408E

†The DEPUTY MINISTER OF FINANCE (Dr T G Alant):

(1) Yes.

(2) Yes on 27 November 1990.

(3) The committee recommended that a different basis for the calculation of military pensions be investigated by the Department on the guidelines laid down by the committee.

(4) Recommendations were also made by the committee on;

(i) the justification for the difference in compensation granted to civil servants and private individuals who were injured during military service;

(ii) the principle of educational qualifications as basis of compensation as well as compensation for qualifications obtained after disablement;

(iii) compensation for loss of potential earnings;

(iv) providing for supplementary compensation to exceptionally disabled persons as a result of multiple disabilities;

(v) increase of pensions in respect of dependent children; and

(vi) revision of the basis on which widows' pensions are calculated.

(5) Yes, a statement on the matter was included in the Budget Speech of 18 March 1992.

Marriages in community of property: division of interest

*2. Mr B B GOODALL asked the Minister of Finance:

Whether couples married in community of property are allowed to allocate any interest earned equally between them, even if the investment was made in the name of the other spouse, for the tax year ended 29 February 1992; if not, on what basis must the interest be allocated?

320

B409E

The DEPUTY MINISTER OF FINANCE (Dr T G Alant):

Yes, for tax purposes the interest is deemed to have accrued to both spouses in equal portions, irrespective of in whose name the investment was made. However, in the case of an asset which was donated or ceded to a spouse, married in community of property, on condition that neither the asset nor the income forms part of the joint estate, such income will be taxed exclusively in the hands of the spouse who is the owner of the asset. Where the donor or testator was silent as to the accrual of the income and it accrues to the joint estate, such income will be taxed in equal portions in the hands of the spouses.

Mr B B GOODALL: Mr Chairman, arising out of the hon the Deputy Minister's reply, when people complete their actual income tax returns, should they allocate half of the income to the husband and the other half to the wife?

The DEPUTY MINISTER: Mr Chairman, the answer is yes.

Fiscal drag is very much alive and kicking taxpayers

B/Day 26/3/92 **EDWARD OSBORN** 320

THE Finance Minister began his supply-side reform of personal income tax in 1990 with the first maximum marginal rate reduction from 45c to 44c in the rand of taxable income.

The declared intention was to reduce the maximum rate over a period of five years to 40%, and at the same time to increase the income level at which this rate is reached to R100 000 for a married person, and R80 000 for an unmarried person — as far as possible in the money values of 1989. Nothing was said at the time about maintaining the real value of the rebates.

Actually there are four basic elements to the tax calculations — the schedule of tax rates itself, the maximum rate, the ceiling at which the maximum rate is reached, and the rebate structure.

Starting with the 45c level in 1989, the maximum rate was reduced to 44c in 1990, and to 43c in 1991. Because of the fiscal plight of this year the rate has been retained at 43c for 1992/93.

However, the schedule has been adjusted in order to alleviate fiscal drag on middle-income individuals, and there has been a reduction in the number of steps in the scale. The effect of this is cumulative at higher incomes as well, thus reducing the tax burden all along the income curve.

In the period since 1989, however, the ceiling taxable income level has remained unchanged at R80 000 for married persons, despite the fact that money values have declined by 50%.

On the assumption that taxable incomes have increased more or less in line with inflation, the taxpayer in general has moved steadily up the tax schedule at a rate of about 15% a year, rising to higher rates of tax — the essence of fiscal drag.

Aside from the changes to rebates for taxpayers over the age of 60, little has been done to allow the rebate to maintain its real value. Again, taking the married person primary rebate as an example, this stood at R1 250 in 1989; there was a handsome upward adjustment to R2 100 in 1990, but a decline to R2 000 in 1991, and a recovery to R2 225 for 1992/93. The child rebate has remained throughout at R100.

The personal income tax burden has increased steadily since 1989, notwithstanding the apparent reform measures taken. Personal income tax has risen from 15,7% of total revenue in 1980 to an expected 40% in 1992/93.

As long as the range of the tax schedule remains static, there will be considerable fiscal drag in an inflationary environment, however much fiddling of the rate structure takes place.

To provide some quantification of the phenomenon I have devised a measure called the tax accelerator, defined as the ratio of the percentage increase in tax paid to a given percentage increase in taxable income. A ratio in excess of unity indicates a faster rate of increase in tax paid than in taxable income, and vice versa.

The tax accelerator measure will be different at various points of the income curve. One can measure the tax accelerator at respective levels along any given tax schedule, or from one tax schedule to the next.

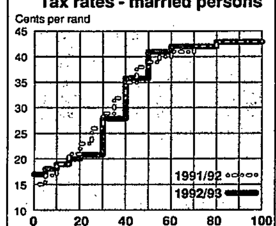
Tax accelerators are shown for three levels of income in the table: at the estimated likely average taxable income for taxpayers projected from the latest statistical bulletin of the Commissioner for Inland Revenue; at an assumed "middle-class" taxable income; and at the projected income level of the taxpayer who was at R80 000 in 1989. Three increases in taxable income of 12%, 15% and 18% are taken as given. The ratios are for married taxpayers without children.

	12%	15%	18%
1991/92 tax schedule:			
average taxpayer (R43 500)	1,94	1,95	1,96
middle-class (R65 000)	1,61	1,61	1,61
top marginal (R106 000)	1,33	1,33	1,33
1992/93 tax schedule:			
average taxpayer (R50 000)	2,06	2,06	2,06
middle-class (R70 000)	1,61	1,61	1,62
top marginal (R121 500)	0,95	1,30	1,30
From 1991/92 to 1992/93 schedule:			
average taxpayer (R43 500)	1,19	1,33	1,47
middle-class (R65 000)	1,34	1,40	1,44
top marginal (R106 000)	1,21	1,25	1,23

The table shows that the prospects in 1992 for the average taxpayer remain bleak for, although he may get a 15% increase in taxable income, his tax payments will increase by a third more — 20%. If his taxable income increase is confined to 12% his tax payments will increase by 14,28%. Fiscal drag continues to work with considerable force.

The overall effect of fiscal drag is seen in the Minister's revenue estimates for 1992/93. In a year when average salary increases are likely to be less than 15%, but the number of new entrants into the tax field are not known, the Minister estimates an increase in tax revenue of 27,5% on the basis of 1991 rates — from R29bn to R37bn. The revised tax schedule for 1992/93 will be introduced at an estimated cost of R1,42bn, reducing the expected tax revenue to R35,5bn, and the net increase to 22,5%.

The Minister provided an example of the effect of introducing the proposed new schedule for 1992/93 — the case of a married taxpayer with two children, whose income rises by 10%. His tax rises from 15,1% to 16,6% on the old schedule, but drops to 14,9% on the proposed new scale, with actual tax payable dropping by R645.



Graphic: FIONA KRISCH

The drop in tax payable actually refers to a drop from what he would otherwise have paid on the old scale, which is undoubtedly a considerable saving. However, his tax still increases from R5 300 in 1991 to R5 775 in 1992, that is by 8,6%. For him the tax accelerator is 0,86, or less than 1.

The tax accelerator is less than unity up to a taxable income of R39 432 for the married taxpayer with two children and receiving a 10% rise in income. Thereafter it is greater than unity and he becomes increasingly subject to fiscal drag but reaches a maximum tax accelerator of 1,31 at R60 000.

☐ **Osborn is chief economist at Nedbank.**

(iv) not applicable.

Administration: House of Delegates

(a) 1991/92 financial year: R32 946 000 and

(b) (i) to (iv): according to the Administration's distribution, this information is not available.

Administration: House of Representatives

(a) 1991/92 financial year: R156 652 000 and

(b) (i) R98 720 000,

(ii) R45 832 000,

(iii) R12 100 000 and

(iv) none.

KwaZulu

(a) 1991/92 financial year: R508 000 000 and

(b) (i) R116 000 000,

(ii) R306 000 000,

(iii) none and

(iv) R86 000 000 for:

Administration etc.

KaNgwane

(a) 1991/92 financial year: R82 191 699 and

(b) (i) to (iv): according to the KaNgwane Government's distribution, this information is not available.

KwaNdebele

(a) 1991/92 financial year: R13 577 000 and

(b) (i) not available,

(ii) not available,

(iii) not available and

(iv) not available.

GaZankulu

(a) 1991/92 financial year: R137 662 568 and

(b) (i) to (iv): according to the GaZankulu Government's distribution, this information is not available.

Lebowa

(a) 1991/92 financial year: R233 683 000 and

(b) (i) R2 505 000,

(ii) R231 177 000,

(iii) none and

(iv) not available.

QwaQwa

(a) 1991/92 financial year: R60 865 000 and

(b) (i) R10 580 000,

(ii) R39 860 000,

(iii) R4 090 000 and

(iv) R6 335 000.

HOUSE OF ASSEMBLY

QUESTIONS

† Indicates translated version.

For written reply:

General Affairs:

Gross domestic product: deficit/expenditure

51. Mr K M ANDREW asked the Minister of Finance:

What was the (a) deficit before borrowing, (b) total actual expenditure, and (c) deficit before borrowing as a percentage of the gross domestic product, in each of the past five financial years?

B106E

The MINISTER OF FINANCE:

	Deficit R million	Actual expenditure R million	Deficit as % of GDP
1987/88	9 557,3	47 449,8	5,6%
1988/89	7 855,0	55 926,4	3,8%
1989/90	4 358,0	65 459,3	1,8%
1990/91	7 145,2	73 947,3	2,6%
1991/92*	13 160,8	86 387,8	4,3%

*Estimated

Deductibility of moneys paid for educational purposes

320

124. Mr R M BURROWS asked the Minister of Finance:

(1) Whether, with reference to his reply to Question No 74 on 27 February 1991, 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?

320

B318E

The MINISTER OF FINANCE:

(1) and (2) Yes. An interdepartmental committee, consisting of representatives from the Department of Finance, the Department of National Education together with other interested parties, have conducted extensive discussions regarding the extension of the deductibility of donations to, especially, primary schools. As a result of practical problems that are being experienced, not only with the extension, but also with the current deductions, no solution has as yet been found. In the light of this, the committee has considered various alternative suggestions for State assistance in respect of education costs and proposals in this regard will be submitted to the Government shortly.

(3) Yes, notwithstanding various technical amendments, the only substantial amendment which has been made to section 18A of the Income Tax Act over the past five years, is the introduction of provisions allowing donations made by companies to certain special funds which are to be utilized for educational or training purposes for the advancement of primary and secondary education, to also be deductible for income tax purposes.

Consolidation: purchase of land/cost

160. Mr P G SOAL asked the Minister of Regional and Land Affairs:

(a) What was the cost of purchasing land for the purpose of consolidation in respect of each (i) self-governing territory and (ii) independent Black state as at 31 December 1991 or the latest specified date for which figures are available and (b) how much land was added in each case?

B390E

Income tax grew by 90% in three years — DP

B/Day 26/3/92 (320)

BILLY PADDOCK

CAPE TOWN — Individual income tax had increased by more than 90% in the last three years to compensate for government's mismanagement of the economy, DP finance spokesman Ken Andrew said yesterday.

Speaking during the Budget debate in Parliament, he said Finance Minister Barend du Plessis had forfeited R5,2bn for 1992/93 by giving full input credits on capital and intermediate goods.

To compensate for this error, the tax squeeze is now being applied ruthlessly. Income tax on individuals is up by R6,5bn and has risen by 54% over the past two years.

And at a time when incomes were dropping, individual income tax increased by "more than 90%". He said Ministers living on "fat-cat salaries could afford to laugh but it is no laughing matter".

The IMF in a recent report said the tax burden on whites was high by international standards and raising these further would be likely to raise disincentives to very high levels.

He said the Finance Minister stated the Budget was 16,5% or a real growth of 2% on revised expenditure for last year.

"This is misleading. It would only be a valid comparison if there were a nil Additional Appropriation in February next year," Andrew said.

Last year the claimed 13,7% increase turned into 15,6%, he said.

To page 3

90% rise in income tax — MP

Political Staff

INDIVIDUAL income tax had increased by a massive 90% over the past three years, Democratic Party finance spokesman Mr Ken Andrew charged yesterday.

In the past two years it had gone up 54%, he said during yesterday's budget debate. CT 26/3/92

Mr Andrew said that the Finance Minister, Mr Barend du Plessis, had "painted himself into a corner last year by giving full VAT input credits on capital and immediate goods" (320)

This meant he had for-

To page 2

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From page 1

feited about R5,2 billion of revenue in the 1992/93 financial year instead of phasing in the input credits over five years.

"To compensate for this error, the tax squeeze is now being applied ruthlessly to hard-pressed salary and wage-earners," said Mr Andrew. (320)

In February the minister had said that the total individual tax load was "too heavy", yet six weeks later he increased the load. CT 26/3/92

There was also a 28% increase in customs and excise duties "which will sooner or later end up coming from the pockets of consumers".

● The standard of living in South Africa had decreased on average by 0.8% each year since 1980, the executive director of the National Productivity Institute (NPI), Dr Jan Visser, said yesterday.

"South Africans have become poorer due to low productivity and economic growth," he said in a review in the NPI's annual report, tabled in Parliament.

SA will face huge social services bill, says MP

320

STAR 27/3/92

By Peter Fabricius
Political Correspondent

CAPE TOWN — Taxpayers will be forking out an amazing R25,5 billion a year on social grants by the turn of the century unless the Government devises a scheme whereby all South Africans make compulsory contributions to their own social security.

According to Democratic Party MP Brian Goodall, even in the 1992/1993 tax year, taxpayers will be paying out R8,463 billion in social grants — and 24c of each R1 of individual tax would go to social grants.

Mr Goodall, MP for Edenvale, revealed these figures in Parliament during the main Budget debate yesterday.

His dire warning about the growing tax burden followed Wednesday's speech by his colleague, Gardens MP Ken Andrew, who said that in the last three years revenue from individual income tax had grown by more than 90 percent.

Mr Andrew said Finance Minister Barend du Plessis had erred in giving immediate full VAT input credits on capital and intermediate goods.

Squeeze

He had thus forfeited R5,2 billion in revenue in the 1992/3 tax year. To compensate, hard-pressed salary and wage earners were now being "squeezed ruthlessly".

Individual income tax this year was up by R6,5 billion and had risen by 54 percent in two years.

Mr Goodall said taxpayers would contribute 25 percent more this year to paying social grants. This was in line with the trend over the last few years — an annual increase of 7 percent in real terms, while the economy was growing by only 1 percent.

The situation was unlikely to improve, he said. In the next 10 years there would be an extra 800 000 aged people in SA and in the next 30 years, 3 million.

Mr Goodall said the Government's laissez-faire approach had not worked. Only half of the economically active population contributed to a pension fund. More than 2,5 million pensioners were relying on the State, and there were only 350 000 private and civil pensioners.

Mr Goodall cited several countries which had similar per capita incomes to South Africa, all of which insisted on employee contributions for old age benefits. These countries included Chile, Columbia and several African countries such as Ivory Coast, Kenya and Nigeria.

Social grants 'huge burden on taxpayer'

Political Staff (320) ARG 27/3/92

TAXPAYERS will be paying R25,5 billion a year for social grants by the year 2000 unless the government devised a scheme for all South Africans to make compulsory contributions to their own social security.

Even in the 1992/1993 tax year, taxpayers would pay out R8,4 billion in social grants and 24 cents of each R1 of individual tax would go to social grants.

Edenvale Democratic Party MP Mr Brian Goodall disclosed the figures in parliament during the main Budget debate yesterday.

His dire warning about the growing tax burden of social welfare followed Wednesday's speech by Gardens MP Mr Ken Andrew, who said that in the past three years individual income tax had increased by more than 90 percent.

Mr Andrew said Finance Minister Barend du Plessis had erred in giving immediate full VAT input credits on capital and intermediate goods.

He had thus forfeited R5,2 billion in revenue in the 1992/3 tax year. To compensate, hard-pressed salary and wage earners were now being "squeezed ruthlessly".

Sacob plea to retain zero rating

STAR 27/3/92

By Michael Chester (320) (180)

The SA Chamber of Business sent an urgent appeal to Finance Minister Barend du Plessis yesterday to order a six-month postponement of controversial plans to bring several basic foodstuffs into the VAT net next week.

Sacob urged the Minister to maintain the protection of the items from VAT "until effective social assistance programmes are in place".

The intervention by business followed threats of widespread strike action unless the Government abandoned plans to lift the zero-rating of VAT on nine basic food items on April 1, leaving only mealie meal and brown bread outside the net.

When VAT was introduced last September, the Government said the zero tax rate on the items was a "temporary" measure.

In an urgent letter to the Minister yesterday, Sacob said the poor performance of the economy, and an increase in unemployment and poverty, made it "clearly inadvisable" to end the zero-rating on the items at the end of the month.

"The need to postpone this move is underlined by the fact that Government's nutritional programme appears to have been slow in reaching the very poor," Sacob added today in a statement.

"One of the root causes of social unrest and violence, which stands in the way of a sustainable economic revival, is poverty," it said, "and we believe that this should be addressed directly and not through the tax system.

Don't end VAT bar, Barend told (320)

JOHANNESBURG. — The VAT zero-rating on certain foods should not be lifted for another six months, the South African Chamber of Business yesterday told the Minister of Finance, Mr Barend du Plessis.

In a letter to Mr Du Plessis, Sacob said the poor performance of the economy and an increase in unemployment made it inadvisable to terminate the zero-rating on certain foodstuffs at the end of this month.

"The need to postpone this move is underlined by the fact that the government's nutritional-development programme appears to have been slow in reaching the very poor," the letter added.

Sacob suggested to Mr Du Plessis that during the next six months the programme be reviewed at a mini-summit. — Sapa CT 27/3/92

B/Day 27/3/92

NEWS IN BRIEF

Plea on zero-rating

SACOB yesterday urged Finance Minister Barend du Plessis to postpone for six months the lifting of VAT zero-rating from certain basic foods. (320)

In a letter to ~~Du Plessis~~, Sacob said the poor performance of the economy and a rise in unemployment made it inadvisable to end the zero-rating of certain foodstuffs at the end of March.

Sacob suggested the poverty relief programme be reviewed at a mini-summit in the next six months.

Clampdown on stamp duty evaders

GILLIAN HAYNE

INLAND Revenue is clamping down on companies which have been transgressing their stamp duty obligations. In the past year inspections have netted the fiscus an extra R9,757m. 320

The penalties for late payment brought in an additional R2,391m in the tax year to end-February 1992. B/Day 27/3/92

Inland Revenue deputy director Aidan Keanly says companies are notorious for shirking their stamp duty commitments but this will not be allowed to continue. The tax, described by tax expert Cecil Margo as a "rats and mice" tax, gave the fiscus about R690m in the 1992 fiscal year.

Ernst & Young tax manager Graham Williams says many companies are being caught for not paying the R2 revenue stamp which should go on any agreement, considered binding, between two or more parties. This includes contracts of employment and contracts to service a car.

Keanly says in the past Revenue inspectors concentrated on bringing cafe and video shop owners to book, but are now going for big businesses. The main problems are documents relating to finance transactions and guarantee agreements.

The penalties for failing to stamp an "instrument" within 21 days of execution are twice that of the duty, plus the duty. If it is not stamped within six months, the penalty becomes three times the normal duty, plus the duty.

"If the Commissioner for Inland Revenue feels a party is deliberately attempting to avoid the duty, an additional penaly of up to R4 000 per instrument is payable by the guilty party," Williams says. "Large companies could find they owe the Receiver a substantial amount of money."

VAT: Barend to back down?

(320) CT 28/3/92

Political Staff

THERE is strong speculation that the Minister of Finance, Mr Barend du Plessis, will have to back down again on VAT.

Mr Du Plessis has called a press conference on VAT for Monday afternoon.

This comes after he faced a tidal wave of calls to drop the imposition of VAT on basic foodstuffs which were previously zero-rated.

Last year Mr Du Plessis bowed to pressure and dropped the rate of the controversial tax.

The minister announced in his budget last week that foodstuffs which had been zero-rated with effect from September last year would lose that status at the end of this month. However, exceptions would be made for maizemeal and brown bread.

The announcement met with widespread outrage. ANC president Mr Nelson Mandela threatened mass action of a type the country had never seen.

Finance Department sources declined to comment yesterday, but there has also been a chorus of protest from MPs of all parties during the budget debate this week.

Also at the press conference will be Health Minister Dr Rina Venter and Deputy Finance Minister Mr Theo Alant. Dr Venter has been deeply involved in assistance programmes, and her presence could indicate that an upgrading of these could be the central theme of the announcements.

VAT: Barend expected to stick to his guns

(326) ARG 30/3/92

Political Staff

THE government is unlikely to back down today on VAT being imposed from Wednesday on basic foodstuffs.

Finance Minister Barend du Plessis seems determined to brave the storm which this decision will unleash — including a threatened general strike in July — amid a growing outcry for continued zero-rating on these items.

"I am confident that our tax philosophy is in line with that of successful countries," he said in an interview today.

"Cosatu is trying to impose on this country economic principles, including important tax aspects, that have failed miserably through the world," he said.

Du Plessis to relent on foods?

(326) CT 30/6/92

Political Staff

FINANCE Minister Mr Barend du Plessis is expected to extend the zero rating of basic foodstuffs today, according to government sources.

He will hold a press conference in Pretoria this afternoon with Health Minister Dr Rina Venter and Deputy Finance Minister Mr Theo Alant, who oversees VAT.

Following confrontation over the implementation of VAT last year, Mr Du Plessis backed down and reduced the VAT rate and zero-rated a number of additional foodstuffs for six months.

There was no mention in the budget of extending the concession, but sources said this was because Mr Du Plessis did not want to commit himself for the whole year.

With the zero rating expiring at midnight tomorrow, sources predicted that he would extend the period to forestall threatened mass action that the government wishes to avoid in view of the sensitive stage that Codesa is at.

Food relief

He is known to be unhappy about having to grant further extensions. As he believes that the VAT system operates more effectively with a minimum or no exemptions and that it is better to use other methods of targeting the poor for relief purposes, he is unlikely to back down completely and grant a permanent exemption.

It is understood that Dr Venter, who is responsible for targeting food relief to the poor, will soon start negotiations with interested organisations on how to channel to those most in need the R400 million set aside for food relief.

Last year R220m was set aside for food relief, but only half was spent, because it took so long to set up systems and structures for channelling the relief, officials said.

Mr Du Plessis is expected to extend the zero rating period until consultations between Dr Venter and organisations have decided on ways of ensuring the efficient distribution of relief.

Anger over food zero-rating grows

STAR 30/3/92

(320)

By Paula Fray
Consumer Reporter

Finance Minister Barend du Plessis faces a groundswell of resistance against Government plans to go ahead with the lifting of the temporary zero-rating of nine basic foods on Wednesday.

The Democratic Party and several leading businessmen yesterday joined big business, consumer organisations, the ANC and the Vat Co-ordinating Committee (VCC) in protesting against the lifting of the concessions.

The Minister is expected to clarify the issue later today at a press conference in Pretoria.

DP finance spokesman Ken Andrew said yesterday the imposition of additional tax on food at this stage would be inhumane and politically provocative.

Mr Andrew appealed to the Minister to abandon his plans to charge VAT on the foodstuffs: "It makes no economic, social or political sense to institute VAT on foodstuffs previously zero-rated."

Consumer organisations have expressed alarm at Government intentions to lift the concession aimed at poorer consumers while the South African Chamber of Business has appealed to the Minister to postpone the lifting of the zero-ratings for a further six months.

At the weekend, the South African Milk Organisation (Samo) joined cries for the zero-rating to be extended in view of the crippling drought.

"The extraordinary drought has already exerted much pressure on costs and prices, and this pressure will only increase," said Samo chairman Dr Marthinus Hermann. "The additional increase due to VAT has thus come at an extremely inconvenient time."

Checkers/Shoprite managing director Whitey Basson said that in implementing the Government's programme of economic recovery it was vital not to lose sight of the reality that many people were living below the breadline.

Inflation

According to Mr Basson the drought and recent increase in the fuel price had exacerbated the plight of consumers already in a critical financial position due to a depressed economic climate and the high rate of food inflation.

In the light of reports that millions of consumers were currently living way below the breadline, Mr Basson said the imposition of VAT on basic foodstuffs would expose lower-income groups to malnutrition and, in many cases, famine.

The ANC reiterated its call for the VAT exemption of all basic foodstuffs and said any government "with a modicum of humanity" would be alarmed at the rocketing food prices and its effects on the lives of the downtrodden.

"However, the De Klerk Government insists on perpetuating hunger and its attendant hardships. This is unacceptable and must be challenged with all the might of public opinion," it said in a weekend statement.

The ANC said although the Government had argued that the zero-rating of foodstuffs was temporary to allow for the institution of relief programmes for the poor, these programmes had not been implemented in any meaningful way.

According to the VCC the widespread calls supporting the extension of the zero-rating of VAT on basic foods showed that an "increasingly wide spectrum of South African society recognises the urgent need for the Government to reconsider its position on this issue".

"This is a matter of life or death for hundreds of thousands of South Africans. Starvation is already widespread. Food prices have rocketed. The burden on the poor is crippling," said the VCC.

The VCC appealed to President de Klerk to meet and discuss the application of VAT, how to bring down food prices, the negotiation of an adequate poverty relief programme, and measures to address the problems VAT was causing for small business.

Investors warned of risks in futures

B/Day. 30/3/92

MATTHEW CURTIN

PRIVATE investors risk financial suicide if they dabble in SA's futures market through a third party, says Investor's Guide publisher Taco Kuiper.

Kuiper says that is the only conclusion he can draw after entrusting a R100 000 investment to the now defunct Greenwich Futures and Options. He claims in mid-1991, his discretionary account was poorly and improperly managed by the firm.

However, the SA Futures Exchange (Safex) has investigated Kuiper's allegations and has found that unless Kuiper can submit more information to substantiate his claims, there are no grounds for finding Greenwich acted improperly.

And futures market sources said at the weekend discretionary accounts were a rarity in SA. Futures were traded on principal basis — where clients are consulted on every deal — or as part of a wider investment portfolio.

In the latest edition of the guide, Kuiper said: "A watertight agreement existed between Greenwich and the Investors Guide. Managing the account was in terms of a discretionary mandate, therefore, trading was to be done on an agency basis."

He said between May 24 and July 20 not only was his R100 000 investment whittled down to R34 000, but Greenwhich earned R12 600 on commission on 42 deals in managing the account, plus "thousands more" by doing deals on a principal basis as well.

Kuiper said he discovered this after his position was closed and asked Safex to investigate the matter.

But Safex assistant MD Patrick Birley said yesterday the exchanges complaints and surveillance committee had investigated the matter in December last year and found "in terms of the documents submitted by Kuiper and Greenwich, the company had not acted improperly with regard to exchange regulations".

"Clients who lose money are often upset, but Greenwich acted in good faith and within the rules of the exchange. What is clear is that the company made some bad trading decisions apparently with Kuiper's assent," he said.

Birley said the committee found no evidence to support Kuiper's allegations that Greenwich had accepted a discretionary mandate, and the company had sought Kuiper's permission on every deal it had made on his account. Kuiper had so far refused an offer of arbitration and failed to submit more information to support his claims.

"That is where the matter now rests," Birley said.

Former MD and founder of Greenwich Bryan Coyne, who sold his 49% stake in the company last month and left to join Investec's futures division, said the Safex investigation had vindicated Greenwich's position. Greenwich had never accepted discretionary mandate from Kuiper.

Kuiper was unavailable for comment on Friday.

Tax burden shifts to individuals

GILLIAN HAYNE

(320)

IN the past 15 years SA's tax burden has shifted squarely onto the shoulders of individual taxpayers.

In the 1992 tax year they funded more than 70% of the country's revenue, compared with 25,5% in the 1977 tax year.

Speaking at a Budget and Tax Review, BDO Spencer Steward tax partner Matthew Lester said the recession and rising unemployment would soon make it impossible for individuals to meet government's demands.

In terms of the latest Budget, taxpayers would have to pay personal tax of R35,511bn and VAT of R21,020bn to finance the bulk of the country's expenses.

Within the same 15-year period, companies and mines saw their tax contribution fall from 28,8% to 17% of the total Budget.

Seen in this light the concessions given to reduce the effects of fiscal drag for lower to middle income earners were meagre indeed.

Lester said although the effects of fiscal drag were not felt in the short term, over a 10-year period they were substantial.

For example, the pre-tax earnings of a man on a salary of R30 000 a year in 1983 (assuming annual increases of 15% and a constant inflation factor of 15%) could be 304% up in 1993, while his tax liability would have increased by 457%. Taxpayers were getting poorer, Lester said.

He said if taxpayers were unable to meet the tax commitments of the economy SA might have to approach the IMF for significant financial assistance.

The current year's Budget exceeded R100bn for the first time, an increase of 8,9% on 1992. Lester said a frightening aspect was that taxes would be raised by R12bn or 16,4% while the Budget itself only increased by R8,7bn or 8,9%.

Zero ratings expire tomorrow

Govt poised to back down on VAT relief

B/D ay 30/3/92 (320)

CAPE TOWN — Finance Minister Barend du Plessis is expected to extend the zero rating of basic foodstuffs today, say government sources.

It could not be established yesterday how long the concession would last, but it is understood that Health Minister Rina Venter, who is responsible for targeting food relief to the poor, will soon start negotiations with interested organisations on how to channel the R400m in food relief set aside to those most in need.

Last year R220m was set aside for food relief for the poor but only half was spent because it took so long to set up systems and structures for channeling the relief, officials said.

Du Plessis, Venter and Deputy Finance Minister Theo Alant, who is responsible for overseeing VAT, will host a news conference in Pretoria today.

The ANC and Cosatu have threatened mass action if the zero rating is not extended. At the weekend Sacob, the SA Milk Organisation and the Cape Town Chamber of Commerce also called for an extension.

Following last year's confrontation over the implementation of VAT and the two-day national strike, Du Plessis was forced to back down, reduce the VAT rate and zero rate a number of extra foodstuffs.

At the time he said this would be for only six months, to the end of this month, when the position would be reassessed. There was no mention in the Budget of extending the concession, but sources said this was because Du Plessis did not want to commit himself for the whole year.

Earlier this month Du Plessis made a

BILLY PADDOCK

partial concession by extending the zero rating on brown bread and maize meal.

The zero rating on other goods expires at midnight tomorrow and because of the widespread antagonism and threats of further strikes and demonstrations that government wants to avoid, especially with Codesa at a sensitive stage, Du Plessis would extend the period, sources predicted.

It is known that he is unhappy about having to grant further extensions, due to the belief that the VAT system operates more effectively with a minimum or no exemptions and that it is better to use other methods of targeting the poor for relief purposes. So he is unlikely to back down completely with permanent exemptions.

It is more likely that Du Plessis will extend the period until consultations between Venter and organisations such as trade unions and consumer groups have resolved ways of ensuring efficient distribution of relief.

GERALD REILLY reports from Pretoria that the SA Milk Organisation chairman Marthinus Hermann urged Du Plessis to extent zero rating of certain dairy products "to strengthen nutritional and economic support of underpriviliged groups".

Hermann said the drought had already exerted great pressure on costs and prices which would increase during the year.

Sacob has turned the screws on Du Plessis. In a statement last week the organisa-

☐ To Page 2

VAT relief

B/D ay 30/3/92 (320)

☐ From Page 1

tion pleaded for a six-month extension of the zero rating of certain basic foods.

The poor performance of the economy and increased unemployment made it inadvisable to terminate the zero rating at the end of this month, Sacob said.

Sapa reports that the ANC on Saturday welcomed Sacob's stand, saying the targeted relief programmes had not been implemented, nor were the funds allocated adequate for this purpose.

It said President F W de Klerk should meet the Vat Co-ordinating Committee to discuss the issue. An adequate relief programme should be negotiated, mechanisms should be created to bring down food prices and the problems of small business in implementing VAT should be addressed.

DP finance spokesman Brian Goodall said until an efficient poverty aid relief delivery system was in place it would be extremely unwise in the current socio-economic climate to terminate the zero ratings.

LINDA ENSOR reports that Cape Town Chamber of Commerce acting president Herbert Hirsch also called on De Klerk to extend the exemptions.

Hirsch said government's poverty relief scheme to offset the effect of VAT on the poor had been "dreadfully slow" to take effect.

Life assurers hope for tax Act change

BDay 30/3/92 (320)

LINDA ENSOR

CAPE TOWN — The life assurance industry is hoping that the three-fund principle for the taxation of life offices — announced by Finance Minister Barend du Plessis in his Budget review — will be incorporated into the Income Tax Amendment Act.

This usually comes before Parliament in about June. The Act implements the Budget proposals. It is expected that the Sixth Schedule to the Income Tax Act will be scrapped soon and replaced by a regulation in the Insurance Act.

Life Offices' Association (LOA) director Jurie Wessels said initial calculations indicated that the life industry as a whole would pay less tax should the three-fund proposal be implemented, although life assurers which concentrated on retirement business could end up paying more.

Currently life offices operate two funds: an untaxed fund derived from retirement-related policies, taxed in the hands of the beneficiary; and a taxed life fund. The assurer is allowed to deduct only 55% of the life fund's gross expenses, has to include dividend income as part of taxable income and must apply the top marginal rate for policyholders instead of the average rate, which the industry believes should be applied.

The assurer as a company does not pay tax on surpluses derived from the untaxed fund.

The Equal Competition for Funds in Financial Markets committee — chaired by Finance Minister Barend du Plessis' special adviser Japie Jacobs — recommends three funds. In addition to the taxed policyholders' fund and the nontaxable pension, provident and retirement annuity fund, it envisages a corporate fund subject to the company tax rate.

Wessels said the corporate fund would consist of the surpluses of the taxed and untaxed funds.

Pleasing to the industry is the fact that the trustee principle would apply to the policyholders' fund. All expenses would be deducted for tax purposes, no tax would be paid on dividends and the average marginal rate would be applied.

Wessels said a committee of life assurance actuaries, Inland Revenue and Financial Services Board officials were working out the details of the proposals, such as how to allocate shared overheads to the three funds and how to provide for the tax treatment of money channelled from one fund to another. Mutual assurers which did not have corporate funds would have to create them out of their untaxed free reserves to comply with the new dispensation.

Support for zero rating basic food

320

THE Co-ordinating Committee on VAT yesterday welcomed calls by Sacob and the SA Milk Producers Association supporting the extension of zero-rating VAT on basic foods. Sowetan 31/3/92

"The calls by these two major business organisations, following soon after the powerful demand by the president of the ANC, Nelson Mandela, show that an increasingly wide spectrum of South African society recognises the urgent need for government to reconsider its position on this issue.

"This is a matter of life or death for hundreds of thousands of South Africans. Starvation is already widespread. Food prices have rocketed. The burden on the poor is crippling.

"Government's refusal to extend the zero-rating on basic foods is heartless and ill-thought out. We cannot accept that the technical symmetry of a tax system should be achieved at the expense of widespread suffering." - Sapa

VAT on food may be put on hold

Sowetan 31/3/92

320

Sowetan Correspondent

THE Government looks set to bow to concerted public pressure on VAT and is today expected to announce a temporary extension of the zero-rating on certain basic foods.

Cabinet sources yesterday indicated the Government would not budge from its original plan to impose VAT on all but the most basic foods from tomorrow.

Three Cabinet Ministers, including Minister of Finance Mr Barend du Plessis, were to hold a Press conference yesterday.

They were expected to announce that VAT would be slapped on nine food items - including samp, powdered milk, mealie rice, whole mealies, dry beans, fresh milk, canned pilchards and rice.

These were the food stuffs for which a temporary VAT-free concession was granted when VAT was introduced on September 30 last year.

The press conference has been postponed to today.

Yesterday Du Plessis consulted with his colleagues, including President FW de Klerk, on the issue.

It is likely that a decision to temporarily extend the zero-rating of basic food stuffs was taken during these consulations.

Apart from averting a threatened strike by trade unions, the Government's decision may well have been influenced by the knowledge that most major business organisations also favour an extension.

Business organisations are today expected to appeal to Du Plessis to postpone imposing VAT on basic foods, which would have left the Government standing alone on the issue.

Last night Du Plessis would not divulge on what he would announce today but gave a strong hint at flexibility and concession.

"We never want to be perceived as being dogmatic and putting the plight of the poor in any subservient position on the priority list.

"Therefore we must seek to deliver our assistance to the best advantage of the needy and at the lowest cost to the taxpayer. This strategy can vary from time to time," he said.

Extension expected for nine zero-rated foods

VAT: Govt retreat likely

320

STAR 31/3/92

By Peter Fabricius
Political Correspondent

The Government looks set today to bow to concerted public pressure on VAT and announce a temporary extension of the zero-rating on certain foods.

Cabinet sources earlier yesterday indicated the Government would not budge from its original plan to impose VAT on all but the most basic foods from tomorrow.

Finance Minister Barend du Plessis, National Health Minister Rina Venter and Deputy Finance Minister Theo Alant postponed a press conference they were scheduled to hold yesterday.

They were expected to announce that VAT would be slapped on nine items — samp, powdered milk, mealie rice, whole mealies, dry beans (including soya beans), lentils, fresh milk, canned pilchards and rice.

These were the foods for which a temporary VAT-free concession was granted when VAT was introduced on September 30 last year.

The press conference will now be held today.

Yesterday Mr du Plessis consulted widely inside the Government and, most significantly, had a meeting with President de Klerk.

It is likely a decision was taken there to temporarily extend the zero-rating of basic foods — perhaps for another six months.

Apart from averting a threatened major strike by trade unions, the Government may well have been influenced by the knowledge that most, if not all, major business organisations favour an extension.

The postponement of the announcement until today gives business organisations an opportunity to make last-minute representations to Mr du Plessis.

The South African Chamber of Business, the Afrikaanse Handelsinstituut and many other employer organisations are to be part of a large delegation scheduled to see the Minister before the announcement.

They are expected to appeal to him to postpone imposing VAT on basic foods, which would have left the Government standing virtually alone on the issue.

Last night Mr du Plessis would not say what he would announce today, but strongly hinted at concessions.

"We never want to be perceived as being dogmatic and putting the plight of the poor in any subservient position on the priority list.

"Therefore we must seek to deliver our assistance to the best advantage of the needy and at the lowest cost to the taxpayer."

A decision to extend VAT concessions on food would be a serious disappointment to Mr du Plessis, who has strongly championed the cause of a pure VAT system with minimum exemptions.

Sources close to him indicated that he felt betrayed by the businessmen who he felt had compromised the integrity of the tax system for the sake of ad hoc political convenience.

Last night Mr du Plessis reiterated his view that the tax system was "an extremely blunt instrument to distribute wealth to the poor" — and that this should be done as far as possible through the expenditure side of the Budget.

This had been achieved in this year's R100 billion Budget in a variety of ways, including the R1,2 billion relief to lower-income groups by reducing fiscal drag.

Mr du Plessis said that in one way or another the Government was already spending R2,6 million monthly on the needy.

Church fire deliberate, say firemen

Staff Reporter STAR 31/3/92

One of Johannesburg's oldest churches, the N G Kerk in Turffontein, was gutted last night in a fire that firemen believe was started deliberately.

Most of the church, which was built in 1918, was destroyed in the first 20 minutes of the fire, which started just before 11 pm.

A spokesman for the Johannesburg Fire Department said a resident had called firemen to the scene at 10.50 pm, but by the time they got there a few minutes later, the fire had already burnt through the roof and much of the building.

The fire was finally put out by the 15 firemen just before midnight.

The spokesman said "deliberate fire-razing" was suspected as one of the doors to the old church had been left open and several windows had been smashed before the fire ripped through the building.

CT 31/3/92 (320)

Last-ditch stand on VAT

By ANTHONY JOHNSON
Political Correspondent

ORGANISED business and employer organisations today launch an 11th-hour bid to persuade the government to drop its plans to end zero-rating on basic foodstuffs from midnight tonight.

Finance Minister Mr Barend du Plessis said last night that the government was "not dogmatic" about the politically explosive issue and claimed he "really did not know" what he would finally announce at a press conference on the matter this afternoon.

He told SABC-TV that he regarded the views of the Afrikaanse Handelsinstituut (AHI), the South African Chamber of Business (Sacob) and leading employer organisations as "extremely important" in reaching a final decision.

A press conference yesterday was hastily postponed after the business community organised a last-ditch drive to persuade the government to rethink the issue, which threatens to plunge the country into a wave of mass action and a general strike.

"We are prepared to open our ears to church and business leaders," said Mr Du Plessis.

Health Minister Dr Rina Venter said the best way to help the poor was through carefully targeted aid packages rather than through blanket subsidies.

Welfare experts estimate that 44% of South Africans and 90% of those in rural areas are living below the poverty line.

A large cross-section of pressure groups and parties have strongly opposed government plans to include basic foodstuffs in the VAT net. These include Cosatu, the ANC, the Democratic Party, consumer groups, Operation Hunger, 13 major churches, the National African Chamber of Commerce (Nafcoc), the AHI and Sacob.

The government may try to side-step the VAT demands by pointing to growing state allocations to relief and welfare programmes.

ARGT 31/3/92

Extension of zero-VAT on basic foods is expected

320

PETER FABRICIUS, Political Staff

JOHANNESBURG. — The government looks set to bow to concerted public pressure on VAT and is expected today to announce a temporary extension of the zero-rating on certain basic foods.

Cabinet sources indicated earlier yesterday that the government would not budge from its original plan to impose VAT on all but the most basic foods from tomorrow.

Finance Minister Mr Barend du Plessis, National Health Minister Dr Rina Venter and Deputy Finance Minister Mr Theo Alant were scheduled to hold a press conference yesterday.

They were expected to announce that VAT would be slapped on nine items — samp, powdered milk, mealie rice, whole mealies, dry beans (including soya beans), lentils, fresh milk, canned pilchards and rice.

These were the foods for which a temporary VAT-free concession was granted when VAT was introduced on September 30 last year.

The press conference has been postponed until today.

Yesterday Mr Du Plessis consulted widely inside the government and, most significantly, had a meeting with President De Klerk at the Union Buildings in Pretoria.

It is likely that a decision was taken there to temporarily extend the zero-rating of basic foods — perhaps for a further six months.

Apart from averting a threatened major strike by trade unions, the government's decision may well have been influenced by the knowledge that most, if not all, major business organisations also favour an extension.

The postponement of the announcement until today gives business organisations an opportunity to make last-minute representations to Mr Du Plessis.

The South African Chamber of Commerce, the Afrikaanse Handelsinstituut and many employer organisations are to be part of a large delegation scheduled to see him today before the announcement.

They are expected to appeal to him to postpone imposing VAT on basic foods, which would have left the government standing virtually alone on the issue.

Last night Mr Du Plessis would not divulge what he would announce today but gave a strong hint at flexibility and concession.

A decision to extend VAT concessions on food will be a serious disapointment to Mr Du Plessis who has strongly championed the cause of a pure VAT system with the minimum of exemptions.

Govt 'likely to consider pension proposals soon'

B Day 31/3/92

WILLIAM GILFILLAN 320

THE Margo Commission recommendation relating to retirement planning will receive government's attention soon, KPMG Aiken & Peat tax partner Hennie Coetzee believes.

"Although no mention of the recommendation was made in the Budget, it remains an outstanding issue."

Former judge Cecil Margo suggested retirement gratuities, including gratuities payable out of insurance policies, be treated as if they were lump sums from pension, provident or retirement annuity funds and taxed at the beneficiary's average tax rate for the preceding three years of assessment.

Currently the lump sum portion of a retirement gratuity is taxed at the average rate applicable in the year in which the beneficiary retires. However, as beneficiaries take steps to reduce their average tax rate applicable to other income in the year in which they retire, this recommendation would increase the average tax rate applied to the retirement annuity's lump sum portion.

Coetzee believed the delay might have related to the protection pension fund members' rights. "The commission stated the recommended changes should not apply to existing members, and this has been accepted by government," he said.

In the White Paper drawn up by government responding to the commission's recommendations, the authorities noted three possible ways to protect existing members' rights. They included freezing existing members' lump sum benefits, exempting the portion of the lump sum applicable to contributions made before the recommended changes, and ensuring that only existing members would be entitled to a retirement lump sum benefit.

However, these options have presented problems relating to administrative efficiency and existing members' equity rights.

Coetzee believed the authorities might implement Margo's recommendation when amendments to the Income Tax Act are passed by Parliament in June or July.

Life Offices Association (LOA) director Jurie Wessels said the authorities should level the playing fields between the private and public sectors before amending the legislation. Currently the lump sum portion of the retirement gratuity is tax free in the public sector.

Business to meet Barend today

Govt plans for VAT stalled by protests

(320)

BDay 31/3/92

BILLY PADDOCK and KATHRYN STRACHAN

CAPE TOWN — Last-minute representations by influential business organisations and employer groups yesterday led Finance Minister Barend du Plessis to postpone a major announcement on the issue of VAT zero rating of essential foodstuffs.

Both the AHI and Sacob have said they believe the status quo should prevail and that foodstuffs zero rated in October should remain so.

Du Plessis will meet the organisations today to listen to their appeals and to brief them on government's opinion.

Our political staff reports he said last night government was "not dogmatic" about the politically explosive issue and that he "really did not know" what he would finally announce today.

He said on SABC-TV he regarded the input from business as "extremely important" in reaching a final decision.

AHI executive director Joe Poolman said yesterday his organisation was calling on Du Plessis not to change the current position, and to give VAT a chance to work without further tampering. "It is especially important that the additional foodstuffs that were zero rated ... be continued because of the drought and unemployment."

Sacob also called on Du Plessis to retain the status quo, and warned of the consequences of disruptions. Sacob argued that with the economy in a bad state and a high rate of unemployment, it would be advisable to keep the zero rating in place for another six months.

However, sources close to the Finance Minister were indicating yesterday that because of his dislike of granting concessions on VAT, Du Plessis might be prepared to brave the threats and rely on Health Minister Rina Venter's food relief programme to stave off a confrontation.

The inclusion of Venter at the joint news conference — rescheduled to this afternoon — indicated this might be the case. She is expected to make an announcement on exactly how targeting will take place.

But consumer groups and political organisations such as the ANC and the DP have slammed the food relief system and noted that only half of the R220m allocated for relief last year was spent, most of this on setting up structures rather than getting relief to the needy. It is understood that Venter will meet relevant groups for consultations on the programme her department intends implementing.

DP finance spokesman Ken Andrew called on Du Plessis to heed the calls from sensible people in business and drop ideas

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VAT

BDay 31/3/92

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□ From Page 1

of stopping the concessions.

The VAT Co-ordinating Committee said Du Plessis' decision to postpone his news conference indicated he had been forced into a rethink. The committee, formed to fight the implementation of VAT, had requested an urgent meeting with President F W de Klerk to discuss the issue, spokesman Bernie Fanaroff said.

Fanaroff said that in spite of mounting opposition from all sides to the plan to drop zero rating on nine foods (brown bread and maize meal are excluded), Du Plessis had consistently refused to meet the committee since the general strike in November.

He predicted that Du Plessis would extend the period of zero rating. He believed the announcement of this decision would come after the talks with business leaders, and efforts would be made to convince people it was not the result of pressure from left-wing and consumer groups.

But Fanaroff said pressure on government would increase as it "could not turn a blind eye forever to the serious situation people are finding themselves in".

Cosatu spokesman Neil Coleman said his organisation had decided at the weekend that there would be mass action if Du Plessis scrapped the zero ratings.

He said even if the zero ratings were extended, a solution was still a long way off. The issue would be resolved only if it was negotiated with all affected parties.

□ The OK said yesterday its stores would absorb the VAT charges on foodstuffs for 19 days if they lost their zero rating as scheduled. MD Gordon Hood also appealed to Du Plessis to reconsider the imposition of VAT on basic food items.

● See Page 3

Indecision on VAT 'burdens companies'

B/Day 31/3/92

(320)

GILLIAN HAYNE

INDECISION by the Receiver of Revenue has placed another unnecessary financial burden on companies trying to comply with VAT legislation, tax experts say.

In a statement released yesterday, Deputy Finance Minister Theo Alant scrapped an amendment on the pricing method for VAT which was due to be implemented on April 1.

Reasons for the decision included saving small businesses the cost of changing their systems.

Ernst & Young tax partner Ian MacKenzie said it was not clear why this decision could not have been announced months ago.

Vendors who had changed their systems in anticipation of April 1 would be justifiably peeved at the dithering which had led to the unnecessary expense.

The Receiver's statement said companies would continue to have the option of using the inclusive or exclusive methods of showing VAT on their invoices.

Originally companies were given two choices for the format of tax invoices — the exclusive basis reflecting the exclusive price, the VAT and the total price, and the inclusive basis reflecting only the VAT inclusive price and a statement to the effect that 10% VAT had been included in the price.

However, worries and representation, notably from Vatwatch, that some companies would add their profit margins to the inclusive price in spite of being able to claim the VAT portion back from Revenue as an input tax credit, led to the amendment.

At that time Revenue also said the choice was creating difficulties as vendors were demanding different formats from suppliers, thus adding to the administrative burden inherent in VAT.

The amendment, gazetted on November 9 1991, took away the choice and said all tax invoices issued after April 1 1992 would be required to show the tax exclusive price, the tax and the total amount payable.

Alant said in the statement released at the weekend that the amendment would be scrapped because of pressure from small businesses which had changed their cash registers and invoices to cater for the inclusive system.

To adapt to the amendment would incur further expensive changes.

Circumstances had also changed since the introduction of VAT and Revenue was confident that vendors and suppliers had gained enough experience in the pricing of goods to make the original worry unfounded.

Tax experts said the whole issue was "much ado about nothing" but to wait until few days before the amendment was to take effect was inexcusable.

Most companies would already have made the adjustments.

MacKenzie said the same was bound to happen with the exemptions on foodstuffs which were due to be lifted on April 1.

TAXATION – 1991

NOVEMBER – DECEMBER

VAT blacklist threat for 45 firms

Staff Reporter

ABOUT 45 companies countrywide who have abused VAT regulations since the tax was introduced could be blacklisted if they have not acted on warnings by tax inspectors by November 5.

"Most of the complaints received from consumers concern misleading advertising and displaying of prices whereby the basic price is displayed boldly but the VAT-inclusive price is hardly visible," a Vatwatch spokesman said yesterday.

Some companies, the spokesman said, had been charging VAT on goods that are exempt from VAT or zero rated.

The spokesman said after the infringements had been brought to the attention of 90 offenders countrywide, "about half" of the companies had acted on complaints. 326 CT 1/11/91

"Firms who put up their prices before the introduction of VAT and those who have incorrectly overcharged are now giving refunds," he said.

City tightens up for anti-VAT strike

320

ARGT 1/11/91

STEFAANS BRÜMMER and HANS-PETER BAKKER Staff Reporters

CAPE Town is gearing up for a two-day general strike against VAT next week.

On Monday and Tuesday thousands of workers are expected to stay away from work, some public transport may not run and small businesses will close during certain hours.

Essential health services and the education sector have been exempted from the protest by trade union federations Cosatu and Nactu and political parties, including the ANC and the PAC.

Organisers have promised that public transport will be available for students, teachers and medical personnel.

Supermarkets will stay open.

The strike aims to achieve VAT zero-rating on basic food, water, electricity, medicine and medical services.

The organisers also demand that the government enter negotiations on "adequate poverty relief programmes" and that relief be provided for small businesses who find it difficult to administer VAT.

ANC official Mr Tony Yengeni said the ANC and Cosatu were "not married to the idea of a general strike" and even at this late stage it could be called off if the government reconsidered.

Spokesmen for Pick'n Pay and Checkers confirmed that their stores would be open. They said alternative arrangements had been made to counter the strike.

Nactu said they had enlisted the support of City Tramways bus drivers but a spokesman said the company would do its best to ensure that all services ran on time.

Spoornet said suburban trains would run normally.

Cosatu and other parties said at a Press conference yesterday that many small businesses had agreed to close between noon and 2pm on Monday and Tuesday and that taxi associations had been approached.

There had been a call for marches to local-authority offices and for the occupation of rent offices and private clinics in protest against VAT.

The University of Cape Town will remain open but the University of the Western Cape is closing to allow students and staff to take part in the protest meetings and marches.

UCT exams and all other functions would be as usual, said registrar Mr Hugh Amoore.

As in politically-motivated stayaways, the university would adopt a no-work, no-pay, no-penalty policy.

At UWC exams have been rescheduled and staff wishing to support the stayaway will be able to do so. According to the registrar, the principle of no-work, no-pay will not apply.

The Cape Town Chamber of Industries has recommended that businesses apply the no-work, no-pay principle.

Executive director Mr Colin McCarthy said the chamber was unable to put pressure on business but its view was that Monday and Tuesday were normal working days.

ANC Western Cape chairman Dr Allan Boesak said a monitoring body had been set up to prevent intimidation.

"We will keep a very close watch. We will identify those people and try to isolate them so that they do not have the opportunity to interrupt what will be a well-disciplined mass-action."

Dr Boesak said the protest action was "a rather drastic one that the organisations involved have not taken lightly in response to the utter irresponsibility of the government".

Police spokesman Captain Hendrik Opperman said police patrols throughout the Peninsula would be increased on Monday and Tuesday, especially in industrial centres, taxi and bus ranks, railway stations and other places used by commuters.

Police would not hesitate to act against intimidators.

There had been rumours that vehicles had been driving around townships threatening reprisals if workers did not stay away, but they had not been confirmed.

Those intimidated could call the nearest police station anonymously and the complaint would be investigated.

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Tension rising over VAT strike

Political Staff

TENSION over the two-day VAT stayaway continued to mount yesterday as the organisers moved to allay fears that intimidation and violence would result from the national strike.

The National Party entered the slanging-match surrounding the protest due for Monday and Tuesday with a statement describing it as "highly irresponsible".

It said that if the campaign led to violence, intimidation and a loss of income the ANC and its partners could not escape responsibility.

The NP was also seriously disturbed that there had already been complaints of intimidation.

However, the text of the strike guidelines issued by organisers Cosatu and Nactu stresses that "those who go to work must be allowed to do so without intimidation".

The Western Cape ANC said the strike could still be averted if the government reconsidered its unilateral imposition of VAT.

The government is being called upon to zero-rate basic foods, water, electricity, medicines and medical services, negotiate on "adequate poverty relief programmes", special VAT provisions for small businesses, and "the establishment of a macro-economic negotiations forum to negotiate key economic issues of concern to workers, especially taxation and retrenchments".

The VAT Action Co-ordinating Committee was serious about the intended stayaway on November 4 and 5 and was "not kicking up dust", Cosatu Western Cape secretary Mr Alan Roberts said yesterday.

Essential services

Significantly, Cosatu's main partner in the organisation of the worker boycott, the National Council of Trade Unions (Nactu), was absent from the announcement of the plan of action, and was not a signatory to it. Nactu, however, has previously given its support to the action.

Among Western Cape actions planned for the two-day stayaway are widespread work stoppages and no buses or taxis except for medical workers, students and those employed in essential services.

It was stressed at the press conference yesterday that there was to be no disruption of academic activities and medical services.

- The University of Cape Town announced yesterday that the university would be open during the stayaway, and that the policy of "no work, no pay" applied to UCT workers.
- A letter allegedly written by an Inkatha Freedom Party official to companies on the Reef offering casual labour for the duration of the strike sparked an angry reaction from the ANC which said this could lead to violent confrontations.

However, IFP central committee member Mr Thamba Khoza distanced the party from the letter which "did not represent official party policy".

The writer had not been authorised to send the letter by local or national IFP leadership.

He added that the IFP believed that all those going to work should be allowed to do so without fear of intimidation or harassment.

High price for strike in W Cape

(320) CT 1/11/91

Staff Reporter

A general strike next week would cost the Western Cape R100 million, Cape Town Chamber of Commerce manpower manager Mr Charl Adams said yesterday.

But it was difficult to predict how many people would join the strike because the issue had become clouded by "political and economic sentiment", he said.

Mr Adams said a general strike would cost the nation about R1 billion and could have serious implications which could further contribute to "instability and violence".

The Chamber of Commerce had advised its members to adhere to a policy of no work no pay, and it was management's prerogative to investigate "every case", he said.

City Council director of personnel Mr David Beretti said essential services would be fully staffed over the two days, but the same would possibly not be true of non-essential services.

There's a lot more to next week's strike than taxes

W/Mail 1/11-7/11/91

The looming two-day stayaway is, the unions tell us, about taxes. But there are more fundamental things at stake here, reports **DREW FORREST**. The real issue is: Who controls the economy?

NEXT week's two-day stayaway is more than a tax revolt — it is part of a frontal challenge to the government's right to frame economic policy.

The immediate issue is Value-Added Tax, but the underlying agenda of the labour movement and its political allies is to force a moratorium on economic change and to bring it within the ambit of negotiations.

The state's "unilateral restructuring of the economy" has become the latest union buzz-phrase and VAT is seen as one facet of this.

The stayaway — the Congress of South African Trade Unions (Cosatu) prefers the less accurate but more apocalyptic term "general strike" — is the first concrete expression of emerging unity on the left.

Spearheaded by Cosatu, it also involves the National Council of Trade Unions and 12 other worker bodies, and has received the backing of the African National Congress, the Pan Africanist Congress, the Azanian People's Organisation and the South African Communist Party.

Process is partly at issue: the campaign is integral to a broader push for a transitional order in which the government starts to cede power to the black majority. But the conflict also centres on the nature of change — two philosophies are at odds: socialism, in a loose sense, and economic liberalism a la former British prime minister Margaret Thatcher.

There is general agreement that restructuring is taking place, but that it is nothing new.

Faced with declining growth rates in the early 1980s, says top Finance Department official Coen Kruger, the government moved to spur economic activity in line with world trends by scaling down its role and giving the private sector its head.

"When the economy was strong, policy was essentially a response to the business cycle," he said. "For some years there has been a long-term, comprehensive approach to restructuring."

Alan Hirsch, a Cape Town economist who advises the ANC, believes that the influence of Afrikaner capital, notably in the person of former Gencor boss Wim De Villiers, was crucial to the shift. He also argues that the government came to see apartheid as synonymous with economically interventionist government.

Linked to this was a move from import replacement to an export orientation — largely because local production of former imports, an offspring of "total strategy" thinking, had reached its ceiling.

The new outlook gave rise to a cohesive package of fiscal, monetary, trade and other policy reforms designed to boost private business and expand its role. These included privatisation and commercialisation of state concerns, deregulation and moves, in the 1988 Labour Relations Amendment Act, to limit the power of organised labour.

Fiscal reforms have seen a cut in direct taxation on companies — by two percent to 48 percent in the last budget, but the official aim is 40 percent — coupled with a move to a broader-based consumption tax, VAT.

VAT is central to the state's new "outward" policy. By taking machinery purchases out of the tax system — capital goods were subject to GST — the new tax is designed to put South African exporters on the same footing as their foreign rivals.

The tide of laissez-faire is also nibbling at the protective walls around local industry: in moves to boost business efficiency, reduce prices and spur exports, the government has scrapped quantitative import controls and is restructuring protective tariffs. A recent Industrial Development Corporation report, under consideration by the government, calls for tariffs to be reduced gradually.

Coen insists that the government's aim is to promote growth, create jobs and broaden the tax base, to raise additional revenue for social spending. A key rationale for VAT, for example, is that as a more efficient instrument, it will stem leakages in the tax system.

The unions take a very different view. Their first concern is that almost every government measure hits jobs or the living standards of the poor.

VAT, they argue, has been introduced in a particularly pristine form without regard for the impoverished, while privatisation and commercialisation have brought swinging job cuts wherever they have been applied. Tariff reform may also encourage lean, mean enterprises with fewer employees.

But there is a more sinister perception of the government agenda: "The underlying theme of all these measures is to ensure that the economy stays in white hands," asserts National Union of Mineworkers' economist Martin Nicol. "Political reform will take place without economic reform, without redistribution except on the terms of capital."

The argument is that by forcing through major economic change in advance of political negotiations, the National Party government is undermining the capacity of a post-apartheid state to re-apportion wealth.

There are signs that popular resistance has put the brake on aspects of the government's programme. Commercialisation is proceeding apace in such areas as the post office, Transnet and state forests, but since last year's mass protests privatisation appears to have been quietly shelved.

It is significant that in March last year President FW de Klerk announced that R1-billion earmarked for social projects might be raised from the proceeds of privatisation. Instead, the money that was spent came from one of the government's strategic funds.

Next week's stayaway is unlikely to force changes in the VAT system, but it will undoubtedly encourage greater state circumspection about economic reform without consultation.

The conflict also raises some prickly questions for the unions, which are formally committed to spurring growth, improving industrial efficiency and promoting exports.

Can these objectives be squared with Cosatu's own restructuring proposals, which lay heavy emphasis on job security and expanded worker power? Will they be served by the greatly increased strike rights Cosatu is demanding? How, without rewarding and reinforcing inefficiency, is one to protect employment in uncompetitive industries and the bloated public sector?

While formally acknowledging a post-apartheid role for private business, unionists often evince a knee-jerk hostility to profit as inherently exploitative. More broadly, what is Cosatu's attitude towards company profitability and to government measures which seek to promote it?

Vatwatch to take cue from general strike

(320) SIMON WILLSON

VATWATCH is deferring any plans to replace the committee members who quit last month until after next week's planned general strike. B/Day 1/11/91

Half the 10-member Vatwatch committee pulled out of the organisation in mid-October after pressure from the Co-ordinating Committee on VAT.

Vatwatch chairman Prof Louise Tager voiced concern yesterday that, with committee members missing, Vatwatch was no longer nationally representative.

But Vatwatch spokesman Pierre de la Rey said: "We have no particularly active campaign to re-recruit people to the committee. We'll wait and see what happens after the strike."

Representatives of Nafcoc, Nactu, the Civics Association of the Southern Transvaal (Cast), the Black Consumers' Union and the Labour Research Service have quit the committee.

Tager is now assisted by the five remaining committee members representing the Rand Aid Association, the SA Consumer Council, the SA Consumer Union, the Housewives' League of SA and the Black Housewives' League.

De la Rey said the members who had withdrawn had done so in sympathy with the co-ordinating committee view that government should have formed a statutory body "with teeth" to monitor VAT's implementation.

"We are just waiting to see what rhetoric and statements emerge next week — whether the strikers support Vatwatch, shoot it down or dismiss it. The committee will then consider its future."

Tager said each member of the Vatwatch committee had a constituency to represent. "Most of the people who have left have constituencies in the poor community. We want Vatwatch to be nationally representative and our concern is that the majority of the poor are now not represented."

Pending a decision on the vacancies on the committee, work is going ahead on surveys of the prices of goods and services. Today is the last day of Vatwatch's first

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Vatwatch

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post-VAT prices survey. The data will be analysed next week and publication of the survey is expected mid-month. The watchdog is also finalising sectorial market research into office rentals since the introduction of VAT.

De la Rey said publication of a list of VAT offenders profiteering from the new tax was unlikely. "We have not come across any blatant crookedness, so we have no list to publish. It's wonderful to see the general response from business people. Most of the explanations for price rises have been satisfactory."

Tager said the concept of price controls had been raised in the Vatwatch committee. "There was a brief discussion but the practicality and merits of price controls are far off our thinking at this stage. They tried it in other parts of the world in the '70s and it did not really work. A lot of people believe that regulation is prejudicial to the consumer."

Monetary policy to remain tight

Stals moots tax breaks to spur recovery

(320)

B/Day 1/11/91

SIMON WILLSON

ALTHOUGH economic recovery was imminent it was likely to be relatively mild, and some stimulus to reinforce normal market forces might be required, Reserve Bank Governor Chris Stals said yesterday.

He told the Financial Mail Investment Conference in Johannesburg that short-term prospects for a revival in the economy had improved significantly over recent months. There was an emerging consensus that real GDP should increase by 1%-2% next year.

"Initially, however, the recovery is likely to be relatively mild and some stimulants of the right substance may be required to reinforce normal market forces."

Pressed later to specify what he meant by "stimulants of the right substance", Stals said he was not referring to monetary expansion by the Reserve Bank, which was unsustainable.

"Fiscal measures to stimulate new investment are what I have in mind. I have no objection to incentives such as tax concessions to new industries, but these incentives should be concentrated on smaller businesses in the manufacturing sector."

In his address, Stals acknowledged that government and the Reserve Bank — with its special powers to create money — were being urged to "kick-start" the economy. Some proposals linked restimulation of the economy to the huge social backlogs, and others had more short-sighted sectoral or political objectives.

"They all have one thing in common, however, and that is a lack of confidence in the ability of the SA economy to pull itself out of stagnation by its own bootstraps."

The proposals for a "kick-start" to the economy were not without merit, but should be aimed at reinforcing the imminent recovery, not initiating it.

Stals signalled a continued tight monetary stance over the short term by restating his view that, taking account of the persistently high rate of inflation, SA interest rates were relatively low.

"The official discount rate of the Reserve Bank at 17% has, indeed, the smallest margin above the current rate of inflation of all the industrial countries with which SA has important economic links."

It was a major frustration that inflation was still above 15%, but the present monetary policy was no longer feeding inflation.

He said in order to maintain maximum economic growth and optimal living standards for all, economic decisions on important issues "should not bargain on an accommodating monetary policy stance to bale out those who took wrong options".

For the next year, monetary policy would remain cautious, he said.

Stals forecast a current account surplus of R5bn-R6bn for this year and one of R3bn-R4bn for 1992 and envisaged a continued decline in net capital outflows, from last year's R2,9bn to possibly less than R2,5bn this year.

Fixed-maturity foreign loan repayments next year added up to less than $1bn — less than the expected current account surplus. Foreign debt obligations for next year probably would be reduced by capital inflows and by new foreign borrowings.

● See Pages 12 and 13

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Millions brace for strike as peace bid fails

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WMail 1/11 - 7/11/91

The general strike will go ahead next week despite a last-minute bid by big business to avert the VAT-linked stayaway. DREW FORREST reports

NEXT week's potentially massive two-day stayaway on VAT is now a certainty, after the failure of eleventh-hour moves by business leaders to broker further talks between the cabinet and the labour movement.

At a press conference on Wednesday, Congress of South African Trade Unions general secretary Jay Naidoo warned that the action, set for Monday and Tuesday, would be the largest in South Africa's history, suggesting a possible turnout of more than two million workers.

He added that it would be the first salvo in a campaign continuing into the new year, and that industrial action might be broadened to include demands for an end to PAYE.

The VAT campaign and the "general strike" have been crucial catalysts in the emerging unity between historically fragmented anti-apartheid forces. Drawing together Cosatu and its smaller rival, the National Council of Trade Unions, it commands the support of the African National Congress, the Pan Africanist Congress, Azapo and the South African Communist Party.

Black business groupings have also pledged support. Small businesses under the umbrella of the National African Federated Chamber of Commerce and Industries and Federation of African Business and Consumer Organisations are to close between 11am and 3pm on both stayaway days, while the South African Black Taxi Association has asked members to transport only students, teachers and essential service workers.

Sources confirmed yesterday that through "person to person" contact with cabinet ministers, senior businessmen had attempted to restart talks aimed at averting the stayaway. "The government has dug in it heels," he said. "The main concern is the revenue implications of meeting the unions' VAT demands."

And in other developments this week:

- An estimated 3 500 doctors countrywide shut up shop in an unprecedented protest against the levying of VAT on formerly GST-exempt medical services.
- The Inkatha Freedom Party attacked the stayaway as "a power-play in which Cosatu ... wishes to exploit the VAT issue to humiliate the government, while projecting themselves and their ANC and SACP allies as championing the interests of the people". The IFP warned that the action would heighten tensions in the townships.
- Non-aligned unions which took part in the recent union "summit" on VAT announced that they had withdrawn from various anti-VAT structures in protest against Cosatu's "big federation chauvinism and sectarianism".
- It is unclear whether the United Front of Democratic Independent Trade Unions opposes the stayaway. But in view of its small membership, its opposition would have little practical effect.
- Cosatu blamed "agents provocateurs" for incidents in which minibuses with loudhailers had toured Reef townships warning residents to observe the stayaway or have their houses burnt down.

Jay Naidoo

At Wednesday's press conference, involving a range of organisations, Naidoo warned that employers who disciplined stayaway participants would be blacklisted locally and abroad and face worker action.

Business sources confirm a hardening of employer attitudes and the likelihood of retaliatory moves. "There will be dismissals and disciplinary action; some employers are threatening to close for the week," said one source. "Employers feel this is not their quarrel."

Claiming that research had confirmed a three to five percent increase in the cost of living for the poor since the launch of VAT, Naidoo said the unions remained open to talks with the government on their demands.

In regard to VAT, these call for the zero-rating of basic foodstuffs and medical services, negotiations on adequate poverty-relief programmes and measures to cushion small business. But more is at issue: labour also wants an end to "unilateral government restructuring of the economy" and the establishment of a macro-economic negotiating forum involving labour, employers, political parties and the state.

"Barend du Plessis' conciliatory statements at the IMF conference in Bangkok (acknowledging the need for a social contract with labour) have not been translated into a preparedness to resolve the conflict at home," Naidoo said.

Tax breaks bring R10bn investment

SITimes (BUSS) 3/11/91 (320)

3/11/91

By DIRK TIEMANN

THE Government's special tax concessions to new investors in mineral beneficiation is expected to generate investment of more than R10-billion in the next two years, says Trade and Industry Director-General Stef Naude.

None of the projects has been given the final seal of approval and the construction and engineering industry, still in the doldrums, has not received firm orders.

The concessions are in Section 37E of the Income Tax Act 1962, promulgated in September.

Dr Naude says major groups are putting together projects to meet the requirements of Section 37E. Most involve mineral beneficiation.

Balance

He stresses that 37E is not only for huge corporations, but applies to small and medium companies which add value to intermediate products.

Section 37E can give qualifying companies accelerated capital write-offs on plant and equipment instead of the normal 20% annually over five years.

Dr Naude says 37E and other measures are short term and designed to balance disadvantages in the SA economy.

A more comprehensive package of long-term investment incentives, still to be approved, is contained in a report prepared by the Industrial Development Corporation.

STEF NAUDE: Something for everyone

Dr Naude says it will provide a stable macro-economic environment with lower tariffs and export subsidies, a supply of suitable labour, market deregulation, lower company tax, higher domestic saving and stable exchange rates.

Dr Naude says 37E has been criticised because of its selectivity.

"Responsible selectivity is necessary to encourage industrial growth. International competition is too strong to leave it all to the market.

"We must selectively support those areas where our chances to become internationally competitive are better."

Dr Naude says protection and subsidisation will have to be removed gradually because the rest of the world does not play fair either.

But at least the cost of incentives to SA can now be quantified — it was impossible under the old rules, he says.

Section 37E provides for a committee to designate companies that qualify for the benefits on the grounds of mineral beneficiation, exports and international competitiveness to exploit the comparative advantages SA enjoys.

According to guidelines for investors on how to apply for the benefits, projects that qualify must add 200% value and export 60% of the product.

The committee will also consider the "supportive" effect on downstream industries, the costs to the Treasury and the extent to which the investor uses SA products and expertise in a project.

Dr Naude says: "We will be less likely to favour projects with a large proportion of imported costs."

The committee will also consider the effect on small and medium businesses and the "degree to which processed products will be made available to SA processors."

Lost

Dr Naude says it is being done in an attempt to eliminate export parity pricing whereby SA companies are sometimes forced to pay higher world prices for this country's products.

This has long been a complaint of users of some mineral and chemical products.

Dr Naude says it is impossible to quantify the concessions in terms of lost revenue.

Industrial Development Corporation senior general manager Malcolm McDonald says the new projects will generate work in construction and engineering.

VAT strike: 'Peace accord's great test'

CT 2/11/91

JOHANNESBURG. — The planned national strike against Value Added Tax (VAT) was the greatest test the National Peace Accord had faced so far, peace committee chairman Mr John Hall said yesterday.

He appealed to leaders of signatory parties to keep to the letter and spirit of the accord, even during the run-up to the strike planned for Monday and Tuesday.

Mr Hall also called on leaders to refrain from inflammatory statements that might endanger the peace process, and extended his thanks to those who had stressed their commitment to peace.

"The rest of the country is waiting to see whether, at a time when mass action of this nature and extent is being planned and carried out, the signatories attach real value to the principles they endorsed in signing the accord."

● The University of the Western Cape will be closed on Monday and Tuesday and no exams will be written on these days.

The University of Cape Town announced on Thursday that it would be open on the two days in question and that exams would go ahead.

● Cosatu and the South African Police are to work closely together during the planned strike to combat possible incidents of violence.

Cosatu general secretary Mr Sam Shilowa said the organisation had set up a special committee to monitor the situation at national, regional and local levels.

● The Inkatha Freedom Party issued a statement yesterday claiming "increasing levels of intimidation by ANC and Cosatu supporters" forcing township residents not to go to work on Monday and Tuesday.

A Cosatu spokesman described these allegations as "lies".

● The Mineworkers' Union has warned that employers cannot automatically rely on white workers to fill strikers' jobs during the stayaway.

● Six people were arrested after an anti-VAT picket opposite the Inland Revenue offices in Pietersburg yesterday, police said. — Sapa

Standard methods of apportionment

S/Times (Buss) 3/11/91

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VAT and YOUR BUSINESS

ANOTHER report in the series is based on the manual VAT — A day in the life of your business, written by Tony Dreisenstock and Nick Friedland in association with chartered accountant Levenstein & Partners.

The manual, comprising more than 400 questions and answers, has been expanded after a series of workshops on VAT. The questions and answers, together with additional charts and tables, have been added to the manual.

The price of the expanded manual is R76,95, plus R5,50 postage and handling fee. It is available from: VAT: Levenstein & Partners, Box 18600, Hillbrow 2038.

Readers with VAT questions or problems should write to the Editor of Business Times. They will be dealt with confidentially and may be discussed in general terms in this series.

VENDORS qualify for input tax credits only if the goods and services they buy are consumed or used to make taxable supplies.

Included are zero-rated goods which are regarded as taxable supplies, allowing the vendor to recover any input tax paid.

The input tax paid on goods and services bought partly to make taxable supplies and partly to make exempt or non-taxable supplies must be apportioned.

No apportionment is necessary where the exempt or non-taxable supplies do not exceed 10% of total supplies.

Two standard methods are recognised by the Receiver of Revenue.

The input-based method calculates the allowed Vat claim by dividing the Vat attributable to making taxable supplies by the total Vat incurred. This apportionment does not apply to denied input tax or where it can be shown that the Vat is directly attributable to making taxable goods or providing services.

Invoice

If the inputs are used to make Vat-exempt supplies, no input credit can be claimed and apportionment is unnecessary. The calculation of "total Vat incurred" must comply with the accounting system used.

The invoice-based method considers all Vat incurred, but not necessarily paid. The payments method uses only Vat paid during the tax period.

The second standard method of apportionment is the turnover-based one. This method requires that Vat be apportioned in the ratio of taxable supplies (excluding Vat) to the total supplies made (excluding Vat).

This ratio excludes:

- The cash value of goods supplied under instalment credit agreements.
- The value of sales of capital goods and services previously used in the business. It excludes goods acquired for supply under rental agreements, but includes any exempt activity — for example, a photostat machine used by the business, but now sold.
- The value of any goods and services supplied for which an input tax credit was denied — for example, the selling price of a car sold to an employee, because the vendor could not claim an input credit.

The figures for these ratios can refer to the previous financial year. If the vendor wishes to use another method he must ask the Receiver in writing.

Any goods or services bought for both taxable and other purposes must attract output tax on the full consideration of any subsequent sales.

For example, a physiotherapist buys a residential property, 40% of which is to be used as a practice, for R333 000 before transfer duties. She pays no Vat because the property was bought from a non-vendor.

The physiotherapist who is a registered vendor can claim an input credit of R12 109 (R333 000 multiplied by 40%, multiplied by 10/110).

On the sale of the property for, say, R500 000, Vat is charged on the full selling price although only a part of the input credit was allowed. This does not apply to fixed property acquired before September 30, 1991.

Women in VAT protest

233 320

THE Receiver of Revenue was on the receiving end of a petition from about 400 anti-VAT protesters in Johannesburg yesterday. S Times

Cosatu Women's Forum Witwatersrand regional chairperson Joyce Kgoli handed the petition to Deputy Receiver Jan Labuschagne, warning him to deliver it to the Receiver and the State President and reply promptly "or we will nag you ceaselessly!" 3/11/91

Earlier police reinforcements raced to the march's assembly point to assist an officer who was threatened by an angry mob.

The officer had arrested a taxi driver, and the crowd was demanding his release.

Tax breaks bring R10bn investment

SI Times (BUSS) 3/11/91 (880) (320)

3/11/91

By DIRK TIEMANN

THE Government's special tax concessions to new investors in mineral beneficiation is expected to generate investment of more than R10-billion in the next two years, says Trade and Industry Director-General Stef Naude.

None of the projects has been given the final seal of approval and the construction and engineering industry, still in the doldrums, has not received firm orders.

The concessions are in Section 37E of the Income Tax Act 1962, promulgated in September.

Dr Naude says major groups are putting together projects to meet the requirements of Section 37E. Most involve mineral beneficiation.

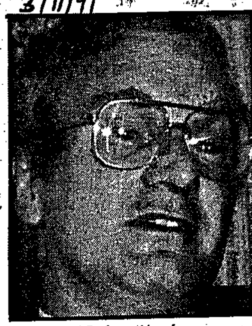
Balance

He stresses that 37E is not only for huge corporations, but applies to small and medium companies which add value to intermediate products.

Section 37E can give qualifying companies accelerated capital write-offs on plant and equipment instead of the normal 20% annually over five years.

Dr Naude says 37E and other measures are short term and designed to balance disadvantages in the SA economy.

A more comprehensive package of long-term investment incentives, still to be approved, is contained in a report prepared by the Industrial Development Corporation.



STEF NAUDE: Something for everyone

Dr Naude says it will provide a stable macro-economic environment with lower tariffs and export subsidies, a supply of suitable labour, market deregulation, lower company tax, higher domestic saving and stable exchange rates.

Dr Naude says 37E has been criticised because of its selectivity.

"Responsible selectivity is necessary to encourage industrial growth. International competition is too strong to leave it all to the market.

"We must selectively support those areas where our chances to become internationally competitive are better."

Dr Naude says protection and subsidisation will have to be removed gradually because the rest of the world does not play fair either.

But at least the cost of incentives to SA can now be quantified — it was impossible under the old rules, he says.

Section 37E provides for a committee to designate companies that qualify for the benefits on the grounds of mineral beneficiation, exports and international competitiveness to exploit the comparative advantages SA enjoys.

According to guidelines for investors on how to apply for the benefits, projects that qualify must add 200% value and export 60% of the product.

The committee will also consider the "supportive" effect on downstream industries, the costs to the Treasury and the extent to which the investor uses SA products and expertise in a project.

Dr Naude says: "We will be less likely to favour projects with a large proportion of imported costs."

The committee will also consider the effect on small and medium businesses and the "degree to which processed products will be made available to SA processors."

Lost

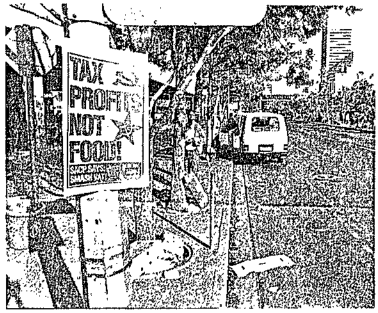
Dr Naude says it is being done in an attempt to eliminate export parity pricing whereby SA companies are sometimes forced to pay higher world prices for this country's products.

This has long been a complaint of users of some mineral and chemical products.

Dr Naude says it is impossible to quantify the concessions in terms of lost revenue.

Industrial Development Corporation senior general manager Malcolm McDonald says the new projects will generate work in construction and engineering.

All quiet on the Western front



EMPTY RANK: A VAT protest poster dominates a pole next to a lone taxi at the normally bustling taxi rank next to the Parade in Strand Street Extension today.

(326) ARG 4/11/91

But anti-VAT tension brings death to Free State and Natal

Staff Reporters

VIOLENCE in Natal and the Free State marked the start of the two-day general strike organised by Cosatu, Nactu and the ANC to protest against value added tax on basic food, medical and other essential services.

The death toll in fighting at the President Steyn gold mine near Welkom, sparked by an attempt to stop workers going on night shift last night, rose to 10 today. Another 32 miners were injured.

Anglo American spokesman Mr James Duncan said four of the injured were in a critical condition in hospital.

Two people were killed and five injured when a hand grenade was thrown into a room at a men's hostel in Umlazi, near Durban, yesterday as tension built up on the eve of the strike. Today some cars were stoned on the M1 in the Pinetown area.

At least one house was burning in Khayelitsha ~~early today and~~ a [illegible] burning tyre barriers were set up in the township.

Certain workers exempted

Lingelethu West town clerk Mr Graham Lawrence said the fire brigade and security forces were at the burning house in T-block, Site C.

"But the township itself appears very quiet and there is not much movement," he said.

Virtually no black people were on the streets of Cape Town.

Only health, education and media sector workers were exempted from the call to stay away from work and children were told to go to school and not disrupt their exams.

The front sections of buses transporting health care workers to work today were painted pink. The vehicles also displayed pink arrows reading "Expresss Extra".

Mr Cameron Dugmore, a member of the Western Cape ANC executive committee, was one of several "VAT monitors" travelling on these buses.

On the recommendation of the Cape Chamber of Industries, most business were believed to be applying a policy of a no work, no pay.

Trains ran normally but were almost empty during the morning peak and few buses operated. Minibus taxi ranks were deserted, except in Mitchell's Plain and some other coloured townships.

Asked if he knew about the two-day stayway, a taxi driver shrugged and said: "The people want to go to work and we want to earn money."

An Argus team saw at least 11 policemen, some with shotguns, at Mitchell's Plain station, where commuters were waiting for trains.

At 6.30am a yellow police helicopter flew low over the railway line travelling in the direction of Kapteinsklip.

An Argus team also saw a blue delivery lorry, with a policeman behind the wheel, being towed to Mitchell's Plain police station by a police vehicle.

The window of the lorry was shattered.

Market picket

No newspaper vendors were selling newspapers in Mitchell's Plain, Heideveld, or Manenberg.

At Epping market hawkers held an anti-VAT picket.

A Buffel with armed security forces on board was on standby at Heideveld station.

Traffic on Settlers Way appeared to be normal.

At Kayamandi, Stellenbosch and Mbekweni, Paarl most businesses and spaza shops were closed, railway stations were almost deserted and there was no sign of taxis.

In Pretoria a Putco bus company spokesmen said the stayaway was "almost 100 percent" in townships.

PICKET PROTEST: Epping market was brought to virtual standstill today during the VAT protest with a picket protest by hawkers and buyers.

Pictures: ANDREW INGRAM, The Argus.

MILITARY PRESENCE: A trickle of commuters, left, board a train at Bonteheuwel station under the watchful eye of the Defence Force.

Vat strike: Cosatu call for calm

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Own Correspondents

DURBAN. — The country faces a massive test of strength today and tomorrow as the ANC, Cosatu and their allies press ahead with the anti-VAT stayaway amid warnings from Minister of Law and Order Mr Hernus Kriel that the police force will show its steel.

Yesterday police ministry spokesman Captain Craig Kotze said the circumstances surrounding the strike amounted to a "nasty cocktail" and claimed violence had already resulted.

But ANC president Mr Nelson Mandela vowed that the demonstrations would be peaceful and called on police not to allow attacks on "innocent individuals" by agents provocateur, vigilantes or death squads.

CITY PLANS FOR VAT ACTION

See PAGE 5

Cosatu moved to end "general strike hysteria" on the eve of the proposed mass stayaway.

The trade union federation accused Government Ministers and the Inkatha Freedom Party of whipping up hysteria and a "fear psychosis" on the eve of the strike.

Cosatu repeated assurances that its supporters would not interefere with people's right to work.

Inkatha is not backing the strike call, saying it is not in the country's interests.

Mr Kriel said at the weekend that police would take tough action against anyone breaking the law during the stayaway.

The stayaway is understood to have been high on the agenda of the meeting between President F W de Klerk and Mr Mandela in Pretoria on Saturday.

Yesterday, Mr Mandela told a Diwali celebration in Durban that the "demonstrations will be peaceful and we have no intention whatsoever of interfering with those individuals who want to go to work".

Cosatu said in its statement that numerous irresponsible statements had been made in the past few days, creating the impression that violence and conflict would be the order of the day.

While those opposed to the planned action had every right to dis-

To page 5

From page 1

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Vat strike

CT 4/11/91

agree with the protests, they had no right to manufacture an atmosphere of fear and hysteria, it added.

Cosatu said it had issued guidelines to ensure that the action would be peaceful and free of intimidation.

It accused Mr Kriel of hardline and provocative statements which left the "clear impression that there was a securocrats cabal in the government determined to provoke confrontation".

"Instead of acting against peaceful marches, the Minister should be acting against those attempting to foment conflict on the days of the general strike," Cosatu said.

It repeated its challenge to Mr Kriel to arrest people engaged in violence or intimidation.

On Friday, police lodged a complaint with the National Peace Committee, claiming that Cosatu was infringing the National Peace Accord by planning marches without the necessary permission.

National Peace Committee chairman Mr John Hall appealed to signatories to keep to the letter and spirit of the Accord.

Police reported that seven people had been killed on the Reef in the run-up to the strike at the weekend, but said townships were quiet yesterday.

The ANC linked some of the unrest to attempts to undermine the strike.

Captain Kotze said yesterday that police had been tipped off that ambushes would be set for members in townships during the strike.

He pointed to the death of a policeman in a hail of gunfire on the Reef on Saturday as evidence that the tensions surrounding the strike had already led to violence.

● About 300 people marched through central Johannesburg on Saturday to present an anti-VAT memorandum to the deputy Receiver of Revenue, Mr Jan Labuschagne.

From page 1

In Cape Town, about 50% of the labour force stayed away, with the greatest support for the strike coming from unionised, less-skilled African workers. About 75% of clothing workers reported for work.

Cape Town City Council — the largest single employer in the city — reported that virtually half of its 15 800 staff members were absent.

The Cosatu-Nactu-ANC statement claimed the stayaway amounted to a "devastating vote of no confidence in this government".

It said support for the general strike had been between 80 and 100% in the major industrial complexes of the PWV, Natal and Eastern Cape areas.

The statement dismissed charges that matriculation examinations would be disrupted by the strike, claiming that more than 90% of matrics turned up at school. This was confirmed by education authorities.

CT 5/11/91

However, the weekend violence cast a cloud over yesterday's stayaway.

The Anglo American Corporation, which owns the mine, alleges the violence broke out when some miners tried to enforce the stayaway.

National Union of Mineworkers spokesman Mr Jerry Majatladi contested this, however, saying the victims had been attacked on Sunday night as they were returning from an anti-Vat rally nearby.

The stayaway was most effective on the Witwatersrand, in the Eastern Cape and in Durban, where both Cosatu and SA Chamber of Business reported between 80% and 100% absenteeism.

According to Sacob, support was weakest in the Western Cape, Free State goldfields and Northern Natal, where an estimated 20% to 40% of the workforce was absent. Between two-thirds and three-quarters of the workforce in Pretoria, Bloemfontein and Maritzburg stayed away from work, according to the Sacob figures.

Cosatu general secretary Mr Jay Naidoo called the general strike an "overwhelming success", and said more than 3,5-million workers had supported it.

All companies and organisations surveyed said that they would implement a policy of no work, no pay, but would not take disciplinary action against strikers.

Anti-VAT marchers were arrested in Johannesburg, Upington, Kuruman, Stutterheim and Jan Kempdorp. Bloemfontein police used teargas to disperse an illegal march by about 70 people.

Mr Naidoo said failure by government to freeze further unilateral economic restructuring, or to accept the need for an economic negotiating forum, would lead Cosatu to transform its campaign into "a generalised programme of defiance and mass action".

Yesterday in Natal, two people going to work were murdered. The killings are believed to be related to the strike. A domestic servant, Ms Phumuzile Mkhize, 27, was stabbed on a farm near Richmond and at Mfakathini, Edendale, Mr Walter Ndlovu, 39, was stabbed to death as he walked to work at a butchery.

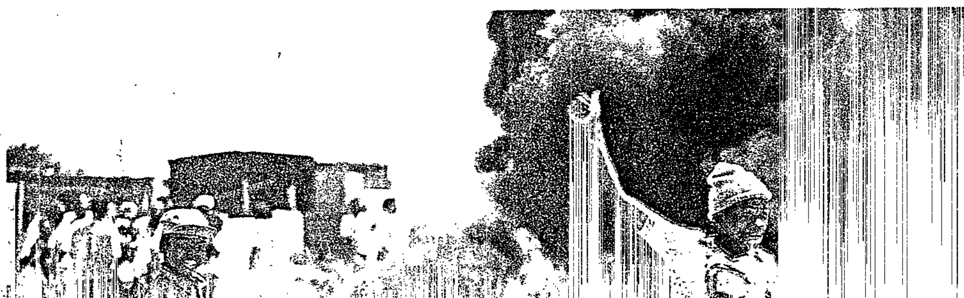
At Khayelitsha two men were killed and four people were wounded when gunmen fired on them.

In other attacks, a new dam at Schweizer-Reneke in the Western Transvaal was damaged in an explosion on Monday morning. — Staff Reporter, Own Correspondent and Sapa

MARCHING ... The front row of some 2 500 anti-VAT protesters march through Guguletu yesterday to the offices of the Ikapa Town Council, where a memorandum was handed over to chief executive officer Mr Kobus Olivier.

5 NOV 1991

Shutdown



3,5 m in SA's biggest

Further anti-tax actions to follow?

320

CT 6/11/91

Staff Reporter

FURTHER mass action could follow this week's national strike if anti-VAT demands are not met, regional ANC publicity secretary Mr Moziwonke Jacobs warned yesterday.

Speaking shortly after a march in Khayelitsha, Mr Jacobs said further action could not be ruled out.

Earlier, about 20 000 people joined an ANC-organised march. Marchers presented a memorandum to the Lingelethu West Town Council demanding that it does not apply VAT on service charges.

ANC national executive committee member Mr Dullah Omar demanded that the council respond within two days.

There was a moment of tension when police interrupted the marchers, because they were apparently using the wrong route.

Negotiations between police and ANC leaders were overruled by the marchers, and police conceded to the "new" route but kept a watchful eye.

ARG 6/11/91

Cosatu threatens defiance

That will be only option — Naidoo

Staff Reporters

THE Congress of South African Trade Unions has threatened "mass action and generalised defiance" if the government ignores the message of the two-day general strike protesting against value-added tax.

Cosatu secretary-general Mr Jay Naidoo said in an interview that the trade union federation was ready to enter into negotiations immediately.

But mass action and generalised defiance would follow if Cosatu was convinced that government talk of "negotiations and change mean abolutely nothing".

Asked to define generalised defiance, he said: "I would not like to go into that now. But that will be our only option — to go back to the traditional ways of defiance."

Cosatu was not setting government a time limit in which to respond, he said. "As soon as the government responds in good faith we can produce the environment in which to hold an all-party conference."

Mr Naidoo said that one of the biggest successes of the stayaway was "that our actions were disciplined, peaceful and involved so many people". The support for the strike had been a "vote of no confidence in government".

He said Cosatu was committed to bona fide negotiations.

"Our conception of negotiations differs from that of government. They want to delay economic issues and make them a subject for a working group at an all-party conference. This is unacceptable to us because political change must be accompanied by economic transformation."

Unless the democratic movement delivered not only votes, but houses, better education and health facilities, "political change will mean little to our people."

An estimated 3,5 million people stayed away from work on Monday and absenteeism, varying from region to region, ranged from 100 percent to 20 percent.

SA Chamber of Business economist Mr Keith Lockwood said it was difficult to quantify the cost of the strike to the economy as it was possible for business to make up the losses in time.

Picture: OBED ZILWA, The Argus.

AWAY WITH VAT: Protest marchers in Khayelitsha where about 20 000 people took part in an anti-VAT demonstration.

"The economy di[illegible] not close down for two days. Every business wo[illegible] have been hit in a different way. The real loss[illegible]s in worker salaries and job opportunities."

A picket in Cap[illegible]own yesterday was disrupted when demons[illegible]ators found the police waiting for them at the Inter[illegible] Revenue Department offices.

About 70 demonstrators were on their way to hand over a petition when they were confronted by police who confiscated their banners and placards.

They were escorted to the regional offices of the National Council of Trade Unions in Corporation Street where they were told to disperse.

But the group, comprising members of Nactu, the Workers' Organisation for Socialist Action, the PAC and the Pan Africanist Student Organisation, occupied the building.

They left about two hours later after negotiations with the police.

More than 20 000 people marched in Khayelitsha in protest against VAT.

Soon after the march began, police blocked the road with four vehicles because the "marchers are not following the right route".

Tension built up as the community leaders, including the secretary of the Western Cape Civic Association, Mr Roseberry Sonto, and civil rights lawyer Mr Dullah Omar negotiated with the police.

The police allowed the march to proceed after the leaders told them the people "are refusing to turn back".

Tension ran high again as the marchers reached the Lingelethu Town Council offices which were shielded by a row of Casspir vehicles manned by police.

Along Zola Budd Drive, where scores of houses have been destroyed in taxi conflict, marshals told residents "to go inside or join the people's march".

At the gate of the town council headquarters, Mr Omar handed a petition protesting against VAT on municipal services to town clerk Mr Graham Lawrence.

Mr Lawerence promised to reply today and expressed regret about how VAT was implemented.

About 500 people marched to the town council offices in Mfuleni, Kuils River, to protest against VAT and living conditions.

A memorandum was handed to the town clerk, Mr Wilfrid Murray, who said he would respond.

Mfuleni ANC vice-chairman Mr Oliver Nqubelani said more houses were also needed because there were many squatters in the township.

"VAT is a good system, but the goverment should have consulted us on its implementation," he said.

Picture: LEON MÜLLER, The Argus.

SIT-IN: Anti-VAT demonstraters occupy Atlantic House in Corporation Street in central Cape Town after police turned them away from the Internal Revenue offices. They left after a two-hour sit-in.

VAT blamed for liquidations

BI Day 6/11/91 SUSAN RUSSELL 320

THE imposition of VAT was partly ~~responsible for the~~ financial state of four companies in the United Storage Industries (USI) group, leading to their provisional liquidation yesterday, the Rand Supreme Court was told.

Access Storage Equipment (Natal) Pty Ltd, Access Storage Equipment Pty Ltd, United Storage Industries Pty Ltd and Conveyall Pty Ltd were provisionally liquidated in terms of an order granted by Mr Justice D van Zyl. Their liabilities exceeded assets by about R1,5m.

The other seven companies in the USI group were provisionally liquidated in September.

Financial director of the four companies Derek Fingleson, who submitted an affidavit in support of the application, said liquidation was necessary because the group's bankers had withdrawn all facilities.

He said the reasons for the group's financial situation were the general slowdown of the economy and the reluctance of customers to place orders prior to the imposition of VAT.

"As a result of the imposition of VAT, customers delayed purchasing material (from the companies) until the tax had been introduced," he said.

Fingleson said the companies had been unable to generate sufficient turnover to maintain their cash flow and pay creditors.

Nactu criticises Cosatu over its anti-VAT role

SHARON SOROUR (320)
Labour Reporter ARG 7/11/91

SOUTH Africa's second largest union federation, Nactu, has criticised Cosatu's role in the campaign against Value-added Tax which led to the two-day stayaway involving 3,5-million people this week.

In a statement by Nactu's Western Cape region, the federation called on the trade union movement and its "allies" to mobilise the working class for further mass action until VAT was scrapped.

Nactu congratulated its members for the "successful stayaway", saying they had played a "crucial role" in the Western Cape where stayaways had been poorly supported in the past.

"We also demand the convening of a constituent assembly, based on 'one man, one vote' and that the government resign," said Nactu regional spokesman Mr Ben Petersen.

In criticising Cosatu's role in the stayaway, Nactu said Cosatu wanted to give the impression that it alone was responsible for the success of the stayaway.

Mr Petersen said Nactu was "unhappy" with Cosatu's role in the VAT co-ordinating committee and Nactu was "busy reviewing" its participation.

Nactu was also "dismayed" that Cosatu did not consult Nactu before making important decisions, like setting up joint monitoring structures with the police on the Peace Accord, which Nactu rejected.

"Cosatu then expects Nactu to participate within structures it rejects, without any consultation," Mr Petersen said.

Loud and clear signal: 'Back down on VAT'

South 7/11-13/11/91

(320)

By Heather Robertson and Thoraya Pandy

LEADERS of Vatcom, the anti-Vat action committee, were thrilled at the surprise outcome of nearly seventy percent support for the two-day stayaway in the Western Cape.

Cosatu spokesperson Mr Bangumzi Sifingo said the government's claim of having won over the coloured community has been proven to be false.

He hailed the stayaway as a major victory for democracy and a "clear indication and mandate" for the government to back down on its hardline position on value added tax (VAT).

The fact that few cases of intimidation or violence were reported in the Cape is seen as a triumph for the region which has shown as little as 10 percent support for previous stayaways.

Vatcom's statistics are supported by City Tramways who reported that use of buses was almost nil in African areas and about 10 percent in coloured areas. Spoornet reported that use of trains was 10 percent in African areas and 50 percent in coloured areas.

A SOUTH survey of support from various sources revealed the following:

- Seventy-five percent of clothing workers in the Western Cape supported the stayaway to the delight of Sactwu officials who anticipated a poorer response.
- South African Municipal Workers Union officials reported an 80 percent support from their members, while the Cape Town City Council reported a 50 percent stayaway of employees.
- Construction Workers Union officials report an 80-90 percent stayaway.
- Transport and General Workers Union officials report a 70 percent stayaway.
- Chemical Workers Industrial Union reports that 50 percent of members stayed away.
- Rural areas showed the highest support with a 95 percent absenteeism in Worcester and 100 percent in Upington.

Despite these successes the stayaway has been dampened by disclosures of disciplinary action taken against workers by certain companies.

On Wednesday, Cosatu officials received calls from members claiming that companies were threatening dismissal.

"While we expected that there would be some disciplinary action, we cannot gauge the number of cases at this stage yet," said Mr Nosey Pieterse, Cosatu Western Cape treasurer.

The Cape Town Chamber of Commerce has stated that it is the prerogative of companies to take action against workers who stayed away.

Mr Pieterse said: "The stayaway succeeded because of the wide-scale public opposition to the tax which has already been felt with the increase in bread and basic foodstuffs."

He said the enormous amount of legwork that went into educational programmes around VAT in unions and community organisations also contributed.

"It is our experience in the labour movement that it is far easier to mobilise workers around bread and butter issues like wage demands and VAT than broader political issues," he said.

Mr Ben Petersen, spokesperson for the National Council of Trade Unions (Nactu), attributed the success of the stayaway to Nactu for the first time having the structures to mobilise workers.

He said the abolition of the Western Cape as a coloured labour preference area had led to an influx of African workers who are more militant.

Mr Shaheed Teladia, of Sactwu, said the positive response from clothing workers was the fruits of earlier protests.

He said while the stayaway had been a resounding success for Sactwu, it had to be noted that workers had made a great sacrifice by losing two days of their pay.

Vatcom warned of further action if the government continued to ignore the demands.

Cosatu together with the ANC, SACP, Nactu and other organisations has called for the setting up of a macro-economic forum, including all major players to negotiate on major economic issues like fiscal policy.

'Stayaway cost will fall on workers'

320 CT 8/11/91

By AUDREY D'ANGELO
Business Editor

THE cost of this week's stayaway "will fall squarely on the shoulders of the workers with around R200m in wages being lost", SA Chamber of Business (Sacob) economists commented yesterday.

And they warned that it could lead to a further loss of jobs by encouraging the swing to automation.

"In general production levels were only marginally affected," said Sacob chief economist Ben van Rensburg.

"There is a danger that, given the current stagnant economic conditions being experienced, manufacturers will continue to re-evaluate their labour needs and the prospect of further disruptions could cause them to exploit opportunities to replace men with machines.

"On this basis, Sacob must question whether the strike was indeed the success its organisers make it out to be."

Sacob's **business confidence index** for October shows a further slight drop, to 88%, from 88,2% in September. This compares with an average of 92,3% in 1990.

Van Rensburg points out that the index has not 'receded to the low ebb which was reached in 1985."

But, he says, "the prolonged nature of the recession, in combination with other factors, has resulted in very high unemployment accompanied by high rates of inflation."

The business mood continues to be "buffeted by conflicting messages".

"The ambiguous nature of the current economic climate is well illustrated by the fact that while retail sales have declined in real terms manufacturing output has risen."

Such trends, Van Rensburg says, are "fairly common around the turning point of business cycles, because of the necessary lag between production and consumption."

He considers the failure to allow for "bracket creep" in the last budget is a major reason for falling retail sales.

"This would have started to impact negatively on the disposable income of consumers since June or July and explains in part the real declines in retail sales since then.

"Obviously, high interest rates and rising unemployment over a prolonged period have also played a significant role."

He expects a steady rise in SA's export earnings in coming months, as economies overseas improve.

"It is also to be expected that funds set aside for socio-economic uplift-ment and poverty relief will start to flow into the system now, resulting in a stabilising and even stimulating effect on the economy."

VAT fails to deliver upswing in spending

By Sven Lünsche (320) Star 8/11/91

Recent political developments have delayed the upswing in spending, which was expected to follow the introduction of VAT last month.

SA Chamber of Business (Sacob) economist Keith Lockwood says the chamber's monthly survey of the manufacturing industry reveals that the expected upsurge in new orders for both consumer and capital goods did not materialise in October.

"Purchasers of capital goods, who were expected to take advantage of the cost-lowering effect of full input credits on such purchases, have been discouraged by recent economic and political developments," Mr Lockwood said yesterday.

"As a result, many capital expansion projects have temporarily been shelved."

On the retail front, he said, the recent decline in sales had given rise to a reluctance on the part of retailers to place new orders, and to stock up for the festive season.

Sacob forecasts that retail Christmas sales in November and December this year will fall in real terms by almost five percent, compared with the same period last year.

Sales of R17 billion are predicted for the two months, representing an increase of nine percent in nominal terms, but a decline of 4,8 percent in real terms.

Over the past two years real Christmas sales have risen by one percent each year. Retail sales over the Christmas period constitute roughly 22 percent of total annual sales.

Recent poor results by major retailers underline the slump in sales.

Even companies that have for so long seemed to be immune to ravages are now feeling the effects of an economy that seems to be grinding to a halt.

Last week Edgars produced very sluggish results for the six months to September.

The real damage to the group's performance was apparently done in the three months to end-September when there was no volume growth.

September, in particular, proved to be a disastrous month, with few signs of spending in any sector of the clothing market.

It was the same story at CNA Gallo. A sluggish six-month period was knocked for six by a September that just didn't happen.

Indications are that next week's results from SAB will reveal a similar grim picture at its beer division.

Analysts say this is particularly distressing because beer sales traditionally hold up well in trying economic times.

Retailers who have reported for the six months to September are pessimistic about Christmas.

Cost savings

They see little excitement in terms of sales growth and only the opportunity to make some cost savings by reducing stock levels.

Looking further ahead, however, Sacob says manufacturers are planning to step up their capital expenditure programmes in the next 12 months.

"The survey shows that a significant number of industrialists are planning to increase their real capital expenditure — both to maintain existing capacity and to create new capacity," Mr Lockwood said.

Spending on wear and tear and on new capacity are forecast to rise by 10 percent each, the survey shows.

Mr Lockwood said it was doubtful, however, whether the higher capital programmes would boost employment of either skilled or unskilled labour in manufacturing.

To the contrary. In the next 12 months the industry expected to lay off 15 percent of its unskilled workforce and up to five percent of its skilled labour.

Sacob chief economist Dr Ben van Rensburg said that while this reflected the need for companies to invest in new technology, it also showed the concern of businessmen about the impact of industrial action, such as this week's stayaway.

Recent political and labour developments had also had an adverse impact on business confidence.

Sacob's Business Confidence Index in October declined slighly to 88 points from 88,2 points in September.

Dr van Rensburg said business confidence had been knocked by the uncertain political and economic climate.

"While there are no signs to suggest the recession is deepening, there has been no marked improvement either."

VALUE-ADDED TAX (320)

Exports to BLSN

FM 8/11/91

Revenue has issued a practice note (No 8) which authorises — subject to certain conditions — the zero-rating of goods bought in SA, for export to certain neighbouring states, but delivered locally. The concessions apply to goods sold to purchasers carrying on an enterprise in Botswana, Lesotho, Swaziland and Namibia (the BLSN states). Zimbabwe is a notable exclusion (possibly because it is outside the Customs Union).

In the case of "nonregistrable goods," the purchaser must provide proof he is carrying on an enterprise there, in the form of a letterhead, trading licence or order form. In the case of "registrable goods" such as a motor car, it is not a requirement that the purchaser carries on an enterprise, but merely that he is ordinarily resident there.

Deloitte Pim Goldby national tax director Des Kruger explains that the VAT Act defines goods as having been exported if they are consigned or delivered, by the vendor, to the purchaser at an address in an "export

Cont →

FM 8/11/91 (320)

country" — that is any country excepting SA and the TBVC states.

However, in the case of the special concession, the vendor may either standard-rate the goods and refund the VAT against proof that they have been exported or zero-rate them if he is satisfied the purchaser has given proof of residence in a BLSN state or of carrying on an enterprise there. If the vendor zero-rates the goods without having the prescribed proof (eg the tax invoice stamped at a border post), he will be liable for VAT.

There would be a need for exchange control permission to remit VAT refunds to Botswana, which is outside the common monetary area. For the purchase of a luxury car, the amount could run to tens of thousands of rands.

Reserve Bank GM John Postmus says the issue has not yet been brought to the attention of the exchange control division of the Bank. Conceptually, he sees no objection to authorised dealers being permitted to approve such transfers, but there would have to be documentation convincing enough to minimise the risk that a purported VAT refund is a ruse to evade exchange controls.

Kessel Feinstein tax partner Ernest Mazansky points out that the definition of "exported," in section 1 of the VAT Act, requires the Minister of Finance to approve an "export incentive scheme," and certain other conditions should be met. Instead, Revenue has simply issued a practice note authorising a temporary scheme covering the BLNS states until November 30 only.

Not only have the formalities not yet been complied with but the appropriate application form is not yet available. The practice note advises vendors to use a comparable GST form known as VB 52.

A related matter also awaits attention from Revenue, says Mazansky. Many businesses are awaiting the promulgation of export incentive schemes which will enable them to zero-rate sales to foreign tourists. Until this is done, all sales to tourists will continue to be standard-rated. ■

Two days that stopped a nation's heartbeat

THE BIG STAYAWAY: THE UNIONS ORGANISED THREE STAYAWAYS IN THE PAST FEW MONTHS. THE FIRST TWO FLOPPED. THIS WEEK'S WAS A TRIUMPH EVEN UNION OPPONENTS HAD TO ACKNOWL

For two days this week, millions of workers stayed home. The tax system they objected to is unlikely to disappear in response, but there is no denying that the balance of political power has shifted ... permanently. The government is not likely to underestimate the unions again.

By DREW FORREST

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IF the government used this week's VAT stayaway to "test the water" — as the Congress of South African Trade Unions chief, Jay Naidoo, maintains — it got its fingers badly burnt.

After the dust has settled, the claims and counter-claims about numbers staying home, about intimidation, the hard fact remains — the stayaway worked. And it worked on a uniquely large scale against the unfavourable background of surging violence and economic hardship.

Nor can the state easily dismiss workers' response as that of *staakvee* stampeding to their union masters' voice: the constituent assembly stayaway early this year elicited a patchy turnout, while the recent regional strike over violence on the Reef was an outright failure.

Appealing directly to people's pockets and coinciding with political transition, when the government's right to rule is under unprecedented fire, the VAT campaign has clearly struck a responsive chord.

And although the stayaway is most unlikely to force immediate changes in the tax system, it may have permanently changed South Africa's political landscape and balance of power. "There'll be no more government unilateralism on any issue," commented one business leader this week.

The VAT campaign has served first and foremost to assert Cosatu's independence from its political allies and determination to play an independent role in dealings with the state, particularly in promoting a worker agenda.

After the unbanning of the African National Congress, the unions ceded pride of place in the political arena to the ANC, but became increasingly restive about the movement's "top-down" political style.

The charge was that congress politicians had not understood the need to "relate negotiations to a base, to back negotiations with pressure", observes *SA Labour Bulletin* editor Karl von Holdt.

By narrowing the constitutional process to technical committee hearings and discussions between leaders, the ANC was seen to be falling in with government strategy, which was to "demobilise" the left and cut it off from its real source of power.

"This is the big shift signalled by the stayaway," Von Holdt said. "For the first time since February 2 last year, the negotiating process is drawing in ordinary people through mass organisations."

What the labour movement has forced to centre stage through the VAT campaign and the stayaway is its characteristic preoccupation with economic and social policy, issues which

direct role in economic and political restructuring were unacceptable and would be resisted. This is not the view of the whole cabinet — Manpower Minister Eli Louw, for example, is known to be pressing for Cosatu involvement in economic policy formulation — and is unlikely to prevail.

Although it may not be a direct participant, Cosatu is certain to be involved in some way in the economic commission set up by the impending Multiparty Conference. And the

have been low on the negotiating agenda.

In effect, it is underscoring the fact that without the material upliftment of South Africa's impoverished millions there can be no meaningful political settlement — and that economic change is as centrally important as the extension of political rights and freedoms.

Law and Order Minister Hernus Kriel was quoted before the stayaway as saying that Cosatu demands for a

stayaway has lent new urgency to business moves to broker a standing macro-economic negotiating forum for labour, political parties, business and the state.

Of equal significance for South Africa's future is the VAT campaign's role in strengthening "organs of civil society" — organised pressure groups outside the state and political parties — which Cosatu sees as a vital prop of a democratic order.

"Civil society will have a huge impact on transition and on the future democratic South Africa," Cosatu's Naidoo remarked in a recent *SA Labour Bulletin* article. "The National Party ... strategy is to deal only with political parties through the forum of the All-Party Congress."

Drawing together Cosatu and its historic ideological and organising rival, the National Council of Trade Unions, the campaign has served to forge new links with representatives of white labour such as the Federation of Salaried Staff Associations (Fedsal) and the Confederation of Metal and Building Unions.

The two-day doctors' "strike" over the levying of VAT on medical services is further testament to the campaign's broad appeal, and dovetails with the Cosatu national congress decision to broaden its organising focus to skilled, technical and professional workers.

Although white or predominantly white unions did not join the stayaway, saying they were constitutionally precluded from doing so, they appear not to have criticised it.

The Cosatu-led Co-ordinating Committee on VAT has also attracted an unprecedentedly wide range of non-union interest groups, from civic

PTO.

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The Cosatu-led Co-ordinating Committee on VAT has also attracted an unprecedentedly wide range of non-union interest groups, from civic

PTO.

associations and political parties to welfare bodies. Many of these are "apolitical", but have remained committee members despite the stayaway.

Although the VAT campaign and stayaway have been spearheaded by Cosatu, and entailed a dramatic reversal of its past relationship with the ANC, it would be a mistake to read this as a deliberate union move to upstage and seize the reins from its political ally. "Our engine for intervening in negotiation and transition is both the political organisations and the organisations of civil society," Naidoo stresses in the *Labour Bulletin* interview.

W/mail 8/11 - 14/11/91

Commentators suggest that the ANC's low-key role reflects both the push to draw in the widest possible front of organisations — the Pan Africanist Congress and Azapo are part of the co-ordinating committee and backed the stay-at-home — and the fact that it must deal with a motley constituency, including big business.

It is understood that the ANC's president, Nelson Mandela, and its secretary-general, Cyril Ramaphosa, wholeheartedly supported the stayaway.

The challenge now facing the labour movement is how to sustain the momentum it has generated. Like a rocket-burst, the stayaway may overshadow and diminish the impact of other, less dramatic forms of mass protest.

And it may prove more difficult than Cosatu imagines to hold together the rag-bag of organisations in the anti-VAT front.

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The sensitivities of smaller worker bodies may be a factor. Last week a front of non-aligned black unions announced that it was pulling out of various VAT structures in protest against Cosatu's "big-federation chauvinism". There are also hints that Nactu's Western Cape region is unhappy with the co-ordinating committee, complaining in a statement — subsequently repudiated by the head office — of lack of Cosatu consultation on key decisions.

Von Holdt points out that when controversial Labour Relations Act amendments were passed in 1988, the unions offered no resistance because they had shot their bolt during an earlier stayaway. In part, this was because their energies had been channelled into fighting mass stayaway dismissals — a potential threat in the current action.

Cosatu has threatened a continuing protest campaign into the new year, but a telling programme of action will be no easy matter.

Further national stayaways will be hard to mount in the short term and could damage the fragile anti-VAT coalition. The only other measure mooted to date, a push against PAYE deductions, would be fraught with practical difficulties.

"The unions will have to find creative ways of keeping up the pressure and tabling and pushing their demands in various forums," Von Holdt remarks. "The lesson of '88 is that once-off action is not enough."

W/mail 8/11 - 14/11/91

As costly as a typical long weekend

THE immediate damage to the economy from the two-day general stayaway is not as great as has been trumpeted.

The cost is not even as high as that of one of South Africa's Friday-to-Monday long weekends, when almost everyone, black and white, stays away from work for two days.

Law and Order Minister Hernus Kriel was quoted as saying the stayaway could cost R2,5-billion.

"That is a complete overstatement of the cost," says South African Chamber of Business economist Ben van Rensburg.

He says that figures produced by the National Productivity Institute put the cost of a total stayaway at R500-million to R700-million.

This would give a cost of R1,4-billion at the most. But, Van Rensburg adds, the stayaway was not total.

Fifty-eight percent of the entire South African workforce stayed away from work on Monday, an estimate of at least 3,7-million workers, according to a survey by the Labour Monitoring Group and Markinor.

Since there are no accurate figures for unemployment, the number of people actually formally employed is a guess. Hence the percentage of people, already an estimate, cannot accurately be translated into the number of those who stayed away.

The actual loss to the economy because of the stayaway is also difficult to determine:

- Lost production may be made up through overtime.
- Employers had advance warning, and could have built up stock in anticipation of the stayaway.
- Some areas of business were affected more than others. The stayaway did not in all cases equal a complete shutdown of business. The mining industry was let off lightly for instance, with over 80 percent attendance on both days.
- Production in many cases continued, though hampered by lack of staff.

Standard Bank chief economist Nico Czypionka believes it is impossible to arrive at an exact figure, but that the stayaway was symbolic more than anything.

"A lot of major sectors just kept working, like the mining sector. Similarly, the effect on many service sectors was limited, because operations continued with skeleton staff."

It is said some manufacturers have made arrangements with workers to make up lost production. If this is true the economic impact may be minimal, guesses Czypionka.

Midland Chamber of Industries managing director Brian Matthew, commenting on the impact of the stayaway on the Eastern Cape, said most companies were in a fairly good stock position and would still be able to supply their products to dealers and outlets.

While the economic impact may have been overstated, the R200-million figure being bandied about as the loss to the workforce must also be put in perspective. It amounts only to two days' wages, after all, and a number of companies allowed workers to have the two days counted as part of their leave period.

Reg Rumney

Fears for economy after Vat strike

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ARGT 9/11/91

DUMA GQUBULE
Weekend Argus Correspondent

JOHANNESBURG. — The future of the economy hangs in the balance following this week's strike — the biggest in the country's history.

There is the possibility of a slide into economic paralysis. But this could be averted if the major players reached an agreement on the economy similar to the peace accord and the compromise reached between the country's sporting bodies.

After the Vat strike — which was really about who runs the economy — political and economic analysts said it was doubtful whether the government would be able to proceed with major restructuring of the economy without wide-ranging consultations with groups like Cosatu, Nactu and the ANC.

This situation, of a government that cannot govern, would be close to economic paralysis, they said.

"It would mean leaving the economy on hold for two to five years — with no major restructuring to create jobs and growth — until some political settlement was reached. This would be disastrous for the economy," labour consultant Pat Stone said.

"There would be a lack of confidence in the economy and very little new investment because no one knew where the economy was going," he said.

However, observers said although the government would not want to be seen to be backing down to the unions, wide-ranging consultation on the economy was likely in the future.

"As is the case in all areas of South African society we are entering into a different ball-game," Frankel Max Pollak Vinderine economist Mike Brown said.

"There will be more input from labour and other extra-parliamentary organisations when it comes to economic policy formulation."

In the horse-trading that negotiations on the economy would inevitably involve, Mr Brown said all sides would have to make compromises.

"For example, if the government wanted to reduce the company tax rate to 40 percent, they could concede on, say, ANC and Cosatu demands for financial institutions to set aside a certain percentage of their cash flows to housing projects. Government could also concede on demands for land taxes," he said.

And this process could have unintended benefits: "With Cosatu so busy negotiating the country's economic future, they would have less time to organise stayaways, as is the case with the ANC," Mr Brown said.

Wits University's Professor Tom Lodge was surprised the government had not seized the chance to run the economy through consensus.

Several leaders of organised business were firmly behind union demands for an economic forum to formulate policy.

Some business leaders fear that the ANC, with its limited resources so deeply immersed in political negotiations, would prefer to let the negotiations on the economy wait until after a political settlement was reached.

Others wondered what price the ANC was prepared to pay for labour support in putting pressure on the government for demands like an interim government.

"There is a possibility the ANC will not want to see labour having such a prominent position in the economic debate," Mr Stone said.

"In the rest of Africa there has been a tendency for governments to try to dilute the influence of labour movements because of immediate economic pressures."

Anti-VAT stayaway was strikingly placid

LAST week's anti-VAT stoppage was remarkable for the low level of conflict and violence associated with it, and in this respect it was a positive manifestation of the capacity of the National Peace Accord to prevent political rivalries from causing bloodshed.

Participating organisations clearly went to a lot of trouble to instil the peace ethic in their supporters and, while some bloody clashes did occur, the two-day protest involving millions of people was strikingly placid.

But it remains deeply questionable whether anything positive has or will emerge from what, in economic and labour relations terms, was an extremely costly venture.

Post-strike rumblings can be expected to continue for some time, with tactical disputes of one kind or another going on between the bosses and the bossed.

The government may well have been impressed by the turnout, but will it alter VAT as a result?

Essentially, the stayaway was a political struggle and it would be surprising if the


Michael Morris


Dennis Cruywagen

A weekly analysis of the emergent new South Africa

government were to see it in any other terms. From this perspective, it would need to balance the appearance of being caring on the one hand with the appearance of being resolute on the other.

Cosatu and other members of the pro-stoppage lobby have really only had to appear resolute.

Interestingly, Cosatu will have sent the ANC a powerful signal about the strength and importance of the union constituency.

But, in the end, how wise is it to use the economy as an instrument of political contention?

Prophets of doom invariably warn that if unions had their way, there would be ultimately nothing left to haggle over.

That may be arguable.

But what does seem clear is that at a time when South Africa has such desperate material needs, a strategy that disarms, rather than empowers, economically must be faulted.

Is a stayaway or strike really the most powerful weapon in the union arsenal?

Chiluba trading openly

AS fond as one may have grown of former Zambian leader Dr Kenneth Kaunda, his departure has been like a breath of fresh air.

Refreshing it is to hear that the new incumbent, President Frederick Chiluba, has said Zambia will now trade openly, rather than secretly, with South Africa.

"We don't want to operate like the United National Independence Party government which conducted business with Pretoria at night, but said to the contrary in the day," he told a press conference.

The flood of South African goods in Zambian shops, he noted, "is something tangible you cannot hide".

Zambia's new President has an uphill slog ahead of him, but at least he's honest.

Rice, Rushdie together again

TOMORROW, in Calcutta, Clive Rice will lead the first official South African cricket team on to foreign soil in more than 20 years to face India, the first country to have imposed sanctions on Pretoria.

It will be an historic moment and one the goverment-supporting press will probably savour. It will no doubt be forgotten that it was the National Party's warped racial policies which turned South Africa into the world's polecat. (320) ARG 9/11/91

It is also questionable whether we'll be reminded of the important role played by the ANC's Steve Tshwete — a man in a class of his own as a sports facilitator — and his organisation in re-establishing South Africa's international sporting credentials.

Inflation eats into benefits of VAT

S Times 10/11/91.

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By CAS St LEGER

AGAINST all predictions, value added tax has tended to lower prices — but the benefit to consumers is already being eaten away by general inflation.

The first Vatwatch survey since the introduction of VAT has shown prices have risen steeply over the past three months.

Prices decreased by an average of only 0,29 percent countrywide since VAT was introduced on September 30. But, during the previous two months, prices shot up more than two percent a month.

Vatwatch chairman Professor Louise Tager said: "This is a disappointing trend, indicating that despite VAT being three percent lower than GST and the fact that the demise of GST meant considerable savings for the business sector, there was hardly any decrease in October.

"In fact, there was a cumulative increase of 4,53 percent in prices over three months."

Zero

However, at independent stores in black towns October prices decreased by 3,9 percent. In Port Elizabeth, prices decreased by 2,9 percent and in Johannesburg by 2,6 percent.

Elsewhere, however, October prices ranged from a zero increase in East London to 2,2 percent on the East Rand.

The trend came to light in the fourth comprehensive, countrywide market survey conducted on behalf of Vatwatch.

The results of the survey show that despite the lowering of the tax rate from 13 percent GST to 10 percent VAT, prices of goods and services dropped by only 0,29 percent.

However, this price reduction came off a base that had been highly inflated in the two months before the introduction of VAT. At the end of August, prices were 2,56 percent higher than at the end of July.

At the end of September — just before the introduction of VAT — prices had risen another 2,26 percent.

Vatwatch said the price reduction of 0,29 percent in October appeared to indicate the inflationary trend of the previous months was continuing, off-setting any savings that might have been derived from the lowering of the tax rate.

Taking into account this price increase trend, as well as the small reduction for October, the net price rise since the end of July has been 4,53 percent.

In the three-month period monitored by Vatwatch, prices increased most steeply in black homelands, at 10,1 percent, followed by independent stores in black towns (8,4 percent), major rural towns (8 percent) and the Durban/Maritzburg area (6,3 percent).

The lowest price increases over the period were recorded at East London (1,2 percent), the Free State Gold Fields (1,4 percent) and in Johannesburg

Consumer price dip 'disappointing'

Staff Reporter Star 11/11/91

Consumer prices decreased by a "disappointing" average of 0,29 percent countrywide last month, despite increases of nearly 5 percent in the two months before VAT was introduced.

This is apparent in the fourth market survey conducted for Vatwatch.

The prices of groceries, shoes, furniture and other goods, as well as electrical repairs, medical and other services, were monitored at 105 outlets in urban and rural areas.

Vatwatch chairman Professor Louise Tager said this was a disappointing trend.

"Despite VAT being 3 percent lower than GST, and despite the fact that the demise of GST meant considerable savings for the business sector, there was hardly any decrease in October and in fact a cumulative increase in prices of 4,35 percent over three months.

"Moreover, this reduction came off a base that had been highly inflated two months before the introduction of VAT.

"At the end of August, prices were 2,56 percent higher than at the end of July.

"At the end of September — just before the introduction of VAT — prices had risen yet another 2,26 percent. The price reduction of 0,29 percent in October appears to indicate that the inflationary trend of the previous months was continuing, thus offsetting any meaningful savings that may have been derived from the lowering of the tax rate," she said.

In the three-month period monitored by Vatwatch thus far, prices increased most steeply in the homelands — 10,1 percent — followed by independent stores in black towns (8,4 percent), major rural towns (8 percent) and the Durban/Maritzburg area.

During October, prices decreased by 3,9 percent at stores in black towns. In Port Elizabeth, prices fell by 2,9 percent — in line with the drop in the tax rate — and in Johannesburg by 2,6 percent.

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Price decline tiny after VAT

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CONSUMER prices following the imposition of VAT last month dropped by less than a third of a percent countrywide, the price monitor Vatwatch said in a statement yesterday. Sowetan 11/11/91

Vatwatch monitored prices of groceries, shoes, furniture and other services at 105 outlets in urban and rural areas, its chairman, Professor Louise Tager, said.

She pointed out that the drop was low considering that the tax rate decreased by three percent - from 13 percent General Sales Tax to 10 percent Value Added Tax.

"Moreover, this price reduction came off a base that had been highly inflated in the two months before the introduction of VAT," she said.

"At the end of August prices were 2,56 percent higher than at the end of July.

"At the end of September - just before the introduction of VAT - prices had risen yet another 2,26 per cent." - *Sapa.*

Vatwatch: Prices down by 0,29%

JOHANNESBURG. — Consumer prices decreased in October by an average of 0,29% countrywide, the price monitor Vatwatch said in a statement yesterday.

The net price rises since the end of July had been 4,5%, Vatwatch chairman Louise Tager said.

Vatwatch monitored prices of groceries, shoes, furniture and other services at 105 outlets in urban and rural areas. The survey was conducted on their behalf by the company Interfact.

She said these latest results indicated that the prices of goods and services had dropped by only 0,29%, despite the lowering of the tax rate by 3% — from 13% General Sales Tax to 10% Value Added Tax.

"Moreover, this price reduction came off a base that had been highly inflated in the two months before VAT."

The 0,29% price reduction appears to indicate the inflationary trend of the previous months was continuing, off-setting any meaningful savings derived from a lower tax rate, she said. — Sapa

Angry doctors may quit Masa

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JOHANNESBURG — The South African Dispensing Practitioners organisation has proposed a mass resignation from the Medical Association of South Africa (Masa) for failing to support it in its fight against VAT on health services. CT 11/11/91

The proposal, made at a meeting in Johannesburg, followed Masa's opposition to the SADP shutting of surgeries on October 28 and 29.

Doctors continue anti-VAT fight

By Brian Sokutu

About 1 000 private practitioners vowed yesterday to sustain protest action against value added tax until the Government zero-rated health services and basic foodstuffs. Star 11|11|91

At a meeting in Johannesburg of the Health Forum of the Co-ordinating Committee on VAT, the doctors resolved to:

- Call an urgent meeting with President de Klerk and Finance Minister
- Refuse to charge their patients VAT. (320)
- Reject a 16 percent increase in medical aid tariffs due next year.
- Refuse to register as VAT vendors.
- Urge the World Medical Association to not admit the Medical Association of South African (Masa) as member.
- Urge all South African doctors to resign from Masa.

The meeting was also marked by a heated debate between the doctors and Masa secretary-general Dr Hendrik Hanekom. Speakers took Dr Hanekom to task over his organisation's failure to pledge solidarity with doctors who closed their surgeries in protest against VAT last month.

Companies attacked over VAT

Sowetan 12/11/91 320

THERE is increasing evidence that companies are pocketing profits made through Value Added Tax, says Vatwatch, the group formed to act as a watchdog over the tax.

At a Press briefing in Johannesburg yesterday, Vatwatch chairman Professor Louise Tager said prices should have decreased since the introduction of VAT because costs to business people had declined but this was not the case for the consumer.

Tager said VAT should not be allowed to become a silent tax and business should be educated regarding the savings that should be passed onto the consumer.

She said according to the Department of Finance about one third of General Sales Tax was paid by business - amounting to about R6 billion - which was the potential saving to the consumer but was still not being passed on.

Throughout the campaign to monitor the introduction of VAT, business and consumers had been preoccupied with the question of the rate of VAT compared with GST.

"While this is obviously important, because a three percent reduction in a tax rate constitutes a meaningful saving, we are becoming increasingly concerned about the ignorance of most people about real savings, namely the elimination of sales tax as a cost being borne by business," Tager said.

She said the highly controversial tax could not be allowed to become a silent tax - as many groups would like to see - before the savings potential of the system was realised by both business and consumers.

Business had in many instances merely increased prices not fully understanding the rebate system with the introduction of VAT.

It was pointed out that some businesses were not aware that tax credits were claimed by way of off-setting the amounts against tax payable and therefore did not need to wait for the authorities to process claims for VAT paid in generating business.

Tager said VAT was not a 10 percent issue and the potential saving - estimated at R6 billion - would be a positive blow to reducing an already high inflation rate.

Giving an example of how business saw the VAT issue, Vatwatch had commissioned a survey on office rentals in the first month of VAT and had found rentals increased by an average of 10,07 percent - landlords had merely added VAT to rentals without first using rebates to reduce the basic rental.

Tager said tenants had offered no resistance and had happily paid the extra 10 percent; knowing this could be claimed as an input tax. The net effect of this could have been less than 10 percent had the VAT system been used correctly, she said. - *Sapa.*

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VAT savings 'not being passed on'

By Paula Fray
Consumer Reporter Star 14/11/91

VAT savings were not being passed on to consumers, either through ignorance or profiteering, an accountant said yesterday.

Kevin Fagan said at a Vatwatch presentation that although VAT did not add to, and in some cases decreased, business costs, there was growing evidence that savings were not being passed on to consumers.

The presentation followed a Vatwatch survey finding that prices had fallen by a mere 0,29 percent last month with a cumulative rise of 4,53 percent in the three months since the end of July.

Vatwatch chairman Professor Louise Tager yesterday issued a warning against increases being accepted willy-nilly. She said the potential savings of VAT were far more substantial than just the difference between the GST rate of 13 percent and the VAT rate of 10 percent.

Co-ordinating Committee on VAT co-ordinator Dr Bernie Fanaroff said yesterday that in the light of statistics, the CCV would ask President de Klerk to reopen negotiations on the new tax.

He said the survey vindicated what the CCV had been saying: "That VAT would be highly inflationary and cost-savings would not be passed on to consumers."

Consumer Union representative on Vatwatch, Anna Boshoff, said the consumer group was very perturbed about the survey results.

Consumer Council spokesman Ina Wilken said that considering VAT was introduced at 3 percent less than GST, business could now benefit from lower production costs and pass on lower prices to consumers.

The National Black Consumer Union made a renewed call for legislation to force businesses to pass on VAT savings. NBCU president Nonia Ramphomane said the survey indicated businesses were not passing on savings to consumers.

● Stayaway just first salvo — Page 19.

Rise in VAT on the cards?

Staff Reporter

VAT may have to be raised.

This was the warning from Department of Finance director-general Dr Gerhard Croeser at a key economic conference in Somerset West yesterday. (320) CT 12/11/91

He said at the Bureau for Economic Research conference that there was scant leeway for raising revenue from other sources to foot the bill for South Africa's increased social commitments in the '90s.

Dr Croeser also mentioned the possibilities of a capital gains tax, a land tax and a minerals tax — but these would be at a low rate.

● Report — Page 9

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VAT may have to be raised — Croeser

CT 12/11/91 (320)

By ARI JACOBSON

THERE is limited room for a decline in taxes in the 1990s — and little leeway for added collections — except raising the current level of VAT, said Department of Finance director general Gerhard Croeser yesterday.

Croeser, speaking on fiscal policies for the decade ahead at the Bureau of Economic Research's conference, said the increase in government expenditure to fund social spending through the 1990s would force taxation to remain high.

Here he pointed to education, housing and medical spending which would occupy the fiscus.

"Also the decline in defence spending has been balanced by the need for greater police spending — so there is not that much take from protective services."

Administration posts are also unlikely to be cutback severely, he said.

Further Croeser said total public debt, which financed the deficit, was a large 16% slice of government's total spending. This placed obvious restrictions on attempts to cut spending and "while the country remains underborrowed abroad — a good signal — we are overborrowed at home."

And yet, Croeser pointed out, this was so even though the government's deficit before borrowing, on average, had remained at the required target of 3% of gross domestic product (GDP).

So those in the ANC that suggest the deficit before borrowing should be 5% of GDP had better do some re-thinking, he said.

Looking at the revenue side, Croeser focused on the limited room for amassing taxes in the future. Mining operations were now contributing 1% of government revenue "while individuals paid more than double that of the corporate sector".

The individual burden could not go higher but corporation tax which, on average, is at 28% is lower than the norm of 35%. "So there is some scope here for increasing taxes."

Looking at the possibility of new taxes Croeser said a capital gains tax, a land tax and a minerals tax were possibilities at a low rate.

But these he said would not generate the sort of revenue required in the 1990's — so increasing VAT may be the only alternative.

Penalties for late VAT payments

LESLEY LAMBERT

THE Inland Revenue Department will charge 18% interest a year on late VAT payments and pay 20% a year if it misses its own deadline for VAT refunds, Inland Revenue tax director Trevor van Heerden said yesterday. B/Day 12/11/91

Vendors who pay by cash or cheque have 25 days to hand over the VAT they have collected to the Receiver of Revenue. If they make the payment by electronic transfer their holding period is extended to the last working day of the month.

The 18% interest penalty becomes effective immediately payment exceeds these deadlines.

Inland Revenue, on the other hand, must make the appropriate VAT refunds 21 days after receipt of a vendor's tax return which is date-stamped on arrival. (320)

Late refunds will include interest at an annual rate of 20%, which is marginally lower than prime and significantly higher than the 14% paid on late income tax refunds.

In another recent development, government legislated last-minute changes to the VAT system by publishing them in last Friday's Government Gazette.

In the majority of cases, the amendments are aimed at providing financial relief to consumers or administrative relief to vendors.

LETTERS

Weak issue over which to strike

Star 12/11/91 (320)

The general strike and doctors' stayaway were called by Cosatu and the ANC ostensibly because of the levy of VAT on essential goods and services. But given the number of exemptions and zero-rated items under the current VAT system, Cosatu and its supporters in the ANC picked a weak issue over which to strike.

Clearly the issue is not whether or not there is a VAT, since VAT replaces a grossly unfair and inefficient sales tax. Small businesses and small consumers were made to pay the lion's share of GST. And a VAT has been adopted in an increasing number of progressive countries, most recently in Kenya and Canada.

An infinitely more plausible explanation for the decision to call a strike is that Cosatu and the ANC wish to flex their economic muscle to prove that they control the economy and that they should dictate economic policy. This has not been articulated clearly. But the VAT debates and strikes have focused attention on the real social issues that need to be addressed' — by means other than a VAT — such as the lack of a national health service and the insufficient welfare net.

The gist of the protest against VAT is that it lacks fairness. Of course an unmodified VAT is fair in the sense that it treats individuals equally and that it treats goods and services neutrally. But VAT is not fair if progressivity is the ultimate tax policy goal.

In order to make a flat rate VAT progressive, so that the wealthy are taxed more and the poor less, exemptions of essential goods and services need to be introduced into the system. The usual candidates for exemption are essential goods such as food, clothing and energy and essential services such as medical services and education. But in order to maintain progressivity, mainly the poor should benefit from an exemption.

The issue becomes muddled if people call for exemption of all medical services, food or energy. It is absurd to think that the Government and, by extension, all citizens should provide a 10 percent subsidy (that is what a VAT exemption amounts to) to consumers of champagne and caviar (food) or facelifts and tummytucks (medical services) or central heating and airconditioning (energy). Conversely, it is only right that goods and services consumed mostly by the poor should enjoy a 10 percent subsidy.

No interference from Mr Jay Naidoo and his colleagues, please, says a reader.

Differences about line-drawing between these extremes is not sufficient reason to call a general strike. In fact the Government and the ANC have covered much common ground on the need for exemptions. The economic debate should be elevated to discussion, and action, on health services, educational support and a welfare net on basic food and shelter requirements. That would be worth such a drastic measure as a general strike.

J P Snijders MA, LLM (Cantab); LLM Taxation (New York)

Randburg

□ □ □

I do not believe that employers should sit back and accept Mr Jay Naidoo's stayaway blow to our economy without a clear demonstration of resistance.

A principle of no work, no pay should strictly and consistently be imposed by all employers, even in respect of domestic workers. These unfortunate intimidated people need not suffer any financial losses. They should be allowed the opportunity to make up for the 16 lost working hours by working additional hours, even on Saturdays.

Leave arrangements should solely be determined between employers and employees, without interference from Mr Naidoo and his ANC/SACP colleagues. We do not need their involvement in a breakdown of discipline and responsibility in labour relations.

I personally intend to implement an arrangement with my employees to make up for lost working hours and trust that other employers will follow suit.

It is imperative that further stayaways should be discouraged by means of counter actions. I believe Mr Naidoo is already active in organising the next stayaway for the first trivial issue that may arise.

W R du Plessis

Secunda

Firms 'are abusing VAT'

320

CT 13.11.91

JOHANNESBURG. — There is mounting evidence that companies are pocketing profits by abusing value-added tax, Vatwatch says.

Vatwatch chairman Professor Louise Tager said on Monday that the extra profits being made could well be as a result of ignorance on the part of businesses as to how the VAT rebate system should work — and in some cases profiteering.

She said that according to the Department of Finance about one-third of general sales tax was paid by business — amounting to about R6 billion — which was the potential saving to the consumer. However, this was still not being passed on.

Prof Tager stressed VAT should not be allowed to become a silent tax and business should be educated regarding the savings that should be passed on to the consumer.

● Meanwhile, the government should not get involved in a softening-up process for an increase in the VAT rate, the Democratic Party's finance spokesman, Mr Ken Andrew, said yesterday.

He was reacting to the statement by the Director-General of Finance, Mr Gerhard Croeser, that an increase in VAT could be the only way for increasing government revenue in the future.

Mr Andrew commented: "Mr Croeser's comments about the problems of taxation and finding funds for essential socio-economic development are realistic and timely.

"Despite this it would be most unwise to contemplate increasing the rate of VAT for the foreseeable future."

CT 13/11/91

320

No transfer duties on low-VAT homes

Own Correspondent

JOHANNESBURG. — Tax authorities yesterday confirmed that transfer duties would not be payable on the purchase of new homes currently subject to lower VAT rates.

According to amendments published in the Government Gazette, homes completed between September 30 — when VAT was introduced — and December 31 will be subject to 3% VAT when they are sold, provided the transaction is concluded between August 22 and December 31.

The sale of new homes concluded before March 31 next year will be subject to 6% VAT.

When Finance Minister Barend du Plessis proposed these lower VAT rates in August, he said transfer duties would have to be reintroduced on transactions subject to the lower VAT rates.

However, there has been no legal amendment in the gazette to enforce the proposed reintroduction of transfer duties on new home sales, Deloitte Pim Goldby consultant Eugene Strydom said yesterday he had received confirmation of this from the Inland Revenue Department.

After March 31, the VAT rate applicable to new house sales is likely to be 10%.

At the 10% rate, neither residential nor commercial property sales are subject to transfer duties. But private house sales, which are not subject to VAT, will remain subject to transfer duties of 1% on the first R30 000 and 3% on the balance of the value of the transaction.

NEWS

CP: no legal way to ensure VAT savings

(320) Star 13/11/91

By Paula Fray

It was up to private enterprise to pass on possible price cuts as a result of VAT because there was no legal way to enforce this, Conservative Party spokesman on finance Casper Uys said yesterday.

Mr Uys said he believed the higher prices found after the introduction of the new tax on September 30 were the result of a mixture of profiteering and ignorance on the part of business.

From a legal point of view there was nothing that could be done about the price increases, he said.

"It is up to private enterprise to pass on to the public possible decreases in prices due to input credits. There is no legal way of enforcing this," said Mr Uys.

However, he did not believe legislation was a necessary or an effective way of breaking the inflation spiral.

"It will mean creating a bureaucracy which will not be worthwhile," he said.

"The main problem as far as inflation is concerned is that there is no increase in productivity but an aggressive demand for higher wages which has no relation to productivity at all," Mr Uys added.

African National Congress spokesman Saki Macozoma said the price rises were what the organisation had warned against during various discussions with the Ministry of Finance.

"The attitude of the Minister was that we should help put pressure on business to pass on these savings. But that kind of pressure is very difficult to mount, other than by consumer boycotts which the Government, would not want," Mr Macozoma said.

"It is incumbent upon the relevant Government department to ensure savings are passed on to consumers," said Mr Macozoma, adding that to the public it was obvious that prices were rising.

"The Government might say this is a temporary reaction but we believe this is a permanent price hike.

"Business might say the cost of changing to VAT justifies the price hike, but VAT is a simpler tax and the savings should be passed to consumers," he said.

"We call on the Government to take appropriate action to protect consumers."

No transfer duties on new homes

LESLEY LAMBERT

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VAT bonus for building

(320)

THE introduction of VAT will significantly reduce non-residential building costs, says the latest Rode Report.

Research director Erwin Rode says: "According to my calculations, this reduction will be about 5,8%. This is because non-recoverable GST at 13% was previously payable on materials and plant and equipment.

"In a competitive business environment, the 13% GST can now be stripped out of these costs."

He says if a GST-inclusive contract of R100 (with labour and materials at R40 each, equipment and overheads at R10 and profit at R10) were stripped of GST, as is now the case, the price would be R94,25.

This amounts to a 5,8% saving, with the 10% VAT fully recoverable by the developer or buyer.

Further evidence has also emerged that the building industry has seen the worst of the current recession, Rode says. Central Statistical Service figures show that the trough was reached in December and January respectively, with both sectors showing good growth to June this year.

"Building costs or contract prices have started to accelerate again, reflecting the strong showing of building activity. Non-residential contract prices were back to nearly 15% in the second quarter compared with a year ago," he says.

SOWETAN B

Complaints over VAT dealings

Sowetan 14/11/91

(320)

Sowetan 14/11/91

THE South African Chamber of Business says it is concerned by the fact that it continues to receive complaints from several quarters regarding the attitude of some big companies in the their dealings with smaller businesses that are not registered for VAT purposes.

By JOSHUA RABOROKO

The chamber said at a Press conference that in most of the cases brought to its attention such businesses had issued statements to their suppliers that either explicitly, or implying, that business will only be conducted with, and payments made to, suppliers that were able to furnish the enterprise with a valid tax invoice.

It said: "Such statements are playing into the hands of VAT's opponents, who are arguing, among other things, that the introduction of the new tax will succeed in decimating a large number of small business that have developed in recent years.

"The statements also tend to reinforce the view held in some quarters that VAT was introduced for the benefit of big business at the expense of small business and the man in the street.

"While there may be little or no foundation to these views, the perceptions still exist and are being reinforced by the inflexible stance adopted by some businesses."

Sacob urged all its members to re-examine their policies towards dealing with small, unregistered businesses, and to make their business decisions on the basis of the quality and price of the goods and services that they receive from such businesses, and not whether they are registered for VAT purposes.

"Where statements have been issued which imply that the company will only deal with registered vendors, Sacob requests that these statements be retracted and rephrased so that unregistered suppliers are not discriminated against.

"The chamber also urges its members to assist those businesses with which they have dealings that have to, or wish to, register wherever possible," Sacob said.

VAT group threatens 'crippling' protest

(320)

South 14/11 – 20/11/91

By Anthony Ndlovu

THE organisers of the successful VAT stay-away have warned of an "economy-crippling mass action" if President FW de Klerk does not urgently reopen negotiations on the controversial tax.

VAT co-ordinating committee (Vatcom) spokesperson Dr Bernie Fanaroff reiterated that VAT penalised the poor and consumers in general, and called for its amendment through negotiations.

Vatcom said the support for the stay-away had demonstrated that the majority of South Africans rejected the unilateral restructuring of the economy through VAT.

"This rejection goes much wider than the support for the general strike. Even organisations which were not able to support the strike have confirmed their support for the demand for negotiations," said Fanaroff. He added the mass opposition to VAT would not stop.

"All the motivations given by the government and Sacob for the introduction of VAT, specially for its introduction in a hurry and without adequate negotiation, are proving to be wrong," he said.

Vatcom noted there had been no dramatic upswing in orders for capital goods, no flood in investment as expected, and there was no evidence that manufacturers and traders were passing on cost savings.

VAT: 15 firms are 'problem cases'

320

CT 14/11/91

Staff Reporter

ABOUT 15 businesses which have failed to comply with Valued Added Tax regulations will be contacted by Vatwatch chairman Professor Louise Tager today under threat of public exposure.

The tax public watchdog has threatened companies transgressing VAT regulations with blacklisting — which would be made public — but has relented after most offenders started toeing the line.

Vatwatch spokesman Mr Pierre de la Rey said the role of the organisation was not to compile a blacklist but to ensure that the tax was implemented correctly. However, Vatwatch was receiving about 50 calls a day which related to problems and complaints about implementation of the tax.

Mr De la Rey said 15 businesses at the moment were "problem cases" and Prof Tager would personally contact them.

If this did not "sort out the problem", Vatwatch would make a blacklist available.

LABOUR BRIEFS

FW asked to re-open VAT negotiations

(320)

W/Mail 15/11-21/11/91

The Co-ordinating Committee on VAT (CCV) has written to President FW de Klerk asking him to re-open negotiations on its VAT demands.

These are for the zero-rating of basic foods, electricity, water and medicines and medical services, measures to cushion small business and negotiations on a poverty-relief programme.

The CCV said it welcomed the latest Vatwatch survey of prices, which showed an average 4,5 percent increase, with larger rises in poor areas. This showed the CCV's warnings were "very close to the truth".

It also stressed that contrary to government forecasts, there had been no flood of investment in South Africa after the launch of VAT and no dramatic upturn in orders for capital goods.

Far from business passing on cost savings to the consumer, "massive profiteering" had taken place. Vatwatch lacked the teeth to control this, the CCV said.

LETTERS

Capital gains tax — a moral lightning conductor

BDay 14/11/91

~~49~~ 320

DAVID CLEGG

IT IS time to take a pragmatic view of capital gains tax and the future of SA. It may not be popular, but it is realistic.

The realities of transition politics are that we will have something called a capital gains tax — and the challenge is not to resist it, but to define it so that it does the least damage and the most good. If we are not careful, valuable time and effort will be spent in resisting on principle something which is irresistible.

This is an inevitable result of the current political process. The new SA is largely about "redistribution", and the redistribution process must surely involve such a tax. Ideally, of course, redistribution will take place through sharing in growth and not through a Robin Hood-style confiscation. It would be naive to expect the political weight of newly enfranchised citizens not to carry the day for a capital gains tax.

Most Western economies have capital gains taxes either as integrated parts of their income tax system (as in the US) or as separate legislation — as in the case of the UK.

If the homes of capitalism can live with such attacks on "capital" and have done so for many years, a claim that it must be inherently destructive to our economy is hardly likely to be convincing.

Capital gains taxes are not destructive. Throughout the world they have generated more smoke and heat than actual tax, and are widely acknowledged to be not so much effective fiscal measures as moral lightning conductors — one more reason not to resist the inevitable.

Essentially, what I propose is an equivalent fiscal debate to the political debate of talks about talks — talks about taxes, if you like. By that very process, some of the fundamentals are ironed out and bug-bears may become blessings.

The biggest problem with a "capital gains tax" at present is that the phrase means different things to different people. Names can be misleading (as in the case of sales tax) and emotive (as in the case of capital gains tax).

What we need to do well in advance is set the framework for debate so that this framework is the essence of the tax itself. The debate can revolve around mechanics and fine tuning and not founder on matters of principle.

What is this framework? Firstly, part of our current SA dilemma is that much growth is inflationary, and not capital growth as such. This needs to be understood and accepted.

To "redistribute" on the basis of the inflated rand is confiscatory, and our paradigm must therefore exclude inflationary growth. Opinion makers, both political and financial, must adopt and promote the view that an index-linked capital gains tax is the only type there is.

Secondly, we must press for acceptance that capital losses can be carried both forwards and back. If our fellow citizens wish to share in our luck, they must also share in our misfortune (and pay in, by way of tax refund on reassessment). There is a conceptual difference between losses for income tax purposes — which traditionally are only carried forward in SA — and losses for capital gains tax.

Thirdly, we must not accept as even a remote possibility that an unrealised gain should be taxable.

Financing the tax on the asset concerned could be destructive to the very fabric of a person's estate or business.

The Margo Commission recommended a form of tax on unrealised gains in the form of a "capital transfer tax" — a name and concept adopted from UK legislation. However, that was a rather different thing and need not be debated here.

What is clear is that, until realised, gains are no more than paper — they are subject to reversal and should have no fiscal relevance.

Lastly, we need to have it clearly understood how far the tax goes. There should, for example, be no question at all of the tax applying to a person's principal domestic residence. It would be preferable for it to be restricted to certain types of asset. However, this starts to get into detail and — aside from the concept of a man's home being inviolate (but, interestingly, it can be taxed in the US) — I personally have no fixed position on this.

So, if all these ideas are in place and we understand the parameters of the debate, some real progress might be made towards consensus on a tax mechanism which can help emotionally to heal divisions in our society without doing irreparable harm to the economy.

☐ **Clegg is a partner at Ernst and Young.**

INCOME TAX

FM 15|11|91 (320)

Leave pay problems

Two recent decisions in the Income Tax Special Court have left the law on the deductibility of leave pay in a state of contradiction. Ernst & Young tax partner David Clegg says that about 18 months ago a case came before the court in which the taxpayer claimed a deduction based on a "provision for leave pay." This related to a number of employees who had worked sufficient days to qualify to receive the amounts.

The Commissioner for Inland Revenue disputed the deduction on the grounds that, essentially, the employees would forfeit their entitlement if they did not take leave within a certain period. It is difficult, concedes

cont

FM 15/11/91 (320)

Clegg, to argue with that. The Income Tax Act requires that there should be an unconditional obligation imposed on the taxpayer, before a deduction will be allowed.

But the court went further. It found that, unless a specific clause in the employment agreement entitled an employee to cash in place of leave, no deduction could be claimed until he exercised that choice, irrespective of whether there was a forfeiture clause.

Doubt has been cast on the validity of that second leg of the judgment. It is argued that, if an employee is entitled to leave at a certain rate of pay, one can't deny that the obligation to make payment arises simultaneously with the obligation to permit leave. Whether the employee actually takes leave with pay or cashes in, the employer will be obliged to pay in the future, and a deduction should be allowed today.

But the judgment must be respected, and the past year has seen employers examining and rewriting conditions for leave and leave pay, to avoid running foul of it.

In the past 10 weeks, however, a second (unreported) judgment has been delivered by an Income Tax Special Court, disagreeing with the second leg of the earlier judgment, and confirming that there is no need for a specific encashment clause for the leave pay provision to be deductible.

The second judgment, says Clegg, is likely to be appealed by Revenue, but does give a basis for taxpayers to oppose any reassessments based on the absence of an encashment clause — with Revenue relying on the second leg of the earlier judgment. (Clegg prefers the reasoning of the second judgment on this point.)

It is still essential, however, to examine terms of employment carefully, to determine whether there is any limitation on the employer's right to deduct a prospective obligation. This could flow through the presence of a forfeiture clause or — possibly — a limitation of a number of days' leave that may be accumulated. Such a limit will, of course, also put a lid on the maximum provision claimable per employee.

It remains clear that any clause in an employment contract which provides for either forfeiture or a maximum accumulation of leave will deny or limit the deduction of a provision for leave pay, whether or not clauses of this kind are actually given effect. ■

VAT AMENDMENTS (320)

Loose ends FM 15/11/91

Government has finally produced a series of amendments to the VAT Act that ratify changes made earlier by Finance Minister Barend du Plessis under special temporary powers given to him by the Act.

There are a few surprises in amendments for which no notice had been given. Notable is one spelling out how tax invoices must be presented where the consideration exceeds R200.

Kessel Feinstein tax partner Ernest Mazansky explains that previously the tax invoice could show the value excluding VAT, the VAT and the total amount including VAT — the so-called exclusive basis. Alternatively, it could show the amount on an inclusive basis together with a statement that the total included VAT.

The inclusive alternative caused difficulties, especially when large retailers with significant buying power insisted that tax invoices should be supplied on an inclusive basis, even though they were the minority.

An amendment effective from April 1

FM 15/11/91 (320)

1992 provides that only the ~~exclusive basis~~ is permissible.

Some companies have adopted the practice of advertising goods in such a way that the VAT-exclusive price was reflected more prominently than the VAT-inclusive price. An amendment now provides that where both the inclusive and exclusive prices are advertised or quoted, both shall be set out "with equal prominence and impact."

Mazansky says Revenue seems to have had a perennial problem under both GST and VAT with returnable containers.

Originally, Section 8(12) provided that the return of a returnable container would not be deemed a supply of goods where ownership had not passed to the purchaser of the goods and a refundable deposit had been charged.

This meant that VAT would be charged on the sale of the contents, including the amount of the deposit, but no VAT would be payable to the purchaser on return of the container.

This provision has now been deleted, so the person returning the container (if also a vendor) should charge VAT. The amount of any deposit payable to or refundable by a vendor in respect of a returnable container is deemed to include VAT. ■

VAT proves a windfall for auctioneers of cars

Star 16/11/91

AL-AMEEN KAFAAR

320

THE introduction of VAT has created boom times for motor auctioneers — and buyers are flocking to take advantage of the VAT exemption on private car deals.

Two auctioneers, Car Auction in Elandsfontein and Eagle Auction Sales in Isando have already put more than 350 vehicles up for auction this week.

And the managing director of Burchmores, Darryl Jacobson, said earlier this week his company now had to open its doors to 20 percent more buyers.

"It's only been six weeks after the introduction of VAT and we already have four auctions a week," Mr Jacobson said.

He said buyers have started to realise that no VAT was payable when a car, sourced from a company or individual, was auctioned. That has increased demand.

Mr Jacobson said with the latest boost, they were now auctioning about 850 vehicles a month. If the boom continued they could generate a turnover of approximately R200 million a year.

Small firms hit by VAT

(320)

ARG 16/11/91

Weekend Argus Correspondent

DURBAN. — Two months after the introduction of VAT, thousands of small industries and service firms face a crisis which threatens to put many of them out of business, according to the National Industrial Chamber.

Mr Ian Hetherington, an executive committee member of the NIC, says many small industrialists and service sector entrepreneurs, especially in the informal sector, are struggling to stay afloat as a result of VAT.

He said the NIC, which is affiliated to Nafcoc and represents thousands of small businessmen, supported VAT in principle. However the system was far "too pure" for a developing country and it gave large companies an unfair advantage.

Mr Hetherington said VAT imposed "draconian" penalties on often illiterate business people for not complying with stringent bookkeeping and other requirements.

Although the Government exempted firms with turnovers of less than R150 000 a year from registering as vendors, many big companies would only deal with registered vendors because they needed invoices to avoid absorbing VAT themselves.

This forced small firms to register as vendors. Latest figures showed 44 000 technically exempt firms had registered. These 19 percent of registered vendors produced only 0,4 percent of VAT.

Mr Hetherington said the demands were counter-productive as the costs were higher than the amount of tax collected and jobs were destroyed.

In relative terms, the costs of tax collection were much more for the small businessman than his larger competitor, he said.

Many entrepreneurs were being forced to buy personal computers or hire bookkeepers costing at least R5 000 a year — sometimes the total annual profit of the business — to meet Inland Revenue requirements.

Government tax inspectors had the power to close down a business if it was found adequate records were not kept — a daunting challenge for illiterate operators in the informal sector.

Pleas to the Government over the issue have been fruitless. Among the NIC's suggestions are that the tax authorities:

- Treat an invoice from a legally-unregistered party as if it is a tax invoice.
- Compensate businesses on a sliding scale for costs they incur in doing the government's work in collecting tax.
- Raise the registration threshold to R500 000.
- Educate and help traders in the informal sector and soften penalties.

Meanwhile Vatwatch this week released details of a survey of office landlords which showed benefits generally were not being passed on to tenants.

Durban-based Mr Kevin Fagan, a Vatwatch adviser and a member of Coopers Theron du Toit, said virtually all VAT incurred by businesses could be recouped yet many businessmen failed to understand this point.

While the big chains had "behaved scrupulously" in handling VAT, many smaller retailers had not, although this could be due to ignorance, Mr Fagan said.

He said surveys suggested many businesses had increased their prices in August in a "preemptive strike" ahead of VAT.

He said Vatwatch expected to face a major job up to Christmas when spending on luxury items really would begin.

Supermarkets praise two for VAT cuts

S/Times 17/11/91 (320)

By GWEN GILL

ONLY two manufacturers have brought prices down since the start of VAT, say the three biggest supermarket groups.

But consumers are expected to benefit in January when the annual round of price increases is expected to be lower than usual to compensate to some extent for VAT.

Checkers managing director Sergio Martinengo said both Lever Brothers and Elida Ponds had decreased prices by "about five percent" on average.

Mr Mervyn Kraitzick, food director of OK Bazaars, also said Elida Ponds had dropped its prices by about one percent.

Mr Alan Baxter, general manager for foods of Pick 'n Pay supermarkets, said Lever Brothers had allowed a five percent promotional decrease for about six weeks from September 30, when VAT began.

However, Mr Brian Frost, director of foods for Woolworths, said no decreases were coming through at all.

Among the supermarket items that have gone down in price as a result of these decreases are Mentadent P and Close Up toothpastes; Surf, Skip and Omo washing powders; Shield and Ego deodorants; Geisha, Breeze and Lifebuoy soaps; and Ponds beauty products.

No other manufacturers show any sign of lowering their prices, according to the retailers.

This is despite the fact that costs should be dropping as input credits on capital goods and savings on items on which manufacturers previously paid GST, but do not pay VAT — such as advertising — are reflected in selling prices.

"Some suppliers have been offering rather larger discounts than usual, but that's because of the state of the economy, not VAT. Manufacturers want to clear their stocks," said Mr Baxter.

Asked if retailers were badgering suppliers to drop prices, Mr Martinengo said: "We say: 'Come on guys, what about decreases because of VAT?' all the time, but it's not helping."

Mr Baxter said that Pick 'n Pay was also urging manufacturers to drop prices, but all he heard was the familiar excuse that VAT would slow down future increases.

At least two of the big retailers are confident that the usual round of automatic hikes in January would either not come at all or be smaller than usual.

"So far, I've had not had a single indication of a price hike in the New Year. This is interesting — usually by now my file is full of increase details. But these could still filter through, I suppose," said Mr Baxter.

Mr Martinengo said he was expecting price hikes, but these would be "lower than in previous years".

It's time to make most of VAT's true potential

Star 18/11/91 (320)

Are businesses passing on vital VAT savings to consumers? Vatwatch chairman Professor Louise Tager wants this answered with a resounding "yes" before VAT becomes a silent tax. PAULA FRAY reports.

FOR MANY consumers and some businesses, the advantages of VAT are linked to the 3 percent drop in the tax rate.

So much so, that Vatwatch is still concerned about ignorance surrounding the real potential savings: the elimination of sales tax as a cost to business.

"We know that all kinds of interest groups would like to see VAT become a silent and uncontroversial tax as soon as possible. But neither the consumer nor business can allow this to happen before the savings potential of the new tax has been realised," said Professor Tager.

The Vatwatch message is clear: "VAT is not a 10 percent issue. The rate may be 10 percent but the effect is not."

Vatwatch has appealed to businesses to check their cost savings and pass these on to consumers. An estimated R6 billion could be saved as a result of the elimination of GST.

"Can you imagine the significant blow we could deal inflation if a saving of this magnitude could be achieved," asked Professor Tager.

Outlining how VAT savings could be achieved, accountant Kevin Fagan said the change from GST to VAT would mean positive savings for business as far as, among others, consumables, advertising and capital equipment were concerned.

Businesses operating in a VAT vacuum assumed that VAT was 10 percent and, therefore, suppliers' costs would go up 10 percent, their costs would go up 10 percent, businesses would have to charge 10 percent more and, therefore, VAT was inflationary.

"This chain of thought creates the VAT vacuum," said Mr Fagan. "However, VAT is not a 10 percent issue. GST was a 13 percent issue as it was a cost to business, and the person at the end of the chain paid 13 percent tax.

"People who register for VAT pay the tax but get it back. VAT is not a cost to business ... it means a substantial saving to business."

With few exclusions, input credit could be offset almost immediately against the VAT charged to customers.

"A registered vendor may deduct all input tax incurred, provided it was acquired wholly or mainly for the purpose of making taxable supplies, he has a tax invoice, or is specifically prevented from doing so by legislation," said Mr Fagan.

Registered vendors would make substantial savings which could be passed on to consumers, according to Mr Fagan.

"There is increasing evidence that this is not happening. Businesses are putting the extra bit in their back pockets and not passing it on," he said.

Presenting four examples of how business could tackle the new tax, tax consultant Bronwyn Allen showed how under GST a product from raw material to the end of a production line could cost R2 945.

Under VAT, and operating in the incorrect VAT vacuum where savings were not taken into account, the same product could cost R3 098.

The same product chain going a step in the right direction, where VAT invoices for businesses were eliminated, would mean a drop to R2 850.

When input credits in the entire process were highlighted and deducted so that prices were marked up on a lower base, the product could cost as little as R2 666 — R279 less than under the GST system.

If business costs were calculated correctly, prices could come down by as much as 9 percent, Ms Allen pointed out.

In order to move out of the VAT vacuum in which many businesses found themselves, the entire chain had to be looked at.

Business's reluctance to pass on savings to consumers was a mixture of ignorance and profiteering, Mr Fagan said.

According to Mr Fagan there were three choices facing businesses under VAT:

- The VAT vacuum, in which businesses faced the prospect of business decline or even failure.
- A step in the right direction, where businesses would still lack a competitive edge.
- Neutrality, where businesses would have a VAT-driven competitive edge which would not cost them a cent. □

VAT billions are 'locked up'

(320) CT 19/11/91

By CHRIS BATEMAN

BILLIONS of rands of VAT savings were being "locked up" by companies owning major office blocks who were not passing on benefits to their tenants, Vatwatch claimed yesterday.

Vatwatch's chief public relations officer, Mr Pierre de la Rey, said that overcoming this problem was far more important than "blacklisting" smaller retailers for marking up produce "a cent or more" than VAT allowed.

He was reacting to queries about 15 retailers that Vatwatch threatened to expose publicly unless they toed the line by the end of last week.

Mr De la Ray said that by yesterday all 15 had "come into line — but new ones spring up daily".

The blacklist was relatively unimportant, however.

Some of the largest financial institutions in South Africa owned all the office blocks and since VAT was introduced had been paying no sales tax on advertising, maintenance and all consumables.

"They haven't told tenants they would increase rents by a lesser amount because of these savings or that when the lease comes up for renewal they would lower the escalation clause," he said.

Big business was pressurising the government to turn VAT into a "silent tax".

"We at Vatwatch say to people — first make sure you get the tax savings from your suppliers, including your office landlords."

Mr De la Ray said this could have an effect on inflation and "benefit everyone".

VAT savings 'don't have to be passed on'

(320)

Staff Reporter

BUSINESS has "no legal obligation" to pass on billions of rands in Value Added Tax savings, Vatwatch chief spokesman Mr Pierre de la Rey said last night.

He said there were about R6 billion in VAT savings which had not been passed on to the consumer. The only way to ensure this money filtered down was to "carry on talking".

"Many" businesses were also finding it very difficult to implement the controversial tax correctly, he said.

Business had to realise that by passing on the benefits to the consumer they would have the "competitive edge" in a free market system and "steal the margin" from competitors.

This attitude would lead to more profitable business and more savings for the consumer.

Cape Town Chamber of Commerce business affairs manager Mr Albert Schuitmaker said the organisation had asked its 3 200 members to pass on savings they "might" have to the consumer. CT 20/11/91

But this would only be the case if savings were effected, he said.

Sainsbury urges tax incentives for SA

CT 21/11/91

320

By ARI JACOBSON

THE key to SA's economic success lies in a policy of well-directed tax incentives and a sensible framework to enhance industrial relations, said UK's Minister for Trade and Industry Timothy Sainsbury yesterday.

Speaking in an interview, Sainsbury pointed to strategies adopted in the UK which could lift SA's productivity and economic growth.

He mentioned a framework to ensure constructive relations between management and trade unions — to boost productivity in the workplace.

Further Sainsbury said a tax system should be implemented to encourage enterprise, among companies and individuals.

"It's a simple matter of risk and reward — the individual or company should keep the benefits of success."

Sainsbury also said deregulation was an important ingredient for a country's improved well-being as "de-nationalisation or privatisation helps spread the wealth between its citizens".

Another area of focus must be the development of small businesses. "The most important way would be via a tax climate conducive to the small entrepreneur."

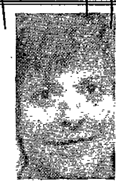
But all these possible pointers should be seen in an inter-regional context with SA expanding its trade net, in a similar fashion to the EC.

FOCUS: *Totting up the totals after the shift from GST to VAT*

VAT's magic number: 99

W/Mail 22/11-28/11/91 (320)

CRITICAL CONSUMER



Pat Sidley's weekly advice on what to buy ... and what to avoid

AN hour at a municipal parking lot in Johannesburg now costs R1,23 including VAT. Commercial garages, on the other hand, seem to have used the introduction of VAT to hike up the fees, round them off — and proclaim "VAT incl".

The roundness of post-VAT figures poses a question: after VAT input credits have been deducted and value has been added in dribs and drabs along the production way, after 13 percent GST has been excluded and 10 percent VAT added on, how is it that the prices in supermarkets and stores still seem to end as they always have, in ,99— ie R9,99—or ,75 or ,25? Who are the stores kidding?

In at least two stores the public is given the impression that the old price has been maintained and VAT simply added on.

At Woolworths, pricetags and some advertisements show the price before The Change (with GST added) and the price plus VAT. The original price is in those nice round figures — like R59,99 — which usually trap consumers, and the post-VAT figure ends in odd amounts, reflecting the effect of VAT.

And Makro, currently on a massive marketing drive, runs prices without VAT in large bold figures and the price which includes VAT in small type, showing that the 10 percent has merely been added on.

At many of the supermarkets and other retail outlets which advertise to consumers, the picture is quite different. It seems to this Critical Consumer, that Pick 'n Pay, for instance, has adjusted all its figures so that despite any input credits, value adding, GST removals and VAT additions, the price would appear to consumers to end in the magical ,99.

Not so, said Pick 'n Pay director Richard Cohen. The company has frozen its prices and there are written instructions to staff that wherever possible, amounts are to be "rounded down" (or rounded off downwards). But there may have been some confusion when an item on promotion re-appeared at its normal price; the prices would eventually go back to the company's normal pricing policy which would reflect these ,99 and ,95 endings.

Merchandising director Raymond Godfrey of Click's, whose press advertising, like Pick 'n Pay's, displays a large amount of these "rounded down" figures, said in Cape Town that at the time of the changeover from GST to VAT the company simply added 10 percent on to its prices. This had led to a mixture of prices, some of them with odd numbers and some with rounded figures. Since then, however, prices have gone up and normal market forces have come into play.

Edgars, a large chain which advertises quite aggressively, refers to the rounded up and down amounts as "price points".

Since the introduction of VAT, Edgars has introduced "uneven price points", the chain's Mary Phillips told Critical Consumer. However they prefer to use the "99 cent price point" because, among other reasons, it keeps things clean, making it easier to run a business.

So wherever possible the store has rounded down prices. If an item with VAT-added came in at R39,57, she said, it would be sold at R38,99. However, summer sales, which already reflect discounts, would use the preferred price points policy — obvious from their sales advertising.

OK Bazaars director Mervyn Kraitzick said OK also uses the ,99s and ,95s in advertising as a marketing strategy. The use of these price points is something customers understand.

The store has rounded down a lot of items, he added. However, reading from a list of prices in various stores in the first week of October, he said the OK was selling at a lot of odd prices.

Like other stores, on the 29th of September, the computers at the OK were simply instructed to add 10 percent on to the goods and any really awkward prices were rounded off (at least he did not say they were "rounded down"). The example he quoted was that if the computer had thrown up a price of R1,639, it would be rounded up to R1,64.

But promotional items still attract the price points.

Checkers' advertising reflects some odd figures and the company says that it, too, merely added on the 10 percent, with the exception of items on promotion.

So there we are. Despite the fact that inflation figures, even with their new bases and calculations (VAT Watch has remarked rather mildly — and toothlessly — that amounts have not dropped as they would have hoped), we are still expected to believe that prices were all dropped because of input credits and then rounded down where there was a choice.

Perhaps we should be more inclined to believe what one of the supermarketeers said — although he made it clear he would not say it on the record.

He told Critical Consumer that supermarkets preferred using the price points and that prices generally displayed this. He believed that stores were simply in the habit of using these prices and had probably just slipped back into it.

Arguments against wealth tax are ill-founded

BDay 22/11/91.

(320)

NEVA SEIDMAN MAKGETLA

THE ANC has no firm plans for a wealth tax. Nonetheless, at the mere suggestion, the white-oriented Press had hysterics. In the event, the proposed tax is hardly radical. Its major benefit is that, given massive wealth disparities, it could target those most easily able to pay. Its drawbacks do not include a tendency to impoverish the middle class.

Most whites are not rich. A recent Market Research Africa (MRA) study suggested that only 6% of urban whites had net assets worth more than R500 000 in 1991. Half owned net assets worth less than R100 000 and a fifth less than R10 000. Most whites own little more than a house and a car; since they frequently buy these assets on credit, their net assets remain low.

The great disparities in ownership mean that a wealth tax need not affect most salary earners or small-scale businesses. Yet it could generate significant revenues. A 3% tax assessed on the assets of the top 40 private sector companies would increase government revenues by 20%; MRA data show a similar levy on net personal wealth over R200 000 should increase revenues by almost 7%. Neither tax would affect the vast majority of the population.

A carefully targeted wealth tax could shift the tax burden to profits, permitting some relief for individuals. If we posit, conservatively, a 15% return on capital, a wealth tax of 3% a year would raise the actual tax incidence on capital for liable companies from one seventh at present to around 40%. That figure more or less equals the real rate in the US.

A tax on personal assets need worry only a small percentage of the population. If the first R200 000 were exempted, only about 10% of the population would pay anything at all. At a rate of 3%, only families with more than R240 000 in net assets — about 250 000 households — would pay more than R100 a month.

If there was no punitively high tax rate, moderately productive companies and individuals could pay a wealth tax out of current income.

Some economists would extend the concept of wealth to include education or "human capital". Apartheid put this form of accumulation out of reach for most South Africans. A wealth tax on human capital could help raise revenues as a step towards overcoming these problems.

The obvious problem is that such a tax might discourage the acquisition of skills. This drawback could be overcome by addressing only the historic differences in education provision for whites and blacks. The tax would thus apply only to people who attended schools within the relevant educational administrations. It would transform the excess paid to white families into a grant to be repaid over a period of, say, 30 years. It would phase itself out following the establishment of an integrated school system.

The amount repaid would depend, naturally, on the number of years of school attended, with a premium for more expensive university courses.

Four principal arguments have emerged against a wealth tax: it would reduce capital formation; cause capital flight; discourage capital-intensive projects; and prove difficult or impossible to levy. All but one of these points turns on the impact on investment.

Closer consideration suggests that these fears are ill-founded. They presuppose that companies now invest adequately and efficiently — a supposition which cursory examination proves untenable. A wealth tax could foster more efficient investment in the private sector. A corporate wealth tax levied only on large groups would discourage the centralisation of capital. Conglomerates could reduce their liabilities by breaking up into smaller parts.

Similarly, a tax on personal property would deter investment in non-productive assets. The system could promote productive investment by reducing the tax on desirable investments — for instance, to produce basic goods or exports or create employment.

As for the threat of capital flight, it has become the standard private sector response to any measure designed to restructure the economy. At least from the turn of the century, most of Europe had a wealth tax of between 0,7% and 2,5%. For 30 years, the Germans had an additional surcharge of 1% a year to provide loans to refugees from the Second World War. A similar tax has now been reimposed to assist the eastern provinces.

Neither tax caused noticeable capital flight. Rather, despite much grumbling, the vast majority of wealthy Germans seem to have accepted that, if they want a prosperous and stable society, they must compensate those citizens impoverished through no fault of their own.

In short, given the misuse of investible assets by the rich, most arguments against the tax seem weak at best. The more important question is whether and how the state, or whatever financial institutions it may establish, can do better.

A wealth tax cannot, by itself, bring about the institutional arrangements required for a more democratic economy. The tax may raise needed revenues from appropriate sources, but its long-run success depends on the ability of the state and civil society to redirect investment both directly and by regulating markets.

☐ **The author is an ANC member and teaches economics at Wits University. These are edited excerpts from an article in the latest edition of Work in Progress.**

LETTERS

IMF admits it advised on the formulation of VAT

320

Sowetan 22/11/91

By IKE MOTSAPI

THE International Monetary Fund has acknowledged that it advised the South African Government on the formulation of VAT, Dr Bernie Fanaroff, chairman of the Vat Co-ordinating Committee, said yesterday.

Fanaroff said the managing director of the IMF, Mr Michel Camdessus, had responded to "our complaint about his organisation's interference" as to how VAT should be formulated.

He said: "Camdessus emphasised that the IMF had advised the Government on VAT to protect the poor. It was necessary to ensure that the most vulnerable and needy got appropriate relief.

"This advice was given in February 1991 to the Government when a team of IMF financial experts visited the country," he said.

Fanaroff said his committee had subsequently lodged a formal complaint with Camdessus and demanded to know why the IMF had "interfered in South African issues".

He warned consumers, especially the poor, that the Government was considering taxing zero-rated foodstuffs by March 1992.

"Our information is that the Government is preparing to do this. If they go ahead this will hit the poor very hard. South Africa's poor are in crisis and this move will make it even worse.

"Ironically, the Government has not even taken the advice of the IMF," Fanaroff said.

VAT virus is infecting the medical profession

W/mail 22/11 - 28/11/91. (320) (SS)

The continuing controversy over Value-Added Tax is dividing Masa, the country's biggest organisation representing the medical profession, reports RAY NXUMALO

WHEN finance minister Barend du Plessis sneezed last month, the whole country caught a cold — but the worst affected was the medical fraternity.

And the doctors seem unable to cure the malaise of VAT on medical services and supplies. Now their representative body, the Medical Association of South Africa, is about to catch the virus.

The VAT crisis has cracked the organisation into factions and created conflicts among doctors. "Dissident" doctors are now urging their colleagues to quit Masa due to its failure to have medical services re-rated.

Masa openly rejected VAT, but it preferred not to take any action — like supporting members who wanted to close surgeries and take to the streets.

Masa's present policy is "to continue to follow the planned process of consultation, and obtain a commitment from government to review its decision about VAT on medical service within six months".

Therein lies the problem. A section of the membership did take to the streets last month — to the dismay of Masa, which felt that type of action was unethical and unprofessional.

Says Dr Kishore Deva, a doctor who took part in the street protests, "We can't wait for March while our patients are dying of TB."

Masa's policy has disillusioned many doctors who are opposed to VAT on medical care and basic foodstuffs. And they claim that some of the VAT-related decisions Masa has taken were not first put to members.

"I am a member of Masa, but I find it strange that my opinion on the imposition of VAT was never canvassed," Deva said.

He says that the actions of the association are the opposite of what it claims to stand for. Further, the "dissident" doctors feel that the association has not done enough to address apartheid. Masa's federal council is composed of 44 members — all of them white.

Federal council chairman Bernard Mandell announced on Tuesday that, "In order to broaden its representation, Masa's federal council has been doubled to afford more doctors the opportunity of taking leaderhip positions with Masa.

"The association has also made every effort to involve other key role players in health, in their individual capacities and through their organisations, in the many vital issues which are currently being addressed, such as the dispensing of medicines, future health policy, the treatment of hunger strikers, registration of medical doctors with foreign qualifications who wished to return to South Africa."

However, this will not be enough to mollify the "dissidents".

"We refuse to be used by the government as its tax collector," said Dr Joe Maelane. "Our main concern is the plight of the patient who is going to be taxed for being ill."

Many of the "dissident" doctors feel Masa is not representing their interests and they are seriously considering pulling out of the organisation.

Mandel does not believe their call is justified.

"The biggest challenge for the medical profession is to achieve equitable healthcare for all in South Africa. By displaying a spirit of positive criticism, and not condemnation, a strong sense of purpose has developed among Masa members," he said.

Mandel reiterated Masa's opposition to VAT on medical services, and its commitment to continue pressing for a zero-rating.

"Although strategies to convince the government of the detrimental effects of VAT on medical services differed, the medical profession shared the common goal of working towards its abolishment.

"The relief measures announced by government so far are aimed at addressing some of the concerns raised by Masa but are believed to be inadequate to overcome the negative consequences of VAT on health care.

"In particular the fact that only public health services had been exempted from VAT is regarded as blatant discrimination against patients treated in the private sector, and Masa is currently awaiting feedback from the minister of finance on a request that this decision be reviewed before the end of March," he said

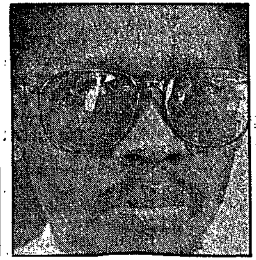
Nevertheless, the "dissident" doctors think this is just a lip service.

They have promised to forfeit the proposed 16 percent increase of medical tariffs for 1992 if Du Plessis zero-rates VAT on health care.

A pre-condition attached to this undertaking is that medical schemes decrease their members' monthly subscription. This would effectively pass the benefit on to the patients and not the medical schemes.

BOYCOTT!

NOMBULELO MAKHUBU



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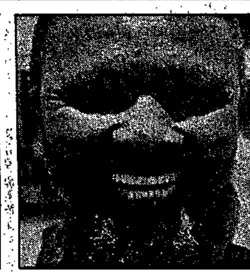
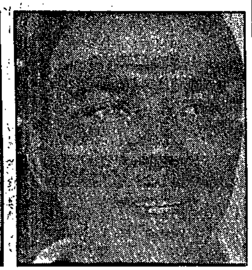


CHARLES BULO



WILLIE KAMBULE

People back Azapo protest call

C/Press 24/11/91 (320)

By THEMBA KHUMALO

BLACKS overwhelmingly support Azapo's call for a national boycott of white businesses during Christmas to protest against VAT and the ongoing township violence, a City Press snap survey found this week.

All 18 people interviewed in the Johannesburg CBD said they supported Azapo's boycott call.

Nearly half those interviewed said they supported the boycott, provided the organisation consulted other political bodies.

Strini Moodley, Azapo's publicity secretary, said they would know by the end of this month whether to go ahead with the boycott call.

His organisation was busy consulting its rank-and-file members through its branches and other political organisations countrywide before making a final decision.

Those interviewed by City Press said there was no point in celebrating Christmas when the township violence had cost money and many innocent lives this year.

Under the VAT system, basic foodstuff was taxed, leaving those who were employed penniless and the unemployed destitute, said those interviewed.

Boycotting white businesses would force white employers to use their influence on the government to reconsider its implementation of VAT and to end township violence, most of those interviewed said.

However, they warned black businesses not to misconstrue the boycott and use it to enrich themselves by increasing prices on consumer goods.

Nombulelo Makhubu of Orlando West, Soweto, said: "The government remains recalcitrant after our two-day stayaway to protest against VAT."

While Thobile Nhlapho of Meadowlands supported the boycott, she said she had already done her Christmas shopping and the action would not affect her.

"I wasn't trying to circumvent the boycott, I usually avoid the last minute Christmas rush by buying in time."

An insurance company employee, Jacob Tshabalala, of Mofolo North, also supported the call on condition it was broad-based and other organisations endorsed it.

"At least we must be given three weeks before the boycott comes into effect.

"VAT and township violence have been dominant features of our political scenario this year and we must put more pressure to force the government to reconsider VAT and end the township carnage."

Nomsa Mabale, a filing clerk with a department store, said she and her four children were prepared to sacrifice the Christmas luxuries in sympathy with the unemployed and the bereaved families of people who died during the violence.

Although her children would be disappointed not to have Christmas presents, she would explain to them why they were not celebrating this year and she hoped they would understand.

"When I think of the people who lost their breadwinners and loved ones this year, I can't see my family celebrating. Instead I'll consider taking my children to church on Christmas Day and afterwards we will have a Sunday lunch," said Mabale.

There was nothing new in township folk having "Black Christmases" because they had been there since 1976, said receptionist Wendy Ramolosa.

"I don't think anyone in his right mind will oppose Azapo's call because VAT and violence affect everyone. If one survives the train attacks or the random street killings in the township streets, one will certainly not avoid VAT, said Ramolosa.

Charles Bulo commented: "I'm ready to sacrifice my Christmas pleasures to fight VAT and the township violence," while Willie Kambule had the last word. "Azapo is right," he said.

Receiver favours car allowance scheme

(320)

B/Day 26/11/97

MARC HASENFUSS

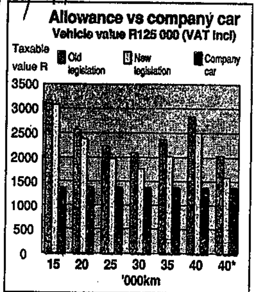
THE new business-travel allowance deduction tables, introduced by the Receiver of Revenue at end-September, favour the car allowance scheme user over the company car user.

Nedfin's Fleet Market Development manager Norman Purdue said that for business usage of 40 000km a year, the taxable exposure for a R125 000 vehicle reduced from R2 830 a month to R2 503.

If the driver kept a log of business usage above 20 000km, the taxable exposure under the new table was only R1 574 compared to R2 033.

"Under such circumstances the new figure compares well with the taxable exposure of R1 367 for company car drivers," Purdue said.

For a R34 300 vehicle the taxable exposure at 40 000km a year was R346, below the R375 of a company car, provided business use above 20 000km was logged.



Graphic: FIONA KRISCH Source: NEDFIN BANK

He attributed this to the substantial increase in cents/km allowed for maintenance. For a vehicle costing R18 000 to R20 000 the claimable maintenance cost jumped from 5,5c to 13,3c/km, while the fuel allowance rose from 11,1c to 12,6c/km.

The above-mentioned figures assume 48 months' usage with the allowance covering tyres, fuel, maintenance and inflation.

The increase in the retail cost of cars, projected at 16% or more for the current year, is also reflected in the new business-travel allowance deduction tables. The bottom value, previously R10 000, is now R16 000.

The top end cost value of vehicles has moved from R100 000 to R150 000 and the fixed cost element, for a vehicle costing between R90 000 and R100 000, has increased from R30 155 to R32 497, Purdue notes.

Probe into VAT planned

B'Day

LESLEY LAMBERT

(320)

GOVERNMENT plans to conduct an extensive investigation into the effects of VAT in the first quarter of next year. 27/11/91

In a recent letter responding to demands by the VAT Co-ordinating Committee, Finance Minister Barend du Plessis said the investigation would cover "all relevant aspects and implications of VAT".

The committee has written to President F W de Klerk demanding that government open the VAT investigation to the public and negotiate its terms of reference and procedures with bodies such as its own.

The committee said yesterday it would arrange public hearings in all major centres early next year to give people a chance to express their views on VAT.

In its letter, the committee requested the renegotiation of its demands for the zero rating of basic foods and services. In his letter to the committee, Du Plessis claimed the technical implementation of VAT had been smooth and there was increasing public acceptance of the new tax.

The committee, however, claimed there was "overwhelming evidence" of public rejection of the present VAT system and no evidence of the flood of capital goods orders or investments which Du Plessis had said necessitated VAT's on-deadline implementation.

Govt looks at tax to replace estate duty

(320)

LESLEY LAMBERT

GOVERNMENT is investigating the possibility of implementing a capital transfer tax (CTT) to replace estate duty and donations tax and is also considering the merits of a capital gains tax (CGT), spokesmen confirmed yesterday.

However, reports that government might introduce a tax on capital gains, including profits made from private house sales, were not correct, spokesmen from the offices of Finance Minister Barend du Plessis and the Department of Inland Revenue said.

A capital transfer tax is regarded as a more comprehensive and effective means of taxing estates, donations and generation-skipping devices such as trusts.

Under the present system, estates which exceed R1m are taxed at 15%. Donations between spouses are not taxed, while donations become taxable only if they exceed R20 000 a year.

Trusts, on the other hand, can be used to freeze the taxable value of fast-appreciating assets.

Under this system, people often use trusts and donations to transfer large assets, such as homes or share portfolios, tax-free.

It is also possible that a capital gains tax will become part of a future tax system.

The strongest arguments in favour of a CGT is that it removes the differentiation between capital gains and taxed earnings and prevents people avoiding tax by switching income gains into capital gains.

The main arguments against it are that it is difficult to administer and yields a low return because of relief provisions such as deferrals of tax liabilities on replaced assets and the exemption of house sales.

Also, in high-inflation countries like SA, it is difficult to justify defining inflation profits as capital gains.

A major issue was submerged by the anti-VAT strike, says **Mike Siluma**

Showdown looms over the economy

STAR 27/11/91. (320)

THE Congress of South African Trade Unions' demand for the formation of an economic forum to deal with economic issues in the transition to a nonracial democracy — a call that tended to be submerged in the furore surrounding this month's anti-VAT strike — has paved the way for a new battle front between Pretoria and the ANC-SACP-Cosatu alliance over control of the economy.

In the strike's aftermath, Cosatu and its anti-VAT allies threatened sustained action over VAT, but debate within the alliance is pointing increasingly towards an even more fundamental showdown with the Government on overall economic policy.

Cosatu has expressed fears that the Government is hastily restructuring the economy to protect whites' interests and ensure that a new government would not be able to meet the economic needs of the underprivileged majority.

Jay Naidoo said: "By restructuring the economy during a period of transition, the Government is trying to ensure that the democratic movement enters political negotiations with one arm tied behind its back."

The roots of the union drive for a macro-economic negotiating forum, or an economic policy forum, lie in last year's watershed agreement between Cosatu, the National Council of Trade Unions, employers and the State on new labour legislation. Parties to the agreement acknowledged the need to "discuss, in an appropriate forum, the impact of labour relations issues on the economy".

In the interim, Cosatu and allied organisations have moved with speed to formulate their proposals for an economic forum, but not before dealing with some prickly tactical questions raised by the concept of such a forum.

Chief among these are:

- How to link the alliance's participation in constitutional talks (which are, in any case, bound to impinge on the economy) with Cosatu's campaign for a separate economic forum.
- Whether Cosatu should attend the multiparty talks as a separate entity or as part of the ANC-SACP alliance, given Cosatu's determination not to be relegated to the spectators' stand in the talks.
- How the forum would relate to existing advisory bodies such as the State President's Economic Advisory Council and the National Manpower Commission.
- Whether, by taking part in a forum including the Government, Cosatu and its allies would make themselves co-responsible, in the eyes of their followers, for the country's economic problems.

The forum — which would include the Government, the main political parties, the unions and organised business — would deal with macro-economic policy, including VAT and the Budget; socio-economic needs, including housing, health and welfare; and labour market policy.

This means the forum cannot get off the ground without the participation of the Government and the employers. But what are their views on the matter?

While the employers and the Government say they are committed to some form of "appropriate forum" to discuss labour and other economic issues, they have not put forward their views on its structure and functions.

Bobby Godsell, the labour spokesman for the employer body the SA Consultative Committee on Labour Affairs, said no agreement had been reached on what would constitute an "appropriate forum". "It's my opinion that most employers acknowledge the need for ways in which key economic stakeholders like the unions and business can make an input in economic matters in an orderly and constructive way. But there is no developed Saccola position on the issue."

The Government seems to believe any forum on the economy should be subordinate to political negotiations. Before moving from his portfolio as Manpower Minister, Eli Louw said the Government's view was "while organised labour and organised employers are important players in the economic debate, they are not the only ones", and there was a need to link economic initiatives with constitutional talks.

He added: "Having parallel talks (on the constitution and the economy) is an option, but there are other options. The Government cannot make any prescriptions." □

28/11/91

'Public hearings' on VAT next year

By Paula Fray (320)

STAR 28/11/91

The Co-ordinating Committee on VAT will hold a series of "public hearings" early next year to stimulate debate after the Government refused to rediscuss the new tax system, the committee said yesterday.

In a letter to the committee, Finance Minister Barend du Plessis said the implementation of VAT had been technically smooth, there had been rising public acceptance of it, and the Government was preparing an extensive investigation into all relevant aspects of the tax early next year.

The committee subsequently wrote to the State President, contradicting a number of the Minister's claims.

"There is overwhelming evidence of continued public rejection of the present VAT system. There is no evidence of the flood of capital goods orders or investments which the Minister claimed made it impossible to delay the implementation of VAT."

The committee also called for a public investigation of VAT, and said it had "expressed dismay that the Government has yet again acted unilaterally in its plan to investigate the effects of VAT".

The committee again called on President de Klerk to:

- Renegotiate the zero-rating of food, water, electricity, medicines, medical services.
- Help small businesses.
- Adopt a proper poverty relief programme.
- Negotiate the terms of reference and procedures for the investigation of VAT's effect.
- Discuss the pending taxation of foods which are zero-rated only until March.

Scheme to gain even more tax

Sowetan 28/11/91 320

Political Staff

A CAPITAL gains tax including tax on profits made on the sale of private properties is under consideration, a Finance Ministry spokesman has confirmed.

He said the tax, which could be included in next year's Budget, was under discussion in Government circles and had been under investigation "for some time".

Mr Pieter Coetzee said the possibility of a capital gains tax being introduced next year could not be excluded, but he thought "a lot of water still needed to flow under the bridge before that happens".

ANC spokesman Mr Carl Niehaus said he had seen Press reports on the matter but would not comment until he had spoken to the organisation's economics department.

Tax shock looms for house sales market

(320)

ARG 28/11/91

TOM HOOD
Business Editor

A TAX on private house sale profits could knock the market into a tailspin and dash hopes of early economic recovery, says Mr Keith Wakefield, national chairman of Multiple Listing Services and a former chairman of the Institute of Estate Agents.

Commenting on reports that Finance Minister Barend du Plessis in his next Budget will propose a capital gains tax on private property deals, Mr Wakefield said today it would be a major social and economic blunder.

"I urge the government to consider all the implications of such a tax and to abandon the proposal immediately.

"The home ownership ladder is a cornerstone of wealth generation — and the primary hedge against inflation — in a western economy."

It seemed the government could not keep its hands off the property market, with laws restricting ownership and subsidy schemes skewing upper residential market values and now proposals to put another damper on free market forces.

"People will simply be too scared to buy or sell unless it's absolutely essential.

"If the government takes a slice of the action every time private individuals sell property, it will take the steam out of the real estate market and end any hopes of promoting social stability and economic growth through home ownership."

Speaking for more than 7 000 estate agents working out of 1 200 MLS member offices, Mr Wakefield said the residential property market had remained "surprisingly buoyant" in spite of political uncertainties and high interest rates.

But taxing gains by private individuals removed the chief incentive for improving living standards.

The government's top priority should be to encourage home ownership by making it possible to acquire affordable and marketable homes of an acceptable standard.

"This country needs to create thousands of homes as cost-effectively as possible to meet the current housing backlog.

"Putting people into decent homes with electricity stimulates demand for furniture, appliances and other durables.

"More importantly, it means many more jobs in the building industry and in manufacturing, which further stimulates the growth cycle."

Mr Wakefield said coming so soon after the furore over VAT "and an ill-timed official hint that the VAT rate will have to go up", the capital gains suggestion was another example of bureaucratic insensitivity.

"If the government must raise more money it would be better to stimulate the economy.

"That would yield more revenue from direct personal taxes and indirect sources such as VAT," Mr Wakefield added.

Second tax clerk arrested

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Staff Reporter

A SECOND tax clerk has been arrested and suspended from his duties at the Plein Street offices, the Receiver of Revenue, Mr Ernst Conradie, said last night.

The suspension and arrest of the clerk comes after an internal investigation was launched following the Cape Times exposure of irregular GST payments on vehicles at the Receiver's office. CT 28/11/91

Mr Conradie said the clerk had been arrested and was out on bail.

VAT sends CoL soaring

CT 29/11/91

320

By AUDREY D'ANGELO
Business Editor

SOARING food prices — boosted by the imposition of value-added tax (VAT) on some items previously exempted from general sales tax — helped to push the annual inflation rate up to 16,8% in October compared with 15,4% in September.

The month-on-month rise in the inflation rate, as measured by the consumer price index (CPI), was 1,9% compared with 1,4% in September.

The annual food price inflation rate was 25,7%, the highest rise in 10 years. This compares with 19,7% in September and 16% in October last year.

Although the lower income group spends the largest proportion of its earnings on food, it was not hit hardest by the rising inflation rate.

The CPI for the middle-income group rose by 17,4% year on year and 2,1% month on month.

The index for the upper income group rose by 16,8% year on year and 1,9% month on month. The index for the lower income group rose by 16,2% year on year and 1,7% month on month.

The CPI figures for October have been awaited eagerly because Reserve Bank Governor Dr Chris Stals has said continuing high inflation is one of the main reasons for retaining interest rates at their present high levels.

They were expected to rise because of the imposition of VAT at 10% on some goods and services previously exempted from GST at 13% — although some prices have come down as a result of the lower rate of tax.

Reaction to yesterday's figures was mixed. Some economists said they were lower than expected and did not rule out a cut in interest rates early in the New Year.

Others said they were high and pointed out that the introduction of VAT, alone, did not account for the steep rise in the food only index. Food prices are being investigated by a committee set up by the government.

Capital market rates fell after the figures were announced.

The Central Statistical Services said that without the introduction of VAT, the annual inflation rate would have been 15,6%.

● Sacob comments — Page 8

Caught in freeze frame

FM 29/11/91 (320)

Trevor McGlashan is a director of Robin Beale & Associates

SA once had a budding film industry but Finance Minister Barend du Plessis and the Commissioner for Inland Revenue succeeded in killing it. True, they were aided and abetted by a number of taxpayers who were advised to make use of loopholes flowing from the wording of the Income Tax Act on marketing allowances.

Action was called for by Revenue but overkill was not. Part of the problem is the Minister, commissioner and their advisers rushing through draft legislation with undignified haste.

Taxpayers who invested in films are still awaiting assessments. At one time it appeared a mini-court would be established to approve certain films and disallow others. Now it appears that the commissioner, exhorted no doubt by the Minister himself (who still doesn't know the difference between tax avoidance and tax evasion) has decided to disallow *all* allowances linked to films.

Though the Act has been amended to abolish special allowances, the fact remains that taxpayers committed funds to projects on the basis of allowances available at the time. They have been treated arbitrarily and, in some cases, unfairly.

Taxpayers today believe they will be treated harshly once the word film appears on a return. This is a major disincentive, even after the replacement of marketing allowances with a separate subsidy system outside the Act.

No subsidy will help if investors are not prepared to put up money because of mismanagement of film deductions by Revenue. Bigger and better subsidies are not the answer. Resolving the tax assessment confusion is the solution.

Participants in *Jock of the Bushveld* were originally assessed on the basis that their allowances were valid. Now, apparently, they are being reassessed with the allowances disallowed. Yet what film could be more genuine than *Jock of the Bushveld?* A good South African story, filmed here, using local actors (including the star) and shown locally as well as abroad.

As a result, though there are several reputable film-makers — both SA and foreign — with some interesting projects in hand, noone wants to invest in a film. To do so will no doubt delay the taxpayer's assessment, result in long legal disputes with the commissioner and end up costing the taxpayer a fortune in legal fees, no matter how innocuous the available tax breaks seem.

In a recession, here is an industry ready and willing to start rolling. An industry, moreover, that could net substantial foreign earnings and create local employment. But, in present circumstances, no taxpayer will touch it. Taxpayers are even wary of rulings from the commissioner — since some past rulings on films have been reneged on.

Even investors flush with cash who, in normal circumstances, would be willing and happy to invest in films (regardless of tax breaks) will not touch a film project.

The time has come for the Minister to get his act together and call a meeting with representatives of the film industry, leading tax advisers and the commissioner, to formulate acceptable proposals so that this nascent industry can turn the extremely tarnished screen back to silver.

The Minister should include the Reserve Bank in these discussions as there are many foreign investors willing to come here to make films, but the local debacle over the film industry and often unjustified Reserve Bank suspicions have kept them away.

But even more is needed. The current mess concerning films and assessments needs to be sorted out much more quickly than the pending test case, which could take four to five years.

I believe less than 10% of films that took advantage of marketing allowances abused the benefits. Some were not great box office material, while others might have been mismanaged productions. But is careless craftsmanship reason enough to disallow taxpayers' allowances granted in the Act?

SA has the technology, skills and talent to make good films. It has in many instances cost advantages, and, with the international thaw, opportunities are certainly arising. The only obstacle is the dreaded word *film* on a taxpayer's return, which is guaranteed to cause more stress and strain than even the worst prima donna film star.

Food price hikes the main culprit

VAT blamed for rocketing inflation

B/Day 29/11/91 (320)

ANDREW GILL

VAT-fuelled price hikes saw the inflation rate rocket to a 52-month high of 16,8% for October, latest figures show.

The CSS said yesterday the consumer price index shot up by 1,9% in one month as food prices continued their runaway rises.

Food inflation was 25,7% in October, its highest in more than a decade, and the main contributor to the latest inflationary blow. From September the food price index climbed 5,6%.

The 16,8% year-on-year rate compares to September's 15,4%.

The implementation of VAT was responsible for 1,2 percentage points of the increase, with other factors causing a 0,2 percentage point rise.

If VAT was stripped out of the index, the figure would have been 15,6%, still higher than September's 15,4%.

The Co-ordinating Committee on VAT said it proved government and big business were cashing in while the poor suffered. The capital market saw it as a bullish sign, while economists found it "disappointing to expected".

Bankorp chief economist Nick Barnardt said the figures were disappointing as there had probably been increases in anticipation of VAT before October and there was no evidence of the fall in some retail prices that independent bodies had claimed was occurring.

He hoped positive factors like the stable exchange rate, and lower increases in import prices, money creation, the PPI and salaries and wages would be reflected in a considerable decline in CPI inflation next year. Interest rates and inflation had to be reduced before a meaningful upswing in the economy, he said.

Southern Life economist Mike Daly said the figures were in line with neutral expectations, and were a technical fillip before starting to fall. "We should expect almost 14% by the middle of next year and about 12,5% by year-end," he said.

A substantial drop in the rate should start coming through once the effects of VAT had worked through the index in 12 months, Daly said.

Other economists had mixed feelings about the rate, but there was optimism that it would not go higher.

Capital market rates bolted to lower levels yesterday after the news, with the figure coming in at the lower end of its expectations. The benchmark Eskom 168 strengthened to 16,27% from Wednesday's 16,38%.

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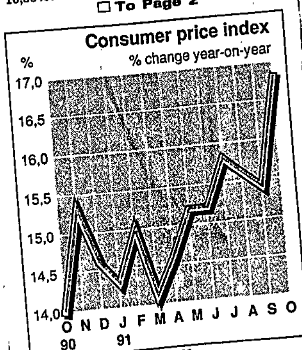

Graphic: FIONA KRISCH Source: CSS

Inflation

B/Day 29/11/91

☐ From Page 1

Co-ordinating Committee on VAT chairman Bernie Fanaroff said the figures proved government was incompetent and could not be trusted to run the economy.

They showed VAT had contributed substantially to worsening the plight of the poor and the consumer. Food price inflation, in particular, proved that big business had cashed in.

"The Vatwatch pledges which were signed by the big chain stores and food manufacturers were not worth the paper they were typed on." (220)

Also, Vatwatch had no teeth and merely served to try to pull the wool over the eyes of the people of SA. Worse was still to come on the inflation front, he warned. Most of the foods that government zero rated would be taxed from March.

Of the components of the food price increases, meat prices, fruit and nuts and seafood products were the main culprits, while sugar, coffee, tea and cocoa prices all decreased.

VAT causes shock food price surge

320

STAR 29/11/91

By Carina le Grange

Consumer prices surged by almost 2 percent in October — with half of that attributable to the implementation of VAT, according to the Central Statistical Services in Pretoria.

The CSS released the latest consumer figures yesterday.

South Africans were paying almost 17 percent more for goods in October than they were 12 months ago. The inflation rate, which measures these annual increases, stood at 16,8 percent — its highest level in more than four years.

October's inflation rate was 1,4 percentage points higher than September's rate of 15,4 percent.

The CSS also said the annual rate of increase in the Food Price Index of 25,7 percent was the highest for more than a decade. The previous highest increase was in April 1981 when food prices rose 26,7 percent.

The monthly increase in food prices for October over September was a staggering 5,6 percent.

Among the largest rises were in meat (10,6 percent), vegetables 9,1 percent, and fruits and nuts (8 percent).

Food prices were particularly hard hit by the introduction of VAT, since most items had previously been excluded from GST and are now subject to the new 10 percent VAT rate.

The CSS said that, excluding VAT, the October inflation rate would have measured 15,6 percent.

Co-ordinating Committee on VAT chairman Bernie Fanaroff said yesterday the newly released inflation figures proved the Government was incompetent and could not be trusted to run the economy.

Mr Fanaroff said the Government have argued that "VAT will not hurt" — but the evidence was against them as the latest figures showed that it has contributed substantially to the plight of the consumer.

"The CSS figures are the tip of the iceberg. We do not believe the worst is over. The effects of the fuel price increase have not yet come through."

Cosatu spokesman Neil Coleman said his organisation demanded that the Government enter into negotiations both on VAT and other aspects of the economy as the Government was guilty of mismanagement.

"This is only the beginning of the initial price spiral due to VAT — how much worse is it going to be further down the road?" Mr Coleman said.

A spokesman for the Minister of Finance, Barend du Plessis, said he could not respond last night to questions on the effect of VAT on the inflation rate.

The Consumer Union's immediate past president Anna Boshoff, who also serves on the tax watch body Vatwatch, said it had been expected that VAT would initially bring about an increase in the inflation rate but said it would hopefully soon level out.

● Inflation takes off
— Page 16

Tax jolt for fleamarket

320

Weekend Argus Reporter ARG 30/11/91

FLEAMARKET traders are convinced the Receiver of Revenue is on their trail after tax registration notices were served on them — but the Receiver has denied a witchhunt.

The notices were handed to stallholders on Greenmarket Square, one of the city's most popular tourist attraction.

Some stallholders were upset that revenue officals had started action against them while seemingly ignoring other informal traders like the township spaza shops.

Officials asked stallholders questions about how much money was earned at the stalls and who owned them.

The owners were asked to contact officials at the Receiver to clarify tax details.

Cape Town's Receiver, Mr Ernst Conradie, said Inland Revenue had had reports about the income of certain stallholders. It was the duty of officials to investigate these.

VAT changes the company way of life

S/Times (Buss) 1/12/91. (320)

By ERNEST MAZANSKY, tax partner, Kessel Feinstein

THERE can be no doubt that the introduction of VAT was a major event in the lives of most business people and their businesses.

In many cases, especially in the larger companies, significant resources were directed to the implementation of VAT. Often a steering committee was set up to co-ordinate the implementation of VAT.

This involved numerous meetings of the committee, attendance at seminars, meetings with various other personnel in the organisation (operational staff, data-processing emloyees and others), outside software consultants, printers and the like.

Large amounts of resources and many man-hours were devoted to planning for a successful implementation of VAT.

Goals

Undoubtedly, this gave rise to high costs. By and large, though, it is doubtful whether the direct costs attributable to implementation have had any significant affect on earnings — probably the most serious effect was the fact that it prevented resources from being directed at more productive goals.

But this is a short-term effect.

Of greater interest is the extent to which VAT will affect the longer-term earnings of companies. The effects will depend on several and I would like to discuss two of them.

First, one must consider the impact of price changes on the company, as well as their relationship to the market the company serves.

For example, a trader whose turnover largely comprises sales of food and who serves the poorer end of the market could well find his turnover falling because he has had to increase prices by about 10%.

The reason is that food was exempt from GST but is now subject to VAT.

On the other hand, a company selling directly to consumers items that were previously subject to GST of 13% is now able to reduce its prices because VAT is only 10%. This can result in a stimulation in turnover, especially of big-ticket items.

These matters do not directly affect those companies which do not deal with consumers but with other businesses. Obviously there will be a ripple effect.

Second, companies which spend large amounts on capital and intermediate goods will find their cost structures falling.

True

The reason is that GST was payable at a rate of 13% on the cost of capital equipment and intermediate goods and certain services — for example, advertising — and formed part of their cost.

Now, however, VAT is recoverable as input tax. Consequently, the true cost to the business of this equipment and intermediate goods and services should, in theory at any rate, fall by about 11,5% (ie, 13/113).

However, nobody should expect an immediate reduction in costs and hence in prices.

Although there should be an immediate impact on prices charged by virtue of an effective reduction in costs of intermediate goods and services, one cannot expect the same effect as a result of the drop in effective costs of capital equipment.

The reason for this is that no credit is now given under VAT for GST paid on capital equipment acquired before September 30, 1991. Thus goods made after the implementation date of VAT and using equipment acquired before that date will not be affected.

Slower

However, the costing of goods will fall as the company expands and buys new plant or to the extent that it replaces existing machinery.

But this is a long-term situation and the benefits will be felt in the next few years.

Ideally, the benefits that companies receive as a result of VAT should be passed on in lower prices or slower increases.

Many large companies have committed themselves to pass on benefits. Moreover, large companies, by virtue of their buying power, can often pressure their suppliers to pass on benefits to them.

If this happens to any significant extent, it must contribute favourably to a lowering of the inflation rate and generally act as a stimulus to the economy.

This, in turn, will have a favourable impact on the bottom line of all companies.

VAT savings ‘consumers can wait’

SHARON WOOD

BUSINESS could not be expected to pass VAT savings on to the final consumer until it benefited from them first, Grocery Manufacturers' Association executive director Jeremy Hele said at the weekend.

Hele was reacting to the large jump in consumer price inflation last week to nearly 17%, largely as a result of VAT levied on goods previously free of GST.

“It is still too early to expect companies to lower prices on the theory that they will save,” he said.

The one area where manufacturers would save was in capital equipment credits but they did not buy capital equipment every day.

The main culprits behind a 25,2% year-on-year surge in food prices in October were a month-on-month 10,6% hike in meat prices, a 9,1% rise in vegetable prices and an 8,5% increase in fruit and nut prices, as they had become liable for VAT after being exempt from GST.

Another spur to the increase in the CPI in October was medical and health care costs, up 3,1% in a month following their move into the tax net.

Housing costs showed one of their biggest jumps for a long time in climbing 1,7% month on month. The year-on-year rate was, however, still low at 6,4%.

SA's tax experts grapple with the dilemmas of reform

B/Day 2/12/91.

LESLEY LAMBERT

(32C)

THE VAT strike and the outcry in wealthier communities about proposed wealth taxes are powerful reminders of the angry, sometimes disruptive, reactions tax evokes. They epitomise the dilemma SA reformers face in finding additional sources of revenue to fund development in a country which is already heavily taxed.

The crux of the dilemma, says Tax Advisory Council chairman, Michael Katz, is how to reconcile concessions on the revenue side of the national Budget to encourage savings, investment and growth; and social spending on the expenditure side to enable socio-economic development and political stability.

To be effective, a new tax system will have to provide a careful balance between what is perceived as fair by the system's "contributors", loosely defined as participants in the First World economy, and its "beneficiaries", the disadvantaged masses.

If contributors feel they are being overtaxed they will either lose interest in generating profits which will result in a decline in output and employment, damage the integrity of the tax by avoiding it or take their skills elsewhere.

If the beneficiaries believe the system is biased, their frustration will translate into political action which, in turn, will impair economic growth. Resistance against UK poll taxes and the VAT strike in SA are harsh reminders of this.

The current direction of SA's tax reform is closely linked to international trends. The cornerstone proposals of the Margo Commission were a reduction in nominal income tax rates, coupled with the expansion of the tax base through the removal of discretionary allowances and the introduction of broad-based indirect taxes like VAT. These proposals were very much in line with developments in major Western economies, such as the UK, and more recently African countries such as Tanzania and Zimbabwe which learned that high tax rates are not a panacea.

There is widespread agreement that the process of reducing nominal corporate and personal income tax rates should continue. However, the financial authorities warn that it may have become unaffordable following last-minute VAT concessions.

The reduction of rates has been accompanied by the removal or limitation of allowances which has increased effective tax rates.

While broadening the tax base, the removal of allowances should also make the system more neutral. However, the thinking on fiscal neutrality appears to be undergoing a quiet, though not uncontested, re-evaluation. Government recently approved accelerated depreciation benefits for companies involved in the beneficiation of local raw materials for export markets. Trade and Industry Minister Org Marais argued that it was important to boost export industries and offer incentives which would make SA as attractive as the Pacific Rim countries.

The removal of flaws in the existing income tax system and an improvement in the administration of the system are other ways of broadening the base without looking for new taxes, says Arthur Anderson senior partner Pierre du Toit.

But he adds that sooner or later the "contributors" are going to have to come to terms with the idea that wealth taxes — in more sophisticated attire than a straight percentage of net wealth — are inevitable.

"A tax on net wealth is not feasible and probably not desirable as an instrument to tax wealth," says Lieb Loots, head of the University of the Western Cape's economics department and a key adviser to the ANC.

However, Loots argues that a new tax policy, while continuing with a moderate reduction in rates, should incorporate new taxes to improve the perception of fairness. His proposals — a comprehensive capital transfer tax, coupled with a capital gains tax, a progressive property tax and a rural land tax — are essentially aimed at taxing wealth.

SA already has wealth taxes in the form of donations tax and a 15% estate duty on estates exceeding R1m. The government is investigating the Margo Commission's recommendation of a comprehensive capital transfer tax to replace estate duties, donations and generation-skipping devices such as trusts, a popular vehicle for reducing taxable estates. It is also considering the introduction of capital gains tax, in spite of the commission's recommendation to the contrary.

The strongest arguments in favour of this tax are that it removes the differentiation between capital gains and taxed earnings, which is currently biased against wage-earners, and prevents people avoiding income tax by switching income gains into capital gains. It also provides the perception of fairness.

Critics argue that it is complex to administer and yields a low return because of relief measures and the exemption of private house sales, while the burden of the tax often falls on lower income earners who are forced to realise gains to obtain cash. Another argument against capital gains tax in high-inflation countries is that it is difficult to justify taxation of inflation profits as capital gains. Most high inflation countries which introduced capital gains tax tax only real gains.

Loots's proposals of property and rural land taxes are likely to touch a raw nerve, particularly since they are proposed in conjuction with steadily increasing municipal rates and capital transfer and capital gains taxes. His opponents will argue that a process of fiscal redistribution is already under way. Individuals' contribution to government revenues has increased from 25% in 1976 to 38% this year, while that of the corporate sector has slipped from 29% to 20% over the same period, largely due to the declining fortunes of the mining industry.

Loots also proposes new forms of income tax such as a minimum business tax and argues that company tax should favour firms which invest a large percentage of their profit. A withholding tax on dividends with deductions for investment in productive capacity could also be explored.

There has also been support in the ANC for the reintroduction of dividend tax. Katz argues that this would be counterproductive. Apart from reintroducing double taxation, it would encourage companies to place more emphasis on equity rather than loan capital, making them overly vulnerable to economic downturns.

Katz says the recent decision to scrap proposals for a fixed low-rated withholding tax on interest earnings was indicative of the sensitivity surrounding the introduction of taxes which could be perceived as unfair. A low-rated tax on interest would have been politically unmarketable because it would have benefited individuals in the higher tax brackets.

Assuming moderate declines in corporate and personal rates and 3% growth, Loots estimates that over five years an additional, cumulative R55bn (in 1991/92 terms) could be raised over and above present budgeted revenue levels. He also estimates that the abolition of apartheid could result in a further R18,8bn saving on current expenditure over five years. After deductions for debt servicing, these could provide additional government revenue of about R60bn over the five-year period, assuming that the deficit before borrowing remains at its present level of 3,4% of GDP.

Alternatively, Loots says, if economic growth is slower than expected, or if tax reform generates less than anticipated, additional expenditure could be maintained by increasing the deficit before borrowing.

Much negotiation and creativity will be needed in planning a new, workable and effective tax system. Certain characteristics are crucial: a broad base, fairness and certainty for investors. Du Toit says the new system will have to be protected by means of strict adherence to the rule of law and, possibly, the introduction of a tax bill of rights.

STAR. 2/12/91

Little good seen in capital gains tax

By Frank Jeans (535) (320)

Real estate leaders have slammed reports about a capital gains tax on property deals, which they believe would have severe repercussions.

With affordability already being stretched to the limit, it is claimed that such a tax could worsen the problem as owners raise asking prices to compensate for the levy.

One of the industry's strongest critics, Keith Wakefield, national chairman of the selling network, Multiple Listing Services (MLS), sees the implementation of such a tax as having a severe impact on economic growth.

Urging the Government to abandon the proposals, he says: "It seems people cannot keep their hands off the property market.

"We have had laws restricting ownership, subsidy schemes skewing upper residential market values — and now they want to put another dampener on free market forces."

Scott McRae, MD of the Camdon's group, says the tax would be a blow to the market unless it was accompanied by tax relief on bond repayments.

Mr McRae believes that without some relief for the homeowner by way of bond repayment, should the tax be imposed, the authorities could see a severe shrinking of the market generally and a serious drop in turnover and construction activity.

Pat Lamont, assistant general manager, banking, of First National Bank, believes if such a tax were implemented, it would have an impact on the market.

There is an underlying need for homes, he says.

"The buying and selling days of the past are gone. People are no longer just in the market for fun. They are there because there is a need."

VAT collections 'could be R1bn short of target'

BDay 3/12/91 (320)

PRETORIA — GST and VAT collections this financial year are likely to fall more than R1bn short of the R19,4bn budget estimate, Finance Department sources predict.

The sources said the estimate was based on a vat rate of 12%, which had since been reduced to 10%. Additional exemptions granted by Finance Minister Barend du Plessis would also contribute to the shortfall.

From April to the end of October GST collections amounted to R10,57bn.

This compared with R10,38bn in the same period last year. First VAT returns were only due on November 25.

The sources ascribed the "microscopic" collections' increase, which came despite an escalation in consumer goods prices of at least 15%, to

GERALD REILLY

the poor state of the economy and increased individual debt.

Stellenbosch University Economic Research Bureau chief Ockie Stuart said the likely fall in VAT revenue would force government to increase taxes in the new financial year.

Stuart said there was little prospect of relief for individuals or companies.

Government, he said, would have to squeeze income sources to meet socio-economic commitments.

This was why he thought it more than likely government would raise petrol tax, resulting in a 17c a litre petrol hike, probably from April next year.

Petrol was used as a fiscal instrument in other countries to a far greater extent than in SA, he said.

Barend encouraged to amend Tax Act

B/Day 4/12/91 (320)

LINDA ENSOR

CAPE TOWN — Inland Revenue is to recommend to Finance Minister Barend du Plessis that the Income Tax Act be amended in the next parliamentary session to allow a husband to claim his wife's retirement annuity contribution under certain circumstances until 1997.

In a letter to the Life Offices Association (LOA) the Commissioner of Inland Revenue has proposed an amendment to section 11 (n) of the Income Tax Act that will give a married woman the option of transferring the deductibility of her retirement annuity contribution to her husband where she does not have sufficient taxable income of her own.

In order to qualify the annuity must be effected before March 1 1992 and the option will then continue until February 28, 1997.

The proposal followed indications earlier in the year from Inland Revenue that the husband could not claim his wife's contribution because of the introduction of full separate taxation.

Old Mutual's legal services manager and LOA policyholders' taxation committee convenor, Abri Meiring, welcomed the step saying it would bring more certainty to a couple's retirement provision.

The amendment would formally legislate the practice which applied in 1990 and would protect the vested rights of people who had relied on it in the past as the five-year moratorium would be sufficient to allow for upfront costs.

Meiring said it often made tax sense for a married woman to be the member of a retirement annuity fund as she would qualify for a separate R120 000 exemption of the lump sum on retirement — in addition to the R120 000 exemption available to her husband.

"The proposed amendment will make this kind of retirement planning particularly valuable where the husband is not a member of a pension fund and where the wife's contribution to a retirement annuity together with his own contribution can be deductible up to 15% of his taxable income.

"The transfer of the deductibility to the husband is also of great significance where he has already attained the age of 70 and can therefore no longer contribute to a retirement annuity in his own name."

Tax-efficient investment

• SouthL 5/12-11/12/91

(320)

UNIT TRUSTS are a highly tax-efficient form of investment, as long as they are not used for speculative purposes.

While other investments are subject to income tax of up to 44 percent, all dividend income as well as the first R2 000 of interest income earned is tax free. And no tax is payable on the increase in the value of units bought, or capital appreciation.

Unit trusts have hardly been affected by the introduction of VAT.

This is because buying or selling unit trusts and the initial management fees paid are regarded as financial services, which are exempt from VAT, reports Sanlam's unit trust administrative manager Aubrey du Toit.

Some expenses, such as auditors' fees and regional services levies, are subject to VAT, which is recovered from dividends paid out.

A levy on financial services, or turnover tax, also came into effect on October 1 this year. This is levied at the rate of 0,75 percent a year on the interest portion and profits on interest-bearing assets in the unit trust portfolio. This is also recovered from dividend payments.

The impact of these taxes is negligible and comes out at a fraction of a cent.

Taxpayers' right to costs

FM 6/12/91 (320)

Cecil van Breda is a director of Coopers Theron Du Toit

The taxpayer should have the right to be awarded costs in the Income Tax Special Court but the law allows only a highly circumscribed right to costs. This gives an unfair advantage to Revenue.

This is particularly disturbing because taxpayers often fail to obtain relief by objecting to an assessment.

Assessors at Receivers' offices often apply the Act incorrectly through ignorance but, once an assessment is issued, it is difficult to persuade an assessor to change his mind, despite formal discussions and submission of legal opinion by counsel or other consultants.

Assessors tend to feel bound by their earlier decisions. An assessor's seniors in most instances support him; they would rather take the easy way out by referring a dispute to the commissioner.

The commissioner's office, almost as a matter of course, compels the taxpayer to take his case to court — sometimes even contrary to the advice of its own legal representatives.

Being well-staffed with advocates specialising in tax, it can go to court without incurring significant costs.

The taxpayer can obtain comparable representation only at great expense. He is in a Catch 22 situation because he has to incur substantial costs even if he wins his appeal.

The Income Tax Act says the Special Court may not order costs against the commissioner except when his claim is held to be unreasonable.

In the few cases in which this issue has been raised, it has been held that unreasonableness refers to the commissioner's claim or ruling on the merits of the case, not on whether he acted unreasonably in dealings with the taxpayer.

Nor does a right to costs arise merely because an appellant wins on appeal. An application for costs against the commissioner will succeed only in exceptional cases; indeed, there is no reported precedent where costs have been awarded against him.

To worsen matters, the commissioner's office has instructed Receivers to decline all requests for extensions of time to pay taxes under appeal. Thus the taxpayer has to pay the tax in dispute before he has the chance of a fair hearing.

It is imperative, therefore, to amend the Income Tax Act to make the commissioner liable for costs in all instances where the taxpayer is successful on appeal, in a matter where the commissioner declined a settlement offer, or an invitation on a reasonable basis to concede the case before the hearing of the appeal in the Special Court.

Establishing the court's right to make a general order on costs will not be appropriate because the taxpayer will then be exposed to a possible order to pay the commissioner's costs if he loses.

This would be undesirable. The Special Court is supposed to be an accessible and inexpensive tribunal. The present rule regarding the taxpayer's liability should therefore stand — that he can be ordered to pay costs only where his appeal is frivolous.

If the commissioner is to be put at risk for costs, he will be more inclined to settle disputes, so easing the pressure on the Special Courts and bringing income tax appeals in line with the practice in other courts.

There a litigant is held liable for the costs of the other party if he refuses an offer of settlement formally filed with the registrar of the court — and he is subsequently substantially unsuccessful at the hearing of the case.

Over the years the Special Court has constantly urged the parties to resort to pretrial hearings to settle disputes out of court — but with little success. ■

Small business weighs up VAT

Wkly Mail 6/12-12/12/91

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By FERIAL HAFFAJEE

VALUE-ADDED Tax has benefited some small businesses, but the tax must change to help all of them, believe major players in the sector.

Retailers paid General Sales Tax at the end of the month. They now have to pay VAT upfront and claim it back as an input credit.

The new tax has also added new administrative burdens on generally unsophisticated informal sector businessmen.

"VAT has placed a strain on the cash flow of many vendors and they have less stock on hand," says Nick Motsatse, human resources manager of the African Council of Hawkers and Informal Businesses.

Small Businesses Development Corporation GM Jo Schwenke believes unregistered retailers are the hardest hit sector of small businesses. These businesses, he contends, feel the impact of VAT on the streets and at the market. The fruit and vegetables most street traders sell are now in the tax system under VAT. They were exempt from GST. Hawkers now get less fresh produce for their money and charge more for their goods.

Claiming input tax credits is a major plus factor of the new tax. To do this companies must be able to produce VAT certificates from anyone they have dealt with. This is causing problems for unregistered small businesses and is making bigger companies unwilling to trade with them.

Schwenke believes a system of notional tax input credits will solve the problem. Small business lobby groups have put this proposal to government.

Inland Revenue Director Trevor van Heerden says: "We are quite happy to introduce this system to industries which apply for it as long as we get sufficient details to ensure it works efficiently."

South African Chamber of Business economist Keith Lockwood says the organisation is "aware that the system of input credit certificates is creating problems for small businesses".

Schwenke adds that VAT will make small businesses less competitive in the long run because they are largely labour intensive. The new tax favours capital intensive businesses through its system of input credits for capital expenditure.

Motsatse also says VAT places an administrative burden on small businesses. Registered small businesses and vendors now need to run an efficient and updated bookkeeping system.

Lockwood counters, "VAT is not nearly so onerous from an administrative point of view." The only book-keeping the new tax needs is an extra column in the cash book.

Motsatse says: "There has been positive feedback from some vendors, particularly registered vendors." Because VAT is three percent lower than GST, registered vendors make some savings.

Van Heerden believes "VAT has not created many problems for small businesses". He says the government has not had any negative response from small businesses. That many small businesses had registered for VAT also pointed to acceptance of the new system.

No. 2942 **6 Desember 1991**

UITSLAG VAN TUSSENVERKIESING VIR DIE VOLKSRAAD: KIESAFDELING VIRGINIA

Ooreenkomstig artikels 108 en 109 van die Kieswet, 1979 (Wet No. 45 van 1979), word die volgende besonderhede betreffende die verkiesing van 'n lid van die Volksraad vir die kiesafdeling Virginia gehou op 28 November 1991 hiermee vir algemene inligting gepubliseer:

No. 2942 **6 December 1991**

RESULT OF THE HOUSE OF ASSEMBLY BY-ELECTION: ELECTORAL DIVISION OF VIRGINIA

In accordance with sections 108 and 109 of the Electoral Act, 1979 (Act No. 45 of 1979), the following particulars relating to the election of a member of the House of Assembly for the Electoral Division of Virginia held on 28 November 1991 are hereby published for general information:

Kiesafdeling Electoral Division	(a) Naam van verkose persoon (b) Meerderheidstemme van verkose persoon (c) Datum met ingang waarvan verkies verklaar (a) Name of person elected (b) Majority of votes of person elected (c) Date with effect from which declared elected	Stemme uitgebring en politieke party verteenwoordig Votes polled for, and political party represented Kandidaat Candidate	 Politieke Party Political Party	Getal verworpe stembriewe Number of ballot papers rejected	(a) Totale getal stemme uitgebring (b) Stempersentasie (a) Total number of votes polled (b) Polling percentage	Totale getal kiesers op kieserslys Number of votes on voters' list
Virginia	(a) J. M. Beyers (b) 3 166 (c) 1991-11-28	J. M. Beyers 7 980 J. S. Kloppers 4 814	Konserwatiewe Party/ Conservative Party Nasionale Party/ National Party	25	(a) 12 819 (b) 55,52%	23 087

DEPARTEMENT VAN FINANSIES

DIREKTORAAT: BINNELANDSE INKOMSTE

KANTOOR VAN DIE KOMMISSARIS VAN BINNELANDSE INKOMSTE

No. 2899 **6 Desember 1991**

Praktyknota No. 14

INKOMSTEBELASTING: WERKNEMERSBELASTINGAFTREKKINGS TEN OPSIGTE VAN BEDRAE BETAALBAAR AAN DIREKTEURE VAN MAATSKAPPYE (INSLUITEND LEDE VAN BESLOTE KORPORASIES)

1. Die Inkomstebelastingwet is gedurende 1990 gewysig om by die woordomskrywing van "besoldiging", in paragraaf 1 van die Vierde Bylae by die Inkomstebelastingwet, 1962, enige voorskot betaal of betaalbaar aan 'n direkteur van enige maatskappy ten opsigte van dienste wat deur die direkteur aan bedoelde maatskappy bewys is of nog bewys moet word, in te sluit. Die woordomskrywing is verder gewysig om sekere bedrae betaalbaar aan direkteure van maatskappye van die uitsluiting van "besoldiging" te verwyder.

2. Die uitwerking en toepassing van hierdie wysigings (wat op 1 Maart 1991 in werking getree het) op die woordomskrywing van "besoldiging" is in Praktyknota No. 11 gedateer 11 Februarie 1991 behandel. Probleme het egter ontstaan in gevalle waar die belastingjare van 'n direkteur en maatskappy saamval en die besoldiging wat aan die direkteur toeval ten opsigte van 'n bepaade belastingjaar eers bepaal of bewillig word na die einde van daardie jaar. 'n Voorbeeld is dié van 'n direkteur wat geregtig is op 'n salaris wat bepaal

DEPARTMENT OF FINANCE

DIRECTORATE: INLAND REVENUE

OFFICE OF THE COMMISSIONER FOR INLAND REVENUE

No. 2899 (320) **6 December 1991**

Practice Note No. 14

INCOME TAX: EMPLOYEES TAX DEDUCTIONS IN RESPECT OF AMOUNTS PAYABLE TO DIRECTORS OF COMPANIES (INCLUDING MEMBERS OF CLOSE CORPORATIONS)

1. The Income Tax Act was amended in 1990 to include in the definition of "remuneration" in paragraph 1 of the Fourth Schedule to the Income Tax Act any advance paid or payable to any director of any company in respect of services rendered or to be rendered by such director to such company. The definition was further amended to remove from the exclusion from "remuneration" certain amounts payable to directors of companies.

2. The effect and application of these amendments (which came into operation on 1 March 1991) to the definition of "remuneration" were dealt with in Practice Note No. 11 dated 11 February 1991. Problems have, however, arisen in cases where the tax years of the director and company coincide, and remuneration which accrues to the director in respect of a particular tax year is only quantified (determined) or voted some time after the end of that year. An example is that of a director who is entitled to a salary based on the company's profits and which is, therefore, only determined and paid after the end of the company's financial year word ooreenkomstig die maatskappy se wins maar wat eers vasgestel en betaal word na die einde van die maatskappy se finansiële jaar wanneer die wins bepaal word. Die direkteur neem geen voorskotte nie en aan die einde van Februarie moet hy voorlopige belasting betaal op die volle bedrag van sy beraamde inkomste, insluitende die salaris wat aan hom gedurende die toepaslike jaar toegeval het. Daar word in daardie stadium geen werknemersbelasting in berekening gebring nie, maar op 'n later tydstip, wanneer sy salaris bepaal word, moet werknemersbelasting op die volle salaris afgetrek word aangesien die salaris dan aan hom betaal of verskuldig word. Die direkteur sou dan dubbel die bedrag van sy werklike belastingaanspreeklikheid betaal het.

3. Daar is gevolglik ingevolge paragraaf 11 van die Vierde Bylae by die Inkomstebelastingwet besluit dat werknemersbelasting nie afgetrek hoef te word nie van—

3.1 voorskotte betaal of betaalbaar aan 'n direkteur van 'n private maatskappy; en

3.2 besoldiging betaal of betaalbaar aan 'n direkteur van 'n private maatskappy, ***indien***—

die maatskappy se jaar van aanslag eindig gedurende die laaste 6 maande van die jaar van aanslag van die direkteur (d.w.s. tussen 1 September en die laaste dag van Februarie); ***en***

die bedrag van die besoldiging eers na die einde van die jaar van aanslag waartydens die besoldiging aan die direkteur toegeval het, bepaal word.

4. Werknemersbelasting moet nog steeds afgetrek word van besoldiging (insluitend byvoordele), behalwe besoldiging waarna in paragraaf 3.2 verwys word, wat betaal word of verskuldig geword het gedurende die jaar van aanslag waarin dit toeval.

5. Waar die omstandighede van 'n besondere geval nie deur paragraaf 3.2 van hierdie Praktyknota gedek word nie en die mening daarop nagehou word dat werknemersbelasting nie van die besoldiging van 'n direkteur van 'n private maatskappy afgetrek moet word nie, kan 'n aanwysing, ondersteun deur 'n verduideliking van die omstandighede en redes waarom werknemersbelasting nie afgetrek behoort te word nie, van die betrokke Ontvanger van Inkomste aangevra word.

6. Praktyknota No. 11 word hiermee ingetrek.

when the profits are determined. The director takes no advances and at the end of February is required to pay provisional tax on the full amount of his estimated income, including his salary, it having accrued to him during the relevant year. There is no employees tax to be taken into account at that stage, but when, some time later, his salary is determined, employees tax must be deducted from the full amount thereof since it then is paid or becomes payable to him. The director will then have paid double the amount of his actual tax liability. (320)

3. It has accordingly been decided in terms of paragraph 11 of the Fourth Schedule to the Income Tax Act that employees tax need not be deducted from—

3.1 advances paid or payable to a director of a private company; and

3.2 remuneration paid or payable to a director of a private company, ***if***—

the company's year of assessment ends during the last 6 months of the year of assessment of the director (i.e. between 1 September and the last day of February); ***and***

the amount of the remuneration is only quantified after the end of the year of assessment in which the remuneration accrued to the director.

4. Employees tax must continue to be deducted from remuneration (including fringe benefits), other than remuneration referred to in paragraph 3.2, which is paid or becomes payable during the year of assessment in which it accrues.

5. Where the circumstances of a particular case are not covered by paragraph 3.2 of this Practice Note and it is considered that employees tax should not be deducted from remuneration payable to a director of a private company a directive supported by an explanation of the circumstances and reasons why employees tax should not be deducted may be requested from the appropriate Receiver of Revenue.

6. Practice Note No. 11 is hereby withdrawn.

No. 2909 6 Desember 1991

Staat van Inkomste ingevorder gedurende die tydperk 1 April 1991 tot 31 Oktober 1991.

Tesourie, Pretoria.

No. 2909 (320) **6 December 1991**

Statement of Revenue collected during the period 1 April 1991 to 31 October 1991.

Treasury, Pretoria.

Inkomstehoof	Head of Revenue	Begroting Estimate 1991/92	Maand Oktober Month of October		Totaal 1 April tot 31 Oktober Total 1 April to 31 October	
			1991	1990	1991	1990
		R	R	R	R	R
Staatsinkomsterekening	***State Revenue Account***					
Binnelandse Inkomste:	Inland Revenue:					
Belasting op inkomste	Tax on income	44 817 200 000	3 502 534 974	3 294 682 712	24 108 011 766	21 922 556 186
Lenningsheffing 1989–94	Loan Levy 1989–94	—	—	—	1 754 663	264 800
Verkoopbelasting	Sales tax	19 444 000 000	1 555 107 550	1 585 234 901	10 569 044 539	10 381 210 041
Belasting op toegevoegde waarde	Value added tax	—	358 066	—	358 089	—
Ander belastings:	Other taxes:					
Belasting op buitelandse aandeelhouers	Non-resident shareholders' tax	430 000 000	30 954 617	39 191 025	202 342 107	285 324 306
Rentebelasting op buitelanders	Non-residents' tax on interest	—	3 642	518 724	7 496	1 803 496
Onuitgekeerde winste	Undistributed profits	—	155 807	109 925	359 456	414 075

Inkomstehoof	Head of Revenue	Begroting Estimate 1991/92	Maand Oktober Month of October		Totaal 1 April tot 31 Oktober Total 1 April to 31 October	
			1991	1990	1991	1990
		R	R	R	R	R
Geskenkbelasting	Donations tax	6 000 000	332 853	840 446	2 850 799	4 082 932
Boedelbelasting	Estate duty	75 000 000	4 549 781	7 577 762	52 855 062	58 737 987
Handelseffekte	Trade securities	175 000 000	13 602 438	15 721 608	126 209 417	160 963 409
Seëlregte en gelde	Stamp duties and fees	655 000 000	61 991 014	57 294 364	428 192 645	372 195 528
Hereregte	Transfer duties	675 000 000	74 543 540	69 439 765	530 742 236	447 273 637
Diverse	Miscellaneous	—	—	—	—	—
Mynverhurings- en eiendomsregte	Mining leases and ownership	320 000 000	22 271	304 460	139 097 439	157 195 777
Rente en dividende	Interest and dividends	55 000 000	12 425 765	18 108 903	43 710 333	45 368 873
Heffings	Levies	9 000 000	549 043	1 407 172	6 740 507	2 329 254
Terugvorderings van lenings en voorskotte	Recoveries of loans and advances	56 000 000	9 363 147	8 971 776	27 225 843	21 732 655
Departementele bedrywighede	Departmental activities	994 000 000	121 195 238	97 646 699	665 313 226	726 153 708
	R	67 711 200 000	5 387 689 746	5 197 050 242	36 904 815 623	34 587 606 664
Min: Betalings aan selfregerende nasionale state	*Less:* Payments to self-governing national states	1 075 200 000	90 354 000	75 688 000	632 060 000	529 719 000
Totaal: Binnelandse inkomste	Total: Inland revenue R	66 636 000 000	5 297 335 746	5 121 362 242	36 272 755 623	34 057 887 664
Doeane- en aksynsregte:	Customs and excise duties:					
Doeanereg	Customs duty	2 635 000 000	194 912 660	233 918 143	1 648 436 092	1 444 588 411
Aksynsreg	Excise duty	3 555 000 000	342 746 500	277 236 350	1 937 505 962	1 643 182 627
Bobelasting	Surcharge	1 409 000 000	95 743 489	189 039 680	860 932 188	1 221 737 975
Diverse	Miscellaneous	233 000 000	(21 818 389)	20 944 482	87 930 570	116 711 327
Brandstofheffing	Fuel levy	4 520 000 000	483 988 449	319 303 258	2 740 110 054	2 344 004 599
Gewone heffing	Ordinary Levy	111 000 000	6 211 594	5 114 183	38 385 406	64 361 424
	R	12 463 000 000	1 101 784 303	1 045 556 096	7 313 300 272	6 834 586 363
Min: Bedrag tot krediet van Sentrale Inkomstefonds	*Less:* Amount to the credit of Central Revenue Fund	—	—	—	—	223 500 000
Betalings ingevolge Doeane-unie-ooreenkomste	Payments in terms of Customs Union Agreements	4 233 000 000	1 037 556 750	711 437 250	3 291 472 000	2 130 526 750
Totaal: Doeane- en aksynsregte	Total: Customs and excise duties R	8 230 000 000	64 227 553	334 118 846	4 021 828 272	4 480 559 613
	R	74 866 000 000	5 361 563 299	5 455 481 088	40 294 583 895	38 538 447 277
Suid-Afrikaanse Ontwikkelingstrustfonds	South African Development Trust Fund	50 000 000	6 494 497	154 222	42 165 555	56 531 274
Fonds vir Sorghumbiernavorsing	Sorghum Beer Research Fund	1 200 000	—	—	—	—
Toewysings uit brandstofheffing:	Allocations from fuel levy:					
Oliebesoedelingsfonds	Oil Pollution Fund	6 000 000	—	—	—	—
Suidwes-Afrika	South West Africa	10 000 000	—	—	—	—
TBVC-lande	TBVC Countries	140 000 000	—	—	—	—
	R	207 200 000	6 494 497	154 222	42 165 555	56 531 274
	R	75 073 200 000	5 368 057 796	5 455 635 310	40 336 749 450	38 594 978 551
Inkomsterekening: Volksraad	***Revenue Account: House of Assembly***					
Binnelandse inkomste	Inland revenue	—	3 870 445	38 953 027	110 383 058	90 077 435
Inkomsterekening: Raad van Verteenwoordigers	***Revenue Account: House of Representatives***					
Binnelandse inkomste	Inland revenue	—	2 663 786	2 772 684	22 062 927	21 327 642
Inkomsterekening: Raad van Afgevaardigdes	***Revenue Account: House of Delegates***					
Binnelandse inkomste	Inland revenue	—	1 166 402	659 964	4 880 856	4 400 501
	R	—	7 700 633	42 385 675	137 326 841	115 805 578
Groottotaal	Grandtotal R	—	5 375 758 429	5 498 020 985	40 474 076 291	38 710 784 129
Rekonsiliasie met opgaaf gepubliseer by Goewermentskennisgewing 2730 in *Staatskoerant* van 22 November 1991:	Reconciliation with statement published by Government Notice 2730 in *Government Gazette* of 22 November 1991:					
In Transito, 31 Maart 1991	In Transit, 31 March 1991	—	—	—	198 934 099	—
In Transito/Te veel oorgedra, 30 September 1991	In Transit/Overremitted, 30 September 1991	—	240 949 206	—	—	—
Invorderings soos hierbo	Collections as above	—	5 375 758 429	—	40 474 076 291	—
	R	—	5 616 707 635	—	40 673 010 390	—
In Transito/Te veel oorgedra, 31 Oktober 1991	In Transit/Overremitted, 31 October 1991	—	91 338 777	—	91 338 777	—
In Transito Inkomsterekening: Administrasies	In Transit Revenue Account: Administrations	—	(25 602 282)	—	(129 626 209)	—
In Skatkisrekening ontvang	Received into Exchequer Account R	—	5 682 444 130	—	40 634 722 958	—

Toll-free VAT help to end

(320)

CT 11/12/91

JOHANNESBURG. — The toll-free VAT inquiry telephone service set up to help vendors would be terminated on December 25, the government said yesterday.

Inland Revenue set up the service on July 15, and since then some 50 000 inquiries have been received.

After December 25 queries can be directed to the Receiver of Revenue. — Sapa

VAT inquiry service to end

ARG 11/12/91 (320)

JOHANNESBURG. — The toll-free VAT inquiry telephone service set up to assist vendors will be terminated from December 25, the Department of Inland Revenue has announced.

The department set up the service on July 15 and some 50 000 inquiries have been received.

"The service will remain open until December 24, 1991 so as to assist those vendors whose first bi-monthly VAT 201 return falls due in this month," a statement explained.

From December 25 onwards queries can be directed to the vendor's Receiver of Revenue.

"The service was part of Inland Revenue's programme to assist vendors and proved to be popular," the statement added. — Sapa.

Cash crisis looms for Nats as tax revenue falls short

ARG 11/12/91 (320)

DEREK TOMMEY

JOHANNESBURG. — Latest Treasury figures show that tax revenue is falling well behind government spending, resulting in the government deficit reaching a record R8,6 billion for the seven months to October.

The figures reinforce the view that the National Party for the first time in its 43 years of rule is facing a serious financial crisis.

At no time since 1948 has the government ever had to introduce what can be termed an "austerity Budget".

The economy, even when depressed, has always been strong enough to generate enough tax revenue to enable the government to spend quite freely.

The tax figures show this is no longer happening. Revenue is lagging further behind expenditure.

And with the Reserve Bank reporting the recession deepening, "with all components of spending falling simultaneously", there is no sign of any improvement in the government's finances.

Figures issued by Central Statistical Services show revenue collection in the first seven months of the Government's fiscal year rose only 6 percent, compared with the Budget forecast of 11,1 percent.

While revenue has been lagging, the state's expenditure has been soaring in the same seven months to 17 percent higher than last year.

The result is that expenditure has exceeded revenue by 18,7 percent, compared with 7,6 percent in the same period last year.

This has led to a huge increase in the government deficit. At the end of October it had reached R8,6 billion, compared with R5,1 billion a year ago, and amounted to 76,7 percent of the deficit voted for the full fiscal year.

At the same time last year the deficit was 35,9 percent of the budgeted figure.

The government, along with most other sectors of the economy, has been hurt by the world recession, which appears to be intensifying, as well as by the Reserve Bank's tight money policy aimed at providing a foundation for strong long-term growth.

The government has also been hit by a development of its own making: This year's increase in personal income tax, which again helped trim consumer spending.

Although some adjustments were made to tax tables in the March Budget for inflation-induced fiscal drag, these only retricted the increase in income tax rates, but did not lighten them.

This was a serious mistake for it was already evident that the economy was moving deeper into recession, and some tax relief might have helped to stabilise it.

As long as South Africa remains in recession, it cannot expect much growth, even in nominal revenue.

The Director-General of Finance, Mr Gerhard Croeser, hinted in Stellenbosch last month how the government would tackle the situation. He said it could be looking at an increase in the tax on fuel, an increase in VAT, and some way of increasing company tax without actually increasing the company tax rate.

Revenue corruption probe after court awards R164 000

ARG 12/12/91

(320)

JOHN VILJOEN
Supreme Court Reporter

A COMMISSION will investigate allegations of corruption in the revenue service and a senior tax official will be paid R164 000 toward his legal costs in terms of a Supreme Court settlement.

Mr Trevor Norman Foster, deputy director in the Department of Inland Revenue and deputy head of special investigations, claimed he had not been promoted for two successive years because he made allegations of corruption.

His Supreme Court dispute with the Director General: Finance ended yesterday when he undertook to abandon all litigation against his employers in terms of a settlement made an order of court by Mr Justice J J Fagan.

Only for the purposes of the settlement, Mr Foster is now rated as being "classified promotable out of turn", but he will resign on December 31.

The Director General will pay R164 000 toward Mr Foster's legal costs for all disputes which have arisen between them.

The Director General has undertaken to have Mr Foster's allegations "properly investigated" by an independent committee or commission.

Mr Foster has undertaken to refrain from any investigations or actions on his part in this regard.

He has also abandoned "irrevocably" all claims, or court applications which he may have contemplated against the Director General and his department in regard to any issues between the parties.

Payout to tax rebel

CT 12/12/91 (320)

By RONNIE MORRIS
Supreme Court Reporter

THE Department of Finance is to probe charges of corruption and maladministration against itself in terms of a Supreme Court settlement with a top tax official.

It will also pay the official, Mr Trevor Norman Foster, R164 000 for his legal costs.

Mr Foster, a deputy director and also head of the special investigations team of the Department of Inland Revenue, brought two applications against his bosses for overlooking him on promotions.

He claimed that his promotion had twice been blocked after he had exposed corruption within the revenue service.

Mr Foster, who will resign from the Department of Finance on December 31, has undertaken to abandon irrevocably all claims and/or court actions against the department.

He also undertook to stop investigating corruption or maladministration because the director-general had undertaken, and committed himself, to have the allegations investigated by an independent committee or commission.

The parties further undertook to regard the terms of the settlement as private and confidential and not take any steps to make it public.

The court heard that on November 8 last year he was evaluated by an evaulation committee and was found not to be "a candidate for promotion".

A merit assessment found his work "not completely satisfactory" and as a result he lost a yearly professional allowance of R20 000.

Two judges subsequently set aside a decision by the director-general that he should not be rated for promotion and that his performance was unsatisfactory.

Mr Foster subsequently brought a second application when he was again assessed this year and found not promotable on the basis of his alleged "poor interpersonal relations".

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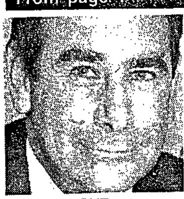
From page 1

Tax rebel

(320) CT 12/12/91


PAID OUT ...
Trevor Foster

Central to this issue was the fact that over a period of time he had brought evidence of corruption and/or maladministration to the attention of his seniors, Mr Foster said.

Yesterday, in terms of a settlement which Mr Justice J J Fagan made an order of court, the director-general acceded to all Mr Foster's claims brought in the May application. These were:

That the director-general give reasons why he was evaluated in his present rank as "not completely satisfactory"; wh[illegible] was rated as "not at all a candidate for p[illegible] and why his acceptability rating should [illegible] acceptable.

The director-general further placed on record that Mr Foster was now being rated as "having been classified promotable out of turn".

Mr Peter Hodes SC, assisted by Mr Les Rose-Innes, instructed by Mr Jeremy Simon, of Gelb Gelb Simon and Shapiro, appeared for Mr Foster.

Tax on directors' dues partially withdrawn

(320)

B/Day 13/12/91.

GILLIAN HAYNE

INLAND Revenue's controversial decision to deduct PAYE from all amounts paid to directors has been partially withdrawn.

A note published in the Government Gazette on December 6 says employees' tax need no longer be deducted from advances paid or payable to directors of private companies and close corporations.

In addition, if the company's year of assessment ends between September 1 and the last day in February, and the bonus paid is quantified after the year end, PAYE need not be deducted.

BDO Spencer Stewart tax director Matthew Lester warns that a director receiving a fixed salary, for which he is under no obligation to repay if the company does not perform according to forecast, will still be liable for employee tax.

"The application of the practice note is completely dependent on the true agreement existing between the company/close corporation and the director/member.

"It will not suffice to simply 'label' a director's salary as being drawings so as to get around PAYE," says Lester.

The six-month condition puts a time limit on the fiscus's waiting period for its money.

"Revenue is not prepared to wait until the third provisional top up tax payment which is only due by end August following year, to receive the tax," Lester says.

In other words, companies with year ends between March and August will still have to pay PAYE on directors' bonuses while those with year ends between September and February will be exempt.

KPMG Aiken and Peat tax partner Hennie Coetzee says the statement removes many of the practical difficulties surrounding original requirements and is a step in the right direction.

However, by excluding only advances from the net it opens up the possibility of tax avoidance.

In general though, tax experts welcomed the move.

PAYE FM 13|12|91

Revenue retreats (320)

When Paye became applicable to directors' fees on March 1, there was widespread dissatisfaction in the business community. Many tax practitioners pointed out unsatisfactory features of the new procedures. Now, in practice note No 14, dated December 6, Revenue has made important concessions.

The original effect was to redefine "remuneration" to include any advance paid or payable to any director of a company (or member of a CC) for services rendered.

Revenue now acknowledges that the changes have given rise to problems in cases where the tax years of the director and company coincide and remuneration is only determined after the end of that tax year. An example is a director who is entitled to a salary based on profits, which can only be calculated after the financial year-end.

Suppose the director takes no advances. Then at end-February he will be required to pay provisional tax on his full estimated

FM 13|12|91 (320)

income, including salary (as it would have accrued during the tax year). No Paye would have to be taken into account. But when, some time later, his salary was determined, Paye would have to be deducted from the full amount — as it would have been paid or become payable to him. The director would then have paid double his actual tax liability.

This anomaly arises because the Act, in dealing with tax payable on the provisional basis, works on the basis of an estimate, which catches the remuneration on its literal wording. The Fourth Schedule (after the 1990 amendments) catches the same income when paid later on its literal wording.

To remedy this, Revenue has decided (in terms of the Fourth Schedule to the Act) that Paye need not be deducted from accruals or remuneration paid or payable to a director of a private company and members of a CC if the year of assessment ends during the last six months of the year of assessment of the director (that is, between September 1 and end-February) and if the remuneration is quantified only after the end of the year of assessment in which it accrued.

Paye must still be deducted from other remuneration (including fringe benefits) paid or payable during the year of assessment.

Where a case is not covered by the latest practice note and a director of a private company feels that Paye should not be deducted from his remuneration, he may ask his Receiver of Revenue for a directive. His request should be supported by an explanation, advancing reasons.

Ernst & Young tax partner, Ian Henstock, is critical of the scope of the changes. He finds it irrational that the exemption is confined to private companies with financial year-ends within certain limits. He considers that the concession should apply to all. As matters stand, all that will happen is that private companies will change their year-end to bring their directors within the exemption.

Kessel Feinstein tax partner Ernest Mazansky concedes that it was logical that, if Revenue sought to subject directors' remuneration to Paye, it had to tax advances, otherwise they could easily avoid Paye by taking advances instead of salary.

He points out that directors of private companies who earn fixed salaries unrelated to profitability will still have to pay Paye.

However, the way the practice note is drafted, not only directors whose full salaries are determined after the year-end of the company are exempt from Paye, but also directors on profit-sharing arrangements. Thus, if a director receives a fixed monthly salary plus 5% of profits, the entire remuneration package is exempt from Paye provided the year-end requirement is satisfied.

Mazansky suggests one case where a directive might be applied for: a director of a private company whose year-end is, say, June, and where withholding Paye on a salary determined after the year-end will cause financial hardship.

He also notes that there is no stated date of implementation for practice note No 14.

contin

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Therefore it would appear to apply from date of issue (December 6). Though the practice note is silent on the matter, it seems that where Paye has already been deducted, the amount should be set off against provisional tax payable at the end of February. No further Paye need be deducted from now on in the qualifying circumstances. ■

Govt tenders anger ad industry

MARCIA KLEIN

THE advertising industry has expressed concern about the handling of public interest organisations' account pitches.

Association of Advertising Agencies (AAA) executive vice-president Peter de Klerk said yesterday the R1,4m national peace committee account — awarded to Hunt Lascaris and HerdBuoys — was an example of the pitches which had not been handled properly and amounted to abuse of the ad industry. Others included the Reserve Bank account and the AIDS account, which was recently awarded to Hunt Lascaris.

De Klerk said he was "disenchanted with the way that public bodies were abusing the advertising agencies", and the AAA had approached the national peace committee chairman and "the highest possible authorities in government" about the issue.

He said the AAA had been using SA Communications Services (SACS) to act as a conduit between the agencies and government with regard to government pitches, and this had proved to be successful. However, SACS had no authority to act on pitches which were not purely government, and the recent pitches were happening outside of its authority.

Agency heads said yesterday that about eight disillusioned agencies had withdrawn from the national peace committee pitch.

They said these public body pitches were put out out to tender, which meant that dozens of agencies were spending up to R100 000 on a pitch against a host of other agencies.

They said there was no reason to ask every agency in the country to pitch, and a short list of four or five agencies could easily be chosen on credentials.

An agency head said public interest groups were in a difficult position as there was pressure on them to put an account open to tender as it had to appear to be fair. "This sets the stage for a set of circumstances which is not conducive to the relationship necessary for great advertising."

13/12/91

Technikons, universities warned of cutbacks

Political Staff

CAPE TOWN — Government yesterday warned it would be "impossible" to meet educational needs of technikons and universities next year.

National Education Minister Louis Pienaar said there would be a "considerable difference" between the needs of these institutions and the state's ability to fund them.

UCT deputy vice-chancellor Prof Dave Woods warned that continuing cutbacks in government funding had plunged SA research into crisis, jeopardising the country's ability to compete internationally.

Pienaar said education spending would amount to about 20% of the 1992 Budget.

Sapa reports Woods said engineering and science researchers had been told their government grants would be cut by between 4% and 8% from January. Funding of student bursaries would be cut by 75%.

13/12/91

Top tax official gets settlement

(320)

CAPE TOWN — The Department of Finance is to probe charges of corruption and maladministration against itself in terms of a Supreme Court settlement with a top tax official.

It will also pay the official, Trevor Norman Foster, R164 000 for his legal costs and an undisclosed settlement.

BD(W). 13/12/91

Foster, a deputy director and head of the special investigations team of the Department of Inland Revenue, brought two applications against his bosses, claiming that his promotion had twice been blocked after he had exposed corruption within the service.

Foster, who will resign on December 31, has undertaken to abandon irrevocably all claims and/or court actions against the department.

He also undertook to stop investigating corruption or maladministration because the director-general had undertaken and committed himself to have the allegations investigated.

The parties further undertook to regard the terms of the settlement as private and confidential.

The court heard that on November 8 last year he was evaluated and found to be an unsuitable "candidate for promotion". As a result he had lost a yearly professional allowance of R20 000.

Two judges subsequently set aside a decision by the director-general that he should not be rated for promotion. — Sapa.

[redacted]

Officials to probe 'corrupt' taxmen

320

S/Times (cont) 15/12/91

By MARTIN WELZ

TOP Department of Inland Revenue officials are to be investigated following serious allegations of corruption.

In a "private and confidential" agreement made an order of the Supreme Court this week, the director-general of finance, Mr G P Croeser, has undertaken to set up an independent inquiry into the allegations.

The agreement was reached with Mr Trevor Foster, a deputy director and head of the special investigations team in the Department of Inland Revenue in Cape Town, who had been pressing for an inquiry into corruption since February 1989.

However, Mr Croeser sought to have the terms of the settlement kept confidential and Mr Foster agreed "not to take any steps" to make the terms of the settlement public.

In addition, the department is to pay Mr Foster R164 000 for his legal costs. Mr Foster is to resign on December 31.

The settlement followed an application brought by Mr Foster against the department for overlooking him for promotion. It was his second such application in a year.

Mr Foster argued that he had been penalised for insisting that alleged corruption in the department be investigated.

From 1984 until 1989, his work performance had been so highly regarded that he was given two special promotions.

His fortunes changed in 1989 when he brought alleged corruption among senior officials to the notice of his superiors. Later, he was rated "unpromotable".

In a memo written to the department in March and included in court papers, Mr Foster accused a senior member of the Cape Town revenue office of delaying replies to certain wealthy taxpayers for up to two years — thereby allowing a postponement of their tax payments.

Mr Foster also gave details of a case in which the Commissioner for Inland Revenue had ordered that two Cape Town company directors and two partners in an international firm of auditors be charged with tax fraud involving R1-million.

Senior counsel advised the Receiver that the claim should be settled fairly for R475 000, but two years passed without a response from revenue officials.

Then, following the Commissioner's "personal decision", a settlement was concluded "at about R217 000".

When Mr Foster reported another incident to the Director of Investigations in Pretoria, his superior, Mr U Horstmann, called him in and demanded that he take a transfer out of the investigations division.

□ Turn to Page 4

Officials to probe 'corrupt' taxmen

□ From Page One

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According to papers before the court in Mr Foster's earlier application, Mr Horstmann reported him to the director in Pretoria.

Pretoria responded by summoning Mr Foster for a meeting with the commissioner, Mr J Hattingh, and the chief director of operations, Mr S Albertyn.

Mr Foster said they had told him his allegations were "affecting morale".

Mr Albertyn had also told him that he was to come up for evaluation in three months and he intended telling the committee that Mr Foster should be rated "not promotable".

Later, the evaluation committee decided Mr Foster was "not a candidate for promotion".

Mr Foster applied immediately to the Supreme Court for the committee's ruling to be set aside.

Before the matter could be heard in court, the department launched another merit investigation of Mr Foster. In March, the second committee confirmed the earlier committee's finding.

In June, the Supreme Court set aside the first committee's decisions and ordered the department to pay Mr Foster's costs.

However, the department tried to enforce the second evaluation committee's findings and Mr Foster applied to the court for these to be set aside.

On August 26, affidavits by Mr Foster on "maladministration" in the department were handed to the director-general of finance, Mr Croeser. "Because of their sensitive nature", copies were not handed in to the court.

Revenue plans to halt annuity tax deductions

(320)

B Day 18/12/91.

LINDA ENSOR

CAPE TOWN — The Commissioner of Inland Revenue is proposing to discontinue the fixed amount tax deductions of R3 500 (less pension fund contributions) and R1 750 for retirement annuities after the end of the 1997 tax year.

Revenue believes the fixed amount deductions are no longer justified as it considers the total deduction of up to 27,5% of total income presently allowed for pension fund contributions as adequate.

It argues the fixed amount deductions were not intended to be used as a supplement to pension fund contributions and were retained only to protect existing rights of deductability when the 15% rule was introduced in 1979. Revenue also believes the rules on fixed amount deductions complicate determination of the maximum deductible annuity fund contribution.

But the Life Offices Association (LOA) has expressed concern over the step, believing that a stable tax environment is critical to encourage private pension provision.

"We are extremely concerned that this move may be seen as a clamping down on private pension provision which would most certainly be the wrong message at this stage," said LOA policyholders' taxation committee convener and Old Mutual legal services manager, Abri Meiring.

"The taxpayers who will be hardest hit by the proposed amendment will be existing members of pension funds who also contribute to retirement annuities to augment their retirement provision."

The LOA has requested that if the fixed amount deductions are to be removed this should be implemented from a specified date onwards rather than be applied to all retirement annuity policies from 1997. This would protect existing policies and ensure tax certainty.

"We believe that no taxpayer who entered into a long-term retirement contract should in any way be disadvantaged by a future change to the tax position which would essentially have a retroactive effect on his/her long-term planning," Meiring said.

He said the LOA would prefer a complete overhaul of the deduction formula if Revenue insisted on removing the fixed amount deductions.

In its response to Revenue, the LOA has suggested an increase in the 15% maximum allowable deduction on annuities in the 1992 tax year to at least 20% for taxpayers below the age of 50 years and by an additional 1% for every year over age 50 with a maximum of 30% reached at age 60.

Meiring said the suggested increase would also "soften the blow" for members of pension funds who contribute to annuities should Revenue do away with the fixed amount deductions. Such people would then be able to base their annuity deductions on at least 20% of non-pensionable taxable income such as fringe benefits and interest. At a level of R8 750 a year (or even less if over 50 years) of such income the current R1 750 deduction would effectively be maintained.

"It is also becoming increasingly difficult for self-employed people to make adequate retirement provision on the basis of 15% of their taxable income," Meiring said.

Self-employed people were at a disadvantage relative to pension fund members when it came to fiscal incentives for retirement provision. The base for the 15% deduction had also been eroded by the exclusion of gross dividend income in 1990.

As part of its proposed overhaul of the formula, the LOA has recommended the limit for deductible reinstatement contributions to annuities and for arrear contributions to pension funds be increased from R1 800 to at least R3 600 from the 1992 tax year.

The LOA has also asked Revenue to extend the age at which RA annuity contributions must terminate from 70 to 75 years.

FOCUS: *So where's the consumer policy for the future?*

Shoppers, you're on your own

W/Mail 19/12/91-2/1/92 (320)

W/Mail 19/12/91-2/1/92

CRITICAL CONSUMER

Pat Sidley's weekly advice on what to buy ... and what to avoid

WITH constitutional talks underway, the voteless will vote within the foreseeable future. They will have a say in their lives.

But will they have health care at an affordable rate? Will they drive cars made to overseas safety standards? Will agricultural control boards be reinstated?

Will the poor have enough to eat? Or will those in charge of food production make sure they themselves eat well, and no one else does?

Will our law still make the assumption, in the phrase caveat emptor (let the buyer beware), that consumers must watch out for themselves? Or will there be more safeguards for consumers to protect them from sharks?

These are critical issues, and none of them is on the agenda for constitutional talks. Consumer issues are at the bottom of the list — even for South African consumers, who traditionally think somebody else will take care of the problem.

Sometimes "somebody else" does: the government, the only institution with the muscle (and often the desire) to implement measures designed to protect consumers. But this year, little was done to protect the consumer and an immense amount was done which ended up harming them.

The most noticeable event in this pattern was the introduction of Value-Added Tax. No measures were introduced alongside VAT to prevent the exploitation of consumers — so consumers were ripped off mercilessly. The proof is in the inflation rate, measured by the government — which has an interest in making things look better and not worse.

It ran at 16,8 percent for the year ending in October; food inflation ran more than 25 percent for the same 12-month period.

In October this year — the first month VAT was in force — general inflation rose 1,4 percentage points higher than in September, pre-VAT.

A commission of inquiry has been instituted to find out what has happened to prices. It is unlikely to apportion direct blame to the government. And certainly nobody will be required to make amends or rectify the situation.

The Presidents' Council has proposed that the Consumer Council — a toothless body — be given incisors, at long last.

But the government will have to decide on this and send a proposed law through parliament.

Consumers will wait.

In the meantime, there is little hope from anybody else on the horizon for effective consumer measures. Even the African National Congress believes it is doing nothing — although on closer enquiry, this proved to be slightly incorrect.

Certainly no formal item of consumer issues appears on the ANC's agenda for negotiations, and no research under the title of consumer needs has been undertaken.

But rising out of the VAT row, the ANC and Cosatu are about to embark on a programme which should gather more adequate information about consumers — particularly the very poor — and mobilise support among them.

Actually, both the ANC and the Congress of South African Trade Unions (Cosatu) are more accustomed to consumer power than they know. Both organisations have inspired and carried out successful consumer boycotts. They measure them in political terms, because they are usually aimed at a political problem — but they constitute the ultimate consumer sanction in any situation.

This is the kind of public response Cosatu and the economic division of the ANC are hoping can be inspired when, along with the Co-ordinating Committee on VAT, they institute a public forum in February next year to give the public an opportunity to express their views on several VAT-related problems.

On February 14 and 15 the committee's commissioners will hear evidence on VAT from the public in several major centres and the public is being asked to submit written ideas too. This, as usual, means only those with access to urban areas or those who can read and write will participate in the forum.

However it is not the end of the issue — and the ANC hopes to devote energy in the new year to researching the needs of the poor.

As a start, they will be trying to gather more reliable data. What do the poor eat, when they eat? How do they live? What diseases do they get? How many are there?

Would price controls help the poor? What role is there for control boards?

Out of this, the researchers hope, will flow some useful suggestions about dealing with the most pressing of consumer problems in this country — the needs of millions too poor to consume what they require.

Of course, for most of us, things will remain the same. They will get tougher and tighter as prices rise with no relief in sight. And the sharks will sharpen their teeth — ever sure in the knowledge that there are plenty of ignorant and weak consumers out there, suckers for any scam going.

ARGr 19/12/91

Fight to halt tax blow on annuities

(320)

TOM HOOD
Business Editor

INSURANCE companies are to fight proposals by Inland Revenue to abolish major tax concessions on retirement annuities from 1998.

The proposals are being discussed with the Life Offices Association (LOA), which wants the change to apply only to future policies.

Today the Democratic Party urged the government to "think twice" on plans to reduce incentives for people contributing to annuity funds.

Mr Ken Andrew, the DP spokesman on finance, said financial assistance to the elderly who were unable to provide for themselves "is a massive drain on state resources".

"This demand will increase sharply, so it is essential that the government encourages everyone to provide financially for their own retirement," Mr Andrew said.

It was "extremely worrying that there are proposals under consideration that would reduce the tax incentives for people to make private pension fund provisions for themselves by way of contributions to retirement annuities".

Mr Abri Meiring, chairman of the LOA policyholders taxation committee, said the proposals could be seen as a clampdown on private pension provision, which would be "the wrong message at this stage."

More than R650 million in new premium income was channelled into retirement annuities in the 12 months ending June 30 — a large proportion coming from self-employed people who have no pension funds.

An insurance industry survey recently calculated that only one in every 100 people could afford to retire on their pension. About 95 out of every 100 people retire to less than R1 000 a month.

VAT regulations on exports may be reviewed

Sowetan 19/12/91 (320) MHG

THE new regulations controlling VAT on exports are meant to "test the water" and may only remain in their present form until the end of January 1992, a leading tax expert says.

Tax expert and author Errol Danziger says that the Department of Inland Revenue's regulations on VAT exports, which came into effect on September 30, will be re-evaluated for possible improvement.

"The new regulations are quite different to the GST procedures when goods are sold to neighbouring states or tourists".

Similar to export procedures for GST, a seller of export goods can only be exempted from paying VAT if the goods are consigned or delivered by him to an address in an export country.

If a buyer wishes to take delivery of export goods in South Africa, a scheme has been set up by the Department of Inland Revenue to allow goods to be zero rated, provided the purchaser complies with certain formalities.

This scheme applies only to buyers from Botswana, Namibia, Lesotho, Swaziland and the TBVC countries.

Onus

The onus is on the buyer to return tax exemptions forms to the seller within three months of purchase of the goods, otherwise the seller will be liable for the VAT owing on goods.

Danziger recommends that sellers of export goods screen their clients carefully before deciding to zero-rate an export to a neighbouring state, where the delivery of the goods is taken locally.

"Unless the buyer is known to the exporter, it may be prudent for the seller to charge VAT, which the purchaser can then claim back when he has his relevant papers stamped at a controlled border area.

"In the case of foreign travellers purchasing goods in South Africa to take home with them, a centralised system of refunds has been created at all international airpots, major harbours and at Beit Bridge.

"The customer will be refunded the VAT immediately, provided it is not for an amount in excess of R3 000. Otherwise an internationally recognised cheque will be sent to his residential address.

NATIC

Shock finding on zero-rated foods

320

ARG 20/12/91

The Argus Correspondent

JOHANNESBURG. — As the year-on-year food inflation surged to its highest level in a decade in November, a Vatwatch survey released yesterday found zero-rated foods now cost more than ever before.

News of the continuing spiral in food prices prompted calls for urgent, "firm and constructive" action to be taken as soon as possible.

The monthly Consumer Price Index (CPI) figures released by the Central Statistical Service (CSS) showed that between November 1990 and November this year food prices soared by 26,9 percent to its highest level since March 1981.

According to CSS, the exceptionally large year-on-year increase of 26,9 was due largely to a 38,1 percent increase in the price of meat, 43,4 percent increase in fruit and nuts and a 33,9 percent increase in vegetables.

But the overall inflation rate, which measures annual increases in all consumer goods, was 15,5 percent in November compared with 16,8 percent in October.

According to Vatwatch, consumers now are paying 14,5 percent more for seven zero-rated foodstuffs since July. The items monitored were canned sardines, maize meal, milk powder, samp, rice, brown bread and fresh milk.

Vatwatch said: "Of these, milk powder rose by 35 percent and brown bread by 15 percent; fresh milk, rice and maize meal now are costing less than five months ago."

The rate of increase in the prices of goods and services appeared to be slowing down — from 2,6 percent in August to 2,1 percent in November — after the introduction of VAT on September 30.

The Vatwatch study showed meat was a major contributor to higher food costs. In the five-month period the countrywide price increases of minced meat, boerewors and stewing meat averaged between four and six percent.

"The price increase of the total meat basket from July to November was highest in Durban (29,5 percent) and lowest in Pretoria (17,8 percent).

The Housewives' League's Mrs Lyn Morris said: "Food inflation at 26,9 percent is unacceptable. I find it frightening. It is at the stage where we need to move quickly as we have a problem.

"With these figures at hand it is obvious the Department of Trade and Industry must release constructive and firm findings very quickly.

"We can't have food prices going up at this rate every month otherwise people just won't be able to eat. Food inflation is at a runaway state.

The continuing rise in the already high food price index was cause for serious concern, Consumer Council spokesman Mr Daan Kruger said.

"The drop in the inflation rate for November of 1,3 percent is good news for consumers, but the continuing high food price index is cause for serious concern," said Mr Kruger.

Food hikes continue to reflect VAT

Bday 20/12/91 (320)

MARCIA KLEIN

FOOD industry spokesmen said yesterday the fresh 10-year peak in the rate of food inflation could reflect the continued effect of VAT as well as seasonal price changes.

But they said the latest figures were, nevertheless, disturbing and added that the current investigation by the Board of Trade and Industry into the food price issue could clear the air regarding the source of price hikes.

Retailers said yesterday that increases resulting from VAT would continue to be reflected in the year-on-year figures for food price inflation. The higher month-on-month increase could reflect the fact that many major retailers refused to accept price increases before VAT and during its implementation, and these increases were only now starting to filter through.

The major contributors to higher food prices in November were fruit and nuts, which showed an increase of 9,2% over October, meat (5,1%), vegetables (3,4%) and coffee, tea and cocoa (3,3%).

A Red Meat Producers' Association spokesman confirmed that since October, production prices had shown a marked increase after lagging for about four years. He said this cyclical phenomenon was common over a seven-year period, and prices could be expected to increase over the next two years.

Pick 'n Pay chirman Raymond Acker-

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Food

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man said apart from the effect of VAT on meat prices, meat was generally more expensive when there were good rains, and there was a glut of meat on the market during a drought.

He said the changes in the prices of other produce was often climatic, and some of the increases could be purely seasonal. Ackerman added that his group had recorded a 13% increase on all food prices.

OK Bazaars marketing director Mervyn Kraitzick said meat prices had risen by about 7% to 8% over the past few months, excluding the effect of VAT, and fruit and vegetable prices had risen by 5% to 7%.

The tea, coffee and cocoa price hike mainly reflected an increase in the price of tea. He said this was because the OK had not accepted price increases by suppliers before VAT and during the VAT change-over, but these increases could not be held off indefinitely.

Consumer Council deputy director Ben Stafford said while the drop in the inflation rate was good news for consumers, the council was concerned that the food price index was still increasing. He also expressed concern about "businesses that abuse the Christmas season by drastically increasing their prices".

Taxman eyes those pensions

(320)

STAR 21/12/91

TOM HOOD

INSURANCE companies are to fight proposals by Inland Revenue to abolish major tax concessions on retirement annuities from 1998.

The proposals are being discussed with the Life Offices Association (LOA), which represents the country's insurance groups and which wants the change to apply only to future policies.

The changes would not affect the retirement annuity deductions of self-employed people and others not members of pension funds.

Life offices have reported receiving a flood of phone calls from worried policy-holders.

More than 1,3 million individuals pay into about 1,8 million annuities and in most cases the tax savings make them an attractive way of saving.

About R1,8 billion was paid into RAs in the 12 months to June 30, including premiums from 211 000 people taking out new policies.

A large proportion of this amount is coming from self-employed people who have no pension funds.

The Democratic Party has also urged the government to "think twice" about the proposals.

Ken Andrew, the DP spokesman on finance, said financial assistance to the elderly who were unable to provide for themselves "is a huge drain" on State resources.

"This demand will increase sharply, so it is essential that the government encourages everyone to provide financially for their retirement," he said.

"It is extremely worrying that there are proposals under consideration that could reduce the tax incentives for people to make private pension fund provisions for themselves by way of contributions to retirement annuities,."

Abri Meiring, chairman of the LOA policyholders taxation committee and Old Mutual legal services manager, said the proposals could be seen as a clampdown on private pension provisions, which could be "the wrong message at this stage".

Hardest hit by the proposals, he says, would be members of pension funds who also contribute to retirement annuities to augment their pension fund provision.

"I'm sorry, sir, but I've just been mugged by the taxman."

The LOA wants an increase in the 15 percent maximum allowable deduction on annuities in the 1992 tax year to at least 20 percent for taxpayers under the age of 50 and by an additional one percent for every year over 50, with a maximum of 30 percent at age 60.

The LOA also wants the age at which retirement annuity contributions must terminate raised from 70 to 75 years.

The effects of the proposals would be lessened if they applied to future policy-holders and not to past policy-holders.

The plan came to light when the tax authorities notified the LOA, which is now making counter proposals.

An insurance industry survey recently calculated that only one in every 100 workers could afford to retire on pension. About 95 out of every 100 people retire on less than R1 000 a month.

An Inland Revenue spokesman said it was proposed to discontinue fixed amount tax deductions of R3 500, less pension fund contributions, and R1 750 for annuities after the end of the 1997 tax year.

Fixed amount deductions were no longer justified because the total deduction of up to 27,5 percent of total income presently allowed for pension funds was considered adequate.

Vatwatch enters new phase

Consumer Reporter STAR 23/12/91

A number of firms have agreed to have their records examined by Vatwatch auditors to determine whether VAT is being implemented correctly, the tax watchbody said at the weekend.

Vatwatch chairman Professor Louise Tager said VAT implemented in a way which would reduce the cost to business should lead to lower prices or at least a slow-down in the rate of inflation.

A recent Vatwatch survey showed the rate of increase in the prices of goods and services appeared to be slowing down since the introduction of VAT. Zero-rated food, however, cost more than before.

The overall increase in prices decreased from 2,6 percent in August to 2,1 percent in November.

"VAT-related savings ought to retard the rate of retail price increases, but this will not come about overnight," said Professor Tager.

She said the removal of sales tax on the business sector's expenditure on consumables should positively effect prices immediately. (320)

"But the elimination of sales tax on capital purchases will take longer to filter through."

The first phase of the Vatwatch programme — the monitoring of reports and complaints by consumers — has ended and the telephone facility discontinued, said Professor Tager. Consumers can still write to Vatwatch at PO Box 47390, Parklands 2121.

The second phase will commence next month, comprising a systematic evaluation to determine the extent to which manufacturers, wholesalers, retailers and other links in the chain were achieving and passing on VAT-related savings.

ARG 23/12/91

Firms ready for Vatwatch auditors

(320)

The Argus Correspondent

JOHANNESBURG. — A number of firms have agreed to a Vatwatch audit.

Value-added tax charged in a way which would reduce the cost of business should lead to lower prices or at least slow the inflation rate, said Vatwatch chairwoman Professor Louise Tager.

A survey showed the rate of increase in the prices of goods and services appeared to be slowing after the introduction of VAT. Zero-rated food, however, cost more.

The overall price increase decreased from 2,6 percent in August to 2,1 in November.

"VAT-related savings ought to retard the rate of retail price increases, but not overnight," said Professor Tager.

"Lowering the tax to 10 percent was probably responsible for the average price decrease of 0,29 percent in October."

Removing sales tax on businesses' spending on consumables should impact positively on prices immediately.

"But the elimination of sales tax on capital purchases will take longer to filter through to consumers," Professor Tager said.

Consumers can still write to Vatwatch, PO Box 47390, Parklands 2121.

Govt 'tightens the screws on the rich'

LESLEY LAMBERT (320)

INCREASING demands are being placed on wealthier taxpayers as the tax authorities seek additional revenue sources, says KPMG Aiken & Peat tax partner Prof Hennie Coetzee.

"The tax authorities are tightening up in every area from fringe benefits to tax planning schemes to ensure tax collection is as efficient as it can be," Coetzee says.

BDay 27/12/91

"We can also expect attention to be given to taxing so-called wealth by raising the gifts tax and estate duty, and introducing a capital transfer tax and a capital gains tax," he says.

The growing pressure on wealthier taxpayers has been prompted by the huge scope of economic and financial needs of a "new" SA, says Coetzee.

There has been a shift away from the principle that "it is the right of every taxpayer to so order his affairs as to minimise his tax liability".

"You can seldom go wrong with planning that demonstrates a genuine commercial purpose and which clearly is not based solely on tax avoidance.

"But we have to accept that the commercial purpose motive undercuts the popularly held precept that tax avoidance is acceptable but tax evasion is illegal. I believe we can kiss that distinction good-bye," Coetzee says.

Some Revenue officials regard tax avoidance as tax evasion, he says. A number of schemes — among them investments in plantations and the purchase of aircraft — are being investigated.

All this could have unpleasant consequences for taxpayers when completing the IT 12 tax return form, says Coetzee.

If the form is incorrect or incomplete, an assessment can be re-opened years afterwards and any infraction may incur back-dated interest, he says.

Finance men resist probe into tax graft

S/Times 29/12/91

(320)

TOP officials in the Department of Finance have strongly resisted an investigation of charges of high-level corruption in the Department of Inland Revenue.

The allegations were first reported to the Commissioner of Inland Revenue in Pretoria by a senior Cape official more than two years ago.

Since reporting his allegations of corruption, the official, Mr Trevor Foster, has twice had to seek the protection of the Cape Supreme Court against actions by his superiors. Both times he was successful, and the Department of Finance has been ordered to pay his legal costs — amounting to hundreds of thousands of rands.

In a letter to Cape Town attorneys, director-general of Finance Gerhard Croeser has said the allegations bring into public question "the integrity of many officers, named as well as unnamed, and, indeed, that of the department as a whole".

According to court records, they include charges of "large-scale corruption, gross negligence and irregularities by persons attached to, or previously attached to, the commissioner's office in Pretoria".

Surprise

In addition, it is alleged that "revenue officials in senior positions flagrantly flout the laws applied to ordinary taxpayers".

One official is alleged to be a tax defaulter who, after a surprise investigation, had additional tax assessments totalling "six figures" made against him.

According to the court papers, another official was mentioned in a report by a senior official to head office in connection with "conduct" which, according to the official, amounted to "gross irregularities".

But this week, four months after Mr Croeser claimed he needed to "ascertain the validity" of the allegations of corruption "as a matter of urgency" and three weeks after he

Top official seeks court's protection after speaking out

By MARTIN WELZ

gave the Cape Supreme Court an undertaking that he would appoint an independent commission of inquiry, no such inquiry has yet been launched.

Referred

A spokesman for the Department of Finance in Cape Town told the Sunday Times that an independent inquiry was to be conducted by "someone appointed by the Department of Justice". No date had been set for the inquiry.

In Pretoria a spokesman for the Department of Justice said the department knew nothing about such an inquiry. He referred the Sunday Times to the Department of Finance.

The Department of Finance claimed it was precluded from making any further comment by the terms of a court settlement.

As recently as August this year, an official was threatening to force "perpetual silence" on Mr Foster, a chartered accountant in the Cape Town Receiver of Revenue's office. Mr Foster has been pressing for an inquiry since February 1989.

Days later Mr Croeser over-rode the threat by the official. He claimed in a letter to Mr Foster's attorneys that he needed "as a matter of urgency" to ascertain the validity of the allegations.

According to Cape Supreme Court records, on August 16 this year Mr Foster's attorneys handed affidavits regarding "maladministration" in the Department of Finance (Inland Revenue is a division of the department) to the director-general.

Copies of these affidavits are not included in the court record "because of their sensitive nature".

This month Mr Croeser undertook in a court settlement with Mr Foster to "have these allegations properly investigated by an independent committee or commission".

Even then Mr Croeser sought to have the terms of the settlement agreement with Mr Foster kept "private and confidential". In the agreement — made an order of court — they agreed "not to take any steps or initiate any action whatsoever to make the terms of the settlement public".

Mr Foster, who has an honours degree in taxation, held the rank of deputy director in the Revenue office in Cape Town. He was responsible for some of the biggest tax-evasion cases investigated in Cape Town.

From 1984 until 1989 his work performance was so highly regarded by his superiors that he received two special promotions.

But when he brought various allegations of corruption against senior officials to the notice of his superiors in Pretoria, everything changed. They allegedly rated him "unpromotable".

Question

Since then he has repeatedly been subjected to "evaluation" by special committees appointed by the department.

Court papers disclose some of the serious allegations made by Mr Foster against the department.

In March one of the committees appointed by the department to evaluate Mr Foster raised the question of his "inter-personal relations", in particular with regard to his "bias" and "lack of loyalty".

"These views related to certain conduct which I regarded as gross irregularities and which I felt obliged to draw to the attention of my superiors," Mr Foster explained in court.

One of the committee members, charged Mr Foster with "undermining the authority" of one of his seniors by referring to this "very sensitive matter" in a phone conversation overheard by other Revenue officials.

Firms 'benefit from strange tax decisions'

(320) CT 31/12/91

A NUMBER of major national and international companies were the "happy beneficiaries of some very strange tax decisions by senior officials of the Department of Inland Revenue", DP MP Mr Robyn Carlisle charged yesterday.

He was commenting after a senior tax official, Mr Trevor Foster, had taken the department to court twice for overlooking him on promotion.

Mr Foster alleged the department had failed to promote him as he had uncovered corruption there.

Mr Carlisle said it was "now a matter of public knowledge that things are very seriously amiss in Inland Revenue".

"Middle-class whites are being taxed to death while corporate taxes get proportionately smaller every year.

"The time has come to clean up malpractices in the tax field, particularly in respect of company tax," he said.

He said the DP called for a "full public inquiry or commission into corruption and efficiency in the Department of Inland Revenue".

The director-general of finance could not be reached for comment last night.

Tax breaks the answer

(320)

S/Times (BUSS) 29/12/91

By MAX BRAUN

THIS has been a year most business people would like to forget as soon as possible.

Uncertainty and lack of confidence in the new South Africa are high on the long list of factors responsible for the country's poor economic performance.

The list includes a weak rand, high inflation of consumer and capital goods prices, high interest rates, crippling taxes, social and labour unrest.

Productivity in most industries is unacceptably low and good service is almost non-existent.

If lack of confidence in the future of SA business is a factor inhibiting further or renewed investment in capital goods and projects — in spite of President De Klerk's urgings for it to be done — then the Minister of Finance should seriously reconsider the reintroduction of investment or initial tax allowances as an added spur to get things going.

However, Mr Du Plessis, it seems, favours a widespread tax cut — personal income tax — more than something as specific as investment tax credits if and when it is possible for the Government to make concessions.

The Margo Commission on taxation was also unenthusiastic about tax allowances.

Inland Revenue takes a narrow view, wanting to know in advance the extent to which increased or accelerated investment in capital goods will offset the reduction in collections.

Seeking to quantify industry's response to tax allowances is about as silly as a customer's asking his advertising agency to quantify the response to an advertisement in terms of specific orders.

Appropriate tax credits now would be most helpful to several industries and could at a minimum help the Government to get things going again.

A good example is the ailing motor industry and its allies serving SA's transport needs. Especially in need of a boost are makers of heavy commercial vehicles and to a lesser extent buses.

Sales of new heavy trucks in 1991 were the lowest in nearly 25 years.

Vehicle manufacturers have made huge capital investment in plant, equipment, manpower and facilities to make the most modern and and productive trucks available.

Because of a lack of confidence, combined with other factors, fleet owners have not been replacing trucks for several years.

The position is so bad that the average age of the national fleet, excluding buses, is 10 years.

The makers of more than 30% of the heavy truck tractor units in service are no longer represented in SA.

A geriatric national fleet is unreliable, ineffective and uneconomic to maintain and operate.

Fleet owners and smaller operators would welcome a tax credit that would make the cost of their investment appropriate to the job they must do. For instance, they need tax relief in the year of buying a truck.

Banks taking over such a tax credit could reflect the concession by reducing finance charges.

Tax credits should not be static. They should be reviewed every year to ensure that they are properly pitched, or whether they should be suspended for a time.

Because the national road transport fleet is in dire need of updating, the Government should play its part in causing a climate to encourage the private sector's investment it so desperately seeks.

The spin-offs from an attractive tax credit when buying a new truck have considerable potential.

More assembly line jobs would be created. If not, at least there would be a drop in the loss of jobs at assembly plants.

New vehicles mean safer and more reliable transport services, a growing contribution to vehicle productivity and more efficient use of fuel.

It is time for the Government, as the motor and other industries have done, to show its confidence in the country by investing a little more in the future and a little less in what is politically expedient now.