TAXATION — 1991

APRIL — JUNE

Govt to be lobbied over VAT on municipal rates

BDay 2/4/91

TANIA LEVY

ORGANISED white local authorities will soon lobby government to overturn the planned imposition of VAT on municipal rates. (R62)

Transvaal Municipal Association (TMA) president Johan van der Merwe said the United Municipal Executive (UME) — the official mouthpiece of all white local authorities — would send a memorandum to Finance Minister Barend du Plessis.

The UME move is part of growing opposition among municipalities to government's decision to impose VAT on assessment rates and Deputy Finance Minister Org Marais' explanation that rates were paid for services rendered.

Johannesburg councillor Hein Kruger said in terms of Marais' argument, VAT should be imposed on income taxes as government used these to pay for services to taxpayers.

Kruger said VAT could raise Johannesburg rates by about 6%. (320)

Government would lose between R200m and R300m a year by zero-rating rates for VAT but, Kruger said, more than R500m could be collected by introducing a state lottery.

Kruger said the Johannesburg City Council would make strong representation to government not to charge VAT on assessment rates.

The Benoni Town Council last week voted 18-to-one in favour of a motion opposing VAT on municipal property rates and services.

The Durban, Cape Town, and Port Elizabeth councils have also voiced their objection to VAT on rates.

CT
TMP
2/4/91
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No, minister, VAT is not exactly that!

From Alderman R M FRIEDLANDER, Office of the Chairman of the Executive Committee of the City Council (Cape Town):

THE comments of Minister Org Marais over the impact of VAT on ratepayers cannot be allowed to pass unchallenged.

The theoretical debate on whether this is a tax on a tax is irrelevant. The comment must be offered, however, that the public perception is that income tax (and GST) is a tax for central government services whereas rates is a tax for municipal services. Although therefore local government will not benefit from VAT other than by virtue of alleviation in respect of GST, the public perception will be that local government has increased the rate levy by the seven to nine percent which it is estimated will be the additional amount required to cover VAT payments.

Furthermore, no account appears to have been taken of the fact that VAT applies on the whole municipal service which is highly labour intensive and in respect whereof about 70% (in the case of Cape Town R360 m) of the total expenditure for specifically rates-related services is in respect of salaries, wages and allowances. However, if regard is paid to the entire municipality (including trading services) the percentage drops to 41,7% though the cost to the consumer (ratepayer) for salaries, wages and allowances increases to about R500 m. So, clearly the introduction of VAT in place of GST imposes a new tax burden on the ratepayer. It may well be that the public may be no worse off and indeed marginally better off as a result of VAT in respect of private consumption expenditure.

But not so the users of municipal services. It must also be recorded that not only users of municipal services will be affected, but also the business sector which is already burdened with Regional Services Council levies which will inevitably also be increased.

At a time of extreme economic pressure where the central government has already indicated a reduction in the amount available for subsidisable services, VAT is calculated to impose an insupportable burden on property owners and occupiers. Local government, which has for years been asking for additional revenue sources to fund its services, now faces an encroachment on its only constant and meaningful revenue source.

Inland Revenue to review interest tax

B/Day 3/4/91 (320)

GRETA STEYN

INLAND Revenue would conduct a thorough investigation into all aspects of the new turnover tax on interest with the help of the banks, insurers and pension funds, Commissioner for Inland Revenue Hannes Hattingh said yesterday.

He was aware of the banks' concerns about the new tax but said no official meetings had taken place between his office and a delegation of bankers.

Market talk is that a bankers' delegation had addressed their concerns to Finance Department special adviser Japie Jacobs, who is credited with having devised the new 0,75% tax on interest earnings. But the onus of dealing with the bankers' problems will fall on Hattingh.

The banks' main concern is how the tax will affect speculative deals, or "jobbing", in the money and capital markets.

Banks fear being taxed when "interest earned" is built into the price of a market instrument — a move that would slash their margins and, they claim, would inhibit trade in the markets.

But Hattingh said yesterday he was aware that the secondary markets could pose a problem and noted it was one of the priority issues to be investigated.

Some bankers are also angry about the rumoured exemption of the Post Office and the SA Housing Trust from the tax, apparently for political reasons. The Post Office is said to be regarded as the "small man's bank" and has therefore been exempted to prevent it from passing on the tax to consumers in the form of higher charges.

Bankers say the Post Office is a major player in the secondary money and capital markets and its proposed exemption will tilt the playing field in its favour.

However, Hattingh said the issue of exemptions would be finalised only after discussions.

The Land Bank and the mining houses are further candidates for exemption, but it seems unlikely that Transnet and Eskom will be spared the new tax.

"Although the tax will only be implemented from October, we realise there is uncertainty in the market and hope to start hammering out the details before the end of this month. Draft legislation will be gazetted," Hattingh said.

Bankers noted that the tax would eventually be passed on to the consumer, but not as an increase in borrowing costs as this would again incur the tax on interest earnings.

Consumers can expect bank charges to increase if the banks' worst fears with regard to the tax materialise.

The effect of this is that no water work in which public water can be impounded or stored (excluding off-channel storage of public water for domestic and stockwatering purposes) or with which more than 1 (one) litre of public water per second can be abstracted or diverted on a property contemplated in the said section 9B (1) (a), may be constructed, altered or enlarged in so far as it concerns the intended public streams, except on the authority of a permit issued by me.

G. J. KOTZÉ,
Minister of Water Affairs and Forestry.

Die uitwerking hiervan is dat geen waterwerk waarin openbare water opgedam of opgegaar (uitgesonderd buitebeddingopgaring van openbare water vir huishoudelike en veesuipingsdoeleindes) of waarmee meer as 1 (een) liter openbare water per sekonde onttrek of uitgekeer kan word op 'n eiendom bedoel in genoemde artikel 9B (1) (a) vir sover dit die bedoelde openbare strome betref, opgerig, verander of vergroot mag word nie, behalwe op gesag van 'n permit deur my uitgereik.

G. J. KOTZÉ,
Minister van Waterwese en Bosbou.

GENERAL NOTICES

NOTICE 305 OF 1991

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INCOME TAX, 1991

NOTICE TO FURNISH RETURNS FOR THE 1991 YEAR OF ASSESSMENT

Notice is hereby given under paragraph (a) of subsection (1) of section 66 of the Income Tax Act, 1962 (Act No. 58 of 1962), that the following persons are in terms of the said subsection personally or in a representative capacity liable to taxation under the provisions of the said Act and are, subject to what is contained in paragraph 1 below, required to furnish returns for the assessment of tax:

(a) Every person (not being a married person, a married women or a company) **under the age of 61 years,** or the representative of such person, whose gross income in respect of the 1991 year of assessment exceeded R10 000.

(b) Every person (not being a married person, a married woman or a company), **over the age of 61 years (but not over the age of 65 years),** or the representative of such person, whose gross income in respect of the 1991 year of assessment exceeded R10 600.

(c) Every person (not being a married person, a married woman or a company) **over the age of 65 years,** or the representative of such person, who gross income in respect of the 1991 year of assessment exceeded R18 600.

(d) Every married person **under the age of 61 years,** or the representative of such person, whose gross income in respect of the 1991 year of assessment exceeded R11 800.

(e) Every married person **over the age of 61 years (but not over the age of 65 years),** or the representative of such person, whose gross income in respect of the 1991 year of assessment exceeded R12 400.

(f) Every married person **over the age of 65 years,** or the representative of such person, whose gross income in respect of the 1991 year of assessment exceeded R21 400.

(g) Every married woman or her representative whose gross income from carrying on any trade and/or from an annuity received from a pension fund or a retirement annuity fund, in respect of the 1991 year of assessment exceeded R4 300.

ALGEMENE KENNISGEWINGS

KENNISGEWING 305 VAN 1991

INKOMSTEBELASTING, 1991

KENNISGEWING OM OPGAWES VIR DIE 1991-JAAR VAN AANSLAG TE VERSTREK

Kennis word hiermee kragtens paragraaf (a) van subartikel (1) van artikel 66 van die Inkomstebelastingwet, 1962 (Wet No. 58 van 1962), gegee dat die onderstaande persone ingevolge genoemde subartikel persoonlik of in 'n verteenwoordigende hoedanigheid ingevolge die bepalings van genoemde Wet belastingpligtig is en, behoudens wat in paragraaf 1 hieronder vervat is, opgawes vir die aanslag van belasting moet verstrek:

(a) Elke persoon (behalwe 'n getroude persoon, 'n getroude vrou of 'n maatskappy) **onder die ouderdom van 61 jaar,** of die verteenwoordiger van so 'n persoon, wie se bruto inkomste vir die 1991-jaar van aanslag meer as R10 000 was.

(b) Elke persoon (behalwe 'n getroude persoon, 'n getroude vrou of 'n maatskappy) **bo die ouderdom van 61 jaar (maar nie bo die ouderdom van 65 jaar nie),** of die verteenwoordiger van so 'n persoon, wie se bruto inkomste vir die 1991-jaar van aanslag meer as R10 600 was.

(c) Elke persoon (behalwe 'n getroude persoon, 'n getroude vrou of 'n maatskappy) **bo die ouderdom van 65 jaar,** of die verteenwoordiger van so 'n persoon, wie se bruto inkomste vir die 1991-jaar van aanslag meer as R18 600 was.

(d) Elke getroude persoon **onder die ouderdom van 61 jaar,** of die verteenwoordiger van so 'n persoon, wie se bruto inkomste vir die 1991-jaar van aanslag meer as R11 800 was.

(e) Elke getroude persoon **bo die ouderdom van 61 jaar (maar nie bo die ouderdom van 65 jaar nie),** of die verteenwoordiger van so 'n persoon, wie se bruto inkomste vir die 1991-jaar van aanslag meer as R12 400 was.

(f) Elke getroude persoon **bo die ouderdom van 65 jaar,** of die verteenwoordiger van so 'n persoon, wie se bruto inkomste vir die 1991-jaar van aanslag meer as R21 400 was.

(g) Elke getroude vrou of haar verteenwoordiger wie se bruto inkomste uit 'n bedryf en/of 'n jaargeld wat uit 'n pensioenfonds of uittredingannuïteitsfonds ontvang is, vir die 1991-jaar van aanslag meer as R4 300 was.

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(h) Every person in his capacity as representative taxpayer of a trust.

(i) The public officer of every company.

(j) Every person to whom an income tax return is issued irrespective of the amount of the income of such person.

Please note:

1. A person (other than a company) whose income for the year of assessment consisted of or included remuneration from which employees tax has been deducted is not required to furnish a return for that year, if—

(a) such remuneration (after the deduction of pension and retirement annuity fund contributions) was payable at a rate not exceeding R40 000 per annum; and

(b) that person did not derive any other income, including any reimbursive allowance, apart from such remuneration, or, if any other income was derived by him it consisted of interest (including dividends on shares in a mutual building society or interest on a deposit in a building society or a mutual building society) not exceeding R2 000; and

(c) a form has not been issued to that person for completion.

Where employees tax over and above Standard Income Tax on Employees has been deducted and such a person has not received an income tax form, he is at liberty to apply for a form should he be of the opinion that employees tax deducted from his remuneration during the year of assessment exceeded his tax liability for the year.

2. (a) In applying the provisions of the Act all income from investments and annuities (excluding annuities from pension or retirement annuity funds) received by or accrued to or in favour of a woman married with or without community of property and not living apart from her husband in circumstances which, in the opinion of the Commissioner, indicate that the separation is likely to be permanent, will be deemed to be income accrued to her husband and shall be included by him in the return which he is required to render in terms of the Act.

(b) Where the gross income of a married woman's husband (including any amounts which would have constituted gross income but for the fact that such income was derived from a source outside the Republic of South Africa) does not exceed R10 000 the income of such married woman must be included in her husband's income.

(c) In the case of a polygamous marriage, only the income received by the woman he married first, is subject to the requirements as mentioned in paragraphs 2 (a) and (b) above. If the second or subsequent wife falls under categories (a) to (f) or (j) above, she is subject to the provisions mentioned in paragraph 1 above, required to furnish a return.

3. Any income of any minor child or stepchild, other than that derived by such child from *bona fide* remuneration, must be returned.

(h) Elke persoon in sy hoedanigheid van verteenwoordigende belastingpligtige van 'n trust.

(i) Die openbare amptenaar van elke maatskappy.

(j) Elke persoon aan wie 'n inkomstebelastingopgawe uitgereik word, afgesien van die bedrag van die inkomste van so 'n persoon.

Let wel:

1. 'n Persoon (behalwe 'n maatskappy) wie se inkomste vir die jaar van aanslag bestaan het uit of besoldiging insluit waarvan werknemersbelasting afgetrek is, is nie verplig om 'n opgawe vir daardie jaar te verstrek nie, indien—

(a) sodanige besoldiging (na aftrekking van pensioen- en uittredingannuïteitsfondsbydraes) betaal is teen 'n koers wat nie R40 000 per jaar te bowe gaan nie; en

(b) daardie persoon nie enige ander inkomste, met inbegrip van enige vergoedende toelae, ontvang het nie behalwe sodanige besoldiging, of, indien ander inkomste deur hom ontvang is dit bestaan uit rente (insluitende dividende op aandele in 'n onderlinge bouvereniging of rente op 'n deposito in 'n bouvereniging of 'n onderlinge bouvereniging) wat nie R2 000 oorskry het nie; en

(c) 'n vorm nie aan daardie persoon vir voltooiing uitgereik is nie.

Waar werknemersbelasting bo en behalwe Standaard Inkomstebelasting op Werknemers afgetrek is en so 'n persoon nie 'n inkomstebelastingvorm ontvang het nie, staan dit hom egter vry om aansoek om 'n vorm te doen indien hy van mening is dat die werknemersbelasting wat gedurende die jaar van aanslag van sy besoldiging afgetrek is, sy belastingaanspreeklikheid vir die jaar oorskry het.

2. (a) By die toepassing van die bepalings van die Wet word alle inkomste uit beleggings en jaargelde (uitgesluit jaargelde uit 'n pensioen- of uittredingannuïteitsfonds) ontvang deur of toegeval aan of ten gunste van 'n vrou wat in of buite gemeenskap van goedere getroud is en nie apart van haar man woon nie in omstandighede wat, volgens die oordeel van die Kommissaris, aandui dat die skeiding waarskynlik permanent sal wees, geag inkomste te wees wat aan haar man toegeval het en moet deur hom ingesluit word in die opgawe wat hy ingevolge die Wet moet verstrek.

(b) Waar die bruto inkomste van 'n getroude vrou se man (insluitend enige bedrae wat bruto inkomste sou uitmaak behalwe vir die feit dat sodanige inkomste van 'n bron buite die Republiek van Suid-Afrika is) nie R10 000 te bowe gaan nie moet sodanige vrou se inkomste by haar man se inkomste ingesluit word.

(c) In die geval van 'n poligamiese huwelik is slegs die inkomste van die vrou met wie hy die eerste getroud is, aan die vereistes, soos in paragrawe 2 (a) en (b) hierbo genoem, onderhewig. Indien die tweede of daaropvolgende vrou in kategorieë (a) tot (f) of (j) hierbo val, moet sy, behoudens die bepalings in paragraaf 1 hierbo genoem, 'n opgawe verstrek.

3. Inkomste van enige minderjarige kind of stiefkind, behalwe dié wat deur sodanige kind as *bona fide*-besoldiging verkry is, moet verklaar word.

4. The income of trusts created by the taxpayer must be disclosed with the full names and addresses of the beneficiaries.

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5. "YEAR OF ASSESSMENT" means:

(a) In respect of **a person who has elected not to be a provisional taxpayer,** the year ending on 30 June each year.

(b) In the case of a **company,** the financial year of such company ending during the calendar year in question.

(c) In respect of **all other persons,** the year ending on the last day of February each year.

Period for rendition of returns

Returns are required to be rendered within the following periods:

(1) Where in terms of section 66 (13)*ter* of the Income Tax Act, accounts have been accepted in respect of the whole or portion of a taxpayer's income, drawn to a date falling AFTER 28 FEBRUARY 1991, WITHIN 60 DAYS FROM THE DATE TO WHICH SUCH ACCOUNTS ARE DRAWN.

(2) In respect of a person who (on or before 30 June 1965) elected NOT to be a provisional taxpayer, WITHIN 60 DAYS FROM 30 JUNE 1991.

(3) In respect of a COMPANY, WITHIN 60 DAYS FROM THE DATE ON WHICH ITS FINANCIAL YEAR ENDS.

(4) In respect of ALL OTHER PERSONS, WITHIN 60 DAYS FROM 5 APRIL 1991.

Forms

The forms prescribed by the Commissioner for the rendering of returns are obtainable on application to the assessing office for the area in which the person required to complete the form resides.

Forwarding of returns

Returns must be forwarded by post to or be delivered at the office of the official indicated on the form.

AN EVELOPE MARKED: "INCOME TAX—OFFICIAL" WILL BE CARRIED POST FREE.

Penal provisions

Any person required to render a return who fails to do so within the period mentioned above, is liable to a penalty not exceeding R300 and/or to imprisonment for a period not exceeding three months. Futhermore, his taxable income may be estimated and three times the amount of tax charged thereon.

Any taxpayer who knowingly and wilfully makes any false statement in his return or evades or attemps to evade taxation and any person who assists a taxpayer to do so, is liable to a penalty not exceeding R1 000 and/or to imprisonment for a period not exceeding two years. The taxpayer is, in addition, liable to be assessed and charged three times the amount of the tax which he sought to evade.

4. Die inkomste van trusts deur die belastingpligtige geskep, moet verstrek word, met vermelding van die volle name en adresse van die begunstigdes.

5. "JAAR VAN AANSLAG" beteken:

(a) Ten opsigte van **'n persoon wat verkies het om nie 'n voorlopige belastingpligtige te wees nie,** die jaar eindigende op 30 Junie elke jaar.

(b) In die geval van 'n **maatskappy,** die boekjaar van sodanige maatskappy wat gedurende die onderhawige kalenderjaar eindig.

(c) Ten opsigte van **alle ander persone,** die jaar wat op die laaste dag van Februarie elke jaar eindig.

Tydperk vir indiening van opgawes

Opgawes moet binne die volgende tydperke ingedien word:

(1) Waar rekeninge ten opsigte van 'n belastingpligtige se inkomste, of 'n gedeelte daarvan, ingevolge artikel 66 (13)*ter* van die Inkomstebelastingwet aangeneem is wat opgemaak is tot 'n datum wat NA 28 FEBRUARIE 1991 VAL, BINNE 60 DAE VANAF DIE DATUM WAAROP SODANIGE REKENINGE OPGEMAAK IS.

(2) Ten opsigte van 'n persoon wat (voor of op 30 Junie 1965) gekies het om NIE 'n voorlopige belastingpligtige te wees nie, BINNE 60 DAE VANAF 30 JUNIE 1991.

(3) Ten opsigte van 'n MAATSKAPPY, BINNE 60 DAE VANAF DIE DATUM WAAROP SY BOEKJAAR EINDIG.

(4) Ten opsigte van ALLE ANDER PERSONE, BINNE 60 DAE NA 5 APRIL 1991.

Vorms

Die vorms wat deur die Kommissaris voorgeskryf is vir die verstrekking van opgawes is op aansoek verkrygbaar by die aanslagkantoor vir die gebied waarin die persoon wat die vorm moet invul, woonagtig is.

Aanstuur van opgawes

Opgawes moet per pos aangestuur word na of afgelewer word by die kantoor van die beampte soos aangedui op die vorm.

'N KOEVERT GEMERK: "INKOMSTEBELASTING—AMPTELIK", SAL KOSTELOOS OOR DIE POS VERVOER WORD.

Strafbepalings

Iemand van wie 'n opgawe vereis word, maar wat versuim om dit binne die tydperk hierbo genoem te verstrek, is strafbaar met 'n boete van hoogstens R300 en/of met gevangenisstraf vir 'n tydperk van hoogstens drie maande. Boonop kan sy belasbare inkomste geskat en driedubbele belasting daarop gehef word.

Enige belastingpligtige wat willens en wetens 'n valse verklaring in sy opgawe doen of belasting ontduik of probeer ontduik, en enige persoon wat 'n belastingpligtige behulpsaam is om dit te doen, is strafbaar met 'n boete van hoogstens R1 000 en/of gevangenisstraf vir 'n tydperk van hoogstens twee jaar. Hierbenewens is die belastingpligtige blootgestel aan die heffing op aanslag van drie maal die bedrag aan belasting wat hy probeer ontduik het.

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NO PERSON IS EXEMPTED FROM PENALTY MERELY BY REASON OF THE FACT THAT HE MAY NOT HAVE BEEN CALLED UPON PERSONALLY TO FURNISH A RETURN.

Further information

Further information or assistance may be obtained either from the Receiver of Revenue in whose assessing area you reside or from:

THE COMMISSIONER FOR INLAND REVENUE,
240 VERMEULEN STREET,
P.O. BOX 402,
PRETORIA,
0001.

J. W. HATTINGH,
Commissioner for Inland Revenue.
(5 April 1991)

NIEMAND IS VRYGESTEL VAN BOETE BLOOT OMDAT HY NIE PERSOONLIK AANGESÊ IS OM 'N OPGAWE TE VERSTREK NIE.

Nadere inligting

Nadere inligting of hulp kan verkry word òf by die Ontvanger van Inkomste van die aanslaggebied waarin u woon òf by:

DIE KOMMISSARIS VAN BINNELANDSE INKOMSTE
VERMEULENSTRAAT 240,
POSBUS 402,
PRETORIA,
0001.

J. W. HATTINGH,
Kommissaris van Binnelandse Inkomste.
(5 April 1991)

NOTICE 306 OF 1991

DEPARTMENT OF MANPOWER

LABOUR RELATIONS ACT, 1956

CANCELLATION OF REGISTRATION OF A TRADE UNION

I, David William James, Industrial Registrar, hereby notify, in terms of section 14 (2) of the Labour Relations Act, 1956, that I have cancelled the registration of the Development and Services Board Staff Association with effect from 25 March 1991.

D. W. JAMES,
Industrial Registrar.
(5 April 1991)

KENNISGEWING 306 VAN 1991

DEPARTEMENT VAN MANNEKRAG

WET OP ARBEIDSVERHOUDINGE, 1956

INTREKKING VAN REGISTRASIE VAN 'N VAKVERENIGING

Ek, David William James, Nywerheidsregistrateur, maak hierby kragtens artikel 14 (2) van die Wet op Arbeidsverhoudinge, 1956, bekend dat ek die registrasie van die Development and Services Board Staff Association met ingang van 25 Maart 1991 ingetrek het.

D. W. JAMES,
Nywerheidsregistrateur.
(5 April 1991)

NOTICE 307 OF 1991

DEPARTMENT OF MANPOWER

LABOUR RELATIONS ACT, 1956

CANCELLATION OF REGISTRATION OF AN INDUSTRIAL COUNCIL

I, David William James, Industrial Registrar, hereby notify, in terms of section 34 (2) of the Labour Relations Act, 1956, that the registration of the Industrial Council for the Cotton Textile Manufacturing Industry (Cape) is hereby cancelled.

D. W. JAMES,
Industrial Registrar.
(5 April 1991)

KENNISGEWING 307 VAN 1991

DEPARTEMENT VAN MANNEKRAG

WET OP ARBEIDSVERHOUDINGE, 1956

INTREKKING VAN REGISTRASIE VAN 'N NYWERHEIDSRAAD

Ek, David William James, Nywerheidsregistrateur, maak hierby kragtens artikel 34 (2) van die Wet op Arbeidsverhoudinge, 1956, bekend dat die registrasie van die Industrial Council for the Cotton Textile Manufacturing Industry (Cape) hierby ingetrek word.

D. W. JAMES,
Nywerheidsregistrateur.
(5 April 1991)

NOTICE 308 OF 1991

CENTRAL STATISTICAL SERVICE

THE HEAD: CENTRAL STATISTICAL SERVICE notifies for general information that the Consumer Price Index is as follows:

Consumer Price Index, all items (Base 1985 = 100)

February 1991 = 222,2.

(5 April 1991)

KENNISGEWING 308 VAN 1991

SENTRALE STATISTIEKDIENS

DIE HOOF: SENTRALE STATISTIEKDIENS maak vir algemene inligting bekend dat die Verbruikersprysindeks soos volg is:

Verbruikersprysindeks, alle items (Basis 1985 = 100)

Februarie 1991 = 222,2.

(5 April 1991)

FM 5/4/91 (320)

PROCRASTINATORS AT RISK

SEVERE PENALTIES LOOM FOR REPORTING AND PAYMENT FAILURES

All registered vendors liable to pay value-added tax will carry a heavy administrative burden in terms of the VAT Bill. The really big challenge is the alteration of existing accounting systems to comply with fresh requirements — and six months is not a long time in which to alter computerised systems. Anyone who doesn't make a proper start now will not be ready by September 30.

Ernst & Young tax partner Ian MacKenzie points out that systems specialists and computer programmers will be in great demand during this period. It is possible there won't be sufficient resources available to meet all businesses' requirements in time.

Compliance, says MacKenzie, should not be a major problem — provided time and money are spent now to set up a system which identifies, captures and collates all the information and produces the required reports. That includes the recording of the correct income and expense items, debtors' and creditors' accounts and VAT control accounts.

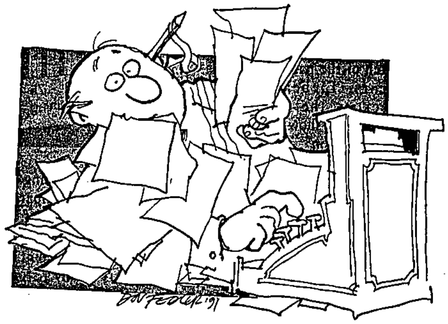
However, any attempt to save time and money — by going for a "quick and dirty" solution to the necessary changes — is likely to mean that the ultimate cost to the business will be considerably higher. This will be specially true for businesses which make

continue →

exempt as well as taxable supplies, with the consequent need for the systems to identify and apportion input tax credits.

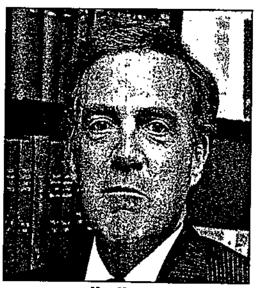
The price of non-compliance is severe, says Coopers Theron Du Toit partner Bronwyn Allan. There is a penalty of 10% for late payment, plus interest at a rate set by the Minister of Finance (with the initial rate set at 2,5% *per month* in the draft Bill.) Commerce and industry have not taken seriously enough government's stated intention to introduce VAT in October.

A late start to altering systems has also affected software houses. Even if a company dependent on packaged software makes its moves now, it may still be in trouble. Remember, too, that the Bill also provides that documents containing accounting procedures as well as all the relevant software must be kept available for VAT audit.



To make matters worse, the Bill makes no provision for transitional procedures; which means that failure to comply will, from the inception, expose business to the full rigour of the penalties. It is true that the Bill provides a discretion to the Commissioner to waive penalties if he is satisfied there was no intent to defraud — but to take advantage of this implies that the penalised firm must pay first and apply later for a waiver.

Inevitably, the transition from the GST system also requires some special provisions. Errol Danziger, tax consultant at Kessel Feinstein, says the Bill provides that some vendors registered under the Sales Tax Act but who do not make taxable supplies for VAT purposes — or because they fall below the compulsory registration level of R150 000 of turnover per year — will not be required to register as vendors under the VAT Act.



MacKenzie

Vendors in these categories will be required to pay GST (at the rate of 12%) on all goods on hand at September 29 on which they had not paid GST upon acquisition because the goods were acquired for resale.

A second important transitional provision deals for GST purposes with consumable stores acquired before September 30 by businesses carrying on construction activities. They will have paid GST on these materials, which they may recover when the goods are withdrawn from stock. Alternatively, if they have no records relating to the withdrawal of goods, they may do so over a two-year period in equal instalments.

Kruger

Danziger says vendors in the construction industry who were not registered for GST will have to ensure that they are registered for VAT, so that they can recover GST paid. By ensuring that an effective "stock withdrawal" accounting procedure is in place, they can speed up GST refunds. Smaller businesses, such as plumbers and electricians, will have to search for records of GST paid to get a refund.

Deloitte Pim Goldby director Des Kruger draws attention to an important rethink on VAT on fuel. The draft Bill provided for an input tax credit for fuel but made no adjustment for the fuel levy paid on the purchase of petrol or diesel.

This implied that VAT would be imposed on the current petrol or diesel price, including the fuel levy, which amounted to a serious case of double taxation.

Vatcom recommended that the fuel levy should not be adjusted to allow for the imposition of VAT, preferring that fuel subject to the levy should be zero-rated.

This would have meant that VAT would in effect not have been payable on fuel. Furthermore, that vendors of fuel should get an input tax credit equivalent to the "tax fraction" of the price of fuel.

If a vendor sold petrol or diesel for R112, he would be entitled to an input tax credit of R12. This input tax credit is not provided for in the VAT Bill. So not only will businesses be required to bear the additional fuel levy recently announced, they will not receive any VAT relief.

Aiken & Peat tax consultant André Meyburgh is particularly concerned with the decision that imports from Botswana, Lesotho, Swaziland and Namibia will attract VAT on the value for Customs purposes, irrespective of the purpose of use. The Commissioner of Customs & Excise will appoint officials to determine what the value for Customs purposes would have been if cleared.

Kruger asks whether the benefits to manufacturers from immediate access to an input tax credit on capital and intermediate goods will really be passed on to consumers, as there has been a severe strain on profits over the past few years.

Danziger notes that the turnover level qualifying for payment of VAT on a cash basis has been increased from R500 000 in the draft Bill to R1m.

This concession will alleviate the cash-flow problem of invoice (that is, accrual) basis accounting for VAT, which will now apply only to businesses with a turnover above R1m. Professionals, who are particularly tardy in collecting debts, will benefit notably.

Role of agents

Kruger foresees serious problems with the basis on which agents acting on behalf of their principals must account for VAT. Under the Bill, agents will not be permitted to account for output tax or claim an input tax credit in agency transactions, which only the principal may do. The UK approach — which permits agents to operate on this basis — is much more in touch with the real business world.

The Bill also prohibits group registration for VAT purposes, which would have greatly simplified accounting procedures within large businesses. Official fears about group registration appear to be unfounded in the light of other countries' experience.

Another area, says Meyburgh, where many problems will arise is the application of VAT to all classes of short-term insurance business, in particular brokers' commissions. It is also seriously anomalous that vendors cannot claim an input tax credit on entertainment expenses.

The *FM* hopes that government has a contingency plan to delay implementation if it becomes apparent that the introduction of VAT will cause chaos and widespread embarrassment to commerce and industry.

It could be argued that business might have been better prepared for the September 30 deadline but the introduction of a new form of indirect tax is hard enough to implement without demanding that everyone's house should be in order within six months.

After all, perhaps more than ever before, professional and computing resources are strictly limited. ■

TAX BAIT ON TRIAL

FM 5/4/91 (320)

Ray Eskinazi is international tax partner at Ernst & Young and assistant editor of *Juta's Foreign Tax Review*

What do SA and eastern European countries have in common? They are all aware of the benefits of foreign direct investment as a catalyst for economic development but now they have to cope with the fact that potential foreign investors are hesitant to commit resources.

In SA, this may be attributed to a cautious approach towards an environment where the political system is undergoing tremendous change. In eastern Europe, not only the political framework but also the legal, financial and tax systems are in transition. SA can learn from the endeavours — not altogether successful — of eastern Europe to use the tax system to attract and retain foreign investment.

In Hungary, for example, the first wave of tax reform aimed at attracting investors included a wide range of incentives, among them lower tax rates for foreign investors, long tax holidays and further tax reductions for investment in some industries. At the end of 1990, the Hungarian parliament agreed to revise and reduce the incentives.

Poland, similarly, recently announced its intention to end a three-year tax holiday and replace it with a more selective system for substantial investments in priority sectors.

What was lacking in both cases was stability. A stable fiscal regime is an important requirement in attracting foreign investment. Fluctuating measures can do little to inspire confidence in foreign investors. To plan effectively they require consistency in the formulation, interpretation and administration of tax legislation.

In some countries of eastern Europe, the situation is exacerbated by legislation which allows for the granting of discretionary tax incentives. This practice provides ample scope for inequity, especially where the means of allocating incentives is often a matter of negotiation between the foreign investor and relevant Ministry. Any temptation to introduce discretionary concessions should be strongly resisted.

Worldwide experience indicates that, given the choice between built-in incentives (such as lower tax rates, no or limited withholding tax on investment income and an extension of the double taxation treaty network to co-ordinate the imposition of taxes) and other forms of incentives, foreign investors generally prefer the former. They provide a simpler tax system with greater certainty and equal treatment.

Tax holidays are generally of minimum value if they do not extend beyond an initial start-up period, when losses are usually incurred. They should take effect from the first year showing a net profit after using all loss carry-forwards and should also extend to any capital increases, thus avoiding the need to set up a separate venture for each project.

Grants are generally more effective than tax holidays because they provide an immediate cash flow benefit to the foreign investor.

Canada's experience with tax incentives has paralleled that of other countries. Significant incentives were introduced in the Seventies: tax rates for particular sources of income, tax credits in the form of a percentage of eligible expenditures to reduce taxes payable, accelerated depreciation to reduce the cost of capital. They resulted in a significant narrowing of the tax base and considerable variation among effective tax rates facing different sectors and activities.

By the mid-Eighties, government concluded that many of the incentives were ineffective, complicated and led ordinary taxpayers to question the fairness of the system. Further reform in 1987 abolished most.

Incentives through the tax system are not cost-efficient. Apart from forgone government revenues, costs include less efficient allocation of resources, the need to raise other taxes to compensate for the forgone revenues, a reduced perception of fairness of the tax system and increased complexity in administering and complying with it.

Though important, the tax system is not the only factor affecting investment decisions. Political stability, an investment protection agreement, efficient infrastructure, availability and cost of skilled labour and absence of exchange control are equally important.

FM 5/4/91 320

ground, Welgemoed seems to be that relative rarity: a Cabinet Minister qualified for the job. ■

LOCAL GOVERNMENT 320

TAXING MATTERS

FM 5/4/91.

One thing the prospect of value-added tax (VAT) has done is galvanise the country's white local authorities — seldom united on anything or particularly critical of central government — into a confrontational mood.

The issue is the introduction, in October, of VAT on municipal rates and taxes.

What began as criticism by Durban's mayor, Jan Venter, a few weeks ago on ratepayers having to pay "tax on tax" and no doubt regarded in Pretoria as another quirky reaction from Natal, is now taking the shape of a national protest.

With growing reaction from all the main cities to the introduction of VAT on property taxes, the United Municipal Executive (UME) — the body representing organised white local authorities — is now preparing a memorandum for Finance Minister Barend du Plessis and wants a meeting with government.

It wants VAT on rates dropped, or at least zero-rated. Meanwhile, mayors are calling public meetings on the issue and, in Durban, ratepayers are being urged by Venter to object to VAT on rates.

The UME says VAT will add about 9% to rates bills. In Durban, for the past few years where the council has kept rates increases well below inflation, management committee chairman Derrick Watterson says VAT will increase ratepayers's bills by 17%.

The controversy is over the new, base-broadening tax on services under the VAT system. Municipalities argue it is a tax on tax and that if rates, which fund municipal services, are to be taxed, then logically, VAT should also be applied to income tax.

Deputy Minister of Finance Org Marais has reacted to the criticism, arguing that rates are not really a tax but a "fee" residents pay for municipal services and, therefore, not tax on tax. He also says local authorities should go back and do their sums again, which, he says, should show that VAT will not increase the burden on ratepayers.

Cape Town city treasurer Eddie Landsburg responded by saying cities *had* done their sums properly and, taking into account cost benefits, found that 9% of the standard 12% VAT tax would have to be added to municipal rates and taxes.

Watterson is even more outspoken. "The minister can kick and scream as much as he likes, but he is not going to convince anyone, apart from a few academics, that VAT on rates is anything other than coldblooded tax on tax."

Hanging over the meeting later this month between the UME delegation and government will be the recent lesson learnt by the Tories in Britain. Whatever the merits of the poll tax there, or VAT here, if a system is widely seen as unfair, it can cost a lot in terms of political support and could even become unworkable. ■

VAT promises a price squabble

(Bus/T) S Times 7/4/91. 320

CONSUMER groups and retailers may find themselves at odds over the claim that VAT will lead to lower prices.

Consumers argue that from October 1 the operating costs of businesses will drop because they will be entitled to rebates on VAT they pay on purchases that now carry GST, which is not rebateable.

The Government estimates that this will put an extra R7-billion in the pockets of the business sector this year.

By CURT VON KEYSERLINGK

"All business will be able to sell us their wares at a reduced cost as soon as VAT is introduced," says Nonia Ramphomane, president of the National Black Consumers Union.

"But this is not going to happen unless we make it happen. We believe a massive campaign is necessary.

"VAT can be turned into a tax that actually benefits consumers rather than impoverishing them."

Mrs Ramphomane says: "Unless the Government and business see to it that the VAT benefits to business are passed to consumers then it will be seen as just another way in which tax structures are used as a means of giving to the haves and taking from the have-nots."

But some retailers say the price of goods will not drop and that the only immediate saving to consumers will be the one percentage point difference between 13% GST and 12% VAT.

Consumers will also have to pay VAT on services and fresh food now exempt from GST.

Expense

Checkers managing director Sergio Martinengo says: "It should take about a year before we can pass on the cost benefits of VAT to our customers. VAT involves huge expense that will gobble up any savings we may make. People have to be trained and new computer systems introduced.

"We are even considering closing all our branches on September 30 to change the price stickers on our merchandise. Just think of the turnover loss this will incur."

OK Bazaars financial director Brian Borcherds is not sure that VAT will reduce his chain's operating costs.

"We hold the GST we collect for up to one month before handing it to the Receiver. We will lose most of the interest we earn on GST takings because we will pay VAT up front and be refunded only after the goods have been sold. This will be a cash-flow disadvantage."

Resentment

Mr Borcherds mentions the high cost of implementing and running the complicated VAT system. Also costly will be remarking goods when VAT is introduced and at any time later when the rate is changed.

The OK stocks 65 000 lines and has millions of goods on display.

Although the OK will be entitled to VAT rebates on its inputs, the cost of auditing, security and other services provided by outside suppliers will rise because they do not carry GST but will be subject to VAT.

Mr Borcherds says: "What we win on the rebates for inputs that now carry GST we may lose on the extra costs of the services that do not."

He believes the OK's suppliers will be in a better position to benefit from savings on VAT rebates.

"Their costs should fall, but it will take some time to happen.

"In the long term VAT will bring savings to the consumer, but it will hit him hard in the beginning and cause resentment."

Pick 'n Pay chairman Raymond Ackerman says VAT will bring some savings in his operating costs and they will be passed to consumers.

"We are telling out suppliers we will not accept VAT-related price increases.

"But the cost of implementing VAT will be enormous. We will have to spend tens of millions of rands to speed up the installation of bar-coding systems needed for the changeover and for any subsequent changes in the VAT rate.

Monstrous

"I do not think VAT will bring considerable cost-saving to business, but it will give the Receiver more money because the system will be more difficult to cheat than is the case with GST."

Mr Ackerman says VAT should have been an add-on tax like GST where the price of the goods is shown separately from the tax instead of an add-in tax where it is incorporated in the selling price.

"The Government will rue the day it made this decision," he says. "It will have the effect of making all marked prices increase by 12% when VAT begins. That will have a negative effect on consumers.

"It will also mask real price reductions we may achieve with the implementation of VAT as well as unjustified price increases.

"The Government's plan to have a special committee to monitor abuse of the changeover to VAT is monstrous. It implies that I am dishonest. It would not be needed if VAT was shown separately from the selling price."

ANC social tax plan draws business flak

S/Times 7/4/91 (Bus/T)

By CURT VON KEYSERLINGK

THE ANC's proposal to increase State spending by R40-billion in the next five years, financed by more taxes and greater deficit spending, will scare off investors in their droves, says an executive of a mining and industrial group.

The proposal and comments on this year's Budget are contained in the ANC publication Mayibuye.

The ANC calls for an increase in State spending from about 25% of gross domestic product (GDP) last year to 35%. The money would be raised by new taxes, such as those on capital gains and capital transfer. It wants a land and progressive property tax. It calls for a minimum business tax.

The calculation of the additional revenue is based on the assumption that the economy grows at 3% a year. This appears optimistic because average growth since 1985 has been less than 2% a year.

The ANC says that cutting the top marginal tax rate in the latest Budget is "inappropriate given the current priority to redistribute income to the poorest sections of the population ... In fact, further taxation of the rich would have been completely justified."

The Goverment's deficit financing policy — about 3% of GDP — is conservative. Deficit financing amounting to 5% of GDP would be "responsible", says the ANC.

The additional funds could be allocated to social upliftment programmes over and above money already allocated to them.

The ANC says the latest Budget of R75-billion should be allocated differently.

But Econometrix director Tony Twine says: "This approach to the economy has been tried before in Eastern Europe and has failed ignominiously. If a future government went ahead on these lines, South Africa's GDP would shrink dramatically and State spending would quickly exceed the 35% proposed by the ANC.

The mining and industrial executive says: "We had hoped that our discussions with the ANC showed them some sense, but these proposals prove the opposite. The ANC has been coy in talks with us and has avoided spelling out the excesses contained in these proposals.

"Businessmen have made the mistake of assuming that the ANC's silence indicates that it is listening to their arguments."

SA Chamber of Business (Sacob) director-general Raymond Parsons says: "Sacob urges the ANC to understand that an even larger State share of GDP, especially if it involved yet higher deficit financing, would produce higher inflation.

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Negate

IAA HFM

"That would impoverish all South Africans, threaten the balance of payments, and reduce SA's ability to achieve even a fraction of the social expenditures the ANC envisages.

"We all agree that SA needs a faster economic growth. A sound taxation system would aid such growth. An unsound system would negate it. Implicit in the ANC tax proposals is the idea that business can be taxed in isolation. Most taxes are passed on to the public — either in higher prices, lower wages or increased unemployment.

"SA must remain internationally competitive when it comes to taxes if foreign investment and even local investment is to be encouraged."

Santam heralds bad news on VAT

B/Day 8/4/91

LIZ ROUSE

THE hard-pressed man in the street should brace himself for a hefty increase in short-term insurance premiums in October when VAT hits the insurance industry, says the latest issue of Focus, Santam's newsletter for brokers and agents.

The newsletter said an increase in premiums was definitely on the cards purely to cover the tax, adding that the imposition of VAT on the short-term insurance industry — from insurer and reinsurer to broker and agent — was "a staggering blow".

Claims ratios and the composition of each insurer's client portfolio would have some bearing on the extent of the premium increases.

"At this stage we do not want to forecast what the premium adjustment will be", Santam GM Koos van Tonder said. "In any event we will have to watch matters very closely in th early months of VAT to make sure nothing has been overlooked.

"It is most unfortunate that the government has decided to tax short-term insurers since of the approximately 46 countries in the world which have VAT, every single one, with the exception of New Zealand only, does not tax the short-term insurance company."

The newsletter said short-term insurance companies would be able to recover certain aspects of the tax paid on items such as stationery and furniture.

There were many links in the long VAT chain and Santam warned that brokers needed to address their own situations. To a large extent they would become tax collectors and commission paid to them would involve a certain tax aspect.

"When business is passed through a broker it will be essential to establish the real nature of the transaction — who is rendering what service to whom, what attracts VAT and what does not attract VAT.

"The selling of insurance and the collection of a premium is one transaction; the payment of commission is a completely separate transaction," Van Tonder said.

He said that unfortunately, at this early stage, there were no fixed guidelines on just how a broker should handle VAT. 88 320

Renewal notices for premiums which would include VAT had to be posted in some cases during July 1991, which allowed little time for vast system changes.

Mining houses join outcry over tax

BIDay 8/4/91

(320)

GRETA STEYN

THE mining houses have joined the outcry over the levy on interest earnings announced in the Budget and have approached the Finance Department for exemption.

All the large mining houses have sophisticated money and capital market operations and would, in terms of the current proposals, fall foul of the "turnover" tax on interest announced in the Budget.

A Chamber of Mines spokesman confirmed at the weekend that the chamber had raised the issue with government and would be making further representations soon. It is expected it will argue that the industry is already in dire straits and should therefore be exempted from the 0,75% charge on interest earnings.

Commissioner for Inland Revenue Hannes Hattingh said last week exemptions from the tax had not been finalised.

Banks, the hardest hit by the new tax, are already up in arms about talk that the Post Office will not have to pay extra tax.

Meanwhile, tax experts have criticised the tax, calling it "unworkable" and in conflict with the principles established by the Margo Commission.

☐ To Page 2

Tax

BIDay 8/4/91

(320)

☐ From Page 1

Deloitte Pim Goldby director Willem Cronje said it was a "cascade tax" which meant the amount of revenue earned depended on the length of the "chain" through which funds moved.

"The Margo Commission pointed out the distortions created by cascade taxes," Cronje said. He added that the market would probably react to the tax by "shortening the chain" — moving away from using financial intermediaries. He argued this would "push SA in the direction of a less sophisticated, Third World economy".

Another tax expert said if it was accepted that banks had to pay more tax, there were other, less distortive taxes than the "cascade" tax announced in the Budget.

imprisonment in terms of section 189 of the Criminal Procedure Act, 1977.

(3) A statement is not necessary.

Persons sentenced to death

*2. Mr P G SOAL asked the Minister of Justice:

(1) (a) How many persons have been sentenced to death by the courts since 2 February 1990 and (b) what are their names;

(2) whether they will be executed; if so, when;

(3) whether he will make a statement on the matter?

B595E

The MINISTER OF JUSTICE:

(1) and (2) 51 persons for the period 2 February 1990 to 27 July 1990 and 49 persons for the period 28 July 1990 to 8 April 1991.

It is not clear to me why the hon member requires the information as from 2 February 1990. It is definitely not an appropriate date for the purpose of this question and it is clear to me that the hon member did not keep abreast of developments of the law in this field. I refer the hon member to the oral reply which I furnished in this House on 19 February 1991 (see cols 187-189) in this regard.

Mr Speaker/Chairman with leave of the House I shall lay upon the Table the list of names which the hon member requires (Annexure A).

(3) A statement is not necessary.

Annexure A

Shabangu Jabulani
Mfanafuthi Ntaka
Norman Molefe
Rammy P Donbeni
Mbahdlaonke Siyondo
Donovan Diedericks
Vusi Nkosi
Fihlikhanda Khumalo
Mahlangaume D Kgoloko
Richard Pikoli
Thembisile M Skaap
David Cloete
Deon L Plank
Gert P Swart
Andries Mello
Frikkie Mcklein
Jerry Morten
Isaak V Mazibuko
Mlungisi G Zitha
Bongani Mkhize
Blom W Pule
Jerome Pienaar
Roderick Bock
Steven Smith
Amon N Mabusela
Mbuyiseni Mchuni
Bonginkosi K Dladla
Moses Lushaba
Mfanubombu M Zondi
Phillip M Ndayane
Jan M Motsepa
George Mokomane
William Malatje
Joseph Cele
Zenze Mkhongo
Ernest M Duma
Mvuyo Makie
Piet Pietersen
Pius Lamula
Johannes B Dlamini
Johan van Niekerk
Bhekinkosi E S Dlamini
Joseph Mabaso
James Walters
Zizwe I Mkhize
Frans Mofokeng
Anthang Mokgele
Peter J Oosthuizen
Bostella Sthebe
Lionel da Silva
Ndabayakhe D Bezuidenhout
Jerry V M Richardson
Tsidiso B J Motsei
Clive Bessick
Mzwandile B Mgubasi
Andile E Rabi
Malusi S Qowa
Edmond M Mazead
Samson Mhlongo
Pheagane R Sejaphala
Mogamat Saban
Anthony B Turner
Boy Mthembu
Vusimuzi W Simamane
Mlandelni B K Ntshangase
Charles B Zwane
Frank Baloyi
Obed Mkwanazi

Hansard 9/4/91

Bonginkosi Zitha
David Sesing
Philly Ncube
Peter Smith
Richard M Nduna
Lucky Ndamane
Willem T Myngati
Mandla R Shabalala
Sibusiso E Shabalala
Philani T Mjiyako
Gqibile P Maxam
Nceba A Mbengu
Mocketsi Marapela
Hoseah M Khoza
Absolom M Lubambo
David Mokoena
Sipho S Mbonane
Mjenzeni Z Nkosi
Daniël M Motaung
Isaac T Setai
Joseph S Lephalo
Neo D Kheo
Freddie A Potwana
Ezskiel Mandlazi
Gideon Kgasoane
Ronnie Fakude
Oupa P B Nkosi
Judas Mkhonto
Elliot G Ngwegwe
Lindemna L Dada
E Rabodunyone
E Marais

Johannesburg: Black taxpayers

*3. Mr A GERBER asked the Minister of Finance:† Hansard 9/4/91 320

(1) How many Black taxpayers are registered with his Department in the magisterial district of Johannesburg;

(2) whether any of these taxpayers are in arrears with the payment of tax; if so, how many;

(3) whether any steps have been or are being taken against these persons; if not, why not; if so, what steps?

B597E

The MINISTER OF FINANCE:

(1) and (2) The returns of income which are submitted annually by all registered taxpayers do not provide for details with regard to race classification. Statistics are, therefore, no longer kept on a separate basis in respect of the number of taxpayers in the various population groups and the amount of tax paid by them.

Hansard 9/4/91 320

(3) As already explained on 5 March 1991 in answer to the hon member's question No. 3 of 15 February 1991, all taxpayers, irrespective of race, receive impartial treatment from the Department of Finance and active steps are taken against any taxpayer who is in arrears with the payment of tax.

Certain person: military service

*4. Miss M SMUTS asked the Minister of Defence: Hansard 9/4/91

(1) Whether a certain person, whose name has been furnished to the South African Defence Force for the purpose of the Minister's reply, has been called up for military service; if so, (a) when and (b) what is his name;

(2) whether this person has refused to perform military service; if so,

(3) whether any steps will be taken against this person; if so, (a) what steps, (b) in terms of what statutory provisions and/or regulations and (c) when?

B603E

The MINISTER OF DEFENCE:

(1) Yes.

(a) He was called up for the January 1991 intake.

(b) The name supplied by the hon member.

(2) Yes.

(3) The matter is at present being investigated and a decision regarding possible steps will be taken on completion thereof.

Cape Town: unguarded arms depot

*5. Mr J H MOMBERG asked the Minister of Defence:† Hansard 9/4/91

(1) Whether an arms depot in Cape Town was unguarded on or about 10 March 1991; if so, why; if not, what are the relevant details;

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

B607E

imprisonment in terms of section 189 of the Criminal Procedure Act, 1977.

(3) A statement is not necessary.

Persons sentenced to death

*2. Mr P G SOAL asked the Minister of Justice:

(1) (a) How many persons have been sentenced to death by the courts since 2 February 1990 and (b) what are their names;

(2) whether they will be executed; if so, when;

(3) whether he will make a statement on the matter?

B595E

The MINISTER OF JUSTICE:

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Mr Speaker/Chairman with leave of the House I shall lay upon the Table the list of names which the hon member requires (Annexure A).

(3) A statement is not necessary.

Annexure A

Shabangu Jabulani
Mfanafuthi Ntaka
Norman Molefe
Rammy P Donbeni
Mbahdlaonke Siyondo
Donovan Diedericks
Vusi Nkosi
Fihlikhanda Khumalo
Mahlangaume D Kgoloko
Richard Pikoli
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David Cloete
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Andries Mello
Frikkie Mcklein
Jerry Morten
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Mlungisi G Zitha
Bongani Mkhize
Blom W Pule
Jerome Pienaar
Roderick Bock
Steven Smith
Amon N Mabusela
Mbuyiseni Mchuni
Bonginkosi K Dladla
Moses Lushaba
Mfanubombu M Zondi
Phillip M Ndayane
Jan M Motsepa
George Mokomane
William Malatje
Joseph Cele
Zenze Mkhongo
Ernest M Duma
Mvuyo Makie
Piet Pietersen
Pius Lamula
Johannes B Dlamini
Johan van Niekerk
Bhekinkosi E S Dlamini
Joseph Mabaso
James Walters
Zizwe I Mkhize
Frans Mofokeng
Anthang Mokgele
Peter J Oosthuizen
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Ndabayakhe D Bezuidenhout
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Clive Bessick
Mzwandile B Mgubasi
Andile E Rabi
Malusi S Qowa
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Samson Mhlongo
Pheagane R Sejaphala
Mogamat Saban
Anthony B Turner
Boy Mthembu
Vusimuzi W Simamane
Mlandelni B K Ntshangase
Charles B Zwane
Frank Baloyi
Obed Mkwanazi

Hansard 9/4/91

Bonginkosi Zitha
David Sesing
Philly Ncube
Peter Smith
Richard M Nduna
Lucky Ndamane
Willem T Myngati
Mandla R Shabalala
Sibusiso E Shabalala
Philani T Mjiyako
Gqibile P Maxam
Nceba A Mbengu
Moeketsi Marapela
Hoseah M Khoza
Absolom M Lubambo
David Mokoena
Sipho S Mbonane
Mjenzeni Z Nkosi
Daniël M Motaung
Isaac T Setai
Joseph S Lephalo
Neo D Kheo
Freddie A Potwana
Ezskiel Mandlazi
Gideon Kgasoane
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(3) whether any steps have been or are being taken against these persons; if not, why not; if so, what steps?

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The MINISTER OF FINANCE:

(1) and (2) The returns of income which are submitted annually by all registered taxpayers do not provide for details with regard to race classification. Statistics are, therefore, no longer kept on a separate

Hansard 9/4/91

basis in respect of the number of taxpayers in the various population groups and the amount of tax paid by them.

(3) As already explained on 5 March 1991 in answer to the hon member's question No. 3 of 15 February 1991, all taxpayers, irrespective of race, receive impartial treatment from the Department of Finance and active steps are taken against any taxpayer who is in arrears with the payment of tax.

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(1) Whether a certain person, whose name has been furnished to the South African Defence Force for the purpose of the Minister's reply, has been called up for military service; if so, (a) when and (b) what is his name; 254

(2) whether this person has refused to perform military service; if so,

(3) whether any steps will be taken against this person; if so, (a) what steps, (b) in terms of what statutory provisions and/or regulations and (c) when?

B603E

The MINISTER OF DEFENCE:

(1) Yes.

(a) He was called up for the January 1991 intake.

(b) The name supplied by the hon member.

(2) Yes.

(3) The matter is at present being investigated and a decision regarding possible steps will be taken on completion thereof.

Cape Town: unguarded arms depot

*5. Mr J H MOMBERG asked the Minister of Defence:† Hansard 9/4/91

(1) Whether an arms depot in Cape Town was unguarded on or about 10 March 1991; if so, why; if not, what are the relevant details; 254

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

B607E

The MINISTER OF DEFENCE:

(1) and (2) A Board of Inquiry has been convened to investigate the matter and the hon member can be assured that suitable corrective measures have already been taken.

Rhinoceros horn/ivory: poaching/trading

*6. Mr R J LORIMER asked the Minister of Environment Affairs:

(1) Whether, in the light of the penalties currently being imposed by the provincial authorities in the Transvaal, the Orange Free State and the Cape Province for poaching and trading in rhinoceros horn and ivory, he will avail himself of the powers granted to him in section 21 (1) and 21 (2) (c) of the Environment Conservation Act, No 73 of 1989, to identify such poaching and trading to be activities having a substantial detrimental effect on the environment; if not, why not; if so,

(2) whether he will make regulations in this regard with penalties for the contravention thereof being laid down in terms of section 28 (c) of the said Act; if not, why not; if so, when?

Hansard 9/4/91 B610E

The MINISTER OF ENVIRONMENT AFFAIRS:

(1) No. Poaching and trading in rhinoceros horn and ivory are being controlled in terms of the National Parks Act and the provincial nature conservation ordinances by the National Parks Board, the Provincial Nature Conservation Authorities and the South African Police. The National Parks Act and the ordinances of Natal and the Orange Free State have already been amended to provide for severe sentences (fines not exceeding R100 000 and imprisonment for a period not exceeding 10 years). I have been informed that the Cape and Transvaal ordinances will be amended accordingly in the very near future. I am, therefore, of the opinion that it is unnecessary to identify activities which may have a substantial detrimental effect on the environment in terms of the Environment Conservation Act when such activities are already being adequately controlled in terms of other legislation. Should it become necessary in future to implement the measures of the Environment Conservation Act, No 73 of 1989, in this regard, it will be done in consultation with the relevant authorities.

(2) Falls away.

Environment Conservation Act: regulations

*7. Mr R R HULLEY asked the Minister of Environment Affairs:

Whether the regulations arising from the Environment Conservation Act, No 73 of 1989, have been finalised; if so, when will they be promulgated; if not, why not?

B611E

The MINISTER OF ENVIRONMENT AFFAIRS:

The way in which the question has been phrased makes it seem as though only one set of regulations can arise from the Environment Conservation Act No 73 of 1989. In actual fact, the Act allows for about 31 different aspects about which regulations can be promulgated, stretching over widely divergent fields, namely waste management, noise, vibration and shock, environmental impact reports and limited development areas.

Some of these regulations have already been promulgated such as the noise control regulations (April 1990). Others are being prepared such as those pertaining to waste management. In this instance however, due to legal technicalities, an amendment to the Act will have to be passed before regulations can be promulgated. The Department is giving attention to such a possible amendment.

The promulgation of regulations in terms of section 26 of the Act is subject to the identification of activities in terms of section 21 of the Act. Investigations into activities that should be identified, which include wide-ranging public participation, have come a long way, and a provisional list of activities should be available for comment later this year. With the approval of my colleagues regarding the activities on the list, as is required by the Act, the regulations could be promulgated early in 1992.

According to a recent legal opinion, regulations with regard to limited development areas can only be promulgated after such areas have been declared. Prior to the declaration of limited development areas in terms of section 23 of the Act, such areas must first be determined. An interdepartmental committee is presently giving special attention to the coastal area for this purpose. Areas will be declared as they are identified and determined.

The most important single stumbling block preventing the promulgation of regulations under the Act is found in section 28(i)(iii) which reads: "Any regulations under this Part which may affect the activities of any local authority or government institution shall only be promulgated with the concurrence of such a local authority or government institution." This leads to the almost impossible situation where the approval of every local authority or government institution that may possibly be affected must be obtained before a regulation can be promulgated. It is urgently required that this section be amended to enable the implementation of the Act in practice. The Department is presently paying attention to this aspect.

MPs: daily police protection

*8. Mr R R HULLEY asked the Minister of Law and Order:

(1) Whether any ordinary members of Parliament are at present receiving daily police protection; if so, (a) how many, (b) at what total monthly cost and (c) on whose instructions;

(2) whether the justification for such protection is subject to regular review; if not, why not; if so, how regularly?

Hansard 9/4/91 B612E

The MINISTER OF LAW AND ORDER:

(1) and (2)

In addition to the permanent guard duties which the Special Guard Unit provides at Acacia Park, Laboria Park and Pelican Park, individual Members of Parliament are, from time to time, guarded at their private homes as threats or risks to which they are exposed or may be exposed, demand. For security reasons and in the interest of the Members and their families, I am, however, not prepared to divulge the number of Members who are receiving Police protection. The Commissioner of the South African Police issued instructions according to which Regional Commissioners must, under specified circumstances, make police protection available to Members of Parliament. These duties are performed in the normal course of duties. The costs in this regard are therefore not calculated separately. This necessity for the duties is regularly reconsidered. As soon as the need therefore ceases to exist the services are immediately suspended. Hansard 9/4/91

Robben Island: prisoners

*9. Mr D J DALLING asked the Minister of Correctional Services:

How many prisoners were being held at the (a) maximum security and (b) medium security prison on Robben Island as at the latest specified date for which information is available?

Hansard 9/4/91. B615E

The MINISTER OF CORRECTIONAL SERVICES:

On 8 April 1991, the figures were as follows:

(a) 145 Security prisoners

(b) 312 Non security prisoners in other words prisoners convicted and sentenced for common criminal offences and who are utilised as a source of labour for a variety of essential services on Robben Island.

*10. Mr G C Engel — Finance. [Question standing over.]

Margo Commission: recommendations

*11. Mr G C ENGEL asked the Minister of Finance: Hansard 9/4/91

(1) Whether the Margo Commission made any recommendations on fringe benefits taxation in respect of new entrants to corporate share purchase schemes; if so, what is the gravamen of these recommendations;

(320)

(2) whether he intends alleviating the fringe benefits taxation burden on such entrants; if not, why not;

(3) whether he will make a statement on the attractiveness of such schemes to participants?

B618E

The MINISTER OF FINANCE: 320

(1) and (2) No. The Commission did, however, recommend that although no concession with regard to tax on fringe benefits flowing from share option schemes should be granted, a limited degree of exemption must be granted in respect of benefits derived from share incentive schemes which have been approved by the Commissioner for Inland Revenue and which are created for the benefit of *all* permanent employees of a company and not only for new entrants. These recommendations were accepted, in principle, by Government. The matter is being investigated by the Commissioner for Inland Revenue in consultation with the Tax Advisory Committee and shall enjoy further consideration on completion of the investigation.

Hansard 9/4/91

(3) The investigation will still take some time and I do not consider it advisable to make a statement before I receive a report back in this regard.

Bedfordview: new police station

*12. Mr B B GOODALL asked the Minister of Law and Order:

Whether it is intended to build a new police station in Bedfordview; if not, why not; if so, when will building operations (a) commence and (b) be completed?

B620E

The MINISTER OF LAW AND ORDER:

Yes.

(a) and (b)

The provision of the service is determined by the availability of funds. The projected tender date for a new police station in Bedfordview is September 1995.

A new planning of all South African Police accommodation requirements is presently being carried out with a view to reducing costs, i.e. state expenditure. This process can have an influence on the date.

Consequently, I cannot at this stage indicate when building operations will commence or be completed.

Abortion/sterilisation: legislation

*13. Dr Z J DE BEER asked the Minister of National Health:

(1) Whether she intends to introduce any legislation in regard to abortion and sterilization during the present session of Parliament; if not, why not; if so, (a) what legislation and (b) when;

(2) whether she has received any representations in this regard during the past 12 months; if so, (a) from whom and (b) what was (i) the nature of and (ii) her response to these representations?

Hansard 9/4/91 B623E

The MINISTER OF NATIONAL HEALTH:

(1) No, the majority of persons who reacted to the invitation to comment, are against any amendments of the existing Abortion and Sterilisation Act, 1975;

(2) yes, representations in this regard have been received after an invitation for comments was issued to the general public on 20 March 1990,

(a) a total of 48 846 persons reacted to the invitation. This includes individuals of all population groups, several organisations and professional persons and

(b) (i) 98,62% of the persons that reacted to the invitation were against any amendments of the existing Act and

(ii) it is clear that the general public is not in favour of amendments of the Act. Therefore the decision was made not to amend the Act.

Illegitimate children: rights of access to fathers

*14. Mr L FUCHS asked the Minister of Justice:

Whether it is the intention to introduce legislation in terms of which rights of access will be granted to fathers of illegitimate children; if not, why not; if so, (a) when and (b) what is envisaged in this regard? B644E

The MINISTER OF JUSTICE: Hansard 9/4/91

The rights of a father regarding his illegitimate child are at present being investigated by the

South African Law Commission and it is appropriate to await their recommendations in this regard.

Pension contributions: backlog

*15. Mr L F STOFBERG asked the Minister of Finance:† Hansard 9/4/91

Whether there is a backlog at present in the payment of the State's share in pension contributions; if so, (a) since when, (b) how large is the amount concerned and (c) in respect of what date is this information furnished?

B649E

The MINISTER OF FINANCE:

No.

(a) Falls away

(b) Falls away

(c) 28 February 1991

Unrest incidents: ANC/SAP

*16. Mr L F STOFBERG asked the Minister of Law and Order:†

(1) Whether the ANC has been granted permission for some of its members to accompany the South African Police to unrest incidents; if so, with effect from what date; Hansard 9/4/91.

(2) whether an exception to the usual procedure has been made in the above-mentioned case; if so, why;

(3) whether the same concession has been granted to (a) Inkatha and (b) other political parties; if not, why not, if so, to which political parties?

B650E

The MINISTER OF LAW AND ORDER:

(1) No, no general permission has been granted.

(2) After the declaration of the unrest regulations in accordance with section 5A of Public Safety Act, (Act 3 of 1953) on 11 November 1990, which also provided for the application of a curfew in Atteridgeville, the ANC alleged that the curfew and the presence of the Operational Branch of the South African Police in Atteridgeville was stirring up animosity amongst the youth and residents of Atteridgeville. In an attempt to refute these allegations it was agreed upon with the ANC that they would appoint two lawyers. The purpose of this was that they would accompany the Police to scenes of unrest, after the Police had notified them of such incidents. In this way it could be shown to the organisation that the conduct of the Police was *bona fide* and taking place within their powers.

However, it was found that the two lawyers were pursuing the Police everywhere without invitation and without good reason. In view of this the Regional Commissioner accordingly decided not to proceed with the procedure agreed upon. No occasion had arisen, before the pursuit referred to, for the Police to contact the two lawyers.

(3) (a) and (b) Hansard 9/4/91

No, because no such requests have as yet been addressed to the South African Police and neither has any such instance yet occurred where it was in the interest of the maintenance of law and order. If Inkatha, or any other political party deems it necessary to have discussions with the South African Police about this matter, they are welcome.

*17. Mr R F Haswell—Public Works and Land Affairs. [Question standing over.]

Atmospheric Pollution Act: amendments

*18. Mr R F HASWELL asked the Minister of National Health:

(1) Whether her Department intends motivating amendments to the Atmospheric Pollution Prevention Act, No 45 of 1965, during the current session of Parliament; if not, why not; if so,

(2) whether she will consider introducing amendments providing for (a) stricter national and regional regulations and (b) economic incentives; if not, why not?

Hansard 9/4/91 B654E

The MINISTER OF NATIONAL HEALTH:

(1) No, the Department of National Health and Population Development is waiting for the report of the President's Council

NEWS FOCUS

VAT move 'took political courage'

B/Day 9/4/91 (320)

GILLIAN HAYNE

ALTHOUGH there is dissension in upper echelons over government's decision to introduce a new tax system in SA's current turbulent political times, most tax experts and economists agree that VAT is a more efficient tax which will have a positive influence on inflation and economic growth in the longer term.

SA Chamber of Business chief economist Ben van Rensburg said it was a brave step for government to choose efficiency at the risk of jeopardising political support.

"VAT broadens the tax base but catches sensitive things such as rates and food in its net. And with government unable to rely on capital goods to bring in revenue, the advantages of the system are not easy to explain to the general population."

But others believe the decision to move to VAT was not essential and should have been postponed until a new political dispensation had been introduced.

They say although VAT is undoubtedly good for business, increased unrest and violence, which could be triggered, would negate the advantages through lower business and international confidence.

However, accepting that VAT is here, the experts are willing to enumerate the benefits of the system.

Van Rensburg, SA's leading economist on indirect taxes, said that by taxing business costs, for example capital and intermediate goods under the GST system, prices had been increased 28%. The calculation was worked on the cascading effect of the inclusion and the length of the distribution chain.

"It fuelled inflation and made SA business uncompetitive by international standards. It is essential, therefore, to free business costs from the tax net to improve efficiency and competitiveness," he said.

By allowing input tax credits on capital and intermediate goods under the VAT system, Van Rensburg said business and society as a whole would benefit from the economic growth it would initiate.

He argued that although Sacob had strongly supported the introduction of VAT at 10%, it had favoured the phasing in of capital goods only, because it did not think there was an alternative option.

● VAN RENSBURG . . . In the final analysis, VAT will bring down inflation by between 1% and 1,5%.

However, the decision to allow immediate credits was decided upon because of the difficulty in defining "capital", and although the rate has had to increase to 12% to compensate for the R3,75bn loss to the fiscus, Van Rensburg believed it was the right decision.

Inland Revenue tax policy development chief director Trevor van Heerden said the capital goods credits would be financed by VAT on food and services. The rest, a R1,08bn shortfall, would be covered by the turnover tax on financial institutions and the deficit — increasing government's borrowing on the capital market.

He emphasised the introduction of the pure VAT system was necessary to correct "massive" errors in the GST system.

"The input tax credits on capital and intermediate goods will flow through the business environment and stimulate economic growth and job creation, which justifies the decision to allow immediate credits rather than follow a phasing-in policy."

Fears of distorted buying trends — by individuals and companies postponing buying decisions until after the introduction of VAT — were largely unfounded, Van Rensburg said.

"Investment decisions are based on long-term projections and short-term pricing and tax differentials are unlikely to make a difference in the timing of those purchases."

He conceded that it could marginally affect small purchases, but said that was "one of the bumps unavoidable in a phase of transition".

Opposing views were that the threat of inflation was unlikely to stop companies postponing non-essential buying if they could save the 13% GST. They said government's reliance on the threat of inflation to maintain purchasing was naive.

Explaining government's need to set the VAT rate at 12%, Van Rensburg said: "At the moment of transition there is a great need for social upliftment expenditure, but to maintain economic stability it is necessary to find the right balance between revenue collection and expenditure demands. The resources have to come from revenue."

As an eternal optimist, he added that it was never too late to bring the rate down.

Van Rensburg added that consumers had to trust businesses to pass on the benefits of tax relief. "If we rely on the market system to allocate resources, competition will see benefits passed on."

With SA's efficient system of competition, not only consumers but also the distribution network would put pressure on manufacturers to pass on benefits, thereby acting as watchdogs.

Van Rensburg said in the final analysis the introduction of VAT would reduce inflation by 1%-1,5%.

'Reconsider VAT on rates' plea

B/Day 9/4/91

Political Staff

(320)

CAPE TOWN — Chairman of the Ministers' Council in the House of Delegates J N Reddy has urged government to review its decision to impose VAT on property rates, saying it will lead to protests and demonstrations.

Speaking during the Budget debate, Reddy said the Indian and coloured communities had a peculiar problem because prices were inflated in their areas. VAT on rates would be an added imposition, he said.

"VAT will contribute to this problem and lead to protests and demonstrations," he said.

The Solidarity Party leader also took a swipe at extra-parliamentary groups which advocate sanctions.

He said the demand on business to provide jobs for returning exiles "became very hollow" when it was followed by calls for sanctions.

This was a "grave injustice to the very cause they are espousing," he said.

● Comment: Page 8
● See Page 9

legislation has not been tabled in Parliament as yet and we are still engaged in negotiations.

†Mr J DOUW: Mr Chairman, may I also put a supplementary question to the hon the Minister?

†The CHAIRMAN OF THE HOUSE: Will the hon the Minister take another question?

†The MINISTER: Yes, Mr Chairman.

†The CHAIRMAN OF THE HOUSE: Order! The hon member may put his supplementary question. Hansard 10/4/91

†Mr J DOUW: Mr Chairman, in his reply the hon the Minister said that similar meetings under the leadership of the hon MECs had taken place in all the provinces. Is the hon the Minister aware that Coloured and Indian management committees were not consulted about such a meeting in the Transvaal?

†The MINISTER: No, Mr Chairman, this is a new question on which I have no information and which does not arise out of the relevant Natal episode. [Interjections.] I would be glad if the hon member could place it on the Question Paper.

Internal Security Act: MPs charged

*9. Mr S K LOUW asked the Minister of Justice:†

(1) How many members of Parliament were charged in the 1990 calendar year in terms of the provisions of the Internal Security Act, No 74 of 1982;

(2) whether he will furnish details of these charges; if not, why not; if so, what are the relevant details;

(3) whether he will make a statement on the matter?

C70E

The DEPUTY MINISTER OF LAW AND ORDER (for the Minister of Justice):

(1) and (2)

The required information is not readily available in the Department. To obtain the information all court records will have to be examined, which is not economically feasible.

(3) A statement is not necessary.

†Mr P A C HENDRICKSE: Mr Chairman, are you aware of it that the hon member who put the question is not in the Chamber?

†The CHAIRMAN OF THE HOUSE: Order! I said yesterday that although it is not a rule, it is etiquette for an hon member who has put a question to be here.

MPs: indemnity

*10. Mr S K LOUW asked the Minister of Justice:†

(1) Whether indemnity was granted during the 1990 calendar year to members of Parliament charged in terms of the provisions of the Internal Security Act, No 74 of 1982; if not, why not;

(2) whether he will make a statement on the matter? Hansard 10/4/91

C71E

The DEPUTY MINISTER OF LAW AND ORDER (for the Minister of Justice):

(1) No. As far as could be established no such requests for indemnity were received during 1990.

(2) A statement is not necessary.

HOUSE OF ASSEMBLY

———

)UESTIONS

Indicates translated version.

or written reply:

eneral Affairs:

Fringe benefit taxation

31. Mr G C ENGEL asked the Minister of Finance: Hansard 11/4/91

(a) How much taxation revenue was raised, by category, from fringe benefit taxation on individuals during the latest specified tax year for which information is available and (b) how much taxation revenue is it estimated will be raised, by category, from this source in respect of the year ended 28 February 1991?

B616E

(320)

The MINISTER OF FINANCE:

(a)	Travelling allowance	R241 613 898
	Subsistence allowance	R5 096 139
	Entertainment allowance	R19 528 130
	Use of motor vehicles granted by employers	R98 739 861
	Subsidies:	
	(1) Housing Schemes	R319 093 382
	(2) Other	R10 086 849
	Low or interest free loans:	
	(1) Housing	R70 193 147
	(2) Other	R10 084 286
	Free or cheap accommodation	R49 092 582
	Acquisition of assets at less than actual value	R1 662 780
	Right of use of assets other than accommodation or motor vehicles	R61 560
		R825 252 614
	Meals and refreshments	R112 080
	Free or cheap services	R440 959
	Payment or releasing of employees' debts	R184 089
	Scholarships	R210 138
	Share options exercised	R1 835 472
	Other fringe benefits	R17 774 072
	Total	R845 809 424

Hansard 11/4/91

The above statistics represent 59,3% of all registered taxpayers in respect of which assessments have been raised for the 1990 year of assessment. (320)

(b) R1 813 389 029—The revenue from this source is not estimated according to each category of fringe benefits.

Statistics in respect of tax payable on fringe benefits received by taxpayers falling under the Standard Income Tax on Employees (SITE) system are not available and therefore not included in the amounts shown in (a) and (b).

Prison warders/prisoners: killed/injured by prisoners

237. Mr D J DALLING asked the Minister of Correctional Services: Hansard 11/4/91.

(1) Whether any prison warders were (a) killed and (b) seriously injured by prisoners in 1990; if so, (i) how many and (ii) in which prisons;

(2) whether any prisoners were (a) killed and (b) seriously injured by fellow prisoners in that year; if so, (i) how many and (ii) in which prisons?

B613E

The MINISTER OF CORRECTIONAL SERVICES:

(1) (a) Yes.

(i) One (1) member of the Department of Correctional Services was killed by prisoners during 1990.

(ii) Krugersdorp Prison

(b) Yes.

(i) and (ii)

Fourty one (41) members of the Department of Correctional Services were seriously injured by prisoners during 1990 at the prisons mentioned below and a further two hundred and fifteen (215) members received medical treatment/consultations for minor injuries sustained as a result of assaults by prisoners:

POLITICS

High VAT income 'should reduce rate'

b Day 10/4/91. (320)

CAPE TOWN — The Parliamentary Joint Committee on finance has recommended that if Value Added Tax brings in more revenue than budgeted, the rate of 12% should be reduced as soon as possible.

In its report published yesterday on the Appropriation Bill, the committee said high priority had to be given to implementing the new food relief programmes.

It also said additional funds should be provided for the prevention of AIDS in view of its sharply rising incidence.

The committee noted the decrease in the maximum marginal individual tax rate, but said it did not believe it would bring much relief because of bracket creep.

It suggested the period for holding shares without becoming liable for capital gains tax should be greatly reduced from the current 10 years.

The joint committee also expressed concern at a lack of co-ordination in the provision of housing in SA and inadequate funds being budgeted for this purpose.

"Of particular concern are the unnecessary political impediments which, as a result of the unrest situation, are placed in the path of financial institutions in their efforts to fund the necessary housing, mainly in the black residential market."

BILLY PADDOCK reports that the DP yesterday gave qualified support to levying VAT on municipal rates, publicly joining the battle for the first time since the Vatcom report was released.

DP deputy spokesman on finance Jasper Walsh, who sat on the Vatcom and supported the recommendation that rates be subject to VAT, said that rates contained elements of tax, to meet broader community needs, as well as a direct charge for services rendered.

He said in Parliament that the DP believed that local government funding was a far deeper problem than that caused by the imposition of VAT on rates.

"But there are important objectives which we accept: VAT should be at as low a rate as possible, on as broad a base as possible and with as few exemptions as possible and VAT should raise no more tax than GST would have," he said.

He said because of apartheid white local authorities were battling to survive on limited budgets and black local authorities were utterly bankrupt because they had an insufficient tax base. Efforts by regional councils also fell far short of meeting the social investment requirements in less developed areas.

He said there was a limit to what could be raised from the local authority rate base and more funding would have to come from central government.

These issues had to be resolved before non-racial local authorities were established. Authorities had to be assured of their financial future, he said.

il 10 1991

Walsh issues VAT warning

(320)

Star 16/4/91

There were three issues which, if not dealt with, could have a devastating effect on the introduction of VAT, Jasper Walsh (DP Pinelands) said during the Budget debate yesterday.

They were municipal rates, the 12 percent rate and the tax on basic foodstuffs, which would penalise the poor.

"Local authorities need to be assured of their financial future before being asked to accept VAT on rates," he said.

Local government funding, however, was a far deeper problem than that caused by the imposition of VAT on rates.

White local authorities were struggling to survive on a limited tax base and black local authorities were bankrupt.

Efforts by regional services councils fell far short of meeting the social investment requirements in less developed areas, Mr Walsh said.

It was little wonder that local authorities felt threatened.

VAT at 12 percent was a bitter blow.

It was naive to believe business savings would be passed on to consumers, "particularly as many businesses are battling to survive a recession".

He welcomed the appointment of the Calitz committee to investigate the problem of relief for the poor.

"The fact is the poor will be worse off by the imposition of tax before the mechanisms are in place for their relief. This comes on top of the removal of the bread subsidy."

The Government had a duty to ensure that relief for the poor was available before VAT was imposed on foodstuffs now exempt.

Mr Walsh noted that the Minister had not kept his promise to introduce VAT six months after final parliamentary approval. "Preparation time, both for the Department of Inland Revenue and for the private sector, is insufficient.

"Either the implementation date must be postponed or the Minister must bear full responsibility for the problems which will inevitably occur." — Sapa.

'Heated debate' on taxation

(320)

BDay 11/4/91.

SINCE the publication of the Margo Commission report in 1987, the basis for taxation of life assurers has been a matter for sometimes heated debate.

Other contenders for the public's savings, notably the banks and the building societies, maintain this is a case where the playing field is far from level.

They say it is heavily skewed in favour of the life assurers.

Life assurers, on the other hand, maintain their tax burden is already too high.

Damage

Any increase could seriously damage the industry — and prejudice the security of millions of policyholders and pensioners.

The life industry's view was expressed clearly by Liberty Life chairman Donald Gordon in his recent annual chairman's statement.

Since the report's publication, Gordon has said: "A considerable and sometimes acrimonious debate has emerged as to the basis on which life insurers should be subject to taxation.

"The extreme technical difficulties of defining taxable surplus in an industry in which contractural obligations and the attendant future financial risks — including those additional risks attached to the AIDS pandemic — typically extend over periods of 20, 30 or even 40 years, are universal and far from unique to SA.

"A further layer of complication has arisen through the contention of certain leaders of competitive financial institutions that their business suffers from disadvantage on tax considerations vis-a-vis life offices.

He says this highly vocal lobby has encouraged the pursuit of the nebulous and illusive "level playing fields" taxation approach for financial institutions which has greatly preoccupied government and the life offices since the publication of the Margo report.

Gordon's final point, after stressing the vital role played by the life offices, was a telling one.

"The policy of over-taxing life insurers with a view to curtailing their development and thrust to favour other institutions in the financial services industry is flawed and could do significant damage to the entire financial system which, in the special circumstances of the SA ecomony, is heavily reliant on long-term contractural saving and the function which this performs as distinct from the role of discretionary saving, which is fundamentally different."

An interesting comparison of the taxation treatment of life assurers in SA, and in the UK, Australia and New Zealand, has been made by Anglovaal Insurance Holdings CE Brian Benfield.

Referring to the table reproduced here, he says it shows just how onerous is the taxation of SA assurers in relation to counterparts in other countries.

TAX RATES

	Companies %	Max marginal &	Life Assurance &
South Africa	50	43	45
UK	35	40	25
Australia	39	47	39
New Zealand	33	33	33

Conclusions

He then draws the following conclusions:

☐ The tax rate applying to assurers' funds in SA is higher than the top marginal rate — and this in a steeply progressive tax table. The surveyed countries employ a representative rate; and

☐ Two-thirds of dividends are double-taxed in the hands of SA assurers: this has been eliminated in the surveyed countries; and

☐ Expenses are deductible in full in all surveyed countries.

"In short, SA life assurers are more highly taxed and on a less scientific basis than all other surveyed countries. This needs to be resolved without further delay," says Benfield.

Alant to steer VAT ship through stormy waters

BDay 11/4/91. (320)

THE VAT battleship is to be steered through its stormy waters by new Deputy Finance Minister Theo Alant, who takes over from Org Marais following the latter's promotion to the post of Trade and Industry Minister.

Alant has the task of promoting the introduction of VAT on September 30 in the face of rising dissension.

Alant said in an interview his most pressing concern regarding VAT is to overcome the negative perceptions of the man-in-the-street as well as to answer the queries that erupted during this week's Parliamentary discussion sessions on the VAT Bill.

However, he is unable to say exactly how he will tackle the issues as he is still studying the problem areas.

GILLIAN HAYNE

With four years experience in the Trade and Industry Department Alant will be pushing the need to integrate monetary and fiscal policies with industrial policies.

● ALANT

"Industrial development policies are meaningless if the fiscal and monetary policies do not allow for industrial growth," he says.

To this end Alant believes VAT will play a major role. Economic and industrial growth will be especially boosted, he adds, by the government's decision to allow immediate input tax credits on capital and intermediate goods, and by removing exports from the VAT net.

Alant believes the problem with VAT is that it is being introduced at a time of economic stagnation and political upheaval. "If there had been an acceptable and sustained economic growth, people would not fear VAT."

In the 1980s SA's growth rate was on average 1,5% but a 5% growth is needed for SA to increase real per capita income, he adds.

Alant has a civil engineering degree and a PhD in applied maths from the University of Stellenbosch. He is the National Party MP for Pretoria East, is married and has two sons and two daughters.

Tax experts ask: Can Revenue handle VAT?

B/Day 11/4/91. (320)

GILLIAN HAYNE

CONCERN that Inland Revenue will not be adequately staffed to deal with the implementation and policing of VAT, on its introduction on September 30, is spreading among tax experts.

Ernst & Young tax partner Ian MacKenzie said that in the past Inland Revenue's idea of appropriate or adequate staffing had fallen short of commerce's opinion.

"VAT is very dependent on a good inspectorate force. A poor or ill-equipped inspectorate will negate the benefits to be gained from the VAT system," he said.

However, Inland Revenue chief director Schalk Albertyn said Revenue had filled most of the positions "easily", possibly because of the tight economy and the number of people looking for work.

"Of the extra 1 200 staff needed for the implementation of VAT, 800 posts have already been created, with most filled. The other 400 posts have still to be created — mainly in head office and in the data capturing department — and these will be filled before September 30," he said.

But other sources feared the quality of the workforce being employed might not be up to scratch.

Coopers Theron du Toit tax partner Koos van Wyk said his specific concern was in the legal and ruling department of Inland Revenue, where he believed Inland Revenue was not adequately equipped to interpret the "grey areas of the law".

He cited Revenue's budgetry constraints, which prevented it paying employees competitive salaries, as a possible reason for the inadequate workforce.

He suggested that Revenue should divorce the pay structure from the management hierarchy — to allow those with ability and qualifications to get paid salaries on a par with private industry, even if they did not fall within a certain management level.

"Revenue must be prepared to spend money to collect it," he said.

Former Commissioner for Inland Revenue Mickey van der Walt said tax systems were only as good as the administration and he hoped Revenue would be able to administer VAT.

Making Inland Revenue a full department would encourage individuals to seek employment there, he said. "If Inland Revenue was a separate department, the staff would have more to strive for in moving up the public sector ladder."

VAT shock looms

(320)

Star 11/4/91

● From Page 1

predict the effect of the tax.

Amid threats that townships may resume rent and service boycotts over the issue, town and city councils are also gearing up for confrontation with the Government over the issue of VAT on municipal rates.

Diverse industries such as the performing arts community, especially in non-subsidised theatre, and the horse-racing circuit are also threatened by the introduction of VAT. Cinema and theatre tickets may also be affected.

Plans to implement VAT on racing bets have the industry running fearing that punters will choose to spend their money elsewhere.

And as the health care industry starts to pay VAT on medical services, individuals will find that the gap between medical aid payouts and real medical costs will widen further.

On top of these problems, several economists have cast doubt on arguments that the introduction of VAT will in fact lead to a drop in the inflation rate.

Dr Jammine concedes that in theory VAT is more efficient than GST, however, he questions the wisdom of introducing it in the present economic context.

"The real question is whether it was necessary at this stage to introduce a new form of indirect tax when there is a far greater weakness in the direct-tax system," he said. ■

By Mark Suzman

Shock in store when VAT comes on line

Star 11/4/91 (320)

South Africans are realising that they will soon have to pay increased tax for previously untaxed services — and public resentment is mounting against the new VAT system.

"It is only now that people are waking up to the implications of VAT — it will work its way into every nook and cranny," says Housewives League vice-president Jean Tatham.

After the outcry over the news that municipal ratepayers will be faced with the double burden of new rates this year as well as VAT, the public is learning that the tax will also potentially lead to large price increases in several other areas.

These include medical services, insurance payments, new home-building, performing arts and horse racing.

The only commodities which will be exempt are brown bread and maize.

According to Dr Azar Jammine, director of the Econometrix think-tank, VAT will increase the amount the individual taxpayer pays in indirect taxes — despite Government insistence that it is aiming to reduce indirect taxation.

At the same time, fiscal drag has also led to a bigger direct tax burden on the individual.

"The effect is compounded by the fact that people who have never paid taxes on items such as food will now have to start paying," Dr Jammine said.

All this has consumer groups up in arms over the increased burden placed on individuals in an already difficult situation.

The latest shock has been a warning this week from insurance giant Santam that policyholders can expect a sharp increase in short-term insurance rates after the introduction of VAT in October.

This could force many people, already reeling from huge rate-increases as a result of the recent crime wave, to cancel policies.

Other insurance companies such as General Accident say their calculations show that VAT should lead to rate increases — or possibly even a decrease, indicating the difficulty of trying to

● To Page 3

BUSINESS

ANC may hit the wall of tax reality

W/Mail 12/4 - 18/4/91 (320)

The African National Congress' "People's Budget" has stirred up a storm bigger than the ANC expected with an overreaction by business and other groups. However, the ANC is swimming against the tax reform tide, reports REG RUMNEY

LIKE nationalisation before them, the proposals for greater tax revenue in the African National Congress' "People's Budget" have enraged business.

The South African Chamber of Business, for instance, reacted angrily this week to the idea of new taxes — a capital gains tax, progressive property taxes, a minimum business tax, and a capital transfer tax.

The difference is that the ANC's ideas move the debate into a much more fruitful area than nationalisation.

Tax, after all, is by its nature redistributive. Argument should be about how tax revenue should be raised, how much, and where it should be spent.

Tito Mboweni of the ANC's Department of Economic Policy stresses the article does not represent official ANC policy, nor DEP policy, and was written to raise the possibility of using the fiscus to engage in certain social develop-

ANC'S PROPOSED NEW SPENDING OVER FIVE YEARS

● Housing — capital subsidy of R12 000 for 1,2-million houses	R14,4-billion
● Upgrading of 250 townships, R20-million a township	R5-billion
● Employment training scheme — R500 a trainee on 2-million trainees a year	R5-billion
● Land reform — establish 150 000 small farmers	R6,5-billion
● Rural infrastructure — short-term work for 1-million people	R300-million
● Primary health clinics	R300-million
● Adult literacy — training for 1-million community-based trainers	R550-million
● Education — school building and teacher training	R7,5-billion
● School feeding scheme — R100 for 5-million primary school pupils a year	R2,5-billion
● Feeding scheme for pregnant mothers	R2,5-billion
● Equalising pensions	R11-billion
● Industrial restructuring and export (Research and Development)	R3,2-billion
Total	**R58,75-billion**

money to fund current spending, spending only 1,8 percent of the deficit on gross fixed investment. The deficit could be spent on fixed investment which will generate returns.

Loots believes the reaction to tax is overdone. Other countries have capital gains taxes, there are already forms of capital transfer tax in South Africa — eg the gift tax — and the minimum business tax on companies would only penalise inefficient companies or those avoiding tax.

Wealthier — if not wealthy — South Africans should not be too upset by the "soak the rich" rhetoric of the ANC budget article. It is likely that the ANC, like any other government, will run up against the wall of tax realities as other countries in similar positions have done. Simply, the trick of tax is to make people pay up and feel pleasant about it.

This, on the basis of the Safa's figures is what has been happening in the Eighties. Overall tax revenue has increased, but the general impression is that individuals in Ronald Reagan and Maggie Thatcher's Western world have been paying less tax. Overall tax in the OECD countries rose from 24,9 percent in 1960 — the same as our present level — to 38,8 percent in 1987. This was achieved by lowering tax rates, while tightening up the collection.

Safa fiscal thinktank chairman Marius van Blerck points out that tax reform is a careful

[redacted]

...ment projects.

Nevertheless, emanating as it does from the DEP it is bound to be — and has been — taken seriously.

The suggestions in a nutshell are:

● That the government's share of the economy as measured by the gross domestic product gradually be raised to 35 percent from its present 25 percent over a period of five years — given a growth in the economy of 3 percent a year.

● The deficit before borrowing be raised to 5 percent, instead of the International Monetary Fund (IMF) benchmark of 3 percent. This and the measure above, it is suggested, will raise R40-billion extra over five years.

Some economists will also take exception to the idea of raising the deficit on the grounds that this is inflationary.

● Savings be made by cutting back on spending on apartheid structures to gain an amount of 5 percent of budgeted revenue, or R3 750-million a year. Over five years, it is suggested that this will raise another R18 750-million.

To take the last point first, the amount to be saved is more likely to be a percentage of budgeted expenditure, since it is apartheid spending rather than revenue that is being saved. Also, whatever savings are achieved may well be a one-off rather than recurring.

It is not the R40-billion that should exercise our minds, nor the savings on scrapping apartheid spending but the implications of an increase in the tax take to 35 percent of the economy and the increase in the deficit before borrowing.

Economist Lieb Loots of the University of the Western Cape has contributed to the economic debate from the leftwing perspective and has made suggestions to the ANC on the issue of the Budget.

Loots considers it an important condition for the tax take to be increased that the 3 percent growth be achieved. If the economy is stagnant we should exercise caution in building that stake, he believes. If such growth isn't possible, the government's arguments that sanctions are harming the economy have no validity.

But even if the 3 percent a year average growth is achieved, how does the eventual 35 percent figure compare with other countries? The answer, according to figures supplied by the South African Fiscal Association, is that it compares well with developed countries, but poorly with countries which could be considered in the same boat as South Africa. For example, according to Safa, in 1987 the average tax take of general government as a percentage of GDP in OECD countries was 38,8 percent.

Turkey's tax take as a percentage of GDP was 24 percent; the figure for Portugal is 31,4 percent, and for Spain 33 percent.

In perhaps oversimple terms there has to be a tradeoff between economic development and social spending. As a country becomes wealthier, so conventional economic thinking goes, it can afford to spend more on social benefits. Not only is South Africa not as developed as Canada, where tax revenue comprised 34,5 percent of GDP in 1987, but a significant portion of its tax revenue comes from social security taxes, which are a form of saving for a rainy day; 4,6 percent of Canada's total tax revenue is social security tax, as opposed to South Africa's 0,4 percent. The disparity is greater elsewhere: 20,5 percent of total tax revenue in the Netherlands is social security tax, for a total of 48 percent of the GDP as general government tax revenue.

(The ANC's proposals refer to the "widening of the income tax base" to 35 percent. That is clearly an error and should be the widening of the total tax base.)

In a developing phase a country must collectively *vasbyt* and turn its attention to growth. So while housing, for instance, is socially beneficial, it doesn't generate growth in the sense of bringing money into the country, though it might create jobs while the houses are being built. In raising money through a deficit of 5 percent and pumping it into the economy, such moves could also be regarded as inflationary.

Here Mboweni and Loots point out some of the money will be spent on growth-producing investments — eg the R3 200-million on industrial restructuring and export.

On the subject of increasing the deficit before borrowing, Loots also believes that some of the deficit could be funded by outside money, eg World Bank loans. This would not crowd out the capital markets, which anyway are not overburdened at the moment. Moreover, he points out that the government is using borrowed

strategy, and the overall tax burden does not ne-cessarily drop with lower tax rates. On the othe[r] hand, countries which used high tax rates t[o] achieve their objectives have had to backtrac[k] sharply. Five years ago Tanzania's top marg[i]nal rate was 95 percent; Sweden's was 86 pe[r]cent. A few months ago Tanzania's top ra[te] slithered down to 40 percent, and Sweden dropped to a still high, but much lower, 50 pe[r]cent.

VAT resentment growing

ARGUS 12/4/91 326

CAPE NATIONAL

'New tax will ~~work~~ its way into every nook and cranny'

The Argus Correspondent

JOHANNESBURG. — South Africans will soon have to pay increased tax for previously untaxed services and public resentment is mounting against the new Value-added Tax system.

"It is only now that people are waking up to the implications of VAT which will work its way into every nook and cranny," says Mrs Jean Tatham, vice-president of the Housewives' League.

Following the outcry over the news that municipal ratepayers will be faced with the double burden of new rates this year as well as VAT, people are learning that the tax will also potentially lead to price increases in medical services, insurance payments, new home-building, the performing arts and horse-racing among many others.

Bigger burden on individual

The only commodities which will be exempt are brown bread and maize.

Director of the independent Econometrix think-tank, Dr Azar Jammine, says that VAT will increase indirect taxes in spite of government insistence that it is aiming to reduce indirect taxation.

At the same time, fiscal drag has also led to a bigger direct tax burden on the individual.

"The effect is compounded by the fact that people who have never paid taxes on items such as food will now have to start paying," he said.

All this has consumer groups up in arms.

The latest shock was a warning this week from insurance giant Santam that policy holders could expect a sharp rise in short-term insurance rates with the introduction of VAT in October.

This could force many people, already reeling from premium increases because of the growing crime wave, to cancel policies.

Rent, service boycotts

Other insurance companies such as General Accident say their calculations show that VAT should lead to rate increases, or possibly a decrease, indicating the difficulty of trying to predict the effect of the tax.

Amid threats that townships may resume rent and service boycotts over the issue, town and city councils are also gearing up for confrontation with the government over VAT on municipal rates.

Diverse industries such as the performing arts community, especially in non-subsidised theatre, and the horse-racing circuit are also threatened by the introduction of VAT. Cinema tickets may also be affected.

Theatres worry that exorbitant ticket prices will keep audiences away, while plans to implement VAT on racing bets have the industry running scared that punters will choose to spend their money elsewhere.

And as the health care industry starts to pay VAT on medical services, individuals will find that the gap between medical aid payouts and real medical costs will widen further.

VALUE-ADDED TAX

COINING IT

FM 12/4/91 320

Gold coins, including Krugerrands (both circulated and proof), are standard rated for VAT and subject to the general rules. According to Kessel Feinstein tax partner Beric Croome, as Krugerrands are made from pure gold they are not regarded as money (as defined in section 1 of the Bill). If they were, their sale would not attract VAT.

Ernst & Young tax partner Sally de Boor agrees that the first sale of the coin by the

FM 12/4/91 320

Bank to a dealer will attract VAT at the standard 12%, less the input tax credit. The same will apply to resale by a dealer to a member of the public, so the dealer will pay net VAT only on his mark-up (the added value). But the cost to the purchaser will be inflated by the full 12% VAT incurred.

What happens when a member of the public resells the coin to a dealer? The Bill provides for a deemed (notional) input tax credit, which will offset the VAT (other than on the mark-up) the dealer will have to pay on a further sale of the same coin.

According to Trevor van Heerden, chief director, tax policy development, office of the Commissioner for Inland Revenue, an individual selling a Krugerrand to another individual will not be subject to VAT. Nor will a stockbroker who sells a coin for a client normally be subject to VAT on his own commission, because he is technically an agent and not a broker. Only if his commission on the sale of Krugerrands reaches R150 000 a year will he have to register as a vendor for VAT purposes and pay VAT.

The result of all the permutations is that a stockbroker will operate on a level playing field relative to coin dealers, save that a dealer's turnover is computed from the value of the coins sold, not from commissions only. ■

SUNDAY TIMES, Business Times, April 14, 1991 5

You can save tax under the new rules

S/Times 14/4/91 (Bus/T)

(320)

By DES KRUGER and VICKY TAYLOR, consultants with Deloitte Pim Goldby

THE PROPER WAY TO DO IT

TAXPAYERS filling in their annual income returns for the 1991 tax year can save money if they go about it the right way. A series of articles, based on the booklet Pay Less Tax, published jointly by Business Times and Deloitte Pim Goldby, highlights tax-saving opportunities, using the basic structure of the annual IT12 return.

This article covers the aspect of whether under the new legislation you are still required to render an income-tax return or not. It also covers the taxation of married women's income, the deductibility of medical expenditure and retirement annuity fund contributions.

IF YOU fall into these categories you are *not* required to submit a return:

- Any individual whose annualised earnings consist only of remuneration not exceeding R40 000, provided that the total tax withheld for the year is correctly allocated to Site on the IRP5 (remuneration consists of, inter alia, salary, wages or monthly pension from which tax is withheld).
- Any individual referred to above but whose gross income for the year consists of or includes interest or dividends, provided that the aggregate of such interest or dividends does not exceed R2 000 for the tax year. A married women's interest and dividend income is deemed to be that of her husband and must be included in his total.

Where Inland Revenue has sent you a return, you are required to complete it. However, if you fall in the above categories, you are not liable for any further tax on the income.

Married women are taxed separately on remuneration and income from trade — for example, rentals. If they fall in the under-R40 000 category of remuneration and hence are only subject to Site, they need not register as taxpayers and accordingly need not submit a return. However, if such a married woman also receives income from trade she is required to submit a return so as to enable her to claim any allowable deductions from her income from such trade.

Individuals receiving genuine *travel allowances* may have only Site reflected on their IRP5 if their remuneration, excluding travel allowance, is less than R40 000. A travel allowance is, however, not remuneration and no tax is withheld from it.

In such an instance, the individual, including a married woman, has to submit a return and is liable for tax on the non-deductible portion of the travel allowance.

A genuine *subsistence allowance*, on the other hand, need not be included in the individual's gross income on the IRP5 if the amounts do not exceed the prescribed limits (R150 or R65 a day) and is not subject to income tax. The individual need not declare such an allowance.

All other allowances received are subject to employee tax, which should be reflected on the IRP5. Generally speaking, Site is a final deduction system and is not refundable to the individual by Inland Revenue. But Paye can be refunded. Hence, a taxpayer receiving allowances must submit a return in order to claim the appropriate deductions against the allowances.

A refund will be paid where the deductible portion of the allowances results in employee tax deducted exceeding the taxpayer's tax liability as finally determined. However, the refund will be limited to the amount of any Paye deducted.

You should check the information reflected on your IRP5 to ensure that you have correctly been subjected to Site and/or Paye. You should check that the gross income amount is correct and includes all taxable allowances and the value of fringe benefits.

If you are unmarried, but entitled to claim a child rebate, ensure that you are treated as a married person for Paye/Site.

Previously, married women included only their travel allowances in their husbands' tax return. The balance of their remuneration was subject to tax in their own hands.

The position is now different. Married women are now taxed separately and may claim deductions against allowances received in their own hands. Unless the categories below apply to a married woman, she will be taxed separately on the married woman's income tax rates. She will, however be subject to the same general taxation provisions as married or single persons, including whether she is required to submit an income return or not.

These categories of income earned by a married woman must still be included in her husband's return for the 1991 tax year:

- Interest and dividend income.
- Purchased annuities (not pension or retirement annuities).
- Income from the husband's company, partnership or business that is excessive, having regard to the extent of her services. Her reasonable income will remain separately taxed in her hands.
- Income derived as a sole breadwinner — namely, where the husband's gross income (including any amount which would have constituted gross income but for the fact that they were derived from a source outside SA) is less the R10 000 a year. Such a married woman should have applied to have her monthly tax withheld at married persons' and not married women's rates.

The wife's earnings allowance and joint assessment allowance have fallen away, even where certain of the wife's income — for example, investment income — is included with that of her husbands.

A married woman is also required to become a provisional taxpayer if her income does not constitute remuneration and is received from business, private practice, partnership profit share, rents, royalties, directors' fees (private company) or members' emoluments.

Medical (part 3.1) and expenses relating to physical disability may be deducted only to the extent that they exceed the greater of R1 000 or 5% of the husband's taxable income.

All medical expenses are deductible for persons over 65. If you are under 65, it is therefore far more advantageous for the employer to bear all your medical-aid contributions.

In the case of a married woman, as her medical expenditure remains deductible only in the hands of her husband (including contributions to a medaid scheme) she will therefore derive a benefit, which would otherwise, if at all, be available only to her husband.

Current retirement annuity fund contributions [illegible] 3.6) a[illegible] deductible per taxpayer to the greatest of:

- R1 750 (married woman R875)
- R3 500 (married woman R1 750) minus any deduction claimed in respect of pension fund contributions or
- 15% of taxable income excluding any taxable income from employment which is taken into account in determining the pension fund contributions (married women — same provisions).

Reinstatement contributions are deductible up to R1 800 a year (married woman R900).

It is important to bear in mind that a husband is entitled to deduct any retirement annuity fund contributions made by his wife, even if she is a separate taxpayer, provided that she has not claimed them as a deduction in her own hands.

This approach is clearly desirable where the husband's marginal rate of tax is greater than his wife's. The benefit of the tax deduction will, therefore, be greater.

The deduction for retirement annuity fund contributions may lead to a refund of tax on assessment. You may avoid this delay by submitting proof of such payment to your employer who will then take it into account for Paye and Site purposes.

Copies of Pay Less Tax may obtained at a cost of R27 (including GST and postage) from: Deloitte Pim Goldby — Pay Less Tax, Box 578, Cape Town 8000.

VAT proposal takes the shine off Krugerrands

(320)

B Day 16/4/91.

ROBERT LAING

DEMAND for new Krugerrands has plummeted since Vatcom's proposal to tax new gold coins, with barely 2% of the Reserve Bank's allocation being tendered for at Rand Refinery's weekly tenders since the beginning of March.

The Chamber of Mines and the Merchant Bankers' Association have made representations to government, asking it to reverse the decision to impose VAT on Krugerrands.

Accused

Merchant bankers fear VAT could kill SA's gold coin industry as it did in the UK.

Some coin dealers have accused government of wanting the local Krugerrand industry to die.

One dealer said gold coins could potentially be smuggled and they also diverted investors' money from industry, and therefore government would like to "sterilise" the local gold coin market.

A Reserve Bank spokesman said the annual sales of 300 000oz of gold coins in the past were far too high.

"It was not logical that the local market should buy so many coins."

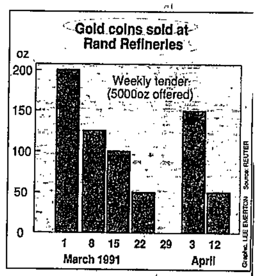
However, he denied government was out to kill the industry.

Rand Refinery, which puts 5 000oz of gold coins struck by the SA Mint out to tender every Friday, has seen sales dropping since February.

A Rand Refinery spokesman said commercial banks had lost interest in Krugerrands because of the 12% premium VAT would place on them.

Since Vatcom had recommended that older coins be classified as second-hand goods, nobody was likely to buy new coins until the thousands of coins life insurers and other financial institutions had stored were absorbed by the market, he said.

SA Gold Coin Exchange chairman Eli Levine said: "VAT on gold coins will yield a minuscule amount of tax and will make it impossible for SA gold coins to re-enter the world market with any degree of success, even if they are zero rated for export purposes."



Levine said the largest seller of US Eagle gold coins, Shearson Lehman Hutton, no longer handled Britannias because the UK charged VAT on them at home.

Canada and the US did not tax their own bullion coins while Switzerland scrapped indirect tax on coins in 1986.

Austria, which had a VAT rate of up to 32% on coins, made its new Philharmonic gold coin VAT-free, "with positive results", Levine said.

Firms of attorneys: SADF interests

*10. Mr A J LEON asked the Minister of Defence: Hansard 16/4/91

Whether the South African Defence Force commissioned any firms of attorneys, in addition to or in place of the State Attorney, to represent its interests and members for the duration of the Harms Commission of Inquiry in 1990; if so, what (a) are the names of the attorneys concerned and (b) total amount had been charged in fees by these attorneys as at the latest specified date for which information is available?

B742E

†The DEPUTY MINISTER OF DEFENCE:

Yes.

(a) The firm Havinga and Kruger (Incorporated): Attorneys, Notaries and Conveyancers.

(b) As at 20 December 1990 the amount was R225 000 plus a closing fee of R112 500. The firm's instructions were, however, extended prior to the completion of the Harms Commission and were executed against the negotiated closing fee. Both amounts are, however, still subject to confirmation by the Law Society and taxation.

†Adv C D DE JAGER: Mr Speaker, arising out of the reply of the hon the Deputy Minister, is he aware of the fact that the said Mr Havinga is a son of one of the officers who dealt with the question of the CCB? Secondly, that the said Mr Kruger, to whom the hon the Deputy Minister referred is the same Mr Kruger as the one who was commissioned in the other case. [Interjections.]

†The DEPUTY MINISTER: Mr Speaker, I am not aware of that, but I find it a great pity that the hon member has raised such reflections here where he enjoys the privilege of Pariament, and not outside. [Interjections.]

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

Electoral Act: amendments

*11. Mr J VAN ECK asked the Minister of Home Affairs:

Whether he is contemplating amending those sections of the Electoral Act, No 45 of 1979, which disqualify from being registered as voters or becoming members of Parliament persons who have been found guilty of offences such as treason or of offences under the Internal Security Act, No 74 of 1982, involving sentences of imprisonment without the option of a fine; if not, why not; if so, (a) what amendments are envisaged and (b) when?

B760E

The MINISTER OF HOME AFFAIRS:

No, because it is not expedient at this stage of constitutional development in the country, to introduce adjustments to the existing Electoral Act.

(a) and (b) fall away.

Mr Lennox Sebe: resident in SA

*12. Mr L FUCHS asked the Minister of Foreign Affairs:

(1) Whether, with reference to his reply to Question No 24 on 17 April 1990, Mr Lennox Sebe is still residing in South Africa; if so, (a)(i) under what conditions has he been granted permission to do so and (ii) at what total anticipated cost to the State and (b) when is it envisaged that he will leave South Africa;

(2) whether he is to be granted political asylum; if not, why not; if so, for what reasons? Hansard 16/4/91

B762E

The MINISTER OF FOREIGN AFFAIRS:

(1) Yes

(a) (i) Under circumstances where he left his country as Head of State and where a coup d'état was carried out in his country during his absence. He was not unwilling to return to Ciskei. After consultation with the South African Embassy in Ciskei and the Council of State of Ciskei, he was advised not to return to Ciskei for the time being in the interest of the promotion of peace and quiet in Ciskei, which is at the same time in the interest of South Africa. Further, Mr Sebe is receiving medical treatment in South Africa. Hansard 16/4/91

(ii) He and his spouse are being accommodated in a house which was available. He pays for their upkeep himself.

(b) Mr Sebe is keen to return to Ciskei as soon as possible. Sensitive discussions between legal representatives of Mr Sebe and legal representatives of Ciskei regarding his return are well advanced. Further details regarding the outcome of these discussions could only be announced upon completion thereof.

(2) No request for political asylum has been received.

1989 Matriculation results: investigation

*13. Mr J VAN ECK asked the Minister of Education and Training:

Whether, with reference to information furnished to the Minister's Department for the purpose of his reply, the investigation into the 1989 matriculation results in schools falling under his Department, as announced by his Department in January 1990, has been completed; if not, (a) why not and (b) when is it anticipated that the investigation will be completed; if so,(i) when and (ii) what were the findings? Hansard 16/4/91

B761E

The MINISTER OF EDUCATION AND TRAINING:

Yes.

(i) February 1990

(ii) The major causes of the low percentage pass were briefly as follows:

— The bad results were inter alia caused by poor attendance, 'lesson dodging' and an indifferent attitude to their responsibility on the part of many teachers; effective teaching for a maximum of only five periods per day; the fact that schooling only started during February 1989 and was discontinued in September 1989, and the influence of many disruptions.

— Poor attendance, late arrival and early departure from school on the part of pupils. Hansard 16/4/91

— Ineffective supervision, and in some instances, a total lack of guidance and control by principals and management teams.

— An absence of positive parental influence on educational activities at schools.

— The intimidation and manipulation of children and teachers for political ends.

— A system of promotion which includes the haphazard condoning of marks and results which too easily allowed pupils to progress from Sub-Standard A to Std 9.

Sundays: films

*14. Mr G C ENGEL asked the Minister of Justice:

(1) Whether the Government is giving consideration to amending the Prohibition of the Exhibition of Films on Sundays and Public Holidays Act, No 16 of 1977, with a view to allowing generally the screening of motion pictures on Sundays; if so, (a) what steps does the Government intend taking in this regard and (b) when; if not, why not;

(2) whether he will make a statement on the position of cinemas as against the SABC, M-Net and video distributors in regard to the screening of motion pictures on Sundays?

B768E

The MINISTER OF JUSTICE:

(1) I am continuously in consultation with interested parties concerned with the motion picture industry and the matter is receiving attention.

(2) A statement is not necessary.

1991-92: new taxpayers (320)

*15. Mr G C ENGEL asked the Minister of Finance: Hansard 16/4/91

(a) How many individuals is it estimated will cross the tax threshold and become taxpayers in the 1991-92 tax year as a result of primary rebates having been reduced and tax brackets not having been increased by the inflation rate and (b) what amount in revenue has it been budgeted will be collected from these new taxpayers? (320)

Hansard 16/4/91

B769E

The MINISTER OF FINANCE:

(a) 510 000

(b) R77 410 423.

Afforestation applications

*16. Mr M J ELLIS asked the Minister of Water Affairs and Forestry:

(1) Whether it is mandatory for his Department to refer all afforestation applications to the provincial nature conservation departments for their recommendations before permits are issued or refused; if not, why not;

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

B770E

The MINISTER OF WATER AFFAIRS AND FORESTRY:

(1) No, as it is not required in terms of the Forest Act, 1984 (Act 122 of 1984). It is normal practice, however, to approach the provincial nature conservation authority concerned for comment prior to the issuing of a permit and to inform the said authorities after the issue of a permit. This enables the nature conservation authority to contact the permit-holder at an early stage regarding the conservation of sensitive areas or endangered plant and animal species. As the hon member may be aware, the country's forest industry has a proud conservation record and the industry is subject to stringent self-imposed conservation guidelines.

(2) No.

INTERPELLATION

The sign * indicates a translation. The sign †, used subsequently in the same interpellation, indicates the original language.

Own Affairs:

Schools: moratorium

Mr R M BURROWS to ask the Minister of Education and Culture:

(1) Whether he will declare a moratorium on the closure of schools and the termination of the employment of teachers until such time as the Government's education renewal strategy has been presented; if not, why not;

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

Hansard 16/4/91

B813E.INT

The MINISTER OF EDUCATION AND CULTURE: Mr Speaker, the hon member has raised this issue before. On 25 March 1991 I gave an answer to one of his questions to the effect that I would not suspend any pending termination of services of teachers until the education renewal strategy had been finalised.

The reasons are clear. The department is run in accordance with the present Constitution. This will continue to be done until a new Constitution has been negotiated and has come into operation. It is my responsibility to see that my department operates in a cost-effective way, and I have to do so on a very tight budget. Even when rendering services, I have to make ends meet. The functioning and the financing of my department are therefore not dependent on the outcome of the education renewal strategy which will be taken into account as wider negotiations proceed. Whatever the ERS findings, they cannot lead to an immediate change in general policy.

Obviously we are aware of and concerned about the problems existing in education. Moreover, we are part of a dedicated team committed to solving these problems. However, the issues are complex and there are no instant solutions. May I also repeat that the solution to our problems does not, for instance, lie in the forced transfer of redundant teachers to other departments or the implementation of a strategy which requires further negotiation with a view to general acceptance. I have explained more than once that redundant facilities do not necessarily occur where the need for them exists.

I have repeatedly emphasised the present trend towards devolution of authority, with communities making their own decisions. Or would the hon member wish to fight this trend and once more move towards greater centralised control and stifling autocracy, forcing the issues from above? [Interjections.] He is usually very critical about that, especially when there are some political points to be scored. [Interjections.]

Does the hon member realise that the other State departments of education also have redundancies and vacancies? Both the House of Representatives and the House of Delegates have an occupancy rate in the region of 70%, not that much different to ours. All the colleges of the DET are not fully occupied either. Therefore, even in a future scenario with a single education system, responsible rationalisation will have to continue.

I shall therefore continue to act in the best interests of education and with due regard to the general sensitivity of the matter. I shall not destabilise education, nor shall I be wasteful of scarce resources. [Time expired.]

Mr R M BURROWS: Mr Speaker, I pick up the last words of the hon the Minister: "I shall not destabilise education." [Interjections.] At the end of this year in his department more than 30 schools will be closed in Natal, 33 schools will be closed in the Cape and 680 posts will be abolished in Natal. No, says he, "I will not destabilise education."

The hon the Minister is taking, if I may say so, a dangerous weapon like a panga or an axe and he is hatcheting education, because this aggressive rationalisation policy—and the words are not mine, they are the words of one of the hon the Minister's own officials—which must be pursued is being pursued through White blinkers. If we have a look at the list of schools—it has been made available to us in Natal, by the Director, and we thank him for that—we see that the only reason why these schools are being closed is because that Director and this hon Minister are having to take into account planning for White children. [Interjections.]

Similarly, if we pick up the point made by the hon the Minister about greater centralised control, the answer is no, we do not want greater centralised control. On the other hand, if the hon the Minister allows a school to vote for model B and open its doors, and then one year later says that it must close because it is only going to be allowed one year of existence with children of colour as pupils, what policy is being pursued? It is absolute nonsense.

In Natal we have a situation in which remedial schools, provided over a period of time with the money of the people of Natal, in addition to State funding, are being summarily closed. Will the hon the Minister allow remedial schools to remain open if parents start raising fees?

At pre-primary school level, 150 posts are to be abolished in Natal. Why? The reason is that those teachers are catering for three-year-olds and four-year-olds. Yet, when the hon the Minister's department is approached by the Pre-primary Teachers' Association with a request to expand the five-year-old group, which we understand is possibly going to be a compulsory group under the education renewal strategy, they are told: No, you must rationalise because we have to get rid of the posts.

The education renewal strategy proposals are likely to take into account planning for a non-racial South Africa and for all children. If we are going to start closing country schools because there are not enough White children, all we have to do is read the editorial in *Die Burger*, which says at least allow the schools to open and keep the communities going.

The whole concept of the desperate need in Black education can be read in the newspaper every day. Tonight's newspaper says:

> Overcrowding in schools could affect matric results. All secondary schools in the Cape Peninsula are overcrowded and could be affected.

My colleague the hon member for Cape Town Gardens has spelt out the fact that empty places in White schools in the Cape Peninsula alone can in fact reduce the population in those Black schools.

In the Cape and Natal rumours are going around that the hon the State President has, in fact, given assurances that schools will not be closed at the end of this year. I do not know if this is true. [Time expired.]

*Mr A GERBER: Mr Speaker, the request by the hon member for Pinetown in this interpellation reveals the dilemma of the left-wingers in South African politics, and here I include the NP. The new South Africa which they have been

Minister and hon members correctly. Firstly, because it is dangerous and secondly, because doing so has an intimidatory effect on those attending such occasions and, more specifically, on those who are onlookers and who are not involved. This standpoint is confirmed in legislation, and regulations in that connection have already been made.

Consequently I find it difficult to accept that we should not adopt a similar standpoint in respect of other weapons which may also be dangerous and intimidatory, particularly to those who are observers. When all is said and done, how do we tell members of the AWB that they may not have certain kinds of firearms on their person as traditional weapons on certain occasions, while we accord that privilege to certain Black groups. It is a dilemma, and all of us must concede this.

We appreciate the traditional and emotional aspects of this issue, but the fact of the matter is that political leadership is necessary here. In this regard I want to make a specific appeal to Chief Buthelezi, because he is an important leader in this country and he may perhaps be able to provide personal guidance in this connection, to discourage that practice. However, we must also take steps on our part. [Interjections.] I want to express appreciation for the fact that the hon the Minister has already taken certain steps in this connection. [Interjections.]

*The ACTING SPEAKER: Order!

*Mr S S VAN DER MERWE: However, the hon the Minister must go further and make sure that the carrying and use of any form of dangerous weapon, or replica thereof, that can be intimidatory—I have a suspicion that in many cases this is intended to be intimidatory—and which is dangerous, should as far as possible be discouraged and prohibited in this country. [Time expired.]

Mr J H MOMBERG: Mr Speaker, I am disappointed that the hon the Minister does not see his way clear to implementing a total ban on weapons, but if this interpellation will help to make people aware of the need to save lives, I think we will have achieved something.

I want to make an urgent appeal to the hon the State President to repeal Proclamation No. R.164 of 1990, which will ban the carrying of traditional weapons by Zulus in Natal. While I respect his traditions and culture, I want to appeal to Chief Minister Buthelezi to take the initiative to stop the carrying of weapons in public. I want appeal to Mr Nelson Mandela to prevent his people from carrying weapons that can kill other people. [Interjections.] It is Parliament's duty to stop people from carrying dangerous weapons that can kill other people. We must stop the violence before it destroys the negotiation process.

*The MINISTER OF LAW AND ORDER: Mr Speaker, we share the concern of the hon member for Simon's Town and we should also like to have a stop put to the violence. I honestly want to tell the hon member, though, to prohibit traditional weapons and in that way merely create a new issue, is not going to stop the violence. We are worried that this could in fact give rise to more violence. Apart from the emotional tension and the problems this is going to cause, surely it is true that a person has the right to defend himself, as the courts have correctly pointed out. That is why they carry these weapons. We are saddled with a problem of criminality in this country, which is also a source of serious concern to us.

Therefore the best answer does not lie in prohibiting these weapons. The best answer lies in getting people's co-operation, as I have in fact done. We shall go further along this road in order to enforce it carefully, with the co-operation of all the people. That is the offer I am making the hon member this afternoon.

I said at the outset, as far as the carrying of traditional weapons is concerned— the hon member for Stilfontein is quite correct—that one cannot say that the knobkierie and the spear are traditional weapons, because then one is on one's way to the firearm. I said at the outset that we must not ignore this. The carrying of firearms and other weapons in this country is an emotional matter. The hon member for Simon's Town must not say what he said here in Natal to the Zulu king or to the Zulus, because he will then encounter a great many problems. We are trying instead to cause the violence to abate so that no further contentious issues can be created, and so that we can persuade one another by means of reason. This is the point of departure of the SA Police, and also of the Government.

We want to engage freely in politics in this country, and that is why there are no banned organisations today, that is why people are no longer being detained and why restrictions are no longer being imposed on people. That is why people are able to hold meetings freely. We who have to prohibit people from carrying weapons there, I must say this to hon members, have a practical problem, and this is the way I want to convey it to the hon member. [Time expired.]

Debate concluded. Hansard 16/4/91

QUESTIONS

†Indicates translated version.

For oral reply:

General Affairs:

State President:

Hansard 16/4/91

Ministerial representatives

*1. Mr F J LE ROUX asked the State President:†

(a) What are the assignments and duties of Ministerial Representatives and (b) what are their total remuneration package and privileges?

B756E

†The STATE PRESIDENT:

(a) Ministerial Representatives were appointed by the State President for the respective ministers' councils and for certain provinces in terms of section 28(1) of the Republic of South Africa Constitution Act, 1983. In terms of the provisions of section 28(2) of the Constitution, ministers of the respective ministers' councils assigned certain powers, functions or duties entrusted to them in terms of a law or otherwise, to the Ministerial Representatives. These powers, functions or duties are exercised or performed on behalf of the minister concerned by such a ministerial representative.

(b) (i) *Remuneration*

Salary	R94 470
Allowance	R26 049
Total	R120 510

(ii) According to their position in the hierarchy of political office-bearers, which is comparable to that of members of executive committees, ministerial representatives also enjoy benefits in respect of housing, motor car financing, travelling, accident insurance and participation in the PARMED medical aid scheme and the Pension Scheme for Members of Parliament and Political Office-bearers.

†Mr F J LE ROUX: Mr Speaker, arising out of the hon the State President's reply, I would like to know whether these are *ad hoc* responsibilities with which such Ministerial Representatives are being entrusted. Is there a set of commitments which they have to comply with, or are they responsible for a package?

†The STATE PRESIDENT: Mr Speaker, Ministerial Representatives work under the auspices of Ministers' Councils and Ministers who are members of Ministers' Councils. Speaking from experience I can tell the hon member that when I was Chairman of the Ministers' Council, all the Ministers in the Ministers' Council entrusted Ministerial Representatives with quite a few responsibilities.

When provincial councils ceased to exist, a vacuum was created in the functions that were administered by Ministers' Councils, because there no longer were MECs or members of provincial councils who were present in the respective provinces on a full-time basis and who served the public directly. When I was Chairman of the Ministers' Council in those days, it was our experience that Ministerial Representatives served a very useful purpose. Because they could be there all the time, unlike hon members of Parliament who have to be absent for long periods, they did very important work on behalf of communities. Furthermore, it was our experience that they rendered invaluable service in terms of the powers delegated to them.

Ministers:

Questions standing over from Tuesday, 9 April 1991:

Fiscal drag: additional revenue 320

*10. Mr G C ENGEL asked the Minister of Finance: Hansard 16/4/91

Whether, during the latest specified two tax years for which information is available, the

continued →

Government raised any additional revenue from individuals owing to the effects of fiscal drag on personal incomes; if so, what total amount in each such year? 320

Hansard 16/4/91 B617E

†The MINISTER OF FINANCE:

1989/90 financial year: Yes. R1 423,0 million.

1990/91 financial year: No. The revised tax rates which were fixed in respect of this year, in fact resulted in a decrease of R586,0 million in State revenue.

Old Colonial Building, Pmb: disposal

*17. Mr R F HASWELL asked the Minister of Public Works and Land Affairs:

Whether the old Colonial Building, which fronts on Church Street in Pietermaritzburg, will be disposed of on the open market; if not, (a) why not and (b) in what manner will it be disposed of; if so, what are the relevant details?

B653E

†The DEPUTY MINISTER OF LAND AFFAIRS:

The disposal of the Old Colonial Building will be considered after the adaptation of the accommodation in the adjacent State buildings into magistrates courts and offices for the Department of Justice. The Old Colonial Building will most probably have to be used on a temporary basis during such adaptations.

*29. Mr J VAN ECK — Law and Order. [Question standing over.]

New questions:

Taxation of fringe benefits: amount collected

*1.Mr K M ANDREW asked the Minister of Finance: Hansard 16/4/91

What additional amount was collected in taxation revenue in each of the past two tax years as a result of the taxation of fringe benefits?

320 B662E

The MINISTER OF FINANCE:

R591 813 381 in respect of the 1989 year of assessment

R845 809 425 in respect of the 1990 year of assessment Hansard 16/4/91

320

Medical laboratory technicians: practices

*2. Mr M J ELLIS asked the Minister of National Health: Hansard 16/4/91

(1) Whether any steps have been taken or are being contemplated to allow medical laboratory technologists to establish their own private practices; if so, what are the relevant details with regard to the (a) training requirements in order to do so and (b) scope of the functions they will be able to perform;

(2) whether the (a) South African Society of Pathologists and (b) South African Medical and Dental Council have been consulted in this regard; if not, why not in each case; if so, what was the response in each case? B672E

†The MINISTER OF NATIONAL HEALTH:

(1) The decision whether medical laboratory technologists can be allowed to establish their own private practices is a decision that rests solely with the South African Medical and Dental Council (SAMDC). This Council accepted the principle that medical laboratory technologists can establish their own private practices. Further particulars are presently being worked out by the Council;

(a) and (b) these aspects are presently under discussion at the South African Medical and Dental Council. No final decision has been taken yet;

(2) (a) the Medical Association of South Africa and the National Pathology Group as well as the Federation of South African Associations of Pathology have been consulted by the SAMDC;

(b) falls away.

The pathology-groups are not in favour that medical laboratory technologists are being allowed to establish their own private practices.

Public funds: political organisations

*3. Mr J A JORDAAN asked the Minister of Finance:†

Hansard 16/4/91

Whether he can give the assurance that over the past 10 years the Auditor-General has had full access to the relevant documents in order to be able to report to Parliament if public funds were used by the security family or any other State departments, including those in the self-governing territories, to support political parties or organisations?

Hansard 16/4/91 B679E

The MINISTER OF FINANCE:

I refer the hon member to the replies of the hon Minister of Defence and the hon Deputy Ministers for Information Services and of Law and Order on Tuesday 5 and Tuesday 12 March 1991, to questions along the same lines. I have nothing to add to those replies.

Police collusion: investigation

*4. Mr P C CRONJÉ asked the Minister of Law and Order:

(1) Whether a senior police officer has been appointed to investigate complaints of alleged Police collusion with certain political groups in Natal; if so, (a)(i) what is the rank and/or name of the officer so appointed and (ii) on what date was the appointment made, (b) what are the circumstances surrounding the matter and (c) what progress has been made in the investigation;

(2) whether a report will be published on the findings of this investigation; if not,why not; if so,when?

B694E

†The MINISTER OF LAW AND ORDER:

(1) No, but if the hon member has any information regarding the matter at his disposal, I would appreciate it if he could supply it to me.

(a) to (c) Fall away.

(2) Falls away.

Attack on Nxamalala: arrest

*5. Mr P C CRONJÉ asked the Minister of Law and Order: Hansard 16/4/91

(1) Whether the South African Defence Force arrested a certain person and handed him over to the South African Police in connection with an attack on Nxamalala near Pietermaritzburg on or about 28 January 1991; if so, (a) who was arrested and (b) what are the circumstances surrounding the matter;

(2) whether the person so arrested is a member of any arm of the security services;

(3) whether any steps have been taken in regard to the matter; if so, what steps?

Hansard 16/4/91 B697E

The MINISTER OF LAW AND ORDER:

(1) Yes.

(a) Two unknown Black males.

(b) On 28 January 1991 at approximately 16:00 members of the South African Defence Force arrested two black males. They had allegedly thrown petrol bombs at a house. A police officer visited the scene. The members involved of the South African Defence Force could not point out the house or the petrol bombs. On the available evidence, the officer decided that the further detention of the persons would be unlawful and ordered their release.

(2) No, not as far as is known.

(3) No.

Radio Good Hope/Kontrei: split transmissions

*6. Mr P G SOAL asked the Minister of Home Affairs:

(1) Whether he will furnish information on Radio Good Hope and Radio Kontrei transmissions; if not, why not; if so,

(2) whether an announcement was made recently that Radio Good Hope and Radio Kontrei would be operating on split transmissions; if so, (a) with effect from what date and (b) for what reasons;

(3) whether applications have been received from any (a) individuals and (b) organisations for independent local radio stations in the Southern and South Western Cape; if so, what are the relevant details?

B700E

The MINISTER OF HOME AFFAIRS:

(1) Yes

600,000 won't have to fill in tax forms

Star 16/4/91

(320)

By Paula Fray

It's that time of the year again, with the taxman awaiting his returns. And the deadline this year is June 4.

However, more than 600 000 employees will not receive income tax forms this year after the Standard Income Tax on Employees cut-off levels were increased from R20 000 to R40 000 per annum last year.

According to Inland Revenue chief director of operational control Chris Dempers, 842 844 forms have been sent out this year compared with 1,4 million in 1990.

About 729 241 provisional tax forms and 345 757 company tax forms have been sent.

All these forms have to be returned to the Receiver of Revenue by June 4.

Reply

Every person who receives a form must submit a reply. This also includes those earning less than R40 000 who received forms.

"If anyone thinks he should receive a form and has not within the next week, he or she should contact the local Receiver of Revenue," Mr Dempers said.

Although the forms have been described as "extremely user-friendly" with a booklet which corresponds to the questionnaire, local branches of the Receiver's office will help taxpayers fill in their forms.

A telephone service is available, and this service has been extended to include the numbers (011) 833-7730/9.

Half-a-million extra people now to pay tax

BIDay 17/4/91 (320)

LESLEY LAMBERT

CAPE TOWN — More than 500 000 individuals, many of them unionised workers, would pay tax for the first time during the 1991/92 financial year, Finance Minister Barend Du Plessis told Parliament yesterday.

In a written reply to a question by Bezuidenhout DP MP Geoff Engel, Du Plessis said an estimated 510 000 more taxpayers would be drawn into the tax base as a result of fiscal drag and the reduction in primary rebates, from R12 000 to R11 000 a year.

The new taxpayers would contribute an estimated R77,4m to the fiscus, he said.

The effect of fiscal drag on personal income had resulted in a R586m decline in tax revenue during the last tax year after an increase of more than R1,4bn in the previous tax year as revised tax rates relieved much of the fiscal drag, Du Plessis said in response to a separate question by Engel.

Engel, however, estimated that the renewal of fiscal drag during the current tax year would result in an additional R3bn in tax revenue.

Responding to a question by DP Finance spokesman Ken Andrew, Du Plessis said tax revenue from fringe benefit taxation on individuals amounted to R591,8m in the 1988/89 year and R845,8m in the 1989/90 year.

He said revenue from this this source was expected to more than double to R1,8bn during 1990/91.

The increase is attributed largely to the phasing out of certain fringe benefit tax allowances during the 1990/91 tax year.

PARLIAMENT

Even Barend can be baffled by VAT

Star 18/4/91 (320)

Not even Minister of Finance Barend du Plessis fully understands VAT.

Mr du Plessis made this admission yesterday in Parliament during his reply in the Budget debate.

He said: "As far as VAT is concerned, it is really my experience that the arithmetic of VAT has not been understood by everybody. And I'm not even excluding myself from that."

Serving

In fact the new tax was more complex than GST.

GST performed well at times, but it was no longer serving the country satisfactorily. It had so many inherent shortcomings that it was now long overdue for replacement by another tax.

Certain of VAT's practical implications were not yet understood, but he believed it would attain greater credibility as a fair and productive tax as it became clearer what it involved, said Mr du Plessis.

He could say confidently that as far as the private sector was concerned, there was — by and large — acceptance of VAT, and preparations for the new system had gone very far.

A golden thread running through the Budget debate had been the absolute necessity of economic growth.

Minister of Finance Barend du Plessis

The VAT proposals on capital and intermediate goods had been made within the context of economic restructuring aimed at economic growth.

Mr du Plessis said the continuous harping on the pension benefits of civil servants was grossly unfair.

He said the taxpayer was the employer of the civil servant and it was right that taxpayers should make a contribution to civil servants' pensions.

"I think we owe them a debt of gratitude. Their benefits are not only in line, but out of line on the low side with the private sector."

Mr du Plessis said it was important to internal and overseas investors in South Africa that violence be reduced to a minimum.

He said it was important to economic growth that there should be a strategy to cope with the problem of poverty.

A drastic restructuring of the South African economy to increase job creation was a priority.

If South Africa wanted to restructure its economy, it could not be done without certain hardships.

If the business community did not do its share, it would not be possible for South Africa to succeed in the mid-1990s.

Killed

Economic sanctions had not killed South Africa, but had placed a dampener on its growth, the Minister said.

As US Secretary of State James Baker had stated: the fundamental issue in the 1990s would be the mobility of capital.

There were international bankers who had a sincere belief in the integrity of South Africa's leaders. But without markets, the country would not be able to maintain any growth. — Sapa.

ARGUS 18/4/91

320

Mayors to urge Barend to drop VAT on rates

By CLIVE SAWYER
Municipal Reporter

A UNITED Municipal Executive delegation is to meet Finance Minister Barend du Plessis and his deputy, Dr Org Marais, tomorrow to appeal for the Value-Added Tax system to be changed.

This was announced at the Cape Province Municipal Association annual congress where a motion was passed expressing full support for the delegation, rejecting VAT on property rates and calling on delegates to write to their members of parliament to appeal for changes to the system.

Queenstown mayor Mr R Johnson said VAT was a "completely immoral tax on tax" which no one would be able to afford.

Cape Town executive committee chairman Mr Dick Friedlander said VAT was an encroachment by central government on the only direct source of income available to local authorities.

"We shall be tax collectors for central government, while ratepayers will have the mistaken impression we shall benefit financially in some way," Mr Friedlander said.

Greyton mayor Mr Dick Shaw said the Department of Finance had asked municipalities to keep rates rises down because of the introduction of VAT. This was proof of its financial impact, he said.

Uitenhage mayor Mr J Cronjé said property rates would rise 8 percent because of VAT.

East London mayor Mr J Badenhorst said the introduction of VAT contradicted the government's commitment to the devolution of power. Local authorities' financial base would be eroded while benefits went to central government.

Adelaide mayor Mr P Rademeyer said VAT was a "disguised form of the redistribution of wealth" because it would hit people who had invested in property the hardest.

"For instance, beach houses — VAT will provide a useful tool for the redistribution of wealth for the next government," Mr Rademeyer said.

Barend to meet councils on VAT

320

Sowetan

18/4/91

A UNITED Municipal Executive delegation is to meet Finance Minister Mr Barend du Plessis and his deputy tomorrow to discuss changes in VAT.

This was announced at the Cape Province Municipal Association annual congress.

A motion was passed expressing full support for the delegation, rejecting VAT on property rates, and calling on the about 400 delegates to write their Members of Parliament to appeal for changes to the system.

Queenstown mayor Mr R Johnson said VAT was a "completely immoral tax on tax" which no-one would be able to afford.

Cape Town executive committee chairman Mr Dick Friedlander said VAT was an encroachment by central government on the only direct source of income available to local authorities.

The implication of VAT for local authorities was a "total breakdown" in supplying services unless the struggle to maintain the standard of these services, in the face of mounting costs, could be maintained.

Greyton mayor Mr Dick Shaw said the Department of Finance had asked municipalities to keep rates rises low because of the introduction of VAT.

Uitenhage mayor Mr J Cronjé said property rates would rise eight percent because of VAT.

East London mayor Mr J Badenhorst said the introduction of VAT contradicted the Government's commitment to the devolution of power.

Adelaide mayor Mr P Rademeyer said VAT was a "disguised form of the redistribution of wealth" because it would hit people who had invested in property the hardest.

CPMA to see Barend over VAT on rates

CAPE TIMES 18/4/91

Municipal Reporter

THE Cape Province Municipal Association will send a delegation to Finance Minister Mr Barend du Plessis tomorrow in a last-ditch attempt to stave off VAT on rates, electricity and water bills.

Dr T G Schlebusch of Queenstown proposed a motion at the CPMA congress yesterday rejecting a "tax on tax".

His motion was accepted by an overwhelming majority of the 600 delegates.

Numerous speakers from the floor slammed the "scandalous" introduction of VAT on rates and municipal services.

A member from Adelaide said: "This is nothing more than a disguised form of redistribution of wealth. We are putting a very powerful tool in the hands of future governments."

He suggested a compromise whereby some of the VAT collected in each town had to come back to that town; and a ceiling would be placed on how high the VAT percentage (now 12%) could rise.

Mr Richard Friedlander, of Cape Town, said VAT would encroach on the main source of the council's revenue.

Many people would be under the impression that local government was demanding more from them, but in fact the council would merely be a collecting agent for the government, with no benefit to itself whatsoever, Mr Friedlander said.

A speaker from Uitenhage said his municipality's health services received a 60% government subsidy, and if VAT was payable on this, "we will effectively get less".

The same applied to the fire and ambulance service subsidies.

"This is a very clever way for the state to reduce what it has to pay out in subsidies," he said.

A speaker from East London said his city had only 21 000 ratepayers, yet there were over a million people in the metropole.

A heavy burden would be placed on ratepayers in future when they gained new responsibilities for suburbs outside their boundaries.

"We can't just push up our rates and taxes by 25%," he said.

B Day 18/4/91

VAT baffles even Barend

CAPE TOWN — Not even Finance Minister Barend du Plessis fully understands VAT.

Du Plessis made this admission yesterday during his reply in the Budget debate.

He said: "As far as VAT is concerned, it is really my experience that the arithmetic of VAT has not been understood by everybody. And I'm not even excluding myself from that."

In fact the new tax was more complex than GST, he said.

Certain of VAT's practical implications were not yet understood, but he believed it would attain greater credibility as a fair and productive tax as it became clearer what it involved.

He was confident the private sector had accepted VAT. 320

VAT proposals on capital and intermediate goods had been made within the context of economic restructuring aimed at economic growth. — Sapa.

Everything you'll need to know about new tax

Star 18/4/91

(320)

First in a daily series by André Meyburgh, a tax specialist with chartered accounts KPMG Aiken & Peat, on how value added tax (VAT) will affect the way you spend your money when it is introduced on September 30.

VAT AND YOU

By André Meyburgh
KPMG Aiken & Peat Tax Practice

Although the VAT Bill must still be debated in Parliament before it becomes law, the way the new indirect tax replacing general sales tax (GST) will operate is clear.

Where the GST rate is 13 percent, the VAT rate will be 12 percent.

The key to VAT is its very term: "value added".

Think of a tree. When it is sawn into planks, the wood has value. When the planks are turned into furniture, the furniture acquires additional value.

Each "value added" to a commodity or service attracts VAT.

Unless Parliament makes some changes, the only foods that will not attract VAT will be mealie meal for human consumption and brown bread.

VAT will also not apply to fuel, taxi, bus and train fares and most educational services.

All this means, therefore, that a whole range of products and services outside the GST net will now become subject to VAT.

Its "sting" will be felt far more widely and by many more people.

For example, fees paid for services rendered by doctors, dentists, lawyers, architects, accountants and other professional services will for the first time be taxed.

Likewise, the bill for your telephone service will for the first time have a value added tax.

So will parking meters and the stamps you buy for your correspondence.

This series will explain the effect VAT will have on, for example:

- The housewife who handles the family accounts.
- The home-owner who wants to make improvements.
- Construction activities, at present free of GST, which will attract VAT.
- Fixed property and estate agents.
- Sales of second-hand goods by dealers.

It will answer questions about:

- Fringe benefits such as low-interest housing loans, travelling allowances, subsistence allowances, and the use of a company car.
- Insurance premiums.
- Medical and other professional services.
- In what way welfare organisaton will have to pay VAT.

The series will also set out what will happen in the transitional period to:

- GST vendors who will not be VAT vendors.
- Financial lease agreements entered into during the GST period but which terminate after VAT's implementation.
- A building partly completed on September 30 without VAT and sold thereafter.
- Businesses carrying stock on hand at the changeover period.

Before progressing to these subjects, we need to look at, and become familiar with, the terms and functions that make VAT work, such as "input taxes" and "output taxes", "standard" and "zero" rates, and what is meant by "taxable supplies" and "exempt supplies".

Why, though, was it necessary to introduce a VAT system at this stage?

It has long been government policy to try to lessen the burden of direct taxes by spreading the net of an indirect or "consumption" tax as widely as possible.

VAT is an indirect tax whereas income tax and company taxes are direct taxes.

When the commission under Mr Justice Cecil Margo (the Margo Commission) looked at tax reform it reported that GST was unacceptable mainly beause it:

- Has a "cascading" effect of pushing up prices.
- It is easy to evade or avoid.
- Professional and other services and certain construction activities escape GST.

In addition, the rate of 13 percent was too high for a consumer tax.

Margo recommended that GST be replaced by a broad-based invoice driven system.

The vital role of the tax invoice will be explained later.

The VAT system is largely modelled on New Zealand's Goods and Services Tax Act.

Our VAT Bill is unusual in that the government made it possible for every interested party to examine, comment on and raise objections to the draft Bill by inviting representations to a special committee (Vatcom) before August 31 last year.

Vatcom prepared a comprehensive report and submitted recommendations based on the public'c submissions which helped refine the Bill now before Parliament.

In short, VAT is a fairer tax than GST, mainly because it is less subject to abuse, is much more efficient in collecting revenue, and does have the benefit of some public input.

The fact that it will impose far greater administrative burdens than GST is another story.

Tomorrow: Some terms and working components.

Don't forget about tax!

Star 18/4/91

Unit trust investors must be aware of the tax implications of their investment decisions, warns Noel de Charmoy, senior tax consultant at KPMG Aiken & Peat.

"Generally, investments in unit trusts do not qualify for a tax deduction, but on the other hand there is no tax on the proceeds of their ultimate sale," he says.

"The exception is individuals whose intentions, when acquiring these assets, is to speculate rather than to invest.

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Intention

"Inland Revenue adopts various lengthy and rather subjective tests to determine whether a taxpayer is to be considered an investor or a speculator.

"The Reciever requires a review of the taxpayer's intention on acquiring the units, the period for which they were held, previous dealings in shares and his reasons for selling," Mr de Charmoy says.

He says returns on an investment in unit trusts is comprised of interest — which is fully taxable subject to the general annual interest exemption of R2 000 per taxpayer — and dividends, which are not taxed.

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R6bn burden for consumers

CAPE TOWN — Consumers will be R6bn a year worse off as a result of VAT imposed on a wide range of spending, UCT's Graduate School of Business director Prof Brian Kantor said yesterday.

Addressing the congress of the SA Association of Quantity Surveyors, he said business, on the other hand, would pay R7bn less tax on goods. B/Day 19/4/91

"How quickly these tax savings can be passed on to domestic consumers is a matter of some debate. How quickly will depend above all on competition between manufacturers."

The onus was on buyers to extract as much of the advantage of tax savings from sellers as they could.

"The government has taken a bold gamble in presenting what is a pro-business Budget against a background of widespread scepticism about the forces of competition. The onus is very much on business to deliver."

What consumers needed most to keep down prices was a burst of investment spending by industry, Kantor said. — Sapa.

Govt acts on VAT delaying tactics

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B\Day 19/4/91

BILLY PADDOCK

CAPE TOWN — Government took action yesterday to prevent companies delaying the purchase of capital goods until the implementation of VAT on September 30.

Finance Minister Barend du Plessis said in a statement that government would allow companies to write off a greater portion of depreciation costs in the first year to discourage them from delaying their purchases of capital goods.

He said government was concerned that firms would stop buying capital goods until a full credit for tax paid on capital and intermediate goods was introduced to coincide with implementation of VAT.

The financial authorities introduced an anti-avoidance clause in the VAT Bill to prevent companies from delaying purchase of capital goods and abusing tax benefits introduced by the payment of a full credit for tax paid on capital goods.

Deputy Finance Minister Theo Alant warned during the VAT debate that anyone who tried to use tax benefits for transactions that were not in good faith would be subject to the usual tax.

The concession announced by Du Plessis means that companies which purchase capital goods up to September 30, excluding passenger cars and hired cars, may write off an extra 15% to depreciation in the first year.

As firms may currently write off 20% a year for five years on depreciation, they will be able to write off 35% during the first year and write off the balance during the following four years.

Government said it was hoped that this incentive, coupled with the inflationary advantage of buying now rather than later, would help avoid delaying tactics.

An Inland Revenue official said that with company tax at 48% plus GST at 13%, the new concession would put actual tax cost to companies at 6,76%.

Opening debate on the VAT Bill, Alant said the new system had proved itself internationally. Thorough research had been done for SA conditions.

□ To Page 2

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VAT

B\Day 19/4/91.

□ From Page 1

ZILLA EFRAT reports that Industrial Development Corporation (IDC) GM Louis Kingma said the move would roughly negate the GST paid on capital goods during the period until end-September.

Kingma confirmed that the IDC had come across cases in which investors had postponed their expansion plans in order to gain the advantage of not paying VAT on capital goods.

He said the new measure was a welcome step towards reversing such delays in investment.

Sacob economist Keith Lockwood said the move would benefit many manufacturers of smaller capital goods, as many of their customers might have delayed their purchases ahead of what could effectively have been a 13% saving.

Some manufacturers of smaller capital goods might have suffered severely from purchasing delays of up to six months, he said.

The move avoided a stop-start effect on the economy, ensured that local investment went ahead and indicated that government had not changed its position on granting credits. "Ultimately cheaper capital goods should mean lower prices in the long term."

However, Lockwood said it was unlikely that larger capital projects would have been delayed as this could have added to costs.

This was confirmed by some of the groups involved in large capital expenditure programmes.

Iscor acting public relations manager Ernest Webb-Stock said all of Iscor's planned capex — R1,26bn for the year to June — had been committed, and there would be no delays in its capex programme.

A Sasol spokesman said his group had not planned to delay any of its capex programmes ahead of the introduction of VAT. "Most of Sasol's projects are long-term and cannot be delayed without cost implications."

FM BOARD OF ECONOMISTS FM 19/4/91 (320)

KEEP YOUR SEAT BELTS TIGHTENED

THE OUTLOOK FOR 1991 REMAINS GENERALLY GLOOMY

In the board's post-Budget assessment of the economy, regular members Ronnie Bethlehem (JCI) and Rudi Gouws (Rand Merchant Bank) are joined by Ted Osborn (Nedcor). As always, SA Chamber of Business's Raymond Parsons puts the questions.

Parsons: Do you concur with the overall balance in the Budget between growth and redistribution and the broad aim of equity through growth and stability?

Bethlehem: The Budget conformed closely to what I hoped it would do. In difficult circumstances the minister got the balance right, but there are aspects that I am unhappy about. In particular, if the minister had done nothing, he'd have had a deficit of R5bn; with a stroke of the pen he increased that to R10bn. This may be too stimulatory; alternatively, it may be telling us that government is a lot more worried about the economy than we thought.

Osborn: The minister struck a reasonably sound note. He is at the U-turn of developments towards the new SA. It is all encapsulated in the slogan of equity through growth through stability. Whether these things will be achieved is another matter; I have serious doubts about all of them.

And the Budget should be the focus and consolidation of all State spending. As extra-budgetary funds grow, we are not getting the adequate measure of the total impact that the Budget should give us.

Gouws: The way the Budget was put across struck the right chord. But I'm concerned it may have gone too far to the other side; it's not that one does not want equity, but economic growth is what will really solve poverty. I have the same concerns that the Reserve Bank seems to have about this Budget. We have veered too far from the supply-side approach with the increases in the Budget deficit, the tax burden and government spending relative to GDP.

Parsons: Is it worrying that the tax burden as a proportion of GDP remains at 24,9%?

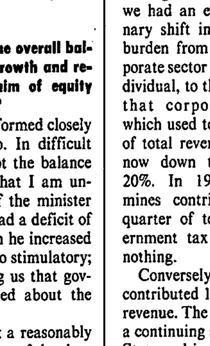
Osborn: By international standards 24,9% is not all that considerable. Of more concern is its make-up and the balance between direct and indirect taxation and, within direct taxation, the balance between the individual and the corporate taxpayer. During the Eighties we had an extraordinary shift in the tax burden from the corporate sector to the individual, to the extent that corporations, which used to be 40% of total revenues, are now down to about 20%. In 1980 gold mines contributed a quarter of total government tax revenue; this is now almost nothing.

FM Board ... *Gouws, Osborn, Bethlehem, Parsons*

Conversely individuals, who in 1980-1981 contributed 16%, are now up to 39% of total revenue. The individual taxpayer is suffering a continuing swing of disposal income to the State and is no longer in a position to save.

Gouws: I'm particularly concerned at the sharp rise in the personal tax burden.

Bethlehem: We must encourage saving and deter consumption. But in a sense we need simultaneously to discourage *and* encourage consumption: to discourage it at the upper end but increase it at the lower. VAT will bring a huge increase in the tax burden of white individuals.



'We will have to develop strategies to address mass black unemployment because black people will be the voters of the new SA'

BETHLEHEM

The main engine of growth is the corporate sector, which has also become the main contributor to national saving. But corporate saving also fell last year.

Parsons: Is the extent of the deficit before borrowing a matter of concern?

Bethlehem: The minister's intervention effectively raised the deficit before borrowing from 1,7% to 3,4%. You can't go to the IMF and talk about fiscal restraint with that kind of deficit. But the minister must surely have been cautious in his estimate of VAT revenues, so the actual deficit may not be quite so bad. Extra-budgetary items add to one's concern, of course.

Osborn: Three percent is simply a rule of thumb, there's no magic about it. To me the method of financing is what matters. Ten billion rands seem a reasonable deficit to borrow without straining the capital market. We get excited about this not being matched by capital spending, but if you exclude interest charges there is a surplus of revenue over expenditure in the Budget, and interest charges are purely redistributive flows. So I think this Budget is overall contractionary.

There's no point in worrying about government spending when it's still below 30% of GDP. We're going to become more and more socialist. We are heading towards 40%.

Bethlehem: We are trying to establish certain things before constitutional negotiations are set in concrete: the independence of the Bank, and to get government spending down. We don't want to abandon ourselves before the new order arrives.

Osborn: When we're up to Zimbabwe's 47% and Sweden's 45% will be when to start worrying. Be prepared for the future!

Parsons: What are the implications of the Budget for interest rate and monetary policy?

Gouws: The order of borrowing flowing from this Budget should not put any upward pressure on interest rates. Interest rates have gone up since the Budget because of the market's concern with longer-term issues. I go along with Bank Governor Chris Stals's comments: we'll now have a tighter monetary policy for longer, but interest rates should decline further this year, perhaps in the third quarter. The cyclical decline in interest rates is still in place.

Osborn: The governor could use the Budget as further justification for a firm monetary position. He must hold to this because we're not having the improvement in inflation and the money supply that we would like. But as we stay in recession the high interest regime will again seem not to be justified and will have to give way during the year to alleviate financial pressures.

Bethlehem: It's interesting that the governor cut Bank rate two weeks before the Budget. I suppose this was a demonstration

Continued ->

of independence. The Bank is not aware of the final budgetary proposals, which are finalised literally minutes before the minister speaks. I wonder whether Stals now regrets reducing interest rates beforehand. Interest rates may not come down later this year as people would like, because inflation may not come down as forecast.

Parsons: Are you satisfied that the large sums allocated to social spending will be properly co-ordinated and effectively spent?

Osborn: We seem to be trapped in a belief that the sum allocated to any item adequately measures the benefit to that sector, so we are easily misled by the amount of money we throw at a problem. We need a complete reexamination of the spending mechanisms to ensure that we have not only a greater delivery but a greater efficiency in what is spent.

Bethlehem: This Budget raises the allocation for education from some R13,5bn to R16bn. None of us would argue with that; the central problem for the future is education and in particular the mismatch between what the education and training system produces and what the economy needs. But there is no area where wastage is greater and cost-benefit more deplorable than education. The black matric results show that.

Parsons: Since the Budget there has been a split in the Department of Finance, with Amie Venter taking over management of expenditure. Is this desirable?

Osborn: The split is unfortunate. Revenue and expenditure must lie within one authority under the Minister of Finance. They will find eventually that the tensions are so great that they have to coalesce them again.

Bethlehem: There is a smell of ad-hoccery in the split, with the need to reorganise the Cabinet after the death of Wim de Villiers. I see no advantage in it.

Gouws: The only justification for the split could be to bring more ministerial power to bear. But I would prefer both functions to be under one powerful minister, possibly with two deputies. Du Plessis should be handling the expenditure side.

Parsons: Does the panel see advantages in switching over to the VAT system from GST and in particular is 12% the right rate?

Gouws: The timing is unfortunate. We are in a time of momentous political change and soon probably major economic policy changes. One of our biggest mistakes in tax policy was to remove food from the old GST. I'm not saying that GST is the better system, but given all the other uncertainties perhaps we should have stuck with GST the way it was before food was taken off. Given where we are now, I am happy with the way VAT is being introduced. To comment on the rate is difficult but like Ted I'm concerned with the mix between direct and indirect taxation. From that point of view I'm happy with 12%.

Osborn: I accept the advantages and purity of VAT over GST but I am concerned about introducing a highly sophisticated system in a country with both First- and Third-World elements. I also have reservations about the costs to the State and private sector of administering it.

Yes, 12% is probably the right rate. The IMF calculated 13,3% as the break-even but the minister would have had a very difficult political problem bringing it in at 13%. I do worry where we will end up. Will we be like the UK, at 17,5% in four years' time?

Bethlehem: If we do not introduce VAT now we will never get it. Given all the problems, government deserves applause for going ahead. We will not regret it. It is a better tax than GST and a better tax for a future SA, a modernising, industrialising society. It is a regressive tax, but SA must go that way.

Parsons: Will exempting capital and intermediate goods from VAT bring down costs?

Osborn: The forces of competition aren't strong enough to bring about the results theoretically expected. I am cynical; this will generally be taken as an opportunity to improve value-added positions.

'As we stay in recession the high interest regime will again seem not to be justified and will have to give way during the year to alleviate financial pressures'

OSBORN

Gouws: I am a little more optimistic. We are in a recession, so people who want to stay in business will have to pass on part of the benefit. Even if that doesn't happen, the profitability of companies will improve, and that ultimately is what fixed investment hangs on. This to me is one of the few really growth-enhancing aspects of this Budget. Of course, there will be some holding back of investment because this is a tangible benefit and the economy is still in recession.

Osborn: It's a rational decision to defer investment in these circumstances.

Parsons: Do you agree with the minister's suggestion that year-on-year inflation could fall to 12% or less by December?

Bethlehem: Ministers do not have a good track record in forecasting inflation! I am not optimistic that the minister's forecast will be reached.

Gouws: We won't quite reach 12% but inflation will decline. It always has in times of recession. It will be below 13%.

Osborn: We won't get to 12%. There may be a downward trend but the introduction of VAT will itself push up the measured — as opposed to the underlying — inflation process. I am also concerned about the overall inflationary trend. What might happen to the rand is important: the rand will be under considerable pressure this year, so imported costs will be a potent inflationary factor. I put year-end inflation just under 14%.

Parsons: How does the Budget affect the flow and distribution of savings? This is tied up with the failure of the Budget to address fiscal drag. Is the minister holding out the promise that having got VAT and taken certain business tax decisions this year, he will turn his attention to personal tax next year?

Osborn: Savings come from the taxpaying community rather than the non-taxpaying community. Individuals ability to save is being reduced by fiscal drag — which will remain as high as ever. Corporate savings will be affected by the level of corporate profits, which are under pressure. There will of course be natural expansion through the depreciation provision but overall national savings will, I think, fall further this year, in line with the overall reduction in investment.

Gouws: In a direct sense the Budget made things worse. The effective deficit is almost double government's own capital expenditure, of 1,8% of GDP. That's a major direct negative impact on savings. If you take in all the government institutions, the so-called general government, there may still be a slight positive figure, but the Budget we are discussing now has a negative influence.

Bethlehem: The Budget adds to government dissaving. Private savings are still extraordinarily low. The tax changes may not help much. The point I would emphasise is that the Budget has intervened to help sustain the macro-economy, and to the extent to which it does that it helps sustain particularly the corporate contribution to saving.

Parsons: Can we expect any help from the world economy in the aftermath of the Gulf War? Are the tea leaves looking a little different from two or three months ago?

Gouws: We can look for no help from that quarter. The US economy may pull out of recession by, let's say, mid-year, but it will be a slow, painful recovery from major structural problems. Europe, if not moving into a recession, faces substantially slower growth and there is a distinct possibility that Japanese growth will fall off sharply.

So we'll probably see a continuation of what re-emerged in the fourth quarter of last year: a fall in our terms of trade, coupled unfortunately with, for the first time in a long time, a weakening in export volumes. Prices and volumes will both work against us this year. Easing of sanctions will be a cushion, but they never had much impact.

Osborn: The commodity price cycle is still depressed. I cannot see any significant improvement this year. The same applies to gold, though platinum may respond sooner. Lack of any contribution from the world

continue

economy is one reason I would have welcomed a stimulatory Budget at this time.

Bethlehem: I won't disagree with that analysis. But remember, we were all rather concerned about the consequences of a protracted war in the Gulf.

In the event, that didn't happen, so the impact of the war will be less rather than more in terms of driving the global economy deeper into a protracted and difficult recession.

We handled trade sanctions well, so their removal won't make much difference; financial sanctions are what matter. The current account will remain under pressure and could even worsen, but if financial sanctions are lifted, easing pressure on the capital account, we may start to make our way slowly back to being a normal developing country which can be in deficit on current account but enjoy an inflow of capital.

Osborn: The reconstruction of Kuwait will be an important boost to the world economy.

Bethlehem: And the war won't cost the US what it might have, had the US gone in unilaterally. In a sense what is happening is the diametric reverse of what happened in the first oil crisis in the Seventies. A huge quantum of petrodollars was created which had to be recycled, and that led to all sorts of things: Third-World debt, inflation and so on. Now the petrodollar balances of Kuwait and Saudi Arabia are being destroyed paying for the war and reconstruction.

Gouws: But remember what *The Economist* said: Saddam Hussein didn't cause the recession, so he can't end it.

Parsons: Gold is the joker of the pack. How do you see the outlook for the gold price? Is the unemployment generated by the state of the gold mining industry an inevitable structural factor and should we endeavour to bail the industry out through exchange rate policy?

Bethlehem: We are witnessing a huge destruction of jobs because of the fall in the gold price and global recession, because of the balance of payments constraint. We need government-led action to create jobs to address rising structural unemployment and there's no easier way than a higher rand gold price. To create jobs in other sectors is much more costly and time-consuming.

But that's not what I'd recommend, because it would get back into the old ratchet of cost-push inflation followed by demand-pull inflation and destruction of the currency. You don't create jobs on a sustainable basis by printing money. We must manage gold mining in a different way, so I support the policy adopted by the Bank on this, tough though it is for the industry. Gold mining faced with these kinds of disciplines will be tougher and better. The problem is the social backlash.

'We have veered too far away from the supply side approach with the increases in the Budget deficit, the tax burden and government spending relative to GDP'

GOUWS

Gouws: For the past year the Bank has not acted to keep the rand up. It's actually tried to keep the rand stable. This benefited exporters because it compensated for the substantial rises in the gold and foreign exchanges, which put upward pressure on the exchange rate. The overall balance of payments should still be positive this year. The reserves should still rise marginally and the rand will, therefore, probably maintain stability. I don't think the gold price will help us in either dollar or rand terms.

Osborn: We must stop this cyclical cost-push. There is still scope for an adjustment. The past couple of years have been beneficial in that they've put the gold mining industry under tremendous pressure to make adjustments with regard to costs. It has done a superb job. Cost rises have come down from around 20% a year to last year's 7% or so.

But the problem of marginal mines remains. We must alleviate growing social distress, and the only mechanism left is the exchange rate. It's a question of degree.

Bethlehem: The political side is so important. Our inflation is significantly higher than in our leading trading partners. That puts pressure on the currency. Should the currency reflect a fundamental deterioration in a country's position? You may say the currency is like a share price: if a country's position deteriorates fundamentally then the currency should weaken relatively; or you could say the deterioration must be reflected elsewhere. If you let a currency collapse that benefits the export sector but at the end of the day that amounts to other people subsidising that sector. If we are to indulge in that sort of thing we must ask whether this is the best way to create employment.

But if gold continues to fall to US$300 or $250 we can't stand by and wring our hands. As we stand on the threshold of the democratising of society we won't be able to be as complacent about mass unemployment. We will have to develop strategies to address mass black unemployment because black people will be the voters of the new SA.

Parsons: Will political factors in the foreseeable future still be important in shaping economic perceptions? Did the Budget significantly alter the risk-reward ratio, especially to a foreign businessman?

Osborn: There's a broad perception that SA is still under good financial management and capable of continued fiscal discipline, notwithstanding the tremendous demands on it. That's important for the renewed roll-over of foreign debt we need this year.

Gouws: Politics played a more important role in this Budget than in any previous one. My problem comes back to what we discussed at the outset: while equity must be addressed in the longer run, if we emphasise it too much we may create a problem for economic growth which will make the attainment of equity impossible. But this Budget will be seen in a positive light by the IMF, World Bank and international bankers.

Bethlehem: We've left reform behind. We're into fundamental political transformation. If all goes well we'll have a multiparty conference later in the year, possibly as early as August/September. If that conference gets on expeditiously a government of national transition could emerge.

It's just possible that this was the last Budget the NP will have delivered alone — though not Barend du Plessis' last! Political factors are critical. If you can stabilise SA socially and politically — which is what the political change is all about — in the context of a normally growing global economy SA has exciting growth potential.

You see this in the financial rand discount, which has come down in the past year from over 50% to below 20%.

Parsons: In the light of the Budget and other recent events, would you change your basic forecasts for 1991?

Bethlehem: Most economists are not saying anything very different now from what they were before the Budget. Was everybody assuming that the minister would take such hefty action to keep the economy up? The biggest factor in our performance in any single year is how the global economy performs, and that's not all that encouraging. I suspect we will have a disappointing year, though maybe not negative growth.

Osborn: The thought that the Budget is stimulatory springs from the 13,7% rise in total expenditure. But there is a significant item of finances from non-central government revenues, which are actually deducted from expenditures. These are, I presume, largely provincial revenues. Gross of this item total spending actually rises only 11,6% — way below any kind of inflation we may come up with. That tight control of expenditure coupled with the tremendous absorption of revenue from the private sector, particularly individuals, adds up to an overall contractionary impact. So what was going to be a tough year anyway is made even tougher by the Budget — if they stick to it.

Gouws: I expected more offset of fiscal drag. The household sector will find its finances extremely strapped, and a substantial portion of capital expenditure will wait upon the VAT introduction. So it'll be a tougher year than I thought. ■

Making industry lean and mean

w/mail 19/4 - 25/4/91

A government-commissioned report on reshaping the protection of local industry by import taxes entails South African industry going on a nasty diet of international competition

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Reg Rumney reports

TAX reform to lower the company tax rate in South Africa is a cornerstone of a proposed new government policy to beef up industry to compete internationally.

This is revealed in the just published report by the Industrial Development Corporation on protection policy.

The report, which is being studied by the government, has been released for comment from trade and industry.

The "Modification of the Application of Protection Policy" advocates a comprehensive package of measures, among them lower tariff protection, to shift the emphasis of trade policy towards export orientation.

It remains to be seen whether the recommendations make it through the gauntlet of vested interests it is bound to run. While it is certain to receive acclaim from most in the business community in principle, few will voluntarily welcome its tougher implications. Already there has been criticism that South Africa has a lot of disadvantages compared to exporting countries and the report's measures hold the danger of an elimination of South African industry rather than its enhancement.

It is as well that the long-awaited report warns against piecemeal adoption of its recommendations, which are designed to ensure South African industry becomes competitive in international markets as well as being competitive domestically.

Key recommendations are the reduction of tariffs, scrapping of surcharges and a stable foreign exchange value of the rand.

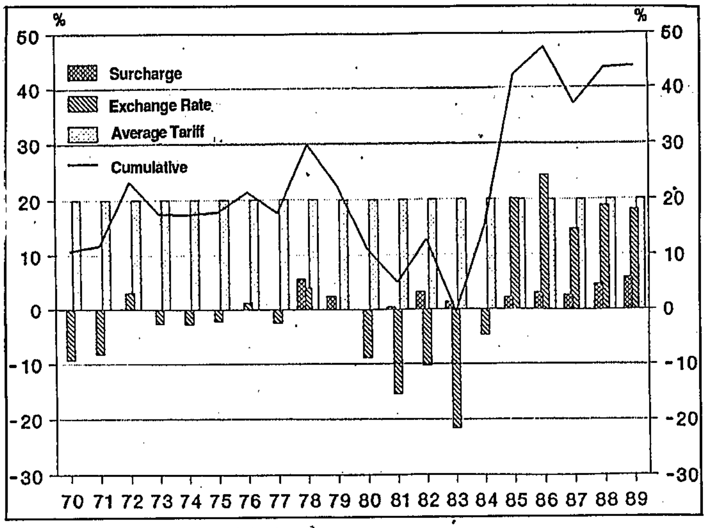
It recommends a general reduction in tariffs over the next five years towards target rates yet to be determined, with higher tariffs being moved down faster than lower tariffs. It remarks that in other countries tariff reductions have never taken place in less than five to six years and have often taken longer, so industrialists need not panic.

In the short term it recommends scrapping import surcharges — taxes introduced to protect the balance of payments in times of crisis — to slash the "import parity price level". Surcharges keep prices of some imports high, so that local manufacturers can (and do) price their competing goods accordingly.

It recommends in the first year of the phased reduction a general cut in tariffs of 10 percentage points on all tariffs of 40 percent and higher, and five percentage points on all tariffs between 20 percent and 39 percent.

It recommends a phasing out of tax incentives and export subsidies accompanied by a lower nominal company tax rate to stimulate exports.

The report notes export incentives designed to help along particular projects which emphasise beneficiation — increasingly processing raw materials into products with a higher value instead of merely exporting them — are destined to be phased out next year. At the same time the tax-based export marketing allowance and an electricity subsidy will expire. There may also be lower export subsidies under the general export incentive scheme and in the long run the GEIS should be phased out.



The graph above shows the combined effect of high tariffs, import surcharges and an undervalued rand in protecting industry in South Africa against foreign competition. The black line indicates that between 1980 and 1983 protection even disappeared in some years because of the rand's overvaluation. Protection is now abnormally high.

Graph: IDC REPORT

"This abolition of assistance to existing beneficiation plants is acceptable because their profitability has been increased sharply by the depreciation of the rand." However, the report remarks that this doesn't apply to new beneficiation projects, which are hampered by South Africa's high nominal company tax rate. "Other countries where international companies could just as well establish these projects normally have nominal tax rates lower than those in South Africa." The abolition of export subsidies and the less favourable formula for working out depreciation also raise the local effective tax rate here.

The problem is compounded by high inflation, high interest rates and political uncertainty.

In view of this, the report notes, and declining earnings from gold, it is urgent to encourage new export projects as well as upgrading existing projects towards higher value added exports.

Tax incentives specifically for exports run counter to the General Agreement on Trade and Tariffs, with which South Africa as an exporter must contend. Also, lower company taxes will soften the blow to South African companies of a reduction in protective tariffs.

The recommendations conflict with ANC thinking on industrial policy. The ANC's last discusssion document on the economy mapped out a policy of stimulating production of basic goods by domestic industry, and redistributing wealth to the poor to buy these goods. The IDC report stresses export-orientation and notes South Africa is exceptional in using anti-dumping or formula duties — which penalise cheaper goods particularly and are designed to stop countries dumping goods on our shores at below cost to keep production volumes up or get rid of an excess.

Formula duties, however, lead to high tariffs and in some industries keep out low but normally priced goods. The report says if producing such low-priced goods needed for "inward industrialisation" fails, anti-dumping duties would push the price of basic goods beyond the means of many.

POL

Opposition parties unite in lambasting VAT Bill

BD 19/4/91 (320)

CAPE TOWN — The DP would oppose the VAT Bill because government had denied the party the opportunity of moving amendments on the overall rate and key issues such as medicine and basic foodstuffs, where greater relief was necessary, DP deputy Finance spokesman Jasper Walsh said yesterday.

Speaking during the second reading debate on the Bill, he said the parliamentary committee on Finance had been given no opportunity to discuss it.

"Our function in this debate is to rubber stamp what is in major respects a government decree. At this late hour we again call for a meeting of the Joint Committee of Finance at which amendments may be proposed."

Casper Uys (CP Barberton) said the CP opposed the imposition of VAT on medical services and municipal rates, as well as the rate of VAT, which was higher than Vatcom had recommended.

Walsh said government had rejected major recommendations of Vatcom, including the recommendation that the overall rate be kept as low as possible.

A rate of 12% was unacceptable, and the DP demanded that Finance Minister Barend du Plessis use his power to reduce the rate.

While the DP welcomed the stimulus to business provided by the decision to grant full capital input credit, this should have been phased in over three to five years.

The Bill zero-rated bread and mealie meal, but the DP believed milk powder should also be made available free of tax.

Vatcom had heard evidence that malnutrition was particularly prevalent among infants and that milk powder was the obvious source of nourishment.

The final VAT package was not a saleable commodity, Walsh said.

Paul Kleinsmidt (LP Elsies River) said the introduction of VAT would increase inflation by about 2% because items not covered by GST were included in the VAT schedule.

He said the state should give an indication of what benefits it would make available to the poor on food, medical services and residential rentals. — Sapa.

Inland Revenue 'will be ready' for launch of new tax

BDay 11/4/91 (320)

GERALD REILLY

PRETORIA — Inland Revenue definitely would be prepared for the launch of VAT on September 30, Inland Revenue operations chief director Schalk Albertyn said yesterday.

Albertyn said a start would be made next month on the complex task of registering at least 450 000 vendors — a vital part of the prelaunch preparations.

More than 90% of the 845 people being trained for this task had completed an intensive course already. They would also explain to vendors how the system would operate and be involved in collections.

Another 1 000 officials mainly concerned with the legal interpretation of the tax and auditing were being trained.

Albertyn said another 400 inspectorate posts would be created as soon as they were sanctioned.

Ultimately about 1 900 VAT officials would be engaged, he said.

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Star 19/4/91

VAT will hurt needy most – LP

The Value Added Tax Bill contained elements which would further erode the financial position of the needy and underprivileged and could result in instability in the townships, Les Abrahams (LP Diamant) said yesterday.

Speaking in debate on the VAT Bill, he said the Labour Party would seek to enter into negotiations with the Government in the coming week so that their concerns could be addressed.

The party supported the principle of VAT as it provided a better system for collecting indirect tax.

However, the Vatcom report had categorically stated that on the basis of evidence presented to it, a VAT rate of 10 percent or less was recommended.

This would be acceptable to the broader masses, but the 12 percent proposed by the Government would not.

"I find it particularly ironical that we in this Parliament are being asked to support an immediate, full exemption on capital and intermediate goods from VAT, representing a loss to the State of more than R7 billion a year, while we are asked at the same time to endorse the imposing of VAT on food," he said. — Sapa.

Parliament

1991

Bill 'promotes kwashiorkor'

Star 19/4/91 (326)

The VAT Bill should be referred to the Joint Standing Committee on Finance, the leader of the Official Opposition in the House of Delegates, Amichand Rajbansi, said yesterday.

The point of the Tricameral system was consensus politics and this had not occurred in the formulation of the VAT Bill, he said during the First Reading Debate on it.

The Bill also contained elements that were contrary to the suggestions of the Vatcom report and the findings of the Margo Commission.

"The reports where the Finance Minister said he had difficulty understanding VAT strengthens the argument that it should be referred back to the joint committee."

Mr Rajbansi said the Government had ignored the Vatcom recommendations that maize, bread, milk powder and rice be given zero ratings.

This was no help to organisations which were providing assistance to the masses in the black communities.

Furthermore, a baby of six months would pay R720 a year on tax for milk powder on which there was now no GST.

If the Bill was passed in its present form, it could be described as the "Promotion of Kwashiorkor Bill" or the "Infant Mortality Bill". — Sapa.

More discussion of new tax needed – DP

Star 19/4/91. (320)

The Democratic Party would oppose the VAT Bill because the Government had denied the party the opportunity of moving amendments on the overall rate and key issues such as medicine and basic foodstuffs, where greater relief was necessary, DP deputy spokeman on finance Jasper Walsh said yesterday.

Speaking in second-reading debate on the Bill, he said the Parliamentary Committee on Finance had been given no opportunity to discuss it.

Rejected

"Our function in this debate is to rubber-stamp what is in major respects a Government decree. At this late hour we again call for a meeting of the Joint Committee of Finance at which amendments may be proposed."

The Government had rejected major recommendations of Vatcom — including the recommendation that the overall rate be kept as low as possible — without discussing the changes with Vatcom members.

A rate of 12 percent was unacceptable, and the DP demanded that Finance Minister Barend du Plessis use his power to reduce the rate.

While the DP welcomed the stimulus to business provided by the decision to grant full capital-input credit, this should have been phased in over three to five years.

The Bill zero-rated bread and mealie meal, but the DP believed milk powder should also be made available free of tax, and again demanded the Minister use his power to do this.

Vatcom had heard evidence that malnutrition was particularly prevalent among infants and that milk powder was the obvious source of nourishment.

The Government had no idea how to spread the R220 million it had set aside for special aid programmes for the needy.

The DP therefore demanded that the Government withhold the imposition of VAT on basic foods until it could offer meaningful, targeted relief.

Mr Walsh said his party rejected VAT on general municipal rates, which were a tax levied by the third tier of government and which contained a redistributive element.

Rather than seeing municipal rates as a further source of VAT, the Government needed to re-evaluate the whole system of local government funding.

The Government should also be sensitive to pleas for relief in areas such as medical services and medicines.

The final VAT package was not a saleable commodity.

"It lacks credibility because it fails to meet expectations. It does not address the man in the street's perceptions.

"The general perception is that this VAT package is another attack on personal incomes — that the poor are being fleeced while the rich and businesses benefit.

Struggling

"No amount of logic or economic theory will persuade people who are hungry, who are struggling to meet soaring rents, who are spending a significant portion of their incomes on medicines, that this is a good tax."

The fact was that the Government had failed to win people's support, and failure to win this support would mean VAT would be despised, resented and evaded at every opportunity.

The sound advice on VAT from the International Monetary Fund should have been tempered by the local knowledge and understanding shared by Vatcom members. — Sapa.

Terms used by VAT collectors don't always mean what you'd think

Star 19/4/91. (320)

VAT AND YOU

Second in a daily series by André Meyburgh, a tax specialist with chartered accountants KPMG Aiken & Peat, on how VAT will affect you when it is introduced on September 30.

As an indirect tax VAT is aimed mainly at domestic consumption of goods and services, and on imported goods.

The full tax is designed to be paid by the ultimate purchaser or end-user.

VAT is levied at two rates: The standard rate of 12 percent and the zero rate of nil percent.

Zero rating does not mean what you would think.

In transactions where zero rating is applicable, the vendor will charge his customer VAT, but at zero percent.

It is only when VAT returns are submitted to the Receiver of Revenue that zero rating comes into play and the vendor of such zero-rated supplies can claim a refund of all his input taxes paid.

So even zero-rated transactions result in businesses or people being out of pocket, for a time at least.

Another VAT term that is not what it seems to mean is "exempt".

The tax rates and the "exempt" term apply to another word that VAT legislation has adopted for its special use — "supplies".

Standard-rated and zero-rated supplies are known as "taxable supplies".

These terms will crop up frequently, as this series works its way through the VAT system.

The zero rate is applied primarily to "supplies" of goods or services exported to countries other than the TBVC countries (Transkei, Bophuthatswana, Venda and Ciskei).

"Exempt supplies" comprise mainly:

- Financial services.
- Rental of residential accommodation.
- Educational services.

"Exempt supplies" have been kept to the absolute minimum and these will be dealt with later.

With this understanding, it follows that almost all business transactions will be subject to VAT.

We come to another term that VAT legislation has adopted for its own use — that of "vendor".

Every business, profession or activity which annually generates R150 000 or more of "taxable supplies" will be required to register with the Receiver of Revenue as a "vendor".

The threshhold of R150 000 therefore removes from the system most hawkers, "cottage industries" and very small businesses since their "supplies" will not be subject to VAT.

It is the "registered vendors" who will collect and pay to the Receiver of Revenue value added tax on all "taxable supplies" throughout the production and distribution chain.

Occasional sales by a non-vendor will not be subject to VAT.

We now come to two more important VAT terms: "Input tax" or purchases, and "output tax" or "supplies made".

Throughout every transaction, the "input" and "output" taxes are designed to partly offset each other, as we shall see.

Under the VAT system, registered vendors will have no opportunity to acquire goods or services free of tax, something that will please those who believe too many people are getting away with GST through abuse of exemption certificates.

Vendors will have to pay VAT on all their purchases (input tax) and will charge VAT on all supplies made, other than exempt supplies (output tax).

Because they are registered as vendors, they will be the only persons able to claim back from the Receiver of Revenue the amount of "input tax" paid.

If the "input tax" claims are in respect of goods or services used in manufacture, for example, such claims can be submitted to the Receiver of Revenue in the tax period in which they were acquired, provided the intended use is for making "taxable supplies" (once again, this underlines the importance of understanding what the term "taxable supplies" means).

Every "input tax" claim will have to be substantiated by an input "tax invoice" so it will be vitally important to retain these tax invoices.

This factor does pose problems for non-vendors, and will be explained later.

It is important to realise that VAT is a "self-assessment" system.

This means that the "output tax" collected by vendors may be reduced by "input tax" paid.

The difference, or net amount, is payable to, or is refundable by the receiver of revenue.

The "self assessment" VAT returns fall due regularly within prescribed periods, known as "tax periods".

Monday: How "exempt supplies" differ from "taxable supplies".

Capital tax concession

Star 19/4/91 (320)

The Minister of Finance, Barend du Plessis, has announced a tax concession of 15 percent on the depreciation of capital goods bought and taken into use before September 29 this year.

In a statement, he said it was possible that with the introduction of full input credit on capital goods from September 30, when VAT was to be instituted, many businesses might want to postpone capital goods purchases until after that date.

This could have a detrimental "damming up" effect.

From information gathered, it had been decided that those assets which qualified for a depreciation allowance in terms of the Income Tax Act, would be granted a decrease of 15 percent in terms of assets obtained and taken into use previous to September 29.

Passenger vehicles, as well as assets obtained for the purpose of a "lease undertaking" as defined in the Act, would not qualify for this concession. — Sapa.

VALUE-ADDED TAX 19/4/91 (320)

WHAT ABOUT WHEELS?

VAT has important implications for several transactions involving passenger vehicles, notably the use of company cars by employees as a fringe benefit, their later sale to the employee and dealings in second-hand cars.

KPMG Aitken & Peat VAT consultant Andre Meyburgh explains that no buyer of a car (even a registered vendor for VAT purposes) will be entitled to an input tax credit unless he is also a trader in motor vehicles.

This provision (which has attracted widespread criticism) was evidently inserted because most cars bought by companies are intended for use by employees as fringe benefits. But what are the VAT arrangements when an employer, who will invariably be a registered vendor, allows his employee the use of a car as a fringe benefit?

In the first place, says Meyburgh, contrary to some earlier fears it is presumed at present on the wording of the VAT Bill that there will be no VAT chargeable on the capital value of the vehicle as such.

But use of a motor vehicle as a fringe benefit will generally include payment by the employer of items such as licensing fees and maintenance (but not fuel, which is zero-rated for VAT purposes). Government intends the value of these ancillary benefits for VAT purposes to be determined by a table of values yet to be published, similar to the table for income tax purposes under the Seventh Schedule of the Income Tax Act.

However, contrary to what some believe, companies will not be required to recover this form of VAT from employees. Instead, employers will be entitled to an input tax credit from suppliers of maintenance services and other items. If the tables are appropriately constructed, they should be in an approximately neutral position as far as VAT on the ancillary items is concerned.

What is the position if a vehicle which has been the subject of a fringe benefit is subsequently donated to the employee or sold to him at a depreciated value? No VAT will be payable but income tax will still be payable according to the Seventh Schedule.

A third potential problem area was the position of second-hand dealers, bearing in mind that a member of the public reselling a vehicle to another member of the public would not be obliged to charge VAT.

Mark Silber, a consultant in the Cape office of Deloitte Pim Goldby, says second-hand car dealers were concerned that they might be put at a disadvantage relative to private individuals trading in used cars, but the VAT Bill makes it clear that there will be a level playing field.

If an individual not registered as a vendor sells a used car, no VAT will be payable. If a dealer buys a used car from a non-vendor, there is still no VAT, but the dealer will be entitled to a deemed input tax credit calculated according to the "VAT fraction" formula in the VAT Bill. This reduces the effective cost of his stock so that when he resells he is in the same position as an individual selling a similar car. ■

NEWS

VAT backdown to help ratepayers

CAPE 91 ARGUS 20/4/91 320

By CLIVE SAWYER
Municipal Reporter

RATEPAYERS' bills will increase four percent, and not nine percent as originally estimated, thanks to a backdown on value added tax (VAT) on property rates by Finance Minister Mr Barend du Plessis.

The scrapping of VAT on property rates by Mr Du Plessis has drawn reserved praise from local government leaders.

Elated

However, it still will be paid on other municipal services, including water, electricity, rates and refuse.

The announcement by Mr Du Plessis followed a meeting with a United Municipal Executive delegation yesterday morning, and weeks of calls for VAT relief from ordinary ratepayers and MPs.

UME president Mr Clive Wilken, who led the delegation to Mr Du Plessis yesterday, said he was "elated" at the concession to ratepayers.

"We have nothing against the principle of VAT, but could not tolerate the idea of a tax on a tax," said Mr Wilken.

There were administrative implications for municipalities which issue property rates and services bills on one account.

These bills would have to be split, while the exemption of property rates from VAT would probably mean a rethink for planners of municipal budgets, he said.

The president of the Cape Province Municipal Assocation, Dr Danie Schumann, said he was "satisfied" by Mr Du Plessis's bowing to pressure to scrap VAT on property rates.

"However, I would have been far more pleased if this could have been extended to other municipal services such as water, refuse, electricity and sewage," said Dr Schumann.

Asked if further representations would be made to Mr Du Plessis about a further backdown on VAT on municipal services, Dr Schumann said he would "keep his options open".

Cape Town City Council executive committee chairman Mr Dick Friedlander said he was "delighted at a major concession by the government".

Success in obtaining the concession was a tribute to the effectiveness of the UME and local government acting as a united body, he said.

He believed the reasons for the concession were that VAT would bring more money to government than originally estimated, that the money recovered from VAT on property rates would be significant, but not major enough to justify major administration, and the public outcry against the tax.

The concession would benefit not only property owners, but anyone who rented formal accommodation.

He did not expect any further concessions on VAT: "It is probable the government have gone as far as they are likely to at the moment".

Two outstanding demands contained in a UME memorandum given to Mr Du Plessis should still be met, he said.

Phased in

These were that VAT should be phased in over a period of two to three years, and that it should not be introduced in the middle of the municipal financial year.

Cape Town city treasurer and president of the Institute of Municipal Treasurers and Accountants, Mr Eddie Landsberg, said he had originally calculated the impact of VAT on the ratepayer as representing an eight percent increase.

"Detailed calculations must still be done, but at the moment I would guess it would add now only about four percent to the rates bill."

Customs duty on trawlers scrapped

CAPE TIMES 20/4/91 (330)

CUSTOMS duty on trawlers was scrapped yesterday and delighted fishing company executives immediately predicted that the move would make them more competitive on the international market.

Announcing the abolition of the duty, the Deputy Minister of Finance, Mr Japie van Wyk, said customs duty on trawlers had been reviewed after representations from the fishing industry.

"After considering the costs of replacing, as well as the costs of upgrading old trawlers, it has been decided to withdraw the customs duty on trawlers with effect from 19 April 1991.

"This step will enable the fishing industry to obtain suitable trawlers at competitive prices and also give it the benefit of cost-effective competition," Mr Van Wyk said.

Mr Louis Penzhorn, general manager of the Sea Harvest Corporation, said the move would cut 20% of the cost of buying new or second-hand trawlers.

"Fleet replacement had virtually ground to a halt," he added.

Previously fishing companies could buy trawlers overseas and pay 46% of the cost in customs, surcharge and GST, or build locally, which was "just not competitive", Mr Penzhorn added.

Cape Times 20/4/91 320

Pressure on govt to cut VAT rate

Political Staff

THE government's troubles with VAT are not over despite Minister of Finance Mr Barend du Plessis's decision yesterday to scrap the controversial tax on municipal property rates.

The Democratic Party said this was the Minister's second backdown on VAT in two days. It said it intended to pressure him into slicing the 12% VAT rate and introducing an effective mechanism of targeted relief to the poor.

The Conservative Party has also rejected the VAT Bill, saying the rate is too high and it will affect adversely farmers, the aged and the poor.

Labour and Solidarity, ruling parties in the Houses of Representatives and Delegates respectively, have criticised the tax without clarifying whether they will support it.

Extra expenses

There has also been criticism that the tax will influence the inflation rate adversely and that pensioners and the poor will be saddled with extra expenses. However, most speakers have agreed with the principle behind VAT.

Faced with widespread resistance — even from within the National Party — Mr Du Plessis made an unexpected entry into the second reading debate on the Bill yesterday.

He said he had decided to scrap VAT on rates after meeting the executive of the United Municipal Executive (UME), representing municipalities across the country.

However, Mr Du Plessis said VAT would still be charged on municipal services that could still be classed as purely commercial. He gave as examples water, electricity, refuse removal and sewage disposal.

It became clear yesterday morning that even a number of Nat MPs were not happy with VAT on rates. It was understood they had been getting negative feedback from their constituencies and were not comfortable with trying to sell it to "the people back home", as one MP put it.

Mistakes

Last night, DP finance spokesman Mr Jasper Walsh said this was the second time the Minister had backed down during the two-day debate on VAT.

The question now, Mr Walsh said, was how many other mistakes the government had been making on VAT.

He indicated that the DP would oppose the high rate of 12%.

"Furthermore, tax cannot be charged on basic foodstuffs until an effective machanism for targeted relief to the poor to compensate for this additional charge is in place," Mr Walsh said.

Mr C Pienaar, CP, Heilbron, said during the debate that the bill reflected the government's hatred for farmers, the aged and the poor.

The CP was not against VAT in principle, but its application at the proposed rate would affect these groups detrimentally.

Mr Du Plessis said in Parliament that the government had viewed municipal services globally for VAT and not made a distinction between various components, but after the matter became politicised it had had to reconsider.

Fees

There was no way, however, that provision of services such as water, electricity, refuse removal and sewage could be exempted while VAT remained on such items as food and medicine.

It would also be levied on those municipal services that competed with the private sector.

Fees for the provision of other services would be regarded as a tax and would not be subject to VAT.

"This means that VAT is not payable on property rates," Mr Du Plessis said.

"This is a pure principle and has been supported by the UME."

● The South African Chamber of Business (Sacob) has urged the government to introduce a "clean" VAT system, saying further major changes to VAT will damage business confidence and investment, Sapa reports.

It expressed concern at the "growing uncertainty and the misunderstanding surrounding the VAT system".

'Detrimental'

It said the perceived trade-off between the phasing-in of input credits for capital goods and a lower VAT rate was illusory as the consumer would end up paying more than the tax in higher prices.

Investment and economic growth could be detrimentally affected by this step, Sacob said.

The economy had to be internationally competitive if it was to benefit from the lifting of sanctions — and this would require a sound tax system, low inflation and competitive cost structures, Sacob

VAT to up city rates 'by around 4%'

Municipal Reporter

VAT on municipal rates had not been done away with altogether, Cape Town's city treasurer, Mr Eddie Landsberg, said yesterday.

However, VAT on rates had been reduced drastically by the decision taken yesterday by the Minister of Finance, Mr Barend du Plessis.

Mr Landsberg estimated that whereas VAT would have added 9,5% to this year's annual rates increase, "my feeling is that it may now be somewhere around 4%".

For example, if this year's rates were increased by 14%, VAT would have pushed this up to at least 23,5%. Yesterday's concession meant the figure might be about 18%.

Mr Landsberg notched up a notable success in his first month as Cape Town's City Treasurer when he accompanied the United Municipal Executive delegation when it met Mr Du Plessis.

The delegation, comprising UME president Mr Clive Wilkins of Natal, the presidents of the four provincial municipal associations and Mr Landsberg, handed over a document drawn up by Mr Landsberg on VAT.

In it he argued that property rates were a mixture of services for which a tariff could be charged and of taxes levied to pay for such amenities as beaches, parks, health clinics and fire brigades.

Mr Du Plessis appeared to accept this argument and proposed that the "tax" portion of rates should be separated from the services.

One of the features that distinguished the two was that the services must be measurable for them to be subject to tariffs and VAT.

Mr Landsberg hopes the UME will also ask the government to phase in VAT on municipal services.

Any shortfall on VAT could see it rise to 16 percent

Star 20/4/91

(320)

ROY COKAYNE

THE VAT rate will probably rise to 14 and possibly even 16 percent if VAT implemented at 12 percent results in R1 billion less being collected than under the GST system, says a taxation expert.

Matthew Lester, chairman of the national tax committee of accounting firm BDO Spencer Steward, told a seminar in Pretoria he believed the minister had a fault in his calculator when he estimated that R1 billion less would be collected under VAT, compared with GST.

He also said the man in the street was going to see little benefit from its introduction.

VAT was a broad-based tax on goods and services with few exceptions and few zero ratings, and consequently the man in the street was going to pay VAT on goods and services which fell outside the sales tax net.

"We believe the average middle-class family spends at least R1 250 a month on these items, and consequently additional VAT of R150 will have to be paid.

"If the cost of VAT on your monthly bills does not shock you, perhaps the cost of building a new house will. Consider the following example.

"The cost of building a relatively small house by South African standards is R161 000. VAT will be levied at 12 percent on the entire amount. The government has, however, made a very small concession in that transfer duty will not be payable on the supply of land.

"Under the sales tax system, the following taxes are paid — transfer duty of R900 and GST on the materials used by the construction company of R6 500. Under the VAT system, the price of putting up a house will go up by R11 920 (on the R161 000 house) — an increase of 7 percent," he said.

VAT victory for ratepayers as Barend back-pedals

320

Star 20/4/91.

LOUISE BURGERS and POLITICAL STAFF

THE dramatic about-face by the Government yesterday in scrapping Value Added Tax (VAT) on municipal rates has been described as a major victory for local authorities and ratepayers.

Finance Minister Barend du Plessis bowed to political and public pressure when he announced that VAT would not be imposed on assessment rates, as the Government had intended.

The announcement stunned municipal officials and ratepayers.

See Page 12.

Mr du Plessis said municipal rates would in future have to be clearly separated from monthly accounts for electricity, water, refuse removal and sewerage services.

He said the Government now accepted that VAT on property rates, for instance, was a tax on a tax and was wrong in principle.

The Government's change of heart occurred after Mr du Plessis met a delegation of the United Municipal Executive (UME) yesterday.

Unprecedented opposition to the "tax on a tax" was mounted by municipalities and ratepayers groups around the country.

The Government was warned that VAT on rates was a recipe for revolution.

Tony Leon (DP Houghton), who was instramental in taking the VAT-on-rates fight to parliament, said Mr du Plessis was to be congratulated.

"This is one of the most dramatic U-turns in government fiscal policy witnessed in recent times and shows that their defences on VAT were superficial."

Mr Leon warned that VAT on rates should be zero rated because if it was simply exempted, then local authorities would be worse off as they would have to recover the VAT they had to pay towards rates, elsewhere.

Johannesburg deputy city treasurer Lukas Opperman said the announcement was astonishing. "This is the first time that local government

● TO PAGE 2.

VAT victory

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● FROM PAGE 1.

has scored such a victory."

Ratepayers will still, however, face a major hike in municipal accounts on September 30 when 12 percent VAT comes into effect less than three months after the annual increases in assessment rates and municipal services are announced.

Mr Opperman said the benefit of the VAT victory would be felt more over the long term. Working on present council figures, he said an average household in Roosevelt Park, Johannesburg, living on a 1 000 sq m stand with a rates and services account of R211 a month, would save about R5 a month on the decision not to levy VAT on rates.

"The amount seems small but the victory in principle is a very great one," Mr Opperman said.

Melville and Northcliff ratepayers association chairman Wendy Potgieter said she was overwhelmed by the "extraordinary good news".

"It gives me hope for the future. I hope this represents a change in policy and that the Government will in future listen when its voters protest."

Johannesburg city councillor Clive Gilbert said it was an example of what public pressure could do.

East Rand and Eastern Transvaal municipal treasurers committee chairman, Gert Brits, said ratepayers in all towns could be grateful that the Minister had listened to the UME.

The Government will bring amendments of the VAT Bill to Parliament to give effect to the new approach announced yesterday.

Organised business has warned that any further changes to the tax system will be damaging to business confidence and investment.

In a statement the SA Chamber of Business yesterday reiterated its plea to the Government for a clean VAT system to be introduced and expressed its concern at the growing uncertainty surrounding the new tax.

Perks, allowances that avoid tax

S/Times (Bus/T) 21/4/91 (320)

By DES KRUGER and VICKY TAYLOR, consultants with Deloitte Pim Goldby

THE PROPER WAY TO DO IT

TAXPAYERS are often concerned about the value of a fringe benefit or the non-deductible part of an allowance which forms part of taxable income.

This article deals with some of the available fringe benefits and allowances and the associated tax implications.

THE COMMONEST question raised is about the benefits of a company car compared with a travel allowance.

On a company car (part 5.4) you are taxed on the value of the private use of the vehicle, obtained from standard tables based on its determined value and engine capacity.

If your private travel covers less than 10 000 kilometres a year, the fringe benefit value can be reduced. If you pay for any expense on the vehicle without being reimbursed or a reduction of the value of the fringe benefit is made, you may claim the amount on the income-tax return as a deduction.

The travel allowance (part 5.1) should be pitched around the vehicle's running cost. This allowance is then included in your income on your tax return and you may claim the appropriate deduction, which may not exceed the amount of your allowance.

The deduction may be based on your actual costs or the table of gazetted rates. The latter assumes a fixed cost element. It may be more beneficial to use actual costs, especially when you have paid in full for your vehicle.

You are effectively allowed to deduct the business portion of the total kilometres multiplied by the total cost, or the gazetted rate multiplied by business kilometres.

These points should be remembered:

- A company car does not belong to you, but your capital is not tied up in the vehicle.
- To obtain the company car from your employer, you will pay income tax on the difference between the value of the asset and the consideration given by you for it. You may thereafter obtain a travel allowance. You will also be required to pay sales tax on the purchase.
- When given a choice between the two benefits, consider your personal preference and the after-tax cash flow before deciding.

- Where private travel is less than 10 000km a year, keep a log book.

The employee may receive a subsistence allowance (part 5.2) for each night he is away from home on business trips. The allowance that is deemed to be expended and accordingly not taxed is R150 a day if it covers accommodation, meals and other incidental costs and R65 a day in other cases.

The former may be beneficial when you are staying at a friend's or relative's home. Your employer is not required to reflect a genuine subsistence allowance on your IRP5. You are deemed to spend the above, unless you vouch a higher amount to your employer.

An entertainment allowance (part 5.3) is subject to employee's tax, unless a directive to the contrary is obtained from Inland Rvenue.

When you submit your return, you may claim the appropriate expenditure (part 3.8) and receive a credit for the tax paid on assessment. Your deduction will be limited to your allowance received, which may not exceed the lower of R2 500 or 5% of your taxable income before this deduction.

A reimbursement of entertainment expenditure will not be taxed or reflected on your IRP5 and will not be subject to any maximum amount. A combination of an allowance and reimbursement is therefore beneficial.

Entertainment expenditure will include, among others, meals, drinks, tickets to events, club subscriptions, home entertainment etc.

Vouchers should be retained with the names of the persons entertained, their position and the business transacted.

If your remuneration, including the entertainment allowance, does not exceed R40 000 you will not be entitled to submit a return. You will, therefore, not be able to claim any deduction against such entertainment allowance. In such circumstances, a reimbursive allowance is a better option.

Section 5.5 covers housing subsidies. The 1991 tax year was the final one of phasing in where 85% of the housing subsidy was taxed.

Low or interest-free loans, casual ones not exceeding in aggregate R3 000 and study loans will not be taxed.

If you are provided with residential accommodation (part 5.7) that your employer owns or leases and that you or your immediate family do not hold an interest in, you will be taxed on such fringe benefit.

This is normally calculated on 15% on your previous year's remuneration. This previous year's remuneration may be reduced by an abatement (R20 000) in certain circumstances.

If you are provided with holiday accommodation that is owned by your employer, you will be taxed on the lower of R35 a day or the market-related rent, less any payment made by you.

Meals and services included by the employer will not give rise to an additional benefit. Where the holiday accommodation is not owned by the employer, the cost to the employer of hiring the accommodation and services and providing meals then constitutes the fringe benefit.

Part 5.8 covers other fringe benefits. Where you acquire an asset from your employer you will be taxed on the difference between its value and the consideration paid by yourself.

The use of services, say, a travel service to or from home provided to all employees, will be not be taxed. Your employer may also pay for casual services not exceeding R500 a year — your legal or accounting fees, haircuts, local travel etc.

The direct payment of your home telephone cost by your employer will not be taxed provided that it is used for business.

The payment by your employer of any subscriptions to a professional organisation, where such membership is a condition of your employment, will not be taxed. Generally bursaries and scholarships will also not be taxed.

When you are transferred to another centre, begin or end employment, your employer may pay for your removal costs without their being subject to tax.

Such costs may include, inter alia, temporary accommodation in the new centre (up to 183 days) and other costs incurred in settling your and your family in permanent accommodation.

You may use a study at home for business. If it is a condition of your employment to do so, then you may receive an allowance to cover the associated costs.

Although this will be subject to employee's tax, a deduction may be claimed under part 3.10 of your return. This deduction will be computed on the area of your residence used for your business purposes, divided by the total area of your residence, multiplied by your associated running costs viz rent, bond interest, insurance, cleaning etc.

All of this information should be submitted on a schedule with your return to Inland Revenue.

Copies of Pay Less Tax may be obtained at a cost of R27 (including GST and postage) from Deloitte Pim Goldby — Pay Less Tax, Box 578, Cape Town 800

Times, April 21, 1991 3

STimes (Bus) 21/4/91

Boost for housing demand

By TERRY BETTY

DEMAND for residential property is expected to increase before VAT's introduction. 320 NS

Buyers will pay VAT on the full price of a new house, but resales will not carry VAT unless bought from a business.

Transfer costs and estate agent fees will be taxed. If a business is registered for VAT, it will get input tax credit (ITC) for VAT it pays, but individuals will not.

Commercial and industrial rents will both carry VAT as long as the landlord is registered. To register, his turnover must be more than R150 000 a year. Both landlord and tenant can claim credit because the tax expense is incurred in the course of business.

Group Five chief executive officer Peter Clogg says home buyers will end up paying a net 6% to 8% more.

In a house priced at R100 000, materials may cost R50 000, labour R25 000, overheads and finance charges R20 000 and the builder's profit R5 000.

He may reclaim VAT on materials. So his materials cost should be R43 500 and his labour and profit should be unchanged. The price of the house should thus be R93 500. VAT on that takes the full price to R104 720, a net increase of about 5%.

Bank customers to pay for new taxes

320

S\Times (Bus/T) 2/4/91.

By DIRK TIEMANN

BANKS WILL have to foot large bills when VAT and interest turnover tax come into effect, but the customers will eventually pay.

Banks are concerned about the effect of VAT on their costs. They will be charged VAT on all inputs, but have only a few outputs.

First National Bank senior general manager Viv Bartlett says most of its services are not liable to VAT and the amount collected from them will be negligible.

"Banks are basically end users in the VAT chain. All non-interest costs, excluding staff salaries, will have VAT added."

Mr Bartlett says the merchant banking arm will collect the VAT added to the fee charged for putting together a deal. But the amount will be minimal compared with VAT paid on inputs, such as stationery, cars, rents and telephone charges. Credit, money lending and anything else to do with interest is exempt from VAT.

Mr Bartlett says the interest turnover tax was introduced instead of VAT and probably not thought through. "The current idea is that we should act as a conduit in passing the tax collected to the State.

"I think the Government has grossly underestimated the knock-on effect. Anglo American deposits money with us and earns interest on which it is taxed."

Option

Managing director Barry Swart estimates the tax will knock as much as 15% off pre-tax earnings if not passed on.

"Bearing in mind that our capital requirements must comply with the Deposit-Taking Institutions Act, we have little option but to pass the tax on. Banks are under pressure to increase their return on assets, but an unrecoverable tax will make this difficult."

Standard Bank group managing director Mike Vosloo says details of the tax and how it works are still being debated.

"It was a loose idea mooted in the Budget and we have no functional idea of how it will be levied and recovered."

Ernst & Young VAT specialist Sally de Boor says the extra 0,75% was slapped on almost as an afterthought.

"SA banks will be subject to the same VAT treatment as international ones.

"GST does not cover rents and telephones, but the net will be widened. If banks buy land from a business, they will be subject to VAT and again when they put up a building. There are no input credits and the cost is passed on."

The turnover tax is an additional cost. It is effectively taxed in a bank's hands at 48%. The principle is: if interest earned is R100 and, say, a R1 deductible tax is levied, then the bank pays 48% (current tax rate) on R99. However the new turnover tax is not deductible as a business expense, which means the tax is added back and the bank is taxed on the full R100.

The tax will thus be listed as a business expense, but will not be accepted as such by the Receiver.

Effectively, the cost to the bank is greater than the 0,75% tax levied because it is not deductible.

Deposits

Davis Borkum Hare analyst Graham Baillie calculated that the tax, had it been in place in the 1990 financial year, would have knocked R52,2-million off Standard's R7-billion interest earned; R40-million off First National's R5,2-billion and R38-million off Nedcor's R5-billion.

Mr Baillie expects banks to widen their margins by either increasing lending rates or paying less for deposits.

Finance Director-General Gerhard Croeser says the turnover tax will hit specialist banks hard because they take only a small profit trading between institutions.

He says the tax is proxy for the fact that banks do not pay VAT. He is prepared to look at a better proxy.

Trade-offs 'could open can of worms'

Stern warning to govt over VAT changes

BDay 22/4/91 (320) (MD)

MATTHEW CURTIN
and BILLY PADDOCK

BUSINESS leaders have issued a stern warning to government that if it continues to bow to political pressure and softens the impact of VAT, it will irreparably damage the effectiveness of the new tax and business confidence.

SA Chamber of Business (Sacob) senior economist Ben van Rensburg said yesterday government risked "opening a can of worms" if it made more trade-offs on VAT.

On Friday Finance Minister Barend du Plessis announced that municipal rates would be exempt from VAT. Earlier he announced a preferential write-off rate for capital purchases before the VAT implementation date of September 30.

Government's handling of the new tax was sharply criticised by Parliamentary opposition parties and there were indications that elements within the NP had also resisted VAT on municipal rates.

Van Rensburg said VAT's success depended on it being a "fully taxable" system, without exclusions, which would not be incorporated in businesses' cost systems. One of its main attractions was that it would help to bring down inflation.

Van Rensburg, who has praised government for choosing efficiency at the risk of endangering political support in its plans for implementing VAT, said government's priority was now to set its arguments in place to convince the community to accept a "clean VAT system". If government was to show flexibility, it should be on the VAT rate, even if other routes had to be found to make up lost funds from a lower rate.

Sacob's chief concern was that government would end up with a crippled VAT system. The business community was already making investment plans based on the implementation of VAT as it now stood and counting on the benefits derived from the demise of GST.

Van Rensburg said as SA prepared to return to the international business fold the reduction of import surcharges and the institution of VAT were "a badly needed shot in the arm" to make SA more competitive and stimulate foreign investment.

Government had rejected Vatcom's recommendation that VAT on capital goods be phased in because of the problem of definition. Capital goods were already defined differently for income tax and GST purposes, and if VAT was subjected to the same scrutiny it would only increase uncertainty surrounding the tax.

He said providing VAT exemptions for municipal rates and taxes would be open to abuse or make consumers pay more for the services, rather than pay VAT, as local authorities passed on as costs the VAT they had to pay on inputs.

No amendments to the VAT Bill are possible at this stage and it has to be accepted or rejected in its totality as introduced in Parliament. Because of this, separate legislation will apparently have to be submitted to exempt rates from VAT.

☐ To Page 2

VAT changes

BDay 22/4/91 (MD) (320)

☐ From Page 1

Government hopes the backdown on rates will be enough to neutralise or split opposition to the Bill and allow it to pass into legislation without further retreat.

Both the DP and the CP have vowed to keep up the pressure and force more concessions, particularly on the 12% rate at which VAT will be introduced.

Early on Friday there were rumblings in Parliament, including from many NP MPs, that government had underestimated opposition to the Bill.

Vatcom members said arguments against VAT on rates had not been strongly submitted by anyone and they believed the arguments from municipalities had arisen only recently after ratepayers realised what effects VAT would have on them.

According to MPs and commentators, the Bill united political parties against government in a way not seen since the inception of the tricameral system.

NP caucus members who had problems with the Bill said the United Municipal Executive had a large constituency and considerable political clout, and they were concerned that when they returned to their constituencies they would not be able to sell VAT.

Govt warned on VAT concessions

CAPE TIMES 22/4/91 320

Own Correspondent

JOHANNESBURG. — A leading economist has warned the government that if it continues to bow to political pressure and soften the impact of VAT, it will irreparably damage the effectiveness of the new tax and business confidence.

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Sacob's chief concern was that government would end up with a crippled VAT system. The business community was already making investment plans based on the present VAT proposals, and counting on the benefits derived from the demise of GST.

Mr Van Rensburg said as South Africa prepared to return to the international business fold, the reduction of import surcharges and the institution of VAT were "a badly needed shot in the arm" to make the economy more competitive and stimulate foreign investment.

No amendments to the VAT Bill are possible at this stage and it has to be accepted or rejected in its totality. Separate legislation will have to be submitted to exempt rates from VAT.

The government hopes backing down on rates will neutralise or split opposition to the bill, and allow it to pass into law without further retreat.

Both the Democratic Party and the Conservative Party have vowed to keep up the pressure and force more concessions, particularly on the 12% rate at which VAT will be introduced.

Inflation, VAT bite into budgets

(320)

Star 22/4/91

As recession brings the axe down on more and more jobs, renewed focus is falling on the plight of black families struggling to stay above the breadline. Inflation adds to the problem. So do worries about the impact of VAT on food bills. Special writer MICHAEL CHESTER reports.

THE BASIC household budget needed by the average black family in Soweto to keep living standards above the breadline level has been pushed well over the R1 000-a-month mark by the inflation spiral.

New studies run by Industrial Relations Information Surveys show that the minimum monthly income needed to sustain a black family of five on what the researchers call "a very modest level a shade over the breadline" jumped from less than R985 in 1988 to R1 199.71 in a 1990 count.

Nationwide, the average basic budget required by a black township family of similar size has climbed from R809.72 to R1 033.26 over the past three years.

The cost of living in Soweto was surpassed only in Mamelodi, outside Pretoria, where minimum income requirements were put at R1 245.86 a month.

The data has been collected in a joint exercise between SPA Consultants and Business Performance Strategy researchers. The information is widely used in socio-economic studies and as guidelines at trade union/employer wage negotiations.

SPA researcher Andrew Sparks explains that the budget levels leave little room for frills considered as virtual necessities by most white families, let alone scope for any luxuries.

All essential items have been hit by inflation. An accompanying table explains where the cash goes in Soweto.

The average budget needed to cope with food bills alone for five members of a family has grown from R304.16 three years ago to R352.85.

The small amount allocated as discretionary spending — covering items such as cigarettes, drinks, cinema visits, and newspapers and magazines — last year remained stuck at only R214.26 a month for the entire family.

The modest overall average budget was still beyond the reach of many black families. The researchers found that national average wages of labourers last year, even allowing for increases of 20 percent or more, still stood no higher than between R219.93 a week in the metals industries and R123.37 a week in jobs with catering firms.

According to the Institute for Planning Research at the University of Port Elizabeth, the rock-bottom budget needed by a black family of six to eke out a standard of living even down at subsistence level had grown to a minimum of at least R581.22 in the Johannesburg metropolitan area by the latest count.

It was higher still in Germiston (R586.50), Benoni (R591.62), Boksburg (R608.02), Cape Town (R591.78) and Kimberley (R600.07). It hit a peak of R630.06 in Windhoek.

The institute put the national average wages of black workers with jobs in the manufacturing sector at R842 a month at a 1989 count.

In surveys made last year, the Bureau of Market Research at Unisa found that the monthly budget needed to keep a family of six on a bare minimum living-level in and around Johannesburg increased from R730.02 in February to R772.64 by August as inflation took its toll.

Allowing for snippets of recreation and entertainment — R51.42 for the whole family — and a few more rands to spend on basic items to lift families to supplemented living-levels, Unisa estimates minimum needs to be R1 018.44 a month.

The next issue in the pipeline that is bothering black families perhaps more than most white families is what impact the new value-added tax system will have on household budgets.

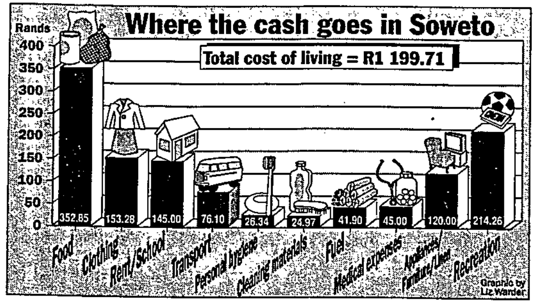
What happens when the entire family food shopping basket — with the sole exceptions of mealie meal and brown bread — has to carry the load of the 12 percent VAT tax? Lots of basic items have so far escaped the GST net that will be scrapped on September 30.

Housewives League national president Lynne Morris has estimated that VAT will load an extra R50 a month on average food bills.

The impact was put into broad perspective when Org Marais, Deputy Minister of Finance until his recent switch to become Minister of Trade and Industry, calculated that no less than an additional R420 million was expected to be collected from families on or below the breadline as VAT cast its wider net. (All the extra cash, he said, would be ploughed into social upliftment programmes.)

Mr Marais also explained that the Government was investigating the creation of programmes targeted specifically at the poor — such as feeding schemes for children and pregnant women, mobile feeding units for the aged and new subsidies for services.

In the countdown to the introduction of VAT, most black families in struggles with the breadline wait in tense anxiety to hear how the Government proposes to save their budgets from more agony. □



Financial services will be VAT-free

Star 22/4/91.

VAT AND YOU

Third in a daily series by André Meyburgh, a tax specialist with chartered accountants KPMG Aiken & Peat. Value added tax (VAT) will be introduced on September 30.

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How do "exempt supplies" differ from "taxable supplies"?

Enterprises making only "exempt supplies" cannot register as vendors and therefore cannot charge tax.

Moreover, they cannot claim any input tax.

This means they will receive the same treatment as enterprises which have a turnover below the registration threshold of R150 000, or any end-consumer.

Exempt

"Exempt supplies" include:

- Financial services.
- Rental of residential accommodation.
- Educational services (as well as board and lodging supplied by educational institutions).
- Train, bus and taxi fares.

Financial services comprise the single largest category of "exempt supplies".

Accordingly it follows that no VAT will be charged on transactions relating to pension funds, retirement annuities, life assurance, contributions towards medical aid fund and bank charges or finance charges, due to these falling under financial services.

Other forms of VAT-free financial services are the transfer of shares (except shares in a shareblock company or sectional title unit), and the collection of dividends, and interest.

"Associations not for gain" are a special case.

If the supplies which they provide comprise goods which are donated to them, they will be exempt.

As VAT will be a broad-based tax which levies tax on charges such as property rentals, Regional Service Council levies, municipal rates and taxes, telephone accounts, professional services (including audit fees), licence fees, and the like, makers of "exempt supplies" will experience an increase in costs as a result of VAT.

Cascading

These increases inevitably will be passed on to the end consumer so, although no tax will be charged on "exempt supplis", end-consumers indirectly will pay VAT on the expenses incurred by such enterprises.

Where exempt supplies are made to ven dors, this indirect VAT component will have a cascading effect — that is, a tax-on-tax effect.

"Exempt supplies" is thus not a classification favourable to anyone and might be why government limited this category to the bare minimum.

We also know that no VAT will be levied where the supply is zero-rated (see previously published example).

Enterprises which make taxable supplies at zero-rate will register as vendors.

"Taxable supplies" at zero-rate offer the maximum benefit. Although no tax will be charged on supplies, full input tax credits can be claimed by such vendors.

Because full "input tax" will be allowed on capital and intermediate goods, makers of zero-rated supplies may experience a decrease in operating costs which, if filtered through to the market, could create a drop in prices.

However, except in the cases of brown bread and mealie meal, most zero-rated supplies relate to exports.

Domestic end-consumers will therefore experience little direct benefit.

Vendors who make "taxable supplies" at the standard rate will not be affected by the fact that VAT will also be charged on expenses such as office accommodation, rates and taxes, telephone rents and the like, provided the input credit claiming mechanism is applied correctly.

A point to be noted: Vendors will have to finance the first "input tax" payments and may incur interest charges.

However, besides the fact that more goods or services will be taxed under VAT, standard-rated supplies initially will have the effect of increasing prices, mainly because vendors will incur high costs in preparation and implementation of the tax.

Stationery

These costs include professional advisory services, training of personnel, stationery, and even the costs of additional capital in the form of computer hardware and software.

Although vendors will benefit by getting full "input tax" credit on capital and intermediate goods for the first time (the major cause of double taxation under GST), it will take some time to filter through to end-consumers.

Furthermore, if vendors incorporate "input tax" paid as part of the costs they will incur, VAT can have an even more detrimental effect on pricing and inflation.

Tomorrow: More about "taxable supplies".

Govt determined to lower top tax rate

BDay 23/4/91 (320)

LESLEY LAMBERT

CAPE TOWN — Government remained committed to reducing the top marginal tax rate for individuals to 40% over the next three years and to increasing the income levels at which it was applied, Deputy Finance Minister Theo Alant said yesterday.

Over the past two years, the rate had been reduced to 43% and primary rebates had increased, although to a lesser degree in the current financial year, Alant said during the debate on the finance vote in Parliament.

The top income levels on which the 40% rate was based would rise to R100 000 for married people and R80 000 for single people, he said.

Progress had also been made during the current financial year in reducing the company tax rate to 40%, with the rate being reduced from 50% to 48% in the March Budget.

A factor which had delayed the reduction in company rates was abuse by companies of tax payments, Alant said.

Government had considered imposing a minimum tax to deal with this abuse but had decided rather to opt for tax-avoidance measures, he said.

Introducing the debate, Finance Minister Barend Du Plessis explained that the Ministry had been restructured to achieve a better spread of duties and allow more hands-on involvement by himself and his new colleague, Amie Venter.

Du Plessis said the restructuring would lead to increased control of public expenditure.

But broad fiscal and monetary policy would remain with the Finance Department, while staff involved in drawing up and monitoring the Budget would be moved to anew department, he said.

In his reply to the debate, Du Plessis said economic recovery would be determined by the speed at which negotiations got under way.

He said foreign investors had been discouraged by violence in the country. The CP's policy of partition would do little to attract foreign investment, he added.

R1,5bn tax swoop

BDay 23/4/91 (320)

GERALD REILLY

PRETORIA — In a successful swoop on tax dodgers for the year to end-February 1990, Inland Revenue officials recovered almost R1,5bn in unpaid income tax and penalties, latest statistics show.

An Inland Revenue spokesman said R233,7m in GST was recovered and R155,3m in penalties imposed — yielding a GST total of R389m. Special audits recovered R1,071bn in unpaid income tax and penalties.

Undeclared income involved in the investigations amounted to R2,243bn.

Recoveries could have been greater but for the drain of investigating staff to the private sector, he said.

All services will carry VAT

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Star 23/4/91.

VAT AND YOU

Fourth in a series by André Meyburgh, tax specialist with chartered accountants KPMG Aiken & Peat.

PLEASE SEND ME ..... COPIES OF VAT BY TAPE CASSETTE/S AT R34,50 EACH (Incl. GST and postage).
I ENCLOSE CHEQUE/POSTAL ORDERS TO THE VALUE OF R. . . . . .

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....

.... **CODE:** ....

Now that we know which supplies are exempt and which are zero-rated and how the two differ, it is clear that all other "supplies" will be taxable at the standard rate of 12 percent.

VAT legislation defines the terms "goods" and "services" quite widely. This will not only broaden the tax base considerably but will also simplify the operation of the system.

Under GST, only certain defined services — the so-called taxable services such as advertising — incurred sales tax.

The VAT Bill makes no distinction between services. All services will carry the tax.

The broad reach of VAT means that householders will pay tax on the services provided by their local authority — everything from electricity and water to refuse collection.

The same applies to services rendered by certain public authorities — such as the post office.

Even entrance fees to attend sports meetings, betting on horse racing, the cost of using recreational facilities and holiday accommodation will increase because of VAT.

Insurance

As we have discussed, all professional services will attract VAT, as will the services provided by the construction industry, many of which were not subject to sales tax.

Short-term insurance premiums are also set to rise.

However "services" such as salaries of employees escape the net as these are specifically excluded in the legislation from the term "services".

Similarly, almost all "goods" will be taxed, including land and buildings, time-share interests, sectional title units, and shares in shareblock companies (remember, we said this was an exception in the previous article).

Coins which are acquired as collectors' items from vendors will also attract VAT. Gold coins will also be taxed (they are at present free of GST).

Vendors

However, "goods" in the form of a cheque, postal order, money order or any coin or paper money which is used as legal currency will not be taxed because these are excluded from the definition of "goods".

As we have seen, all services offered by the post office will incur VAT. For example, every time you post a letter, you will pay VAT on the stamps.

In summary, as the draft VAT Bill stands, you will be charged VAT on the sale of fixed property, Krugerrands, telephone accounts, club subscriptions, doctors' fees, lawyers' fees, accounting fees and many more — provided they are supplied by a vendor.

It follows that if a house or a second hand car is sold by a non-vendor, or a doctor who is not a vendor delivers services to patients, then no VAT will be payable.

Clearly, it will also be important to identify whether a person or a business handling a transaction is a vendor or a non-vendor.

Tomorrow: All about rates of "taxable supplies".

All women may soon be taxed equally

(326)

Star 23/4/91

Married women may be taxed on the same scale as single women as soon as the economy took a favourable turn, **Deputy Minister of Finance Theo Alant** said in Parliament yesterday.

Speaking in debate on the finance vote, he said the Margo Commission of Inquiry had recommended almost four years ago that for personal income tax purposes, the individual should be considered rather than the family.

"Married women are still taxed according to a separate scale of taxation, but as soon as the economy takes a favourable turn, this situation will be put right and married women may possibly be taxed according to the same scale as single people," Mr Alant said. — Sapa.

Govt urged to scrap VAT on doctors' fees

CMT 24/4/91 (320)

Staff Reporter

THE SA Medical and Dental Council should urge the Minister of Finance Mr Barend du Plessis to scrap VAT on medical fees, members said yesterday at its 140th annual meeting.

With the addition of VAT to fees, many poor people who need care would be unable to afford the high costs, council members said.

The council agreed to discuss the matter at executive committee level.

Meanwhile, privately-managed health care is being examined by the SAMDC in an attempt to ensure that all health care systems are to the benefit of the patient.

The council has been involved in discussion with organisations such as medical aid and benefit schemes and private hospitals.

The council's policy is that each private health care scheme should have a "balance between the quality and the cost of services rendered".

Doctors working in private schemes should remain answerable to the profession's ethics and standards.

Patients' interests also came under the spotlight when the council accepted a package which would control the dispensing of medicine by general practitioners.

It noted that applications for dispensing rights by doctors should be examined individually, as the dispensing of medicine was primarily the function of pharmacists.

Doctors in favour of scrapping all controls noted that doctors sold their medicines more cheaply and that patients who were not on medical aid often had difficulty obtaining their prescriptions from pharmacists.

Ster 24/4/91

Zero-rated supplies mainly exports

Let's return to the rates that will apply to value-added tax.

Remember that "taxable supplies" will be taxed at the standard rate of 12 percent or zero rate (0 percent).

We said in the third article that the man-in-the-street would get very little benefit from goods and services that are zero-rated except for three important items:

Any fuel which is subject to the fuel levy, brown bread and mealie-meal for human consumption.

We showed earlier how the tax will be applied in zero-rated transactions, which means that the domestic end-user will nor incur VAT.

Nevertheless, it is important to realise the distinction between the two rates.

The VAT system works on the basis that all "taxable supplies" which are not subject to VAT at "zero rate" are taxed at "standard rate".

To determine which "supplies" are taxable at the standard rate, we should turn again to a method of exclusion and

VAT AND YOU

identify the very short list of "supplies" which have been zero-rated, pertaining mainly to the export business.

Zero-rated supplies of goods or services mainly apply to items which are exported to what VAT legislation refers to as "export countries".

An export country is any country outside South Africa — but does not include the TBVC countries of Transkei, Bophuthatswana, Venda and Ciskei.

Consequently, exports to TBVC countries will be taxable at standard

Fifth in a series by André Meyburgh, tax specialist with chartered accountants KPMG Aiken & Peat.

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rate.

"Exported goods" include:

- Goods temporaily admitted for repair in South Africa.
- Goods supplied to foreign-going ships or aircraft.

"Exported services" include:

- Transportation and insurance of goods or passengers on international flights.
- Repair services to foreign-going ships or aircraft.

Another zero-rated item outside the domain of the man-in-the-street is gold in the form of bars and ingots when supplied to the Reserve Bank.

For farmers, the good news is that fertilisers and animal feed when supplied in bulk are zero-rated, provided the farmers are "vendors" (that is, whose taxable turnover exceeds R150 000 annually).

Businessmen should also know that the sale of a business as a going concern where the purchaser is a "vendor" is also zero-rated, and therefore will be "VAT-free".

Zero-rate services also include those which are physically rendered outside the Republic, certain services rendered to non-residents, and services in respect of "intellectual property" such as trade marks and copyrights when used outside the country.

Once again, it should be noted that all "taxable supplies," whether standard or zero rate, will be taxable only when supplied by a registered vendor.

Tomorrow: Registration as a vendor.

The Nats aren't too worried about the ANC's budget model, writes **Shaun Johnson**

Clashing budgets not so taxing

Star 24/4/91

(320)

THE ANC's "shadow budget" bears little resemblance to the real thing produced by Barend du Plessis, but it has caused far less consternation in Government circles than might have been expected.

The level of panic in business quarters which met the ANC proposals has, to the surprise of many observers, not been matched among Government economists.

Although there are chasms between key economic policy precepts of the ANC and the Government, National Party sources told The Star this week that the publication of the ANC budget "did not cause us to throw up our hands in horror".

The "shadow budget" (which is not, it should be noted, a detailed proposal, but rather an exercise in altering principles) upset businessmen primarily because of a suggestion of additional government expenditure of nearly R60 billion, and allegedly punitive taxation of the better-off in the society — all aimed at large-scale socio-economic upliftment.

But, according to senior NP sources involved in fiscal policy-making, "there is, on the basis of the ANC document, a lot of space for negotiation. In fact, this is the beginning of a classic negotiating situation: If you want something, you first put prices on it that you know aren't feasible at all. I then offer as low as possible. At the end of the day you emerge on some sort of middle ground".

The sources' central argument against the ANC document is that it is "naive". Said one NP politician: "Everything revolves around the ANC's assumption of a three percent annual growth rate. That would be very nice indeed, but I'd love to know how they'll go about getting it - some of their proposals will kill the prospects for growth, not stimulate them.

"If you get that growth, obviously you're going to have a lot of additional revenue, you're going to create a tremendous number of jobs, and it's going to change the economic situation in South Africa completely."

The sources said the removal of sanctions "would help" to stimulate growth, "but if they (the ANC) want to get additional money by widening the income tax base to 35 percent of the GDP, that means you're going to tax a lot of people who at the moment are generating growth in the economy ... You are taking away an extremely important source of development capital and also the incentive to develop ...

"A lot of skilled whites might decide to leave, and if those are the tax bases that the businessmen are going to be faced with — and furthermore if there is the possibility that the assets that they have built up could be nationalised — you aren't going to get businessmen coming here at all. They'll stay away."

The sources also found fault with several additional taxes mooted by the ANC, but not fully explained in the brief document: "I actually don't understand what they mean by 'the elimination or limitation of tax expenditure including incentives', or the 'capital transfer tax'," remarked one NP member, "and I am worried by others".

He rejected:

- A capital gains tax, arguing that "it would make any private entrepreneur's hair stand on end".

"There are acceptable forms of capital gains tax — which even we might consider — but it depends on how much," he said.

- A land tax, saying it would "probably be something similar to a poll tax, but meaning that heavy tax burdens will be placed on ownership of anything above a minimum amount of land".

"That will probably be the basic idea of progressive property tax, people who own property will be paying progressively more tax on the size of their properties."

- A minimum business tax, "which we fought against very strongly after the Margo Commission".

"It's built into the system and discourages exports and makes you less competitive on the export market."

The sources argued, overall, that "(South African) individuals fall into a top tax category in the world ... And that is what we're trying to avoid".

Further, NP economists expressed concern about an ANC proposal to increase deficit financing to the "less conservative" figure of five percent. "Government will then be saddled with a tremendous interest bill, and a substantial amount of your revenue will have to be paid back as interest. Secondly, it doesn't meet up with International Monetary Fund requirements."

The NP appeared less uncomfortable with the ANC's actual plans for redirecting funds into socio-economic upliftment, but still voiced doubts about a new government's ability to release funds of the magnitude described.

It is conceded, for example, that there will be savings via the removal of "apartheid octuplication", but it is argued that these benefits will be far from immediate, as the old system has to be phased out: "You don't just fire people, there has to be some sort of agreement with them."

The sources agreed with the ANC's identification of areas of primary need (for example housing, health and education), but argued that "a lot of money should be spent in creating the necessary infrastructure to encourage people to come into the economic world".

"For instance by using development corporations much more extensively ... By doing that you will increase (black peoples') levels of wealth and put them in a position to look after their own requirements.

"If a guy builds himself a better house, moves to a better neighbourhood, you are starting to encourage private ownership and developing an economic culture ... A lot is going to depend on the levels of political stability.

"But I've got no gripes at all about what they (the ANC) have got to do about primary health clinics, the rural infrastructure and the like."

The sources concluded that the ANC proposals could have been "a lot further away from our view", but remained worried about the most basic economic tenets underlying the ANC approach.

"What really should happen," said one, "if you want to follow the route of countries that are developing very quickly economically, is to reduce your tax base, and to reduce the percentage of tax in the GDP. That generates a lot more growth. Now if you take this money out of the companies and from individuals to achieve certain socio-economic development programmes, or to achieve a redistribution of income, you're going completely away from the economic system which is based on the principles of free enterprise.

"Now you're becoming an economy in which Government control plays a far greater role, and which is based on more socialistic ideas.

"That worries us about the ANC, but I think it's absolutely necessary that the time comes soon when one can sit around and start talking about the economic structures that this country requires — even in budgetary detail." □

VAT on used cars poses a problem

Bdy 25/4/91 (320)

GILLIAN HAYNE

SCARCELY a day goes by without a query on VAT as it relates to second-hand cars — the difficulty being that private individuals, dealers and companies all approach the issue from different perspectives.

Deloitte Pim Goldby senior tax consultant Henry Hollingdrake explained that under the VAT system, when a dealer sells a second-hand car to another dealer, VAT will be payable and an input tax credit can be claimed. But, if an individual sells a car to another individual the sale will fall outside the scope of VAT and as such will be exempt from VAT.

The difficulty arises when an individual trades in a car to a dealer. As the individual is not a registered vendor he will not charge VAT per se, but the dealer still will be allowed to claim a notional input tax credit, based on a tax fraction.

Ernst & Young's latest In Touch magazine explains that a deduction is permitted for the "tax fraction" to prevent a distortion in prices effectively paid for second-hand goods acquired from private sellers and dealers respectively.

However, any dealer selling a second-hand car must charge VAT.

The treatment of company cars is different again. Hollingdrake said vehicles purchased for use as company cars will be charged VAT but will be denied an input tax credit on acquisition — unless it is trading stock (such as in the case of Avis, or any car dealer).

This is an exception to the rule in terms of capital goods being granted full immediate input tax credits.

From the fringe benefit angle, a company car will be subject to VAT but the subsequent sale of the vehicle to the employee will not be subject to VAT. The reason for this is, since the company cannot claim an input tax credit on its purchase, charging VAT would be a tax on tax.

For those wondering whether to buy their vehicles now or wait until the introduction of VAT on September 30, Hollingdrake said there were advantages of waiting. Individuals buying privately would save the 13% GST currently payable. Those buying through dealers would save 1% — the difference between 12% VAT and 13% GST.

Who must register as a vendor

(320) Star 28/4/91

Who will be a vendor? Unless you register as a vendor, you will not really become a player on the VAT board.

And, as we have previously observed, unless a "person" — note the word — is registered as a vendor, tax cannot be charged on any transaction.

Moreover, a non-vendor will not be able to claim the all-important "input tax".

Its own

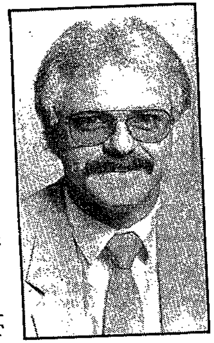
Once again, we encounter a word that VAT legislation has made peculiarly its own.

It is important to note that "persons", and not enterprises, will have to register for VAT.

Now let's look at what "person" means.

The word is defined as:

- "Any natural person" (a quaint way of describing a human being).
- A "body of persons" (whether corporate or unincorporated, such as a partnership or a club).
- Any company or close corporation.
- A trust fund.



Sixth in a series by André Meyburgh, tax consultant with chartered accountants KPMG Aiken & Peat

- Local authorities.
- Certain public authorities.
- Deceased or insolvent estates.

"Persons" comprising companies trading as a group will be compelled to register, as a vendor, each individual company that meets registration requirements because

VAT AND YOU

the VAT legislation makes no provision for group registration.

This means that all group inter-company transactions, including administration fees, will incur value-added tax.

But what happens in the case where the "person" is a company which trades through branches or divisions?

Does it mean that every operation in a company will have to register? The answer is a qualified "No".

Only one registration for all the component business parts will be needed, provided the total turnover of "taxable supplies" jointly exceeds the threshold of R150 000.

In such cases, inter-branch or inter-divisional transactions will be disregarded for VAT purposes.

We'll deal with branch registration in more detail in the next article.

"Persons" who make only "exempt supplies", most notably a long-term insurer (about which more later), institutions supplying banking services, or an educational institution offering boarding facilities, will not be able to register as vendors.

A hobby

Furthermore, a "natural person" will not be able to register a hobby even if he or she generates "taxable supplies" turnover exceeding R150 000 (as a matter of interest, nowhere in any South African tax legislation is 'hobby' defined).

By the now familiar exclusion process, we can conclude that registration as a vendor will be compulsory where a "person" carries on an enterprise *in South Africa continuously or regularly* (whether for profit or not) and his annual turnover in respect of "taxable supplies" will exceed, or is expected to exceed, the threshold of R150 000.

The innocent looking phrase "whether for profit or not" is interesting. Profit motive is irrelevant for registration purposes.

But it neatly traps local authorities in the VAT net.

Although their purpose is not to make a profit, they will still be liable to register as vendors in terms of services such as water, electricity, refuse and sewage disposal — but not municipal rates (on April 19 Minister of Finance Barend du Plessis acknowledged in Parliament that VAT on municipal rates would be a tax on tax and therefore would be excluded from VAT provisions).

TOMORROW: Foreign operations and branch registration.

VAT to bring two inflation rates

B Day 26/4/91 (320) (158)

GRETA STEYN

THE Central Statistical Service (CSS) would publish two inflation rates after the introduction of VAT — one including the new tax and the other excluding — CSS head Treurnicht du Toit said yesterday.

If GST had to be excluded from the current consumer price index, it would make no difference to inflation as the sales tax rate had remained at 13% for years. However, the introduction of VAT on goods and services previously not taxed would see the two rates differ for at least a year.

CSS has not yet calculated how much the introduction of VAT would add to inflation, but economists say an increase of up to 2,5 percentage points is possible. This means SA could end the year with inflation at much the same levels or above the current 14,1%.

Du Toit said: "Logically VAT should be included in the calculation of inflation because it is part of the cost of living. But there appears to be a need to monitor the behaviour of the CPI excluding VAT."

He preferred not to be drawn on who had expressed the need for two sets of inflation figures. Economists said the rate of change in the CPI excluding VAT could be used to monitor inflationary pressures inherent in the economy. However, they added this argument could be extended to say interest rates should also be excluded from calculating the cost of living, as they are part of the monetary policy strategy aimed at combating demand-pull inflation.

The publication of two-tier inflation figures will follow a similar move on money supply after certain off-balance sheet banking transactions were brought back on balance sheet. SA already has two money supply growth rates.

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DEPARTMENT OF PLANNING, PROVINCIAL AFFAIRS AND NATIONAL HOUSING
DEPARTEMENT VAN BEPLANNING, PROVINSIALE SAKE EN NASIONALE BEHUISING

No. 859 **26 April 1991**

STATEMENT OF PROVINCIAL REVENUE COLLECTIONS (INCLUDING COLLECTIONS DIRECT BY PROVINCES) FROM 1 APRIL 1990 TO 31 DECEMBER 1990
STAAT VAN INVORDERINGS VAN PROVINSIALE INKOMSTE (INSLUITEND DIREKTE INVORDERINGS DEUR PROVINSIES) VAN 1 APRIL 1990 TOT 31 DESEMBER 1990

Head of Revenue Hoofde van Inkomste	Cape of Good Hope Kaap die Goeie Hoop		Natal		Transvaal		Orange Free State Oranje-Vrystaat		Totals Totale	
	90-12-01– 90-12-31	90-04-01– 90-12-31	90-12-01– 90-12-31	90-04-01– 90-12-31	90-12-01– 90-12-31	90-04-01– 90-12-31	90-12-01– 90-12-31	90-04-01– 90-12-31	90-12-01– 90-12-31	90-04-01– 90-12-31
Sources of Revenue transferred/Bronne van Inkomste oorgedra	R	R	R	R	R	R	R	R	R	R
Licences/Lisensies										
Dog, Fish and Game/Hond, Vis en Wild	43 508	272 741	210 008	706 140	127 741	1 046 586	15 579	371 595	396 836	2 397 062
Motor Vehicles/Motorvoertuie	16 056 285	107 023 477	11 477 391	98 504 246	15 276 536	237 918 417	161 557	5 229 463	42 971 769	448 675 603
Miscellaneous/Diverse										
Hospital Receipts/Hospitaalontvangste	10 679 833	102 131 529	5 666 710	50 981 840	2 362 297	151 436 846	4 781 810	31 031 758	23 490 650	335 581 973
Other Receipts/Ander Ontvangste	3 149 916	32 293 588	9 190 275	94 885 520	1 958 536	50 985 302	1 508 973	10 932 615	15 807 700	189 097 025
Fines and Forfeitures/Boetes en Verbeurdverklarings	3 762	88 745	629 075	5 760 394	2 792 872	28 218 002	431 002	3 182 465	3 856 711	37 249 606
Auction Dues/Venduregte	—	—	—	—	—	—	—	—	—	—
Entertainment Tax/Belasting op Vermaaklikhede	—	—	—	—	—	—	4 020	115 970	4 020	115 970
Racing and Betting Taxation/Belasting op Wedrenne en Weddenskappe	1 341 765	24 851 497	3 870 561	35 754 548	9 492 525	86 119 386	1 629 786	10 412 352	16 334 637	157 137 783
Wheel Tax/Wielbelasting en Bydraes	—	—	—	—	—	—	—	—	—	—
Black Hospital Tax and Contributions/Swart Hospitaalbelasting en Bydraes	—	—	—	—	—	—	—	209	—	209
Totals/Totale .... R	31 275 069	266 661 577	31 044 020	286 592 688	32 010 507	555 724 539	8 532 727	61 276 427	102 862 323	1 170 255 231
Totals/Totale (1989/90) .... R	34 367 702	235 189 758	7 928 260	185 970 152	43 002 848	545 499 675	10 986 211	63 804 954	96 285 021	1 030 464 539

E. G. DE BEER,
Director-General: Department of Planning, Provincial Affairs and National Housing.
Direkteur-generaal: Departement van Beplanning, Provinsiale Sake en Nasionale Behuising.

No. 860 — 26 April 1991

STATEMENT OF PROVINCIAL REVENUE COLLECTIONS (INCLUDING COLLECTIONS DIRECT BY PROVINCES) FROM 1 APRIL 1990 TO 31 JANUARIE 1991
STAAT VAN INVORDERINGS VAN PROVINSIALE INKOMSTE (INSLUITEND DIREKTE INVORDERINGS DEUR PROVINSIES) VAN 1 APRIL 1990 TOT 31 JANUARY 1991

Head of Revenue / Hoofde van Inkomste	Cape of Good Hope / Kaap die Goeie Hoop		Natal		Transvaal		Orange Free State / Oranje-Vrystaat		Totals / Totale	
	91-01-01– 91-01-31	90-04-01– 91-01-31	91-01-01– 91-01-31	90-04-01– 91-01-31	91-01-01– 91-01-31	90-04-01– 91-01-31	91-01-01– 91-01-31	90-04-01– 91-01-31	91-01-01– 91-01-31	90-04-01– 91-01-31
Sources of Revenue transferred/Bronne van Inkomste oorgedra	R	R	R	R	R	R	R	R	R	R
Licences/Lisensies										
Dog, Fish and Game/Hond, Vis en Wild	25 322	298 063	133 716	839 856	102 364	1 148 950	298 937	670 532	560 339	2 957 401
Motor Vehicles/Motorvoertuie	11 487 694	118 511 171	11 951 944	110 456 190	27 014 023	264 932 440	9 331 869	14 561 332	59 785 530	508 461 133
Miscellaneous/Diverse										
Hospital Receipts/Hospitaalontvangste........	10 124 754	112 256 283	5 069 834	56 051 674	23 465 451	174 902 297	3 595 211	34 626 969	42 255 250	377 837 223
Other Receipts/Ander Ontvangste	2 003 963*(Dt)*	30 289 625	14 964 164	109 849 684	2 205 305	53 190 607	1 245 281	12 177 896	16 410 787	205 507 812
Fines and Forfeitures/Boetes en Verbeurdverklarings	6 134	94 879	793 874	6 554 268	3 009 532	31 227 534	491 306	3 673 771	4 300 846	41 550 452
Auction Dues/Venduregte	—	—	—	—	—	—	—	—	—	—
Entertainment Tax/Belasting op Vermaaklikhede	—	—	—	—	—	—	2 630	118 600	2 630	118 600
Racing and Betting Taxation/Belasting op Wedrenne en Weddenskappe	634	24 852 131	5 004 967	40 759 515	12 023 204	98 142 590	727 159	11 139 511	17 755 964	174 893 747
Wheel Tax/Wielbelasting en Bydraes...........	—	—	—	—	—	—	—	—	—	—
Black Hospital Tax and Contributions/Swart Hospitaalbelasting en Bydraes	—	—	—	—	—	—	—	209	—	209
Totals/Totale..................R	19 640 575	286 302 152	37 918 499	324 511 187	67 819 879	623 544 418	15 692 393	76 968 820	141 071 346	1 311 326 577
Totals/Totale (1989/90)..................R	9 863 150	43 765 521	3 397 286	14 266 574	25 936 562	75 485 026	493 023	948 378	39 690 021	134 465 499

E. G. DE BEER,
Director-General: Department of Planning, Provincial Affairs and National Housing.
Direkteur-generaal: Departement van Beplanning, Provinsiale Sake en Nasionale Behuising.

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FM 26/4/91 (320)

VAT AND CAPITAL GOODS

TOO LITTLE TOO LATE

There is a strong feeling among tax practitioners that the recent provision for an extra 15% depreciation on capital goods bought before September 30 will not adequately compensate manufacturers for forfeiting their claim to an input tax credit, if a purchase is deferred until after the start of VAT.

So the concession is not likely to prevent the disruption to industries' cash flow caused by the deferment of purchases of VATable capital goods. What is happening is either a straightforward deferment of purchases or a manoeuvre to avoid GST.

Typically, this could be a rental agreement to run to September 30, coupled to an option to purchase the goods later, but this tactic carries its own dangers.

Kessel Feinstein tax partner Ernest Mazanskey draws attention to section 73 of the VAT Bill, which incorporates strong anti-avoidance provisions. He says the Commissioner for Inland Revenue has threatened to invoke the section against purchasers who enter into such rental agreements.

Mazansky says the real after-tax value of accelerated depreciation (which lets a buyer of capital goods write off, say, 35% of the purchase price in the first year instead of 15%) can be evaluated only after careful calculation of a company's cash flows. The date of the financial year-end is important, as any benefit from accelerated depreciation can only be made use of after the end of an accounting period.

Cash flows over five years must be compared on competing bases — either a purchase before September 30, with GST payable and the 15% concession, or a deferment, with an input tax credit but no accelerated depreciation. Allowance should be made for government's commitment to reduce company tax from 50% to 40% over five years, which is gradually reducing the value of any concession on depreciation. This year the rate is 48%, next year it might be 46% or less, so it makes a difference in which fiscal year the added 15% can be claimed.

Arthur Andersen partner Pierre du Toit agrees the depreciation concession will fail. To counter a distortion in the indirect tax system with a further distortion of income tax is simply to introduce two distortions.

In almost all cases, says Du Toit, accelerated depreciation will not compensate fully for the VAT credit — especially with capital purchases not subject to GST. It never works mathematically to try to balance an indirect tax objective with a direct tax allowance. Too many extraneous influences are at work — ability to pass on the cost and the taxpayer's income tax profile, to name only two.

The concession also again shows a disrespect for the legislative process. Worse, argues Du Toit, it ignores the criterion of certainty in tax matters, and makes a mockery of the important ideal of neutrality.

Vatcom warned that to grant an immediate input tax credit for VAT purposes would distort the capital goods market in the months leading up to September 30. Despite a strong preference in principle for an immediate credit, this is the main reason why Vatcom recommended a phasing in.

It would be irresponsible for business not to investigate deferments of capital spending, especially where GST is not payable. ■

FM 26/4/91 (320)

VAT EXEMPTIONS

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READING HIS LIPS

FM 26/4/91

After the considerable deliberations of the VAT Committee (Vatcom), most taxpayers could be forgiven for believing that the introduction of VAT would proceed smoothly with most technical and other difficulties of implementation ironed out.

That patently has not been the case. And since the Budget, when the details of the tax were announced, government and the tax authorities have shown precisely how ill-prepared they are for the task ahead.

If he has been correctly reported, then a Finance Minister who declares to parliament that he does not fully understand a tax he is introducing might have admirable candour, but is hardly likely to inspire confidence and be able to deflect future special pleaders.

Government has made three important changes to its VAT proposals. It intends to review the upfront payment of VAT on imports at the time of clearance. A 15% depreciation concession to counter deferral of purchase of capital goods until after September 30 (see *Economy*) has been introduced. And it has relinquished VAT on municipal rates (but not on other municipal charges).

We take issue less with the changes than the way in which they have been conceded. After consideration by Vatcom, every departure from the principle of widest possible inclusion should not be considered lightly.

If government had felt that there were reasons to have overruled Vatcom, it should have done so when the final VAT Bill was being drafted. In none of these three cases was this done. This sort of ad hoc response invariably erodes the coherence and veracity of the tax system. For last-minute changes always have a knock-on effect and require further patchwork later.

What is not quite so obvious, is the harm done to the prestige and reputation of government itself. A government that announces its irrevocable decision on a fiscal matter, only to be blown off course by its own stumbling or by determined lobbying, must be perceived as vacillating.

The exemption of VAT on rates is evidently a matter of political expediency as the issue of double taxation was well canvassed earlier. The problems of freight forwarding agents obliged to pay VAT upfront to clear imports were as evident when Vatcom convened as now.

It was equally evident that manufacturers would defer purchases of capital goods if a full input tax credit was available from VAT's inception.

Every concession, however justified, undermines the principle of non-exclusion and will make VAT increasingly more difficult to apply to maximum advantage. ■

VALUE-ADDED TAX

REPRIEVE FOR IMPORTS?

FM 26|4|91

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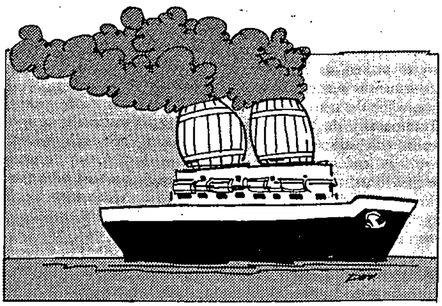
Government has reacted at the 11th hour to a desperate appeal from freight forwarders (clearing agents) for help in carrying the burden of VAT, to be paid in advance, on imports they clear for clients.

Interested parties will meet on Friday to consider relief measures, even though the VAT Committee (Vatcom) rejected requests to change the requirements. These, as things stand, will give agents a severe cash-flow problem after September 30.

Section 13 of the VAT Bill delegates the collection of VAT on imports to Customs & Excise. Leo Fincham, joint MD of Arthur Andersen affiliate Antax Customs, explains that the Customs & Excise Act requires that imports may not be cleared until all imposts — now import duty plus surcharge and, in some cases, GST — are paid.

From September 30, VAT will also have to be paid in advance, calculated on the value of goods for Customs purposes, plus import duty and surcharge, with the addition of a further 10% of the customs value.



SA Association of Freight Forwarders executive director Alan Cowell says that the burden will be crippling, and Fincham agrees. In 1989 importers paid about R2,9bn in duty and surcharges, while VAT payments should be about as much again. Agents will have to carry the finance charges on this additional amount for an average 45 days.

Importers pay agents 30 days from date of statement and agents' statements are dated two weeks after the average date of the total initial payment during a month. (Ernst & Young tax partner Ian MacKenzie notes that oil imports are being treated differently — no VAT will be payable in advance.)

Freight forwarders' representations to Vatcom, says Cowell, were rejected on the grounds that agents should look to clients to adjust the terms of their contracts. Such a change, he says, is mostly impractical under traditional relationships.

The timing of reimbursement of the agent for disbursements at the time of clearance of goods is a contractual matter between agent and importer, says Fincham. This is variable, depending on the relationship. In some cases, the importer will reimburse the agent on presentation of his account, which generally accompanies delivery. In other cases, the agent will carry an importer for 30 days.

Of course, reimbursement of agents by principals is separate from the process whereby the importer recovers an input tax credit from Revenue for VAT paid in advance. This can be achieved only at the end of the importer's first VAT accounting period after payment, which will often be up to two months. And VAT will be payable to the agent on commissions earned for work done in the clearance process.

Kessel Feinstein tax partner Ernest Mazansky suggests that placing goods in bonded warehouses is one way to alleviate the problem, as the Customs & Excise Act and VAT Bill permit deferment of payment of imposts until goods are withdrawn from bond.

But Fincham contends that the problem can't be avoided in this way, though there would be timing benefits. VAT will be payable when the goods are removed from bond for domestic consumption, and importers' and clearing agents' difficulties would have to be faced at that stage.

In any event, duty-free goods not subject to surcharge may not be placed in a bonded warehouse, so VAT could not be deferred in that case.

Fincham notes Customs & Excise Commissioner Daan Kolesky has rejected a suggestion that imported goods subject only to VAT could put in bond. This procedure would not be permitted under the Customs & Excise Act, which the Commissioner does not contemplate changing.

Deputy Commissioner of Customs & Excise Izak Coetzee says the Commissioner will meet representatives of Sacob, AHI and those of the forwarders' association on Friday to discuss proposals put forward to deal with the problem. It would be wrong to anticipate the outcome of the meeting, but some of the proposals involve deferment of the payment of import duties and VAT.

Trevor van Heerden, Inland Revenue chief director, tax policy development, says Revenue is happy to leave the negotiations to Customs & Excise. ■

CAPE INVESTMENT BANK

FM 26|4|91

WHO PAID WHOM?

The Reserve Bank denies it played a major role in the deal which led to Prima Bank buying 49% of the troubled Cape Investment Bank (CIB) in December.

CIB was put into provisional liquidation on April 11 when, investigations by the auditors and Rand Merchant Bank revealed that it was trading while insolvent.

Deputy Registrar of Deposit-Taking Institutions Christo Wiese denies that his Registrar encouraged the takeover. Reserve Bank Governor Chris Stals denies that the Bank was involved. He suggests this assumption may have been made because of assistance given by the Bank to banks in the past.

Wiese also denies that the Registrar and Prima assured depositors, such as SA Rail Commuter Corp, that their deposits would be safe once Prima had taken over.

The takeover failed, apparently because the problems were beyond Prima's ability to remedy. Prima is a small bank which specialises in money, bond and derivative markets. Initially reluctant to take on the responsibility, it realised the extent of the problem once it started renegotiating CIB loans. Investigations showed bad debts amounted to R115m.

There is uncertainty whether Prima owes Pichold money. In a statement last Thursday (see *Fox)*, Pichold told shareholders one condition of the agreement was that Pichold would get a minimum price — 20% of tax losses up to December 31 1991. One estimate is that this would amount to about R12m. However, if the company is insolvent, there can be no question of a tax loss.

Another issue is whether Prima should pay CIB Group for any of the subsidiaries it took over, such as CIB Leveraged Investments and CIB Project Finance. But Prima MD Johan Bellingan claims this involved mainly taking over people and Prima will not have to pay a cent.

Any equipment taken over by Prima from CIB's Cape Town office, which now trades under Prima Bank's name, will be bought from the liquidators. If Prima has to pay anything, it will be for CIB's loan accounts.

Pichold's statement also claims the group gave no warranties to Prima in respect of assets or liabilities of CIB "and does not hold itself responsible in the event of there being a deficiency therein ..." It adds that Prima Bank stood surety for Prima Bank Holdings

continue →

Vendor registration for foreign operations

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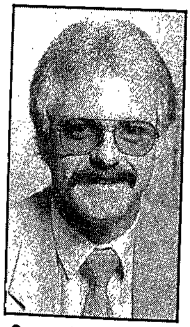


VAT AND YOU

Seventh in a series by André Meyburgh, consultant on indirect taxation with chartered accountants KPMG Aiken & Peat.

Readers who have specific value-added tax questions or problems are invited to address these to: Managing VAT, KPMG Aiken and Peat, PO Box 7400, Johannesburg 2000.

Replies will be dealt with confidentially, but interesting issues raised may be discussed in general terms in this series.

In the previous article we were careful to indicate clearly that a "person" had to operate continuously or regularly in South Africa to register as a vendor.

But what about enterprises with cross-border activities?

Here we need to keep in mind the distinction between TBVC countries and "export countries", and the accounting system used by an enterprise.

Where a vendor operates in South Africa, but has branches or divisions beyond its borders, and these do *not* have an independent system of accounting, their activities will be deemed to be carried on in the Republic.

Consequently, any "supplies" made between such branches or divisions, whether they are situated in an "export country" or not, will be disregaded for VAT purposes.

However, where branches or divisions *do* keep an independent system of accounting, they will be deemed *not* to be an enterprise carried on in South Africa.

The definition of "export country" now comes into play.

If operations are located in a TBVC country (which, remember, does not qualify as an "export country"), then their inter-branch or inter-divisional transactions with the parent company in South Africa will be taxable at the standard rate.

If they are situated in an "export country" the transactions will be taxed at the zero rate which, we recall, really means no VAT at the end of a transaction.

Back in South Africa, it will be possible to register branches or divisions as vendors on their own account rather than have only one registration, as we discussed in the previous article?

VAT legislation allows "persons" operating enterprises to apply to the Commissioner for Inland Revenue to have divisions or branchesregistered separately, provided they are separately identifiable through trading activity or location and keep independent systems or accounting.

Where separate registration is granted, inter-branch or divisional transactions between the separate vendors will be taxable whereas, under the single registration, all these transactions will be disregarded by the taxman.

The choice of registration of separate branches or divisions, or one registration, will depend largely on consideration of administrative efficiency, the nature of the company's trading activity, the cash flow implications, and the tax period the enterprise has for VAT purposes (a subject deal with later).

MONDAY: Voluntary registration and the registration of charities.

Deductions and rebates cut tax

S/Times (Bus/T) 28/4/91

320

By DES KRUGER and VICKY TAYLOR, consultants with Deloitte Pim Goldby

THE PROPER WAY

THE THIRD of three articles on how to save on tax deals with deductions (other than allowances which were dealt with last week), rental income and expenditure and rebates.

PART 3.3 of the return covers donations to recognised institutions which are registered funds in terms of Section 18A of the Income Tax Act.

These are normally educational bodies and your deduction will be limited to the greater of R500 or 2% of your taxable income.

Part 10.5 deals with other donations. You are entitled to give R20 000 a year before becoming liable for donations tax at a flat rate of 15%. Donations between spouses are exempt.

Your pension fund contributions (part 3.4) may be deducted up to the greater of R1 750 or 7,5% of remuneration from retirement funding employment. If you are contributing a lower percentage than this, you may increase your contributions and hence your deduction, provided that your employer agrees.

Arrear pension fund contributions (part 3.5) are deductible up to R1 800 a year (married woman R900) and any amount exceeding that will be carried forward to your next tax year. Arrear pension fund contributions increase your pension benefits.

Provident fund contributions are deductible only when made by the employer (ie the employee is effectively a non-contributory member). The main advantage of a provident fund is that the entire proceeds are available on retirement, instead of a third lump sum with the balance as an annuity, as in a pension fund. Retirement annuity fund contributions (part 3.6) were dealt with in our first article.

Entertainment (part 3.8) and travel expenditure (part 3.9) were discussed under allowances last week. However, it is important to note that there is no limit on the amount of entertainment expenditure which can be claimed by an individual earning commission or in business on his own account. Such an individual should not receive an allowance.

Actual costs will have to be used for travel expenditure where no allowance is received. The deemed private travel of 10 000 km does not apply to a person who does not receive an allowance from an employer.

Other expenditure (part 3.10) covers deductions not provided for elsewhere. Contributions to income continuation policies are deductible here. Commission earners will incur expenditure in the production of their income.

Such individuals may attach a schedule detailing the expenditure that they have claimed and reflect the total under this section. This expenditure may include wear and tear on assets used in the taxpayer's trade, home office expenditure, stationery, gifts to clients, telephone etc.

Wear and tear may be claimed on study furnishing (10%), computer equipment (20%), books (33,3% straight line) etc. Computer software is deductible in full in the year of acquisition. Your telephone expense should be claimed as a separate cost to the use of your home for business as the percentage business use will differ.

Individuals with their own business should submit an income and expenditure statement. The net income figure and the add-back of disallowable and domestic expenditure, such as a part of private travel, is disclosed in part 13. The final taxable income from the business is then reflected in part 2.4.5.

Part 8 of the return requests an analysis of your rental income and associated expenditure. Such expenditure may include bond interest, insurance, rates and taxes, repairs, but no improvements, wear and tear on furniture (if furnished) and so on.

The period that the property was let must be given and reasons supporting why it may not have been let for the entire year. If a net rental loss occurs, you are requested to give reasons why the property was bought and why a loss occurred.

In the year in which you acquired the property, you would have completed part 10.1A of the return reflecting the purchase details and reason for acquisition. If your intention for the use of the property has changed, for example, from residence to rent producing, this should be clearly indicated to support the deductibility of the loss.

A loss on rent-producing property that was acquired for retirement may be disallowed as capital expenditure.

Holiday homes may also be rented out during the year when the owners do not wish to occupy them. Expenditure incurred while you are using the property is not deductible. Generally, holiday home rental losses are disallowed on the basis that you are renting out the property to recover your holiday costs.

If you can show that your primary intention is to obtain rental income and it is a well-planned investment, you may well succeed in claiming a deduction.

Rebates (part 7) are deductible from tax payable. These rebates may be claimed in the 1991 tax year.

- Primary rebates — married person R2 100, married woman R700, unmarried person R1 800.
- Secondary rebates — child first five each R100 and R150 thereafter; married person 61 to 64 years R120, or married person 65 years and older R2 100.

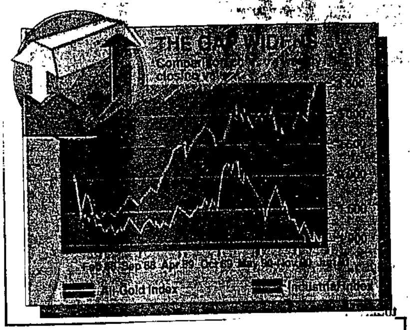
Married persons include a male not living permanently apart from his spouse, a widow or widower, a person entitled to a child rebate.

A man who is married in the year is taxed as a married person for the entire year. A woman who married during the year has two tax periods and must prorate the single and married rebates accordingly.

The child rebate can be claimed for a child or stepchild who was alive for any period in the tax year, or unmarried and under the age of 18 years, or under the age of 21 and wholly or partially maintained by the taxpayer and not liable for normal tax, or under the age of 26 and a full-time student wholly or partially maintained by the taxpayer and not liable for normal tax, physically or mentally incapacitated, wholly or partially maintained by the taxpayer and not liable for normal tax.

The statement of "not liable for normal tax" is important because a child earning income which is subject to Site only, is not, for the purpose of obtaining the child rebate, deemed liable for normal tax.

Copies of Pay Less Tax can be obtained at a cost of R27 (including GST and postage) from Deloitte Pim Goldby — Pay Less Tax, Box 578, Cape Town 8000.



Tax uncertainty lifts industrials

S/Times Bus/T 28/4/91. 1/89 320 0321

By CURT VON KEYSERLINGK

THE GOVERNMENT'S failure to make clear rules for taxing profits on share dealings has helped push the industrial share index to a record high, say brokers.

The index hit 3 552 points on Friday for a gain of 34% since last October.

"Prices are rising because there are few sellers," says Dawid Meades of Meades De Klerk. "Many people are holding on to their shares because they do not know if they will be taxed on the profits they make if they sell.

"I have a client who bought shares for R1,30 apiece last year," says David Cobbett of Simpson McKie. "He wants to sell now, but fears he may be taxed because they are now quoted at R2,10."

Receiver

The confusion over tax has arisen because the Government has not yet given guidelines to distinguish between someone who buys shares in the expectation of selling at a profit in the short term — he is classified as a dealer and therefore taxed on his profits — and an investor who manages his portfolio to maximise his long-term gains.

All that is known for sure is that the Receiver will not tax profits on shares sold after they have been held for at least 10 years. There is less clarity on the tax implications of dealings with shares that have not been held that long.

Mr Meades says that by world standards, the value of shares traded on the JSE is a small percentage of total market capitalisation.

Quoting from a recent presentation by the Old Mutual, Mr Meades says shares are so tightly held that it would take an investor between three and six months to acquire R10-million worth in companies such as Nedcor, Liberty, UBS, Amic, AECI, Sappi and Safren if he were able get 25% of those shares coming on the market.

It would take between 12 and 18 months to build up a similar position in companies such as First National, Stanbic, Fedsure, Murray & Roberts, Premier, Pick 'n Pay and TSI.

It would take more than 18 months to do so in NBS, Volkskas, Afrox, Dorbyl, Ellerine, McCarthy, SA Druggists, Consol, Edgars and Foschini.

"There is such a shortage of scrip that Sappi's share price hit an all-time high even though it reported a 38% drop in earnings earlier this month," says Mr Meades.

Mr Cobbett says: "SA Breweries is a good share, but its price seems high because it will soon face competition in beer."

Other factors in the market's rise are: strong institutional cash flows, a dearth of rights issues, an improved political outlook and better economic prospects. Lower inflation trends have given hope of further interest rate cuts in the next quarter.

Consolidated Fund Managers says the fact that few big rights issues are likely soon will put more pressure on fund managers to buy industrials.

"Gold shares are no longer in fashion," says Sanlam senior general manager Ronnie Masson. "So a lot of institutional money is flowing into industrials. Industrial shares are becoming expensive, but I do not expect a crash — perhaps a minor correction.

Nervous

"Foreigners have for some time been net sellers of SA stocks, but recently it seems that some are shifting out of golds into industrials. Others, who have never done so before, are asking about industrials.

"It is perhaps because they are considering investing in SA, but are still nervous about setting up their own factories here. They are dipping their toes in the water by buying shares that they can get out of at short notice."

Mr Masson says the gold index was higher than the industrial index before the October 1987 crash, but the opposite is now true.

Govt could lose R1,5bn in GST if companies delay capital spending

B'Day 29/4/91 (320)

GILLIAN HAYNE

GOVERNMENT could lose up to R1,5bn in GST revenues if companies delay their capital purchases until after the introduction of VAT, tax experts say.

And, they add, the 15% deduction allowance, announced by Finance Minister Barend du Plessis to encourage companies not to postpone their capital good purchases, is not a sufficient incentive for companies to continue buying under the GST system.

Coopers Theron du Toit tax adviser Andries le Roux said: "It does not really seem a worthwhile incentive for accelerating such purchases."

He said in the final analysis it would probably be left to the vendors of capital goods to find practical ways of convincing their buyers not to delay capital purchases through rental and lease transactions and other innovative means.

However, one tax expert warned that companies choosing the rental route stood the risk of having the scheme attacked as having insufficient substance.

In other words, Revenue could declare the scheme a disguised sale and as such the company would have to pay the 13% GST. It would also risk being fined 10% a month on the unpaid GST and it would lose the 15% depreciation option.

Another tax expert defended the use of rental schemes saying: "As the law stands now, rentals with an option to purchase are not shams. As long as they are carefully drawn up Revenue will not be able to attack them — unless specific anti-avoidance legislation is introduced."

Le Roux explained that the 15% deduction means the enterprise will deduct an amount equal to 15% of the cost price of all capital goods purchased before September 29 1991 and thereafter also apply the normal wear and tear allowances.

The deduction is therefore comparable to the initial allowance that was, and in certain circumstances still is, allowed as a deduction. A further implication is that the deduction will be taxable once the capital asset is sold above or equal to its cost price.

"It is clear the concession is nothing more than an acceleration of depreciation," Le Roux said.

In fact, in terms of current Income Tax provisions, a company buying R100 000 worth of capital goods before VAT, will be R6 760 worse off over a five-year period.

onstrations as well as live music by the cele-

Herbert Mabuza

Certain shops still taxing bread

Star 29/4/91

320

By Paula Fray
Consumer Reporter

Consumers — faced with variation in the price of bread from outlet to outlet — could still be paying tax on bread despite the commodity's being exempt since the industry was deregulated.

Housewives League vice-president Jean Tatham says insufficient publicity has been given to the fact that bread is GST-free and must be a certain weight.

Price control was lifted and the bread subsidy scrapped at the beginning of March.

According to the league, bread is GST free as long as it is baked with wheaten flour (rye bread is excluded) and weighs more than 200 g.

The Star has, however, received queries from consumers unsure whether they should pay tax. The league also found that several stores were still charging tax.

Since price control was scrapped there has been a variation in prices, and a survey in March found some cafes charging R1,50 for a white loaf. This has now settled down and a yardstick, says the league, is R1,10 for brown and R1,20 for white.

"Some cafes in Johannesburg charge R1,35 for brown and R1,50 for white. Such profit margins are quite unjustified and the league advises people to shop elsewhere and spread the news," Mrs Tatham says.

She emphasises that all breads have to have certain weights: 200 g, 400 g, 800 g, 1,2 kg or 1,6 kg. Shoppers should weigh a few loaves to check the weight. Tolerance, such as 5 percent less or 10 percent more, is allowed.

- Consumers who are charged tax for bread can contact the GST inspectorate of the Department of Inland Revenue at (011) 836-2361.

The league advises consumers to report to Trade Metrology at (012) 428-6068 if bread is not the correct weight.

Registration of charities

Star 29/4/91

320

As we have seen, "persons" whose annual turnover in respect of "taxable supplies" exceeds R150 000 will be required to register as vendors.

But a "person" whose turnover is below the threshold will be able to volunteer to register as a vendor provided the business is carried on regularly or continuously.

The exception: "Persons" who make only "exempt supplies" — such as our old friends in long-term insurance, and institutions ofering banking services, and educational institutions offering boarding — will not be able to volunteer.

Why should any "person" volunteer to register as a vendor?

The clue lies in the important "input tax" claims and the issuing of "tax invoices".

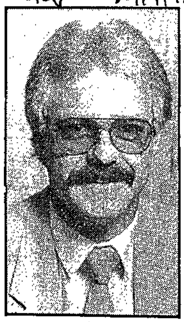
Remembers that only vendors can claim "input tax", whether at standard or zero rates, a proviso hammered home more than once in this series.

Disadvantage

A "person" who is not a vendor may find these provisions place his or her enterprise at a disadvantage.

They will have to pay VAT on every "input" cost, which they will not be able to claim from the Receiver of Revenue.

Inevitably, the "input" costs will form part of



VAT AND YOU

Eighth in a daily series by André Meyburgh, consultant on indirect taxation with chartered accountants KPMG Aiken & Peat.

the operating costs and the "person" would have to recover these by charging higher prices for goods or services.

Moreover, where this non-vendor trades with vendors, the latter will not be able to recover these hidden costs because the non-vendor will not be able to issue a "tax invoice", which will be crucial in every VAT transaction.

This could cause a chain reaction of price increases and might even lead to double taxation.

Clearly, then, a "person" whose "taxable supplies" each year will be below R150 000, and who trades mainly with vendors, will have to seriously think about voluntary registation.

Charities which may incur VAT on "input costs" during the course of their operations, on the face of it, could lose out if they were not able to claim these back from the Receiver of Revenue.

In principle, the government is moving away from granting relief through the tax system, preferring to follow the recommendation of the Margo Commission that the needs of the disadvantaged should be met by direct assistance through, for example, grants and subsidies built into each annual budget.

However, any welfare organisation which carries on an enterprise which supplies goods or services but does not charge for them (in VAT phraseology, "for no consideration"), may register as a vendor. Furthermore, government subsidies paid to these organisations will be taxed at zero rate.

Orphanage

This means, for example, that an orphanage registered as a vendor, which supplies goods and services "for no consideration" can claim "input tax" paid on items such as food, clothing, stationery and other operating costs.

In cases where registration is voluntary or desirable, it should not be assumed that the Commissioner for Inland Revenue will automatically approve the application.

If he refuses to do so, his decision will be subject to objection and appeal.

TOMORROW: Value on which VAT is charged.

Readers who have specific value-added tax questions or problems are invited to address these to: Managing VAT, KPMG Aiken and Peat, PO Box 7400, Johannesburg 2000. Replies will be dealt with confidentially, but interesting issues raised may be discussed in general terms in this series.

'Gains tax to raise funds for housing?'

Cape Times 30/4/91 (320)

Municipal Reporter

A CAPITAL gains tax could be a useful way of raising funds for housing, Cape Town City Council suggested yesterday.

The ANC has already suggested in last month's edition of its magazine "Mayibuye" that such a tax should be implemented to give a future government sufficient revenue to finance extensive social programmes.

At yesterday's monthly meeting, councillors endorsed a three-page memorandum drawn up by the council's housing committee for submission to the government by way of comment on its new housing policy.

The government's new policy concentrates heavily on "site and service" schemes in which people build their own dwellings.

"The present lack of funding should not be considered a valid obstacle to the provision of housing," the council's memorandum said.

"Innovative sources of finance must be investigated and exploited, for example bonus bonds, tax-free investments, investments by pension funds, lotteries and a capital gains tax."

The council also suggested that the government's housing policy should provide for a range of options.

These options should include low-cost conventional housing for rental and purchase, as well as assisted self-help housing and serviced sites.

Land for housing should be identified close to job opportunities, the memorandum suggests, and every development must allow for upgrading over time.

The new national housing policy should also address the question of retaining rented housing stock, the council suggested. Since 1983, when the council began selling off its houses and flats to tenants, its housing stock has dropped by over 60%.

Mayor of Cape Town Mr Gordon Oliver complained at the meeting yesterday that councillors had barely had time to read the memorandum before they were asked to endorse it.

Mrs Eulalie Stott, chairman of the housing committee, said the government had asked on April 12 for comments on its housing policy, and it wanted these to be submitted by the end of this month.

Option premiums to be taxed in 'VAT oversight'

(320)

GILLIAN HAYNE

IN AN apparent oversight in the VAT Bill, option premiums will be subject to VAT despite the fact that all other financial services are exempt.

Futures traders said taxing premiums paid on options would add another nail to the coffin of the thinly traded market.

B Day 3/4/91

Burden

Malcomess Hawkins & Breakell partner Keith Breackell said although financial services were exempt from VAT — for example, "the provision or assignment of a futures contract through a futures exchange" — the granting of an option had not been included.

The burden in most cases would not even be lightened by an input tax credit as only registered vendors could claim credits, and only to the extent that exercising the options gave rise to taxable supplies.

Since the underlying instruments of options — gilts, equities and bankers acceptances — were exempt from VAT, exercising the options would not give rise to taxable supplies, Breakell said.

National Futures and Options MD Brett Stacey said because of the volatility of the SA market, premiums were already high to cover the buyer against moves in the underlying instrument.

"Adding VAT would kill the market by making options too expensive."

Anomaly

Another futures trader said SA was trying to encourage foreign participation in its options market. VAT would prevent SA from competing for foreign investment as the options would be over-priced.

Paying tax on a premium while the underlying instrument was exempt was an anomaly that was difficult to understand.

Sources at the offices of the Commissioner for Inland Revenue conceded that some amendments to the Bill would be required to rectify the problem.

Anti-VAT exemption drive

1/5/91

Johannesburg City Council will vigorously oppose Government plans to exempt, instead of zero-rate, VAT on municipal rates and taxes.

Star 1/5/91

Announcing plans to lobby other councils, management committee chairman Ian Davidson claimed at last night's meeting that the city would be worse off if the Minister of Finance was allowed to ignore pleas for zero-rating, and the ratepayers would have to foot the shortfall.

(320)

Based on last year's budget, exemption from VAT meant R161 million would be collected from ratepayers, and R104 million would be spent in respect of operation and capital accounts, a sum reclaimable from Government. — Municipal Reporter

The special rules formulated to determine VAT payments

Star 1/5/91

320

Now we come to the special rules, the first of which deals with instalment credit agreements.

In VAT terms, there will be no distinction between hire purchase agreements, financial lease agreements and instalment sale agreements.

They are all regarded simply as "instalment credit agreements".

This is where it gets interesting. We also for the first time introduce the tax fraction formula.

All instalment credit agreement transactions involve interest and financial charges, which, we know, are classified as "financial services" and are therefore "exempt" from VAT.

To get around this apparent anomaly, a special rule has been introduced for instalment credit agreements to determine the amount on which VAT is to be charged.

This says that the *cash value only* of the goods bought on instalment is subject to VAT.

But what happens if the goods bought in terms of an instalment credit agreement are repossessed?

In such a case, the buyer or lessee of the goods is deemed to have made a "supply" of goods to the finance house.

If the buyer or lessee is a registered vendor, the outstanding amount of the cash value will be treated as the "consideration".

The vendor will calculate and pay "output tax", using the tax fraction formula.

To calculate the VAT component which is included in a consideration, the formula is the inclusive consideration multiplied by 12 and divided by 112.

The financier then will claim the same amount as "input tax".

In this way, the partial setoff between the "input" and the "output" taxes is maintained.

However, once again we come to an exception.

This approach will not apply if a repossessed car were to be financed under an instalment credit agreement and the purchaser were to be denied an input tax credit when entering into the agreement (VAT and the purchase of "motor cars" as defined in the VAT Bill will be dealt with later).

VAT AND YOU

Tenth in a daily series by André Meyburgh, consultant on indirect taxation with chartered accountants KPMG Aiken & Peat.

Another special rule deals with rental agreements.

These include rentals of movable and certain immovable property, operating leases, and financial rental agreements.

Where any of these "goods" are rented by a vendor, the full amount of the rental, including any finance charges, will be taxed.

Another special rule applies when "supplies" are made between what the VAT Bill calls "connected persons".

They merit attention because supplies made between connected persons present a potential area for tax evasion or avoidance, hence the need for special rules.

The description of "connected persons" in the Bill is comprehensive. For our purposes, let us understand simply that these could be people such as shareholders in relation to their company or partners in relation to their partnership.

Any supplies made between them and their company partnership will not be considered in VAT terms to be at "arm's length".

Consequently, special rules apply to supplies made between connected persons. These provisions arise because of the self-assessment nature of the VAT system.

Let's look at some examples:

Where supplies are made between connected persons, and the recipient of the goods or services is *not* a vendor, the VAT payable will be based on the open market value of the supply.

Where, however, supplies are made between connected persons who are both vendors, VAT is payable on the value of the actual consideration charged by the seller.

A more extreme example illustrates the point: If Vendor A supplies goods to the value of R1 million to connected person Vendor B for a nominal R112, Vendor A will pay output tax of R12 (the tax fraction of R112) and B will claim input tax of R12.

If B had *not* been a vendor, VAT would have been paid on the full R1 million.

Yet another special rule applies to race horse betting.

VAT will be charged on the value of bets placed by punters with bookmakers or the totalisator (the vendors).

Where the vendor pays out any winnings, he will be able to claim input tax equal to the *tax fraction* of the payment, made to punters.

However, punters will be pleased to know that VAT will not be imposed on their winnings.

Where the supply is made for "no consideration", for example, where goods are donated, the value of the consideration is nil, unless the supply is made between connected persons and where the recipient is not a vendor.

TOMORROW: Documentation required for VAT.

Readers who have specific value-added tax questions or problems are invited to address these to: Managing VAT, KPMG Aiken and Peat, PO Box 7400, Johannesburg 2000. Replies will be dealt with confidentially, but interesting issues raised may be discussed in general terms in this series.

Effect of turnover tax on banks 'dramatic'

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GRETA STEYN (320)

THE new turnover tax on interest would slice R131m off the combined profits of the Standard Bank group, First National and Nedcor, says a Davis Borkum Hare analysis of the banking sector.

As a percentage of their incomes for year-end 1990, this amounted to 8,4%, 7,6% and 7,9% respectively — described as a "dramatic effect" by analyst Graham Baillie. He says the banks will seek to offset this additional cost by increasing non-interest revenue.

"It is anticipated the cost of having a bank account will increase substantially in the year ahead," he predicts, pointing out that the introduction of VAT would add to the cost-raising effects of the turnover tax. Because financial services are exempt from VAT, banks pay VAT on their inputs but cannot charge tax on their outputs.

The major impact will be on the cost of operating their communication networks because VAT is levied on telecommunication services previously GST-exempt. The cost of administering the tax will also exert pressure.

Operating costs in the banking industry, with few exceptions, are increasing faster than inflation. Says Baillie: "Finance is a service industry, highly labour-intensive and not profiting by the same continuous gains in productivity as manufacturing industries. For this reason the banking industry is particularly susceptible to the ravages of inflation as labour prices tend to rise without the concomitant increase in productivity."

Heavy investment in computers and technology point towards non-interest revenue being measured in terms of breakeven analysis where the volume of transactions is all important. For this reason, economies of scale are sought by competing for increased market share.

Correct documentation will be crucial

Star 2/5/91

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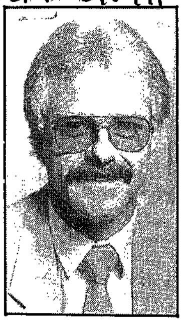

VAT AND YOU

Eleventh in a series by André Meyburgh, consultant on indirect taxation and chartered accountants KPMG Aiken & Peat.

The value-added tax system will be invoice-driven.

It follows that every player on the VAT board will have to be meticulous about issuing and holding documents in respect of all transactions, because records will play a vital role in the efficient operation of the tax, in monitoring tax evasion, and in assisting the Receiver of Revenue during routine investigations.

Indeed, the VAT Bill makes it compulsory for vendors to issue specific documentation in the form prescribed by the Commissioner for Inland Revenue, and they will have to comply by either adapting existing documents or by introducing new documentation.

Because, as we have stressed, this documentation is so crucial to the way in which VAT operates, it is worth discussing the requirements in some detail.

The prescribed documentation comprises "tax invoices", "debit notes" and "credit notes". These are all tightly interwoven in a special VAT relationship with "vendor", "taxable supplies", "consideration", "input" and "output" taxes.

At the risk of being repetitive, we need to explain each part of the relationship to obtain clarity.

The VAT game begins when the "consideration" paid for "taxable supplies" exceeds R20.

We'll start by examining the difference between a "tax invoice" and an "invoice".

An "invoice" self-evidently can be any document which notifies an obligation to make a payment. A "tax invoice", however, is a special invoice on which specific VAT-required information is printed.

In the VAT system, the issue of an "invoice" and a "tax invoice" both will generate an "output tax" liability. However, it will not be necessary to issue both "tax invoices" and normal invoices. It would make sense for vendors to issue only "tax invoices" when "taxable supplies" are made.

And, as we have previously noted, no vendor will be permitted to claim any "input tax" from the Receiver of Revenue unless he is in possession of a valid "tax invoice", debit or credit note.

Because these documents may be issued only for "taxable supplies", only vendors will be allowed to issue them. Moreoever, they will be permitted to issue only *one* document in respect of each transaction.

If a "tax invoice" were to go astray, a duplicate may be issued, provided the words "copy only" are printed on the face of the document.

Where traders normally issue invoices in duplicate or triplicate, we suggest these be clearly marked "duplicate" rather than "copy" to avoid confusion.

In summary, then, every vendor who makes "taxable supplies" where the "consideration" exceeds R20 will be obliged to issue "tax invoices", debit and credit notes when requested to do so by the buyer.

Let's look at how it will work: If Vendor A issues an invoice to the value of R112 to Vendor B, and Vendor B pays the amount, Vendor A will be liable to pay "output tax" of R12 (remember our tax friction formula) to the Receiver of Revenue.

However, Vendor B will not be permitted to claim "input tax" paid of R12 until Vendor A issues a "tax invoice". Vendor B therefore will be foolish if he does not insist on getting his "tax invoice" with little delay because it would materially affect his cash flow.

The nature of some transactions make it impractical for the supplier to issue "tax invoices", debit or credit notes. The reasons vary from enterprise to enterprise and space precludes any helpful examples, but they can introduce a curious reverse responsibility.

In such cases, the VAT Bill allows suppliers to apply to the Commissioner for Inland Revenue to have the *recipient* issue the documents instead. If approval is granted, it then will be illegal for the supplier to issue any "tax invoices", debit and credit notes.

Where any information printed on a tax invoice changes, (that is, part of the "supply" is cancelled or the value changed), a debit or credit note will be required. These documents also will have to contain certain specific information (set out in the VAT Bill) in order to be classed as debit or credit notes.

Where, however, settlement discounts are given, there will be no requirement to issue debit or credit notes if the conditions of the settlement discount are printed on the face of the "tax invoice".

The VAT Bill does envisage cases where vendors could find it impractical to issue "tax invoices" and debit and credit notes. If so, they will be able to apply to the Commissioner for Inland Revenue for permission either not to issue them at all, or to omit certain information from such documents.

Obviously, this power will be exercised only in limited circumstances.

TOMORROW: Bases amd time of accounting for VAT.

Readers who have specific value-added tax questions or problems are invited to address these to: Managing VAT, KPMG Aiken and Peat, PO Box 7400, Johannesburg 2000. Replies will be dealt with confidentially, but interesting issues raised may be discussed in general terms in this series.

VAT adds R6-bn for consumers

Star 2/5/91

(320)

By Tom Hood

CAPE TOWN — Consumers will be R6 billion a year worse off as a result of VAT imposed on a wider range of spending, Professor Brian Kantor estimates.

Professor Kantor, director of the School of Economics at the University of Cape Town, says business on the other hand will pay R7 billion less tax on goods.

What consumers needed most to keep down prices was a burst of investment spending by industry.

A lack of investment over recent years had limited competition and enabled industry generally to improve its profit margins.

Replacing sales tax with VAT would go a long way to addressing this problem."At least a third of the revenues from sales tax were derived from taxing inputs into the production process."

The tax savings on big ticket items like capital goods would be substantial.

The longer it took for prices of output to follow the prices of capital goods downwards, the more favourable the cash flows of business and the lower would be the relative price of capital goods.

"One is hoping that these advantages will be passed on rapidly as demanded by competitive forces, but clearly the initial advantage is with business".

Doctors will contest VAT

320 Star 2/5/91.

Own Correspondent

DURBAN — The South African medical profession, furious at the prospect of becoming "tax collectors" when VAT is introduced this year, has declared war on the new system and announced that it will fight the Government to prevent the introduction of tax on their services.

The powerful Medical Association of South Africa (Masa) has voiced its objections to Minister of Health Dr Rina Venter. Both Masa and the Dental Association of South Africa are to have urgent meetings this month.

The introduction of VAT on medical fees will have the effect of increasing medical bills by about 12 percent.

And the associations object to the public having to absorb this increase, and to their members having to handle vast amounts of tax money on behalf of the Government.

It has been revealed that meetings are already being held all over the country to plan strategies to fight the implementation of VAT on medical services.

The Natal coastal branch of Masa is to hold a special general meeting next month to deal with VAT, and the Natal branch of the Dental Association also has a special VAT meeting planned for next month.

Implications

It is believed that physiotherapists will follow suit.

A resolution to refer the VAT Bill back from the Joint Committee of Finance has been discussed in Parliament.

The president of the Natal coastal branch of Masa, Dr Mark Schreiber, confirmed that Natal members had called for a special general meeting.

"We propose to mount a drive to persuade the Government to give medical services a zero rating.

"The public may be aware of taxation on rates, but we do not think they have realised what the implications of VAT on medical services could be.

"If doctors have to charge VAT on consultations, it will become the patients' responsibility to pay the amount.

"Doctors will then have to become like tax collectors, and will probably end up having to ask for the tax money up-front."

Dr Shreiber said VAT on medical services was unacceptable because it would be yet another added cost for the public, while the logistics of the exercise was "crazy".

Masa secretary-general Hendrik Hanekom said: "We urge Parliament to heed calls from the various sources not to proceed with VAT on medical services.

"Masa calls for the zero-rating of health services.

"We are not insensitive to the economic realities with which the Government has to cope, but are of the opinion that the political and social implications of the taxation of health services may be far-reaching."

He said that since medical services had never before been taxed, "there was no question of the redistribution of the tax load as applied to other services".

"It is not reasonable to expect doctors and other providers of health services to subsidise this tax, with the outcome that the patient would invariably have to bear the costs."

Materials

The president of the Natal branch of the Dental Association, Dr Renton Tindall, said: "We are holding a special seminar to discuss the issue and how it is going to affect us.

"Presumambly, VAT will now have to be charged on materials used — the cement for fillings, for example — which means we will have to charge the patient VAT on the consultation and on the materials."

He said the mechanics of the VAT issue "were confusing, to say the least".

Time of supply sets date of tax liability

Star 3/5/91

320

The bases of accounting in the value added tax system are the "invoice" or "payments" basis.

An "invoice", as explained in the previous article, is defined as any document which notifies an obligation to make payment.

Invoices are based on the accrual method and the timing for VAT liability purposes will be either the time of invoicing, or the time any payment is made, whichever is the earlier.

Since most businesses now use the invoice system of accounting for tax purposes, application of the invoice basis for VAT is unlikely to cause too much change in operation.

The payments basis will recognise the time any payment is actually made or received.

Only certain classes of vendors will be permitted to account for VAT on the "payments basis" which, by its nature, will not have a detrimental impact on cash flow.

The few are local authorities, public authorities and associations not for gain, as well as the large sector of small businesses — vendors who have to register because their annual turnover in respect of "taxable supplies" exceeds R150 000 but which does not cross a threshold set by VAT legislation at R1 million.

But to work within the system and to claim back "input taxes", these classes will still be liable to issue "tax invoices" and debit and credit notes.

Everyone else will have to use the invoice basis of accounting for VAT.

Earlier, we dealt with the general and special rules that will apply to the "value" of supply.

There are similar set of rules that deal with the "time" of supply, and vendors who will account for VAT on the invoice basis will have to be aware of them.

In general, and very logically, the "time" of supply will determine the date of which the VAT liability of a transaction will arise.

Once again, where no specific rule exists, the general accrual rule will apply.

VAT AND YOU

Twelfth in a daily series by André Meyburgh, consultant on indirect taxation with chartered accountants KPMG Aiken & Peat.

Readers who have specific value-added tax questions or problems are invited to address these to: Managing VAT, KPMG Aiken and Peat, PO Box 7400, Johannesburg 2000. Replies will be dealt with confidentially, but interesting issues raised may be discussed in general terms in this series.

● A booklet comprising all the articles in this series will be available soon and can be ordered from The Star Promotions, PO Box 1014, Johannesburg 2000, at R20 plus GST.

One special rule will apply to enterprises which offer customers "lay-bye" terms.

These businesses will be relieved to know they will not have to pay VAT on the deposit or any subsequent payments for lay-bye goods. The tax will apply only when the buyer takes delivery of the goods.

Special rules will also apply to rental and instalment credit agreements.

In the case of rental agreements, VAT will be payable at the "time" each rental becomes due or is paid, whichever is the earlier.

On the other hand, instalment credit agreements will be taxable at the "time" the goods are delivered or *any* payment is made, whichever is the earlier.

This is not good news for financiers of goods sold under instalment credit agreements. They will be liable to pay the tax of each instalment in advance, although these payments will be collected by them only over a period of time, which will give rise to a negative cash flow.

They will not be able to seek relief through a debtors' allowance.

There is also a special rule for VAT applicable to fixed property transactions. This aims to provide partial relief for builders whose cash flows would otherwise be badly hit.

Where a builder who is a vendor sells a house, for example, and VAT is payable on the purchase price, he will be liable to pay the full tax on whichever is the earliest date of:

● six months after entering into the agreement; or

● on the date of registration; or on the day he receives any payment.

Punters who bet on racehorses will have their bets taxed at the time the bet is placed (remember, winnings will not be taxed).

There will be two rules for fringe benefits.

The *employer* will be liable for VAT at the end of each month where the cash equivalent of a benefit — such as a company car — is required to be included in an employee's monthly remuneration.

Where, however, the cash equivalent is not required to be included in the employee's monthly remuneration, the VAT liability arises on the last day of the employee's year of assessment.

We now meet those strangely worded characters, "connected persons", again.

The relationship between them and their companies (or partnerships) appear to present loopholes to circumvent the VAT process, which the VAT Bill seeks to close.

To prevent postponement of the payment of tax, for example, there is a special rule in respect of supplies between "connected persons".

The rule will apply to three categories:

● The supply of goods which are to be removed.

● The supply of goods which are not to be removed.

● The supply of services.

The tax liability will be triggered in the first instance at the time the goods are removed; in the second, at the time the goods are made available; and where services are rendered, at the time the service is performed.

A thorough understanding of how these rules work will help vendors escape penalties.

Moreover, with careful planning, vendors will be able to apply them quite lawfully to obtain cash flow benefits (which will be described in a separate article).

MONDAY: Tax periods.

● VAT by Tape cassettes are available at R34,50 (including GST) from The Star Promotions, PO Box 1014, Johannesburg 2000.

Tax pitfalls — and how to avoid them

S/Times (Bus Times) 5/5/91. 320

By DES KRUGER and VICKY TAYLOR, consultants with Deloitte Pim Goldby

TAX PLANNING opportunities in investments, using parts 10.1, 14 and 15 of the annual income-tax return are examined in this fourth and final article.

Income from investments can be split into two basic categories:

- Profit or loss on disposal of investments — for example, shares, Krugerrands, fixed property — and
- Income from investments being interest, dividends and rent.

You are required to give details of the purchase, sale or redemption of certain investments in part 10, schedule A and B in the year of acquisition and sale or redemption.

Capital profits on disposal of investments are not taxable. But revenue profits are taxable.

The most important criterion for determining whether the nature of the profit is capital or revenue is your intention when you acquired the investment. If subsequent to the acquisition of the investment, you changed your intention for retaining it, this may have significant importance.

If you acquired the investment to retain it as a source of income from rent, dividends and interest, or for domestic use (as a residence) and not merely to resell it at a profit, the profit on sale will most likely be treated as capital.

You may have acquired property to develop and resell and later changed your intention to rent-production. You may, depending on the time span covering each intention and your reason for sale, still have a profit of a capital nature.

But be warned — speculative intentions when acquiring an investment normally result in the profit being of a revenue nature and therefore taxable.

Some guidelines adopted by the courts in determining the intentions are:

- The nature of the business or occupation of the taxpayer.
- The frequency of his or her past involvement in similar transactions.
- The length of time held.
- The nature of the asset.
- The reason for sale and the utility of such proceeds.

Your wording should be chosen carefully when completing schedule A (ii), B (ii) and B (vii), which request the reasons for the purchase and sale of the investment.

Where you have held shares on the JSE for at least 10 years before the date of disposal, they will now be referred to as "affected shares". The disposal of such shares will not attract income tax if you so elect.

Included in affected shares are additional ones obtained during the period by way of sub-division or capitalisation, provided that no consideration was paid for these further shares.

Part 10, schedule B (x) of the return now provides for you to elect in the year of assessment in which you make your first disposal of affected shares on or after March 14, 1990, whether the profit on sale will be deemed to be of a capital nature.

Selection of the capital route will deem the profit on sale of all future affected shares also to be of a capital nature.

This safe haven will be a source of comfort to shareholders who wish to realise their affected shares knowing that the revenue-capital nature of large profits can no longer be questioned.

Interest and dividends received from investments are disclosed in part 15. The exemptions for the 1991 tax year are:

- A maximum of R2 000 interest.
- All dividends received by or accrued to individuals on or after March 1, 1990.
- 80% of income derived from certain building society investments, Treasury bonds and Post Office Savings Bank investments. Such concession is available for those investments which were previously exempt from income tax.
- 80% by a third of partially tax-free building society dividends.

Investors in property unit trusts must be aware that the dividend portion of such income is treated as interest income.

Tax on partially tax-free building society and other previously exempt investments is being phased in over five years.

Expenditure incurred in earning dividend income is no longer deductible because it is now exempt from income tax. Dividend income is now reflected under part 11.3.

Income from purchased annuities is reflected under part 2.4.3. Because of the nature of the investment, there is a capital element which is not subject to income tax. The net after-tax return is accordingly enhanced.

You should carefully examine the after-tax return you receive on your investments. As one is not normally able to deduct the bond interest on one's residence, which is then effectively paid out of taxed income, it may therefore be beneficial to realise certain investments and reduce your bond on your residence.

Unplanned decisions regarding endowment and other insurance policies could result in unforeseen tax (part 2.2.2 and part 2.4.9).

These factors will cause an insurance policy to become non-standard, resulting in any gains becoming taxable:

- The policy is varied in certain ways or in circumstances.
- Premiums are not paid for a certain period.
- Surrendering all or part of the policy.
- Making it paid-up within the first 10 years unless the premiums do not exceed R4 000 a year.
- Accepting loans or cash bonuses in some cases.

Lastly, the statement of assets and liabilities (part 14) warrants some attention. This statement is required to be completed if you are a director of a company, member of a close corporation, a partner in a partnership, a farmer, or operating your own business.

Your assets and liabilities should be reflected at cost or book value. The reason for any significant increase in your net asset value over that of the previous year should be easily obtained from the information disclosed on your return, namely change in income, inheritance, profit-loss on the sale of investments etc.

It is, therefore, important that you compare your current and previous year statement before submitting your return. An unexplained increase in your net asset value can infer undisclosed income.

Copies of Pay Less Tax can be obtained at a cost of R27 (including GST and postage) from Deloitte Pim Goldby — Pay Less Tax, Box 578, Cape Town 8000.

Councils rethink VAT exemption

BDay 6/5/91 (320)

LESLEY LAMBERT

CAPE TOWN — Some municipalities have asked government to subsidise the administrative burden of exempting property rates from VAT and there are indications that, in retrospect, many regret having been granted the concession.

But they have been warned by Finance Minister Barend du Plessis that they will have to live with the consequences of their strongly politicised decision to lobby for the exemption.

In an interview on Friday, Du Plessis confirmed that some municipalities had requested state subsidisation of the additional administrative costs of separating property rates from other municipal service charges.

A spokesman for Inland Revenue said the tax department had received a number of submissions on the matter from municipalities.

But Du Plessis said he was adamant government would neither agree to requests for financial assistance nor withdraw the exemption.

His decision to grant the concession came after considerable political pressure

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□ From Page 1

from local authorities which argued that unless property rates were exempted, ratepayers would pay double tax.

But some municipalities have since discovered that the additional administrative costs resulting from the concession will have to be passed on to the other municipal service charges, such as electricity and refuse removal.

This could offset the benefit of the exemption, making the entire exercise futile.

Du Plessis said many municipalities were not aware of the consequences when they lobbied for the concession.

They did not seek the advice of the tax authorities and would now have to live with the consequences.

The exemption is one of a bare minimum granted under the new tax system.

The MINISTER OF FINANCE:

(1) (a) Bonds (stocks) as at 31/12/1990 — R2 990 397 000

(b) Government bonds (stocks) as at 31/12/1990 — R18 450 660 000

(c) Other investments (money market securities and cash) as at 31/12/1990 — R6 142 214 000

(d) Cash balance as at 31/03/1990 — R8 211 859

(2) (a) *Pension contribution receipts (members' contributions)*

1985/86 — R392 803 151
1986/87 — R474 827 249
1987/88 — R578 612 050
1988/89 — R656 825 162
1989/90 — R778 820 030

(b) *State contributions*

1985/86 — R1 080 074 653
1986/87 — R1 305 550 568
1987/88 — R1 590 942 661
1988/89 — R1 802 494 498
1989/90 — R2 143 353 859

(c) *Receipts from investments*

1985/86 — R1 028 087 033
1986/87 — R1 459 261 469
1987/88 — R1 787 467 215
1988/89 — R2 248 846 824
1989/90 — R3 307 126 876

(3) (a) Direct costs for the administration and maintenance which were debited to the fund. Amounts represent the costs for the actuarial assessment and regional establishment levy.

1985/86 — —
1986/87 — R 151 315
1987/88 — R 6 450
1988/89 — R 34 305
1989/90 — R4 320 253

The bulk of the direct costs is financed out of the Department's vote.

(b) (i) *Pensions (annuities)*

1985/86 — R 596 168 561
1986/87 — R 714 430 932
1987/88 — R 879 738 428
1988/89 — R 988 603 012
1989/90 — R1 154 949 493

(ii) *Retirement bonuses (gratuities, benefits paid on resignation and payments to estates)*

1985/86 — R379 377 947
1986/87 — R448 588 328
1987/88 — R496 751 235
1988/89 — R570 117 638
1989/90 — R720 976 896

(4) The date of the information furnished is as at 31 March 1990 unless otherwise mentioned.

Voters' list: names of White deceased persons

267. Dr W J BOTHA asked the Minister of Home Affairs:†

(1) (a) What procedure is followed in removing White deceased persons from the voters' list and (b) how long does this take; Hansard 7/5/91

(2) whether lists of White deceased persons with the same particulars that appear on the voters' list are made available to political parties, if not, why not; if so, what is the average time this takes;

(3) how many White (a) persons of 18 years and older have died since the voters' list for the general election of 1989 closed and (b) deceased persons have been removed from the voters' list since the voters' list for the said election closed;

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

B718E

The MINISTER OF HOME AFFAIRS:

(1) (a) During the processing of a complete death notice for the updating of the Population Register the names of such deceased persons are identified automatically by computer for deletion from the voters' list.

(b) As voters' lists are amended on a monthly basis, the deletion normally takes place during the month in which the notice is received.

(2) Yes. Particulars of inter alia deceased White voters are made available monthly per electoral division to all registered political parties by means of a list of deletions.

(3) (a) 61 494 deaths in respect of White South African citizens 18 years and older are registered with the Department for the period concerned.

(b) 56 191

The difference between the figures in (a) and (b) is because all the deceased are not registered voters whose particulars appeared in the voters' lists.

The difference of 5 303 is made up as follows:

4 296 pensioners without identity numbers.

376 persons over 18 in possession of old identity cards.

631 persons over 18 without any form of identification.

(4) The period 1 June 1989 (voters' lists for the general election of 1989 closed on 31 May 1989) until 28 February 1991.

SA citizenship

314. Mr P G SOAL asked the Minister of Home Affairs:

(1) How many Blacks in each independent Black state regained their South African citizenship in 1990 in terms of the provisions of the National States Citizenship Amendment Act, No 13 of 1978;

(2) whether any applications were refused; if so, (a) how many from each state, and (b) why, in each case?

Hansard 7/5/91. B794E

The MINISTER OF HOME AFFAIRS:

(1) Owing to the provisions of the Restoration of South African Citizenship Act, 1986 (Act 73 of 1986), which came into effect on 1 July 1986, no Black of any of the independent states applied in terms of section 3 of the National States Citizenship Act, 1970 (Act 26 of 1970), as amended by the National States Citizenship Amendment Act, 1978 (Act 13 of 1978) for South African citizenship during 1990.

(2) (a) and (b) Fall away.

University students registered in 1990

324. Mr K M ANDREW asked the Minister of Education and Training:

(a) How many (i) White, (ii) Coloured, (iii) Asian and (iv) Black students were registered in 1990 at each university falling under the control of his Department, and (b) how many of these students were first-year students, in each case?

B846E

The MINISTER OF EDUCATION AND TRAINING:

	(i) *White*	(ii) *Coloured*	(iii) *Asian*	(iv) *Black*
The North				
(a)	25	7	6	10 588
(b)	5	7	3	4 504
Zululand				
(a)	48	2	15	5 196
(b)	13	1	3	1 410
Medunsa				
(a)	235	18	117	1 649
(b)	20	5	24	509
Vista				
(a)	106	251	28	24 399
(b)	26	113	13	7 492

Tax concessions: amount lost

325. Mr K M ANDREW asked the Minister of Finance: Hansard 7/5/91

What is the total amount of tax lost or expected to be lost as a result of tax concessions granted to decentralised or deconcentrated industries in respect of the year ended 31 March 1990? 320

B847E

The MINISTER OF FINANCE:

It is estimated that the tax lost as a result of the granting of concessions to industries in decentralised or deconcentrated areas will amount to R19,0 million for the financial year ended 31 March 1990. Final figures are not available as many assessments, especially in respect of companies, have yet to be processed.

The original estimate of R1 million for the year ended 31 March 1989 has been increased to an amount of R21 million in the light of further information now available.

member of the community, would be able to stay alive to do their share in building a new South Africa. [Time expired.]

Debate concluded.

QUESTIONS

†Indicates translated version.

For written reply:

General Affairs:

IDT: total amount voted

*1. Mr J CHIOLÉ asked the Minister of Finance:†

(a) What total amount was voted to the Independent Development Trust in the 1990-91 financial year and (b) (i) how and (ii) when was this money (aa) allocated and (bb) spent?

B879E

The DEPUTY MINISTER OF FINANCE (Dr T G Alant):

The hon member is referred to the written reply to Question 2 in the House of Representatives, which was handed in on 15 April 1991 (Hansard, col 1031).

†Mr J CHIOLÉ: Mr Speaker, arising from the reply in Hansard in which was reported that the focus area is housing, education and health, and that more than R1 300 million has been spent on this, I should like to know whether any funds were voted in respect of White housing.

†The DEPUTY MINISTER: Mr Speaker, these funds were voted for the poorest among the poor. [Interjections.]

†Mr J CHIOLÉ: Mr Speaker, further arising from the hon the Deputy Minister's reply, I should like to know whether he is aware that R14 million is needed most urgently for the upgrading and restoration of White sub-economical housing in the constituencies of Pretoria West and Hercules, and if there is any possibility that initiatives may be launched to channel that amount for White sub-economical housing from those funds.

†The DEPUTY MINISTER: Mr Speaker, I am not ready to answer the hon member's question, and I suggest that he places the question on the Question Paper so that the responsible Minister may answer it. [Interjections.]

†The SPEAKER: Order! I put Question 2. [Interjections.] Order! The hon member for Hercules should constrain himself. When the Chair is engaged in announcing something or addressing the House, the hon member must take this into account.

Political exiles: number/cost

*2. Mr J CHIOLÉ asked the Minister of Home Affairs:†

(1) (a) What is the estimated number of political exiles that will return to South Africa and (b) what is the estimated cost involved;

(2) whether assistance of any nature from the United Nations, the United Nations High Commission for Refugees or any official of the United Nations is being considered in this connection; if so, what is the nature of this assistance?

B880E

†The MINISTER OF HOME AFFAIRS:

The hon member is referred to my media release of 5 March 1991, a copy of which I laid upon the Table on 12 March 1991, in reply to Question No 4 for oral reply (Hansard, cols 442 to 444).

†Mr J CHIOLÉ: Mr Speaker, arising from the hon the Minister's reply, I should like to know if the Government envisages any financial aid in respect of the settlement of exiles. If not, have explicit and clear instructions been given to the administrators of the Independent Development Trust that nothing from that fund is to be made available for the transportation, settlement or aid in respect of political exiles?

†The MINISTER: Mr Speaker, the Department has voted no moneys for the purpose of the return of the exiles. The expenditure which the Department incurs, is the normal expenditure to be incurred in respect of the return of any other person to South Africa. The majority by far of these people are South African citizens. This affects matters such as social aid and medical care. Just like that hon member has access to hospitals, they have access to hospitals. This is the basic expenditure involved, and this is what it is about.

†Mr J CHIOLÉ: Mr Speaker, further arising from the reply by the hon the Minister, I want to point out that I asked him whether explicit and clear instructions had been given to the administrators of the Independent Development Trust that none of the R2 000 million is to be employed for that.

†The MINISTER: Mr Speaker, there were no negotiations whatsoever with the trustees of that specific trust and to my knowledge they do not contribute at all in this regard. This is my information.

†Adv S C JACOBS: Mr Speaker, further arising from the answer by the hon the Minister, we should like to know if any monetary aid or any other aid from the United Nations is being employed or contemplated to be employed in this regard for the returning exiles.

†The MINISTER: Mr Speaker, the United Nations' chief commissioner for refugees has rendered no direct aid to South Africa. If he has rendered aid to political organisations which are assisting in this process, it is taking place altogether without our knowledge and support.

Craigieburn incident: SAP investigation

*3. Adv J J S PRINSLOO asked the Minister of Law and Order:†

(1) Whether, with reference to the reply by the Minister of Defence to Question No 87 on 28 February 1991, the police investigation into the incident during which two policemen were killed at Craigieburn near Umkomaas in Natal on or about 25 January 1991 has been completed; if not, (a) why not and (b) when is it expected that it will be completed; if so, what are the findings;

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

B881E

The MINISTER OF LAW AND ORDER:

(1) Yes, the Attorney-General of Natal has decided that the accused stand trial on charges of murder.

(a) and (b) Fall away.

(2) No, except to say that a provisional date for a trial in the Supreme Court, Scottsburgh, has been set down for 17 until 28 June 1991.

VAT: estimate 320

*4. Mr W U NEL asked the Minister of Finance:

(1) Whether his Department has made an estimate of the non-recurrent additional cash collection in the form of value-added tax (VAT) which will arise on the eventual sale of those inventories which will be in the hands of producers, manufacturers, wholesalers and retailers on the date of implementation of VAT and in respect of which sales there will be no deductible input credits; if so, what is the estimated amount; if not, why not;

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

B895E

†The DEPUTY MINISTER OF FINANCE (Dr T G Alant):

(1) No. Inventories held by producers, manufacturers, wholesalers and retailers on the commencement of the day on which VAT is implemented will have been acquired free of sales tax by vendors. VAT, as would have been the case if sales tax was in operation, will be collected only when such stock is sold and there will, therefore, not be any non-recurrent cash collection arising on the sale of such inventories.

(2) No.

Pmb N3 by-pass: cost of investigation

*5. Mr W U NEL asked the Minister of Transport:

(1) (a) (i) What has been the cost of the investigation into and the planning of the proposed N3 by-pass route to the east of Pietermaritzburg and (ii) in respect of what date is this information furnished and (b) (i) when will this investigation be completed and (ii) what is it estimated will the investigation have cost by completion;

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

B900E

Opposition to VAT law causes delay

B/Day 7/5/91

(320)

GILLIAN HAYNE

OPPOSITION from the House of Representatives is delaying the passage of the VAT legislation, but businesses say they will be hard-pressed to be ready by the September 30 deadline for VAT's introduction.

VAT's implementation date is unlikely to be delayed.

Deputy Finance Minister Theo Alant said: "A postponement would cause a disruption and a loss of valuable time and money. If we were to delay VAT now, we would merely have to go through the whole painful process again."

DP deputy finance spokesman Jasper Walsh said the chances of a delay in the introduction of VAT were unlikely following the political flak government had drawn had on the issue.

Although government had defeated the DP's call to refer the Bill back to the joint committee on finance, the House of Representatives was still opposing it.

"Behind-the-scenes negotiations between government and the House of Representatives are in progress. The Bill will

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probably be pushed through once they have reached a compromise," Walsh said.

He predicted the Bill would be passed late next week, at the earliest.

In last year's Budget, Finance Minister Barend Du Plessis said commerce and industry would have at least six months to effect changes in preparation for VAT.

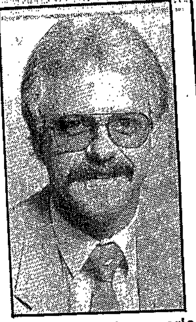
However, Fisher Hoffman Stride tax partner Anthony Chait noted that in the Budget speech this year, Du Plessis revised his undertaking and said that the six-month lead period would be from the date of tabling the legislation — not from the date of promulgation.

SA Institute of Chartered Accountants executive director Ken Mockler said companies were spending a large amount of money on system changes and training. Uncertainties were disrupting preparations, he said.

System has sharp teeth

Star 25/7/91 (320)

VAT AND YOU



Fourteenth in a series by André Meyburgh, consultant on indirect taxation with chartered accountants KPMG Aiken & Peat.

We have established the various "tax period" categories and will now look at how vendors have to comply with value-added tax payments.

The VAT system has sharp teeth in enforcing payment. There will be no ifs or buts, as we shall see.

It also offers some attractive ways of earning interest during tax periods.

In each tax period category, all vendors will be required to submit a return to the Receiver of Revenue on or before the 25th day of the month following the end of their respective tax periods.

Even if no tax is payable, it will be compulsory to submit a return for the tax period.

Where tax is payable, the payment will have to accompany the return.

VAT is also thoroughly up to date.

Legislation makes special provision for vendors to pay their VAT through electronic transfer.

Using this method, the deadline for paying the tax is on or before the last working day of the month following the end of the tax period.

The advantage is that the vendor could earn interest on the VAT he holds for an extra five days.

Where a vendor's input tax exceeds output tax, for example in exporting goods, it would be advisable to submit the return as soon as possible after the end of the tax period.

This will ensure that a refund is processed by the Receiver of Revenue's office sooner.

Moreover, the return will serve as an application for a refund of tax.

When a vendor fails to submit a return, or pays the tax after the prescribed period, the system bares its teeth. The Receiver will automatically impose a 10 percent penalty based on the tax due.

If the payment due is made on or after the first day of the second month after the end of a tax period, interest — at a rate yet to be announced — will be charged for every month or part thereof until the account is settled.

A delay of four or five days can make a substantial difference.

For example (and assuming all dates are "working days"), if the tax period ends on January 31 and tax is paid (without recourse to electronic transfer) on February 27 (two days overdue), the 10 percent penalty will be imposed.

If, however, the payment is made only on March 1, interest wil be added to the 10 percent penalty because the overdue payment now extends into part of a new month.

Similarly, where a vendor pays his tax by means of electronic transfer, and the transfer is made on March 1, penalties and interest will be imposed.

Discretionary powers are given to the Receiver of Revenue to remit in whole or in part any penalty or interest that was charged on late payment.

This power, however, will be exercised only in circumstances where the Commissioner for Inland Revenue is satisfied there was no intention by the vendor to postpone or avoid payment of tax.

TOMORROW: Calculation of VAT.

● A booklet comprising all the articles in this series will be available soon and can be ordered from The Star Promotions, PO Box 1014, Johannesburg 2000. The price is R20 plus GST.

Legislation rather clouded by some complex adjustments

Star 8/5/91 (320)

The manner in which a vendor's value added tax liability will be calculated was explained in an earlier article and the method of claiming "input tax" against "output tax" is simple.

But VAT legislation is clouded by exceptions and quite complex adjustments.

As already indicated, the VAT return will be a self-assessment return, so vendors will determine their own tax liability.

Remember, too, that VAT is invoice-based. This being so, all "taxable supplies" listed on the return will have to be supported by documentary proof.

It will not be necessary to submit these documents — tax invoices, debit and credit notes — with the VAT returns, but they will have to be retained for inspection for at least five years.

It is also worth noting that no "matching" of "input tax" and "output tax" will be required. It will not be necessary to hold back claims on one stage of the transaction until the next stage is completed.

VAT AND YOU

Fifteenth in a daily series by André Meyburgh, consultant on indirect taxation with chartered accountants KPMG Aitken & Peat.

Can be claimed

In other words, an input tax for which a tax invoice has been received by the vendor can be claimed in the same tax period, irrespective of whether supplies were made or not.

The output tax of a vendor will largely comprise the total amount of tax charged by him in accordance with the "time of supply" rule during a tax period (see article 12 if you need to refresh your memory about "time of supply").

It will also be possible to include in the same output tax any tax recovered in respect of previously irrecoverable debts which had been claimed as a deduction.

Input tax will largely comprise tax paid by a vendor in respect of goods or services (in themselves "taxable sup plies") acquired by him during a "tax period".

And, as we have repeatedly emphasised, input tax may be claimed only if the vendor is in possession of a valid tax invoice, provided those goods or services were used to make taxable supplies.

We now arrive at a point where the meaning of all the VAT terms we have discussed have a bearing on transactions. We also enter the complex area of adjustments.

In the course of a transaction, where the goods or services acquired were used partly to make "exempt supplies" (which you will remember do not attract VAT, or allow for "input tax"), the "input tax" may be claimed only on that part or percentage of the deal that qualifies as "taxable supplies".

Certain "input taxes" are not allowed as deductions from output tax, although they may relate to goods or services used to make "taxable supplies".

These are:

- Entertainment.
- Club subscriptions.
- "Motor cars."

Two exceptions apply to entertainment.

Where a vendor normally supplies entertainment in the course of his enterprise — an hotelier, for example — and pays input tax on entertainment expenses, he may claim it as an input tax.

Where, however, such input tax relates to entertainment expenses incurred by the vendor in circumstances where his employee was compelled to be away from his place of residence in the course of his duties for at least one night, it may be claimed as a deduction.

No input tax paid in respect of club subscriptions may be claimed.

VAT legislation defines a "motor car" as a vehicle which:

- Is normally used on public roads.
- Has more than two wheels.
- Is designed mainly for the carriage of passengers.

Commercial vehicles, motorcycles, caravans, ambulances, vehicles designed to carry more than 16 persons, and vehicles with a mass exceeding 3 500 kg are specifically excluded from the definition of a "motor car".

Tax planning

This raises an interesting tax planning idea of whether executives would deem it worthwhile reducing VAT costs by buying an executive bakkie rather than sedan as a company vehicle?

If the vendor were to choose to acquire a sedan, for example, he would not be able to claim "input tax".

But if the choice were to be a "bakkie" (or motorcycle or a 16-seater bus), the "input tax" could be claimed in full.

Vendors who are traders in cars or financiers of car purchases may, however claim full input tax on "motor car" transactions.

Input tax paid on "motor car" maintenance of vehicles used for taxable purposes may also be claimed in full, but not if the vehicle is used by a vendor dealing in "exempt supplies".

All non-allowable input tax cleary creates a cascade effect which increases costs and reduces the intended simplicity of the VAT system.

I mentioned earlier that "input tax" may be claimed only if it relates to goods or services which are applied to make taxable supplies.

Where input tax has been claimed, and those goods or services are subsequently applied for non-taxable purposes, an adjustment needs to be made which will be treated as output tax.

● A booklet comprising all the articles in this series will be available soon and can be ordered from The Star Promotions, PO Box 1014, Johannesburg 2000. The price is R20 plus GST.

Think-tank meets on financial services tax

B|Day 8/5/91

GRETA STEYN

SENIOR bankers meet Finance special adviser Japie Jacobs today to hammer out a way in which to tax financial services instead of levying VAT.

The meeting follows two get-togethers last week during which bankers voiced objections to the proposed "turnover" tax and made some suggestions of their own.

Rumours have been rife that the turnover tax will be ditched in favour of another form of taxing banks and other financial services. Jacobs said yesterday no final decision had been made.

"I cannot yet say the tax on interest earnings will definitely be implemented. It will depend on the outcome of my discussions with bankers. But my own view is that it is the best way to tax financial services instead of levying VAT," he said.

He added participants in the financial markets had told him they were worried the tax would be a severe blow to the money and capital markets. "Their concern is that the tax will distort the interest rate structure in the markets. But I can give them the assurance this was never our intention. We do not intend hitting every trade in the markets with a tax."

This will allay the fears of small merchant banks that their jobbing activity in the markets would be severely curtailed.

Jacobs said five suggestions on how to tax the industry were under discussion but did not expand on this. While he supported the tax on gross interest earnings, he felt attention had to be given to the definition of the tax base. Some banks have suggested that transactions between banks should be excluded and that they should only be taxed on their interest earnings from non-bank investors.

8/5/91

SS 320

Government announced in the Budget it hoped to raise R170m from the tax in the second half of the fiscal year.

The tax will be implemented to coincide with VAT on September 30, although it is not really a form of VAT on financial services. Government decided to levy the charge on interest earnings as financial services would be exempt from VAT. Analysts calculate it could slice more than 8% off the pre-tax profits of the major banks.

Tax-free incentives to stimulate industry

Star 9|5|91 (320) (~~...~~)

By Peter Fabricius
Political Correspondent

The Government has announced a new financial incentive scheme to stimulate regional industrial development everywhere in the country except the central PWV and Durban areas.

Foreign industry will be paid up to R1 million per project to move to South Africa.

Minister of State Expenditure and Regional Development Amie Venter unveiled the new Regional Industrial Development Programme in Cape Town yesterday.

The main difference from the previous industrial incentive scheme — which is to be phased out — is that incentives will be based on profitability, and industrial development will be stimulated not only on the borders of the homelands but in all underdeveloped regions.

This will include some metropolitan areas such as Cape Town and the Port Elizabeth/East London complex.

The old policy came in for severe criticism because it was designed to bolster the now-defunct homelands policy.

Unlike the old scheme, which was open-ended, the new scheme will be based on performance.

Industries will be paid a tax-free cash grant for the first two years to overcome establishment problems and after that will receive a tax-free cash allowance for three more years — but based only on profit.

Amie Venter . . . revealed plan to boost SA industry.

No money will be given to industries to relocate within South Africa.

The Cape Peninsula, the Durban/Pinetown/Maritzburg area — except for the Durban core — and the "deconcentration area" around the PWV core will qualify for 60 percent of the establishment grant and 100 percent of the profit incentive.

All other areas except the PWV and Durban core areas will receive 100 percent of the establishment and profit-based grants.

The basic annual establishment grant will consist of 70 percent of total operational assets.

Total assets will be limited to R15 million for concession purposes.

The profit incentive is based on a complex formula — but cannot exceed the annual establishment grant.

Mr Venter said the new scheme would show improved results because the profit-orientation would select good performers and ensure cost-effectiveness of subsidy payments.

Mr Venter said there was still a need for regional industrial development in South Africa.

Only 30 percent of the population lived in the metropolitan areas, which contributed 62 percent to the gross domestic product.

The less-developed areas supported 70 percent of the population but produced only 38 percent of GDP.

He said that despite the good economic performance of the previous incentive scheme, it was extremely difficult to administer, complicated and financially open-ended.

It would be phased out without breaking contracts.

VAT set to cause huge medical aid fee rise

320 Star 9/5/91

By Jacqueline Myburgh

Medical aid subscriptions could rise by between 30 and 35 percent by the end of this year if VAT legislation remains unchanged, according to the financial manager of a firm of medical aid scheme administrators.

That means that an average monthly subscription of R400 could increase to about R520.

Kobus Stals, of Status Medical Aid Administrators, said the hefty increase would come as a result of the annual subscription increase of about 25 percent, plus the cost of VAT, which is to be levied on all medical services from October 1 when the new tax system is introduced.

Subscription fees are exempt from VAT, but Mr Stals said the cost of medical expenses paid by medical aid schemes would go up by 12 percent when VAT came on line, and this increase would have to be passed on to the member.

"Our expenses will go up, but our income will not," he said.

Medical aid schemes would therefore have to recover their expenditure on the medical services used by members through increased subscription tariffs.

Although VAT will be 12 percent, the subscription increase will be only about 10 percent since some medical aid expenses such as medication are already subject to GST.

(320)

Tax on imports from the TBVC states

Star 9/5/91.

So far we have focused on the application of value-added tax to "taxable supplies" made domestically by vendors of goods or services. We now turn attention to another important component of the trading mix — imports.

For VAT purposes, the categories are:

- Imports from TBVC countries (Transkei, Bophuthatswans, Venda and Ciskei).
- Imports from Bostwana, Lesotho, Swaziland and Namibia (the BLSN countries).
- Imports that are required to be cleared by the Department of Customs and Excise.

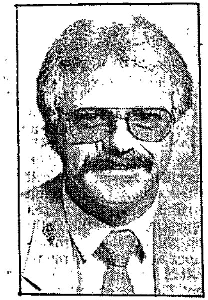
From the domestic viewpoint, you will remember that exports will be zero-rated except when these are shipped to the TBVC countries which fall outside the "export country" definition, in which case the standard 12 percent VAT rate will apply.

Despite this exception, we find on examining VAT on imports that although no special distinction is applied to imports from TBVC countries — imports from across their borders will be treated as imports — selective consideration will be given to the way these are taxed.

At the root of VAT treatment is the geographic relations these countries have with South Africa's borders — it clearly would be impractical to station Customs and Excise officials at every port of import — and the need by the taxman to claim his dues in the most practical manner possible.

Normally, only where imports are to be used in the making of "taxable supplies" in South Africa will the VAT on imports be deductible as an "input tax".

VAT AND YOU



Sixteenth in a daily series by André Meyburgh, consultant on indirect taxation with chartered accountants KPMG Aiken & Peat.

The importer who will be liable to pay VAT on incoming goods will not always be required to have these goods cleared by the Department of Customs and Excise yet he might be responsible for determining the amount of VAT payable, based on the customs value if the imports had been cleared at a Customs and Excise office.

In the case of imports from TBVC countries to be used for making taxable supplies however, no VAT will be payable. The result will be: No tax paid — no input tax claim.

It is a different story if the imports are to be used to make "non-taxable" supplies: that is:

- "Exempt supplies", or
- goods used or consumed outside the normal process of an vendor in making "taxable supplies", or
- goods used by "non-vendors".

In these instances, the importer will be required to submit a special return to the Receiver of Revenue and to volunteer payment of VAT within 30 days after the date of importation.

By definition, then, where goods are imported from a TBVC state by enterprise in the business of making exempt (or non-taxable) supplies, most notably the now familiar financial or educational institutions, there will be a VAT charge (say, on the importation of special stationery or books), and no input tax set off.

Similarly, if a vendor making taxable supplies, such as sports goods and apparel, were to import TBVC-made boardroom furniture, which certainly would not form part of the process of making clothes or shoes, there would be a tax on the goods which also would not be deductible.

Furthermore, where a non-vendor trader or the man-in-the-street imports goods frm a TBVC country, he will have to pay VAT, but will not have recourse to a claim back.

Remember that "persons" not registered as vendors do not really have any status in VAT terms.

To illustrate the point further, if a non-vendor were to buy groceries in a TBVC state to avoid VAT at the point of purchase, these goods would be still be subject to VAT once they arrive in the Republic.

TOMORROW: The BLSN countries and imported services.

Readers who have specific value-added tax questions or problems are invited to address these to: Managing VAT, KPMG Aiken and Peat, PO Box 7400, Johannesburg 2000. Replies will be dealt with confidentially, but interesting issues raised may be discussed in general terms in this series.

● A booklet comprising all the articles in this series will be available soon and can be ordered from The Star Promotions, PO Box 1014, Johannesburg 2000, at R20 plus GST.

BLSN countries and

Star 10/5/91

imported services (320)

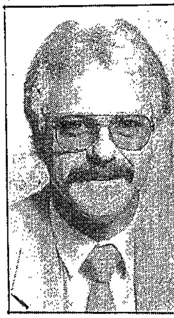
We've said before the value-added tax is a self-assessment taxing system. In the case of imports, as the previous article showed, it is sometimes a self-policing process.

When compared with imports from TBVC countries, all goods imported from Botswana, Lesotho, Swaziland and Namibia (the BLSN countries), as well as South Africa's other trading partners, will be much more straightforward.

But the process of taxing goods imported from these countries carries with it the burden of temporary double taxation and probable cash flow problems for the importer.

Where the goods from BLSN and other trading countries require customs clearance, they will be subject to VAT at the standard rate of 12 percent.

Goods imported from BLSN countries (although not cleared by the Department of Customs and Excise) will become subject to tax on the date on which they are imported.



VAT AND YOU

Seventeenth in a daily series by André Meyburgh, consultant on indirect taxation with chartered accountants KPMG Aiken & Peat.

Customs value

VAT will be based on the value that would have been the customs value had the Customs authorities cleared the goods. The tax payable will be collected by them.

In all cases where goods are cleared through the Department of Customs and Excise the tax liability will arise on the date the goods are cleared and entered for home consumption.

This is where the double taxation sting comes in.

The Customs authorities will levy VAT on the aggregate of the customs value of the imported goods, as well as on 10 percent of customs value, on all the duties, and on import surcharges.

Yes, indeed, you read the statement correctly. There will be VAT on customs duties and on import charges, in themselves taxes.

Moreover, only if the goods were to be imported by a vendor to make "taxable supplies" will "input tax" paid on these imports qualify as credit claims.

Where goods are to be kept in a bonded warehouse, no VAT will be payable until the goods are released. Bearing in mind the impact VAT will have on financial resources, this does provide planning opportunities to enhance cash flow.

But in general, importers will have to budget prudently for the additional cash flow that will be required to find VAT on imports.

There is one further proviso dealing with imported goods. Items brought in temporarily from any country for repair, maintenance or processing, and which do not become the property of the importer, will escape VAT.

The rules for imported services are not much different from the tax on imported goods from TBVC countries.

Any service rendered by a non-resident to a "person" resident in South Africa which will use such services to make non-taxable supplies will attract VAT, which will have to be paid to the Receiver of Revenue within 30 days.

No VAT will be payable where the resident intends using imported services to make taxable supplies.

Re-insurer

VAT applicable to the insurance business will produce a quirk. If, for example, a foreign re-insurer renders services to a South African life assurer, the life assurer will be liable for VAT (remember, financial services such as provision of life assurance are "exempt")

If, however, the overseas re-insurer renders services to a local short-term insurer, no VAT will be payable. Short-term insurance is defined as a "taxable supply".

TOMORROW: Tax relief for diplomats.

Readers who have specific value-added tax questions or problems are invited to address these to: Managing VAT, KPMG Aiken and Peat, PO Box 7400, Johannesburg 2000. Replies will be dealt with confidentially, but interesting issues raised may be discussed in general terms in this series.

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Unemployment benefits and PAYE

(320) (384) Star 11/5/91

Readers' queries

READERS who have queries about personal financial and investment matters are invited to write to Magnus Heystek, c/o Money Matters, PO Box 1014, Johannesburg 2000.

MR J Q of Mamelodi writes: As a novice in the working environment I understand that PAYE is deducted monthly from my salary. Please explain more about this and whether or not it can be retrieved eventually, when you resign or retire, etc.

Is it also possible to know the amount deducted at a certain stage while you are still working?

Secondly, assist me about UIF and explain how long it is paid to somebody who is unemployed. Does one get the same pay or salary while unemployed as during employment.

Sometimes employers deduct funds like death benefits, provident fund, etc from workers' wages and these moneys are not given to employees on resignation.

Apart from trade unions, where could one get legal assistance in regard to claiming moneys illegally withheld by employers.

ANSWER: I'm afraid I have bad news for you. The PAYE which is deducted from your salary every month is the tax that you and everyone else has to pay in terms of the laws of the land.

Everyone who earns more than a certain minimum pays income tax according to pay-as-you-earn scales which are determined by parliament every year.

The amount which must be deducted can be checked with your salaries department.It is not refundable as the money is earmarked for state expenditure on all sorts of items, like housing, education, hospitals, the police force and so on.

Your employer will be in serious trouble if PAYE is not deducted.

The same applies to your death benefit as this is an insurance. The fact that you don't use it (because you stay alive) doesn't mean you can get it back when you leave.

However, contributions to a provident fund are fully refundable and you should receive them from your employer when you resign.

As far as your query regarding the Unemployment Insurance Fund is concerned, people who lose their jobs are entitled to a weekly payment. This is equal to 45 percent of what was earned weekly in the last 13 weeks of employment.

There are limits though. You can claim one week's benefits for every six weeks you have contributed to the fund, to a maximum of not more than 26 weeks' benefits in any period of 52 weeks.

VAT AND YOUR BUSINESS

Electronic payment brings interest cash

(320)

By TERRY BETTY

THIS article is the first of a series based on material for a practically oriented series of workshops to be presented on May 20, 21, 23 and entitled, VAT — a day in the life of your business.

It will be held under the auspices of chartered accountants Levenstein & Partners. The presenters will be Tony Dreisenstock and Nick Friedland.

The articles are based on a manual to be presented at the workshops. The manual is available at R49,50 (excluding GST) from: VAT: Levenstein & Partners, Box 18600, Hillbrow 2038.

Inquiries for workshop registration: Tel (011) 484-3900.

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. S1Times (Bus Times) 12/5/91

BUSINESSES paying VAT electronically can hold the cash for three to six extra days.

If they pay by cheque it must reach the Receiver of Revenue by the 25th of the month after the tax period. But payment can wait until the monthend if the funds are transferred electronically.

Finance Department director Norman Patterson says: "We offer this bonus because electronic payment prevents the loss of documents in the post. It is an attempt to create a chequeless, more efficient society."

Businesses with an annual turnover exceeding R30-million must submit a monthly return. Those with a lower turnover need pay VAT only every second month.

Submitting returns in alternate months is advantageous when the VAT collected from sales is greater than that paid out on purchases. This happens when cash sales are high and large amounts of VAT are collected in the month of sale.

Expense

The business has access to this cash for an extra month, causing a positive cash flow. VAT collected would earn extra interest for the business in that month. The longer businesses can keep the cash the better it is for them.

Another advantage is the expense saved in submitting fewer VAT returns.

Sometimes it is better for a business with a low turnover to submit monthly returns instead. It could then ask the Receiver to be re-categorised.

It is compulsory to submit monthly returns if annual turnover exceeds R30-million.

This can be to the advantage of a business paying out more VAT on inputs than it receives through its sales. For example, an exporter's goods are zero-rated. That means he does not charge VAT, but can claim the VAT he pays on the manufacture of these goods from the receiver. Submitting monthly returns speeds up repayment, so increasing cash flow.

A farmer whose annual turnover is under R1-million can submit a tax return twice a year. This is best for farmers making a profit every month because they continually charge VAT, but only pay it to the Receiver twice a year.

But to qualify the farm must be registered as a separate entity and not be included with any other business.

On the other end of the scale a business with turnover exceeding R150 000 is obliged to register for VAT, charge VAT on goods and services, and is entitled to reclaim tax inputs.

Below this amount the vendor can, but is not obliged to, register. If unregistered he cannot charge VAT on his goods or services, but neither can he claim input tax credits from the Receiver.

Confusion over VAT refunds on capital goods

320

GILLIAN HAYNE

THERE is confusion among businesses about the extent to which they will be able to claim back VAT paid on capital goods, after it is introduced on September 30.

The VAT Bill states companies can claim a refund only on the tax paid — an input tax credit — insofar as the item is used to make goods or services which are subject to tax. This is known as the apportionment formula.

The formula is causing great concern as companies believe it will be almost impossible to determine the extent to which a capital item is used to make taxable supplies and exempt supplies.

Tax experts say companies need to determine what basis they will use to apportion their input tax liabilities and should obtain agreement from Inland Revenue in writing before VAT is implemented.

Under VAT, no input tax credit will be awarded for items used to make tax-exempt supplies or items used outside the course of the business. BDay 13/5/91.

KPMG Aiken and Peat tax consultant Andre Meyburgh says the apportionment formula is a nightmare. "To decide, up-front, the extent that a computer, for example, will be used to make taxable and exempt supplies will be extremely difficult. Most companies will have to thumb-suck a figure."

The computer could be used both to run hire purchase transactions and keep track of credit and debit balances. The former is taxable, the latter not.

Should companies find their ratios are inaccurate at year-end they will have to adjust them.

University of Cape Town tax professor John Morris says companies' accounting systems must be flexible so they can effect changes when necessary.

"Since apportionment is subjective, there will be instances when Revenue and the company disagree on the deductions claimed or allowed. The company must have clear evidence to support its decision and its invoices must be easily identifiable for checking by Revenue," Morris says.

Inland Revenue will give guidelines on apportionment once Parliament finalises VAT legislation. This should considerably ease the task of the taxpayer, he added.

However, the method of apportionment is largely at the discretion of the company and Morris suggests companies should carefully determine what would drive the apportionment and then obtain approval from Revenue.

Companies which use their capital goods to make taxable supplies at least 90% of the time can claim the full input tax credit.

Increase in govt revenue takes dive

SHARON WOOD

SUBSTANTIALLY lower GST and gold mining tax collections led to a small 2,6% rise in government revenue for the 1990/91 fiscal year, Central Statistical Services figures released on Friday showed.

Total government revenue rose to R67,8bn in fiscal 1990/91, from R66,1bn in the previous year. The revenue collections were 4,4% above the budgeted amount.

Iscor privatisation proceeds of R2,9bn buoyed the 1989/90 collections and when these are excluded revenue rose by 7,3% year-on-year in the 1990/91 fiscal year.

This increase was still considerably smaller than the 27,2% year-on-year rise in revenue (excluding Iscor proceeds) in fiscal 1989/90.

Large declines in revenue collections occurred in gold mine income tax (down 37,4%), import surcharges (-21,0%) and gold mining leases (-44,0%). GST collections rose by 8,6% during the year, after rising by 27,6% year-on-year in 1989/90.

The sharply smaller emphasis on the gold mining sector indicated that government help for the mining sector would not be forthcoming, said First National Bank economist Simon Willson.

"This missing tranche of revenue has shifted the burden onto other sectors of the economy, and explains the lack of cutting back on personal taxes in the budget.

"The GST underperformance is not surprising and underpins the authorities' decision to move to the broader based, indirect VAT system," Willson said.

crossed pay for it

Assegai issue 'may be resolved soon'

B Day 13/5/91

BILLY PADDOCK

CAPE TOWN — Government was confident of resolving the impasse over the carrying of assegais at political rallies and other "non-cultural" events.

A senior source said the May 9 ultimatum had come and gone and government had managed to find a way through.

And despite ANC deputy president Nelson Mandela having put the negotiations on hold until Thursday — by when government is called upon to ban the public brandishing of spears — negotiators believed they would find ways to keep the talks on track.

Negotiators were also confident they would be able to overcome the ANC's reluctance to participate in the summit on violence which is two weeks away.

One source said while President F W de Klerk may not have consulted Mandela about holding the summit, he had not set the agenda or prescribed a programme.

The programme and agenda still had to be planned with the parties involved.

De Klerk's job of finding a way to persuade Inkatha president Mangosuthu Buthelezi to accept the ban on assegais has been made that much more difficult by the weekend decision by Zulu chiefs that they would never compromise on the carrying of traditional weapons and the ANC Youth League's statement that it gave "unqualified support" to the ANC's initial seven-point ultimatum.

Last week Buthelezi warned government that any ban on spears would not be tolerated by Zulus and could spark even greater violence.

It is understood De Klerk would be involved in a fresh round of consultations with Mandela and Buthelezi this week.

Government negotiators started a fresh round of shuttle diplomacy at the weekend trying to arrive at a deal whereby spears would only be allowed at strictly cultural events such as KwaZulu's Shaka Day celebrations.

What was really required was that Buthelezi and Mandela meet each other and thrash something out, a source said.

What government needed was for the two leaders, or their representatives, to meet. Negotiators were keeping close contact with Mandela and Buthelezi in order to resolve the impasse.

One source said the Summit on Violence would also enable the two parties to thrash out a joint approach on preaching peace.

He said while there was an urgency for government to resolve the assegai issue they did not understand why they were given an absolute deadline of seven days.

● Comment:Page 6

Govt defends VAT on medical services

B Day 13/5/91

TANIA LEVY

VAT was imposed on medical services after the Medical Association of SA objected to government's initial proposal that these services be exempt, deputy Minister of Finance and National Education Theo Alant said in a statement at the weekend.

The imposition of VAT on medical services has been criticised, with the Representative Association of Medical Schemes estimating that it would add R410m a year to SA's private health care bill.

The average medical scheme member would have to pay an extra R180 a year, over and above annual increases.

Alant said government's initial draft bill had exempted medical services from VAT, although medicines would remain taxable.

The Medical Association of South Africa (Masa) had objected to this proposal, saying doctors would have to pay more tax on costs than at present. They would either have to absorb additional costs and make less profit or increase their fees.

Alant said Masa had estimated the cost of medical services would increase by no more than 7% as result of VAT.

PEANUTS

By Charles Schulz

Diplomats need certificates for tax relief

Star 17/5/91.

320

It is a common practice in tax law worldwide to grant tax relief to certain accredited diplomats.

For VAT in particular, South Africa is no different from other countries.

However, relief will be granted only to diplomats from countries who grant similar relief to South African diplomats.

Two forms of relief are envisaged.

In the simplest case, diplomats accredited to South Africa will pay VAT in the normal manner on all goods or services they acquire.

Any tax so paid will then be refunded by the Commissioner for Inland Revenue on receipt of an application for a refund.

Obviously, refund applications will have to be accompanied by "tax invoices" as proof of VAT payment.

VAT AND YOU

Eighteenth in a series by André Meyburgh, consultant on indirect taxation with chartered accountants KPMG Aiken & Peat.

In the second instance, the Commissioner for Inland Revenue may, at the request of the Director General, Foreign Affairs, issue a tax certificate in the name of a foreign diplomat.

When presented with this certificate, vendors will be entitled to charge VAT at zero percent. The trader nonetheless can still claim the full credit.

Remembering that the introduction of VAT is intended to remove certificates of exemption this diplomatic "privilege" is a rare exception.

However, it will be necessary for vendors to issue an invoice which details the name of the diplomat as well as the tax certificate number.

All vendors should thus be aware that unless a customer claiming to be a diplomat can produce a diplomatic tax certificate. VAT will have to be levied in the normal manner.

Passports will not do.

But what about tourists?

VAT makes provision for them in a somewhat circumscribed way.

A foreign visitor who buys goods and takes delivery while he or she is in South Africa and then "exports" the items when leaving for home will not be able to claim any refund.

The only manner in which foreign visitors will be able to escape VAT will be if the supply of goods is consigned and delivered to their addresses in an "export country" — a definition, remember, which specifically excludes Transkei, Bophuthatswana, Venda and Ciskei.

TOMORROW: Anti-avoidance measures.

Readers who have specific value-added tax questions or problems are invited to address these to: Managing VAT, KPMG Aiken and Peat, PO Box 7400, Johannesburg 2000. Replies will be dealt with confidentially, but interesting issues raised may be discussed in general terms in this series.

Finding added value a taxing effort

Star 14/5/91 (320) (326)

Vague additions to the total is how most consumers regard VAT (value added tax) which comes into effect on September 30 this year at 12 percent.

Of particular concern to Lynn Morris, national president of the Housewives League, is the Government's agreement to zero-rate only mealie meal and brown bread despite Vatcom's recommendations that maize products, bread, rice and milk powder all be VAT exempt.

"This means basic proteins will cost more, as well as fresh fruit, vegetables and all the other foods presently GST exempted," she says.

"The Government has announced VAT exemption for rail, bus and taxi commuter services. However, this does not mean no tax on fares — only the final charge between commuter and transport operator will not attract tax.

"Capital goods will enjoy input credits which means manufacturers and business will not pay tax on these goods (presently taxed at 13 percent).

"These savings should be passed down the line in calculating the cost of a product to the consumer. Regrettably, I cannot see this happening," she said.

"It seems the Government too, has doubts about these benefits reaching the consumer — they are to set up a special VAT watchdog group to ensure this actually happens.

"The amount involved is between R500 and R600 million a month or about R7 billion a year. That's money in anyone's language. The Government must be vigilant in this matter and prosecute offenders. If consumers do benefit I shall gladly eat my words of doubt."

Of the other areas due to be affected by VAT, the most controversial is municipal rates. This is where input credits on capital goods should have an effect. Some cities and towns are reported to be considering action and only time will show how matters develop.

CAROLINE HURRY

TOMORROW

Medical VAT stays 'with Masa support'

(320)

BDay 15/5/91

BILLY PADDOCK

CAPE TOWN — VAT on medical services would remain and was in keeping with representations from the Medical Association of SA (Masa) to Vatcom, Deputy Finance Minister Theo Alant said yesterday.

In a statement he said that as a result of Press reports he wanted to place the issue in perspective.

Government's proposals in the draft VAT Bill last year were that medical services be exempt from VAT, but that medicines remain taxable.

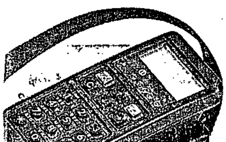
In its representations, Masa said if fees were to be exempt from VAT practitioners would not be entitled to a credit for the input tax they would pay and would thus have to absorb the extra costs.

The credit would apply in the case of zero rating or standard rating.

He said Masa asked for services to be zero rated, but if that was not the case, it would prefer the standard rate to an exemption.

He said Masa presented a typical example of a medical practitioner's financial statements, showing that costs of medical services would increase by no more than 7% as a result of VAT "provided practitioners passed on the full benefit of input tax to their patients".

Alant said the cost of all medicines would decrease by one percentage point because VAT was being imposed at 12% instead of the 13% of GST.



Government rethinking VAT on medical costs

320

Star 15/5/91

By Derek Tommey

The Government may change its decision to impose VAT on medical services.

It is understood that after strong representations from various medical bodies it has agreed to reconsider its original proposal.

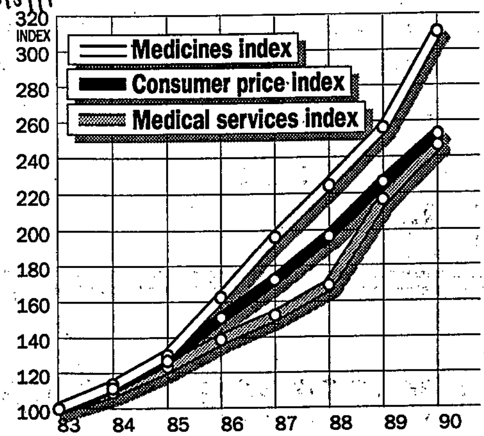
Medical officials are hopeful that the Minister of Finance Barend du Plessis will make an announcement on the matter within the next few days.

The Medical Association of South Africa (Masa) said earlier this month that it would fight the Government to prevent the introduction of tax on their services.

The Government has been heavily criticised by many bodies for its plan to put a 12 percent tax on all medical services.

One objection is that these services — which include charges by doctors, dentists, opticians, and other medical staff, and fees by hospitals and nursing homes — have never been subject to GST.

The imposition of VAT on these services will, therefore, open up an entirely new source of revenue.



VAT at 12 percent on medical services would be a heavy blow. Medical services are one of the few items whose cost has not exceeded the consumer price index, according to calculations by Professor Jan Hupkes of Unisa. In contrast, since 1983 the price of medicines has been rising at a compound rate of 20 percent a year.

To some extent this is in conflict with the idea that the change from GST to VAT is supposed to be "tax neutral".

The individual is not expected to pay more tax when VAT is introduced than is paid at present.

But this will not be the case if VAT is imposed on medical services.

Another objection is that VAT will make even more expensive what are already costly services.

Medical services account for two-thirds of the total medical bill.

The imposition of VAT could add hundreds of millions of rands to the nation's medical bills.

This, together with the expected inflationary increases in medical costs, could raise medical aid fees next year by up to 30 percent.

A third objection is that such taxes should not be imposed on essential services, especially as much of the higher costs will fall on the poorer section of population.

Opponents of VAT have called for medical services to be zero-rated.

Under this system, all VAT paid in the manufacturing process is refunded.

Failing that, they want medical services to be exempt from VAT.

This means that VAT is not imposed on the final price, with suppliers of medical services receiving no refund on the VAT they have already paid.

The medical profession is bitterly opposed to the imposition of VAT and has been engaged in intensive lobbying to have it revoked.

VAT passage slow but sure

6 | 2 91 LESLEY LAMBERT 1991

CAPE TOWN — The VAT Bill, which is due for a second reading before it is put to the vote, appears to be having a relatively smooth but slow passage through Parliament. 320

The exemption of municipal property rates from VAT is the only concession so far from Finance Minister Barend du Plessis.

And, anticipated resistance to taxation of food, medical supplies and other items which will affect the the poor has tended to be overshadowed by general approval of the broader principle of the new tax.

There is some concern in industry that the delay will curtail vendors' preparation time.

In his Budget speech, Du Plessis said the six-month period between final approval and implementation of the legislation would now run from the time the Bill was made public, which was after the Budget.

Plea to reduce transfer duty

Sowetan 16/5/91 (923) (320)

THERE is a strong case for reducing Government's compulsory transfer duty on home purchases as a way of cushioning homebuyers from the effects of VAT, says Camdon's Group MD Scott McRae, writes Ali Mphaki.

The transfer duty adds significantly to the cost of home purchases and in effect amounts to a "tax" on the home buyer, he points out.

"The duty is set at 3,5 percent. On a R150 000 home therefore, irrespective of whether it is bonded or not, the home buyer has to find an additional R5 250.

"In the case of a bonded property, the common practise is to extend the size of the bond to accomodate this cost. But over the life of the bond this adds significantly to the overall cost of the home," he said.

McRae asserts that it would obviously be far more preferable to utilise those funds, in part, towards the deposit on the home, so reducing the repayment burden and helping to keep homes more affordable generally.

It could be argued that Government cannot afford to lose the revenue, says McRae. However at 12 percent tax on builders services, VAT will more than off-set any loss of revenue.

Moreover, greater affordability of housing will generate greater demand from homebuyers and homebuilders and VAT applied to the myriad services and supllies that are involved would further boost tax receipts.

'One city, one tax base' plea for Cape Town

320 ARGUS 17/5/91

Business Staff

GREATER Cape Town should get a single metropolitan authority and should follow the "one city, one tax base" concept, outgoing Cape Town Chamber of Commerce president, Mr Lionel Hartmann said.

He told the Chamber's annual meeting yesterday the Regional Services Council system had so far failed to effect the rationalisation of a single municipal service in the four years of its existence.

"I believe that one of the stronger gusts in the winds of change needs to be directed toward blowing away petty obfuscation and the protection of local empires to pool services that will better serve the region on a metropolitan-wide basis.

"These units need not necessarily all be undertaken by public authorities and some could be better managed by private sector consortia or utility companies."

The opportunity must be taken to consolidate local government at the metropolitan level because the central government was currently giving this matter consideration.

"Apart from the various bureaucratic armies that provide a host of municipal services, there are also bureaucratic legions that service the administrative needs of a plethora of small and large local authorities that operate in our region."

Not only were the savings from rationalisation a goal but the achievement of greater efficiency in public administration should be looked at.

"The business community is increasingly being exposed to the icy winds of international competition, and firms are having to sharpen up their act and raise their levels of cost-efficiency to survive.

"The public sector also has to play its part in reshaping this country into an effective competitive economic machine that will succeed in overseas markets," Mr Hartmann said.

The Chamber was strongly in favour of the "one city, one tax base" concept and was concerned that government was withdrawing its financial support for essential services and was threatening to withdraw even further.

"Firstly, we must say to the government that they cannot abrogate their responsibility to provide a minimum level of essential services to all the people of this country, and we in this region insist that they accept this responsibility."

VALUE-ADDED TAX FM 17/5/91

WHITHER TBVC? (320)

Among the loose ends still to be tied up before VAT is up and running is the politically sensitive issue of the TBVC countries. The

FM 17/5/91 (320)

problems are acute with exports from SA, which the VAT Bill treats as fully taxable (exports to other countries are zero-rated).

As things stand, SA VAT will be a cost to importers in all TBVC countries. In Transkei, Ciskei and Venda there will be double taxation — SA VAT plus local GST. Bophuthatswana has no GST but imports from SA will nevertheless be loaded by 12% VAT, including imports of raw materials for manufacturers who have relocated from SA.

A sensible solution would be for TBVC countries to introduce VAT at the same rate as SA and to set up a clearing system to offset VAT debits and credits between members. The agreement should also include a revenue-sharing system to adjust net balances between governments. Obviously, setting up VAT in the TBVC countries will impose major administrative requirements, which are being addressed at the moment.

Clearing system

Under a clearing system, TBVC importers bringing in goods from SA would logically be entitled to an input tax credit in so far as they are making taxable supplies.

Regrettably, unless some way is found to deal with these issues by the end of September, there will be severe dislocations to export trade from SA to the TBVC countries.

Imports from the TBVC countries to SA used in making taxable supplies (in respect of which the importer would qualify for an input tax credit) are exempted from VAT in terms of the Bill. Exempt businesses such as certain financial enterprises and individuals will however have to pay VAT on imports from TBVC countries within 30 days. ■

Medics worried by VAT threat

Sowetan 17/5/91 320

HEALTH FILE

By MOKGADI PELA

THE Medical Association of South Africa has expressed concern about the cost implications for the patient should VAT be charged on medical services.

The organisation has instead, called for the zero rating of health services.

Masa secretary general Dr Hendrik Hanekom this week urged parliament go heed calls from various sources not to proceed with its implementation.

He said Masa had accepted the Government's intention of spreading taxation more evenly by means of VAT.

"However, since health services were not taxed before, there is no question of a redistribution of the tax load," Hanekom said.

He cited the implications of charging VAT on medical services as: 80 percent of the population do not belong to medical schemes.

They either provide for their own health care expenses or are dependent on the State.

"Because the former will have to absorb the additional costs of VAT themselves, it is highly probable the second group will grow, thereby placing further pressure on limited State resources."

* The private sector is under pressure to provide affordable health care. It cannot be reasonably expected of doctors and health care workers to subsidise "this tax".

A possibility exists that chronically ill patients and the aged will not seek care timeously because it is the State's responsibility to ensure accessibility to health care.

Hanekom said health was a basic right of every individual.

"It is not a commercial commodity for which the consumer can budget," he said.

PENSION FUNDS FM 17/5/91.

TAXING SAVERS

320

Trade unionists and socialist politicians realise all too well that their political powers would be enhanced if they had greater influence over the resources of existing pension funds, both private and public. But nothing would be quite as potent in their hands as a compulsory State pension scheme.

These are matters that have been raised in recent weeks at the Institute of Life & Pension Advisers' convention in Durban and at the Pensions Institute of SA's congress in Cape Town. They are likely to gain in controversy as the reform process gathers pace and while the economy is jerking along on a plateau of minimal growth.

SA has an unfortunate history of pension fund resources being used by the State for its own purposes. By forcing private-sector funds to place a proportion of their investments in official securities yielding returns at below market rates, Pretoria has been able to borrow cheaply for its apartheid purposes. One outcome is the persistent rate of inflation that is so impoverishing us.

Having been brazen enough to tap pension funds (through prescribed investments) outside its immediate control, government was hardly likely to be less delicate in using public-sector pension funds for its own purposes. The secretary of the former Public Debt Commissioners used to be open about the fact that at times he was required to invest these funds in a manner that was not always in the long-term interest of future pensioners.

Fortunately, Pretoria has moved some way from those old and bad habits. But they had made impression enough on the investment community and those who knew what was happening for there to be a storm when in the Eighties government proposed a State pension fund.

This was shelved in favour of compulsory pension transferability which, in turn, was opposed by black trade unions. Black workers preferred the reduced future security offered by provident funds, but higher cash payouts on resignation. So compulsory transferability was dropped and provident funds became the favoured means of mollifying trade unions.

The parrot cry now is for the considerable resources of all these pension funds to be invested in what are glibly referred to as more productive investments to get the economy moving again and increase the number of jobs available to the unemployed. Simultaneously there is a move to channel some of these resources into spending on housing and other worthy social projects. Indeed, Finance Minister Barend du Plessis echoed these words at the pensions congress in Cape Town this week.

This all sounds very socially acceptable and caring. But as often happens with economics and investment, what appears to be socially desirable is often, on closer scrutiny, the cause of economic decline and social deprivation.

The problem is not that pension funds are investing in unproductive investments that are too safe. It is that we have insufficient savings because for too long government, for its own purpose, forced interest rates to levels too far below the prevailing rate of inflation. Simply put, they taxed savers to pay for apartheid.

Now, by suggesting that savers (through pension funds) invest in high-risk or non-productive social projects, they want to tax them to mitigate the social harm that years of apartheid have brought.

But the matter does not rest there. None of this would be necessary if government stabilised prices (for government and government alone is the cause of inflation) and reduced taxes to stimulate investment — once, of course, it has brought some peace to the townships. For not only do we suffer from a steeply progressive tax structure, but the total level of tax on each rand earned (some accountants say it could be as high as 75c in the rand) is far higher than in our major trading partners. No wonder investors are recalcitrant and that we have exchange controls to keep capital in by force of law.

Pension funds cash flows into the equity market *are* going into productive investments. They *do* form part of an upward spiral of industrial share prices. But these high share prices enabled quoted companies to borrow more capital from shareholders at lower cost. The reason that not enough companies are doing so needs to be sought, not in the imperfection of the share market, but in other factors.

Endemic unrest, injudicious talk of nationalisation and wealth redistribution and high and uncertain taxes are the areas those who want to see increased and more productive investment should examine more critically.

In humane societies certain social pensions for the aged, indigent and unwell have to be a direct cost on the taxpayer. But a compulsory State pension fund is a very different matter. Not only does it deprive ordinary people of the right to decide for themselves to what degree they wish to provide for their old age, but inevitably the cost on the fiscus becomes too much as government uses high pension benefits to secure voter support. At that stage there is invariably pressure for the entire pensions industry to be nationalised to bolster the State fund's solvency.

The investments of a State fund can all too easily be used by government as a mechanism for clandestine nationalisation. So instead of the State's share of total output reducing and thus increasing the efficiency of the economy and fostering growth, the opposite trend is reinforced.

There is no doubt that the pensions industry has been abused in this country by the apartheid government. But for future governments to continue that abuse would not only be morally indefensible but economically debilitating. The cost of social upliftment must be carried by all taxpayers, not just by those who, despite heavy odds, have been judicious enough to make provision for their old age. ■

Compromise on VAT calms LP

(320)

CT 18/5/91

Political Staff

THE Labour Party yesterday withdrew its opposition to the Value Added Tax Bill, following a last-minute compromise with regard to VAT on municipal services such as water and electricity.

It is understood that in terms of the compromise hammered out between Finance Minister Mr Barend du Plessis and the LP, VAT will be dropped on services up to a specific amount — possibly the first R100.

In a statement yesterday the LP said that in terms of a Thursday caucus decision the party had intended to vote against the VAT bill, as it was clear the poor "would be adversely affected" by VAT on municipal services.

The statement said that after the minister had given an undertaking to address the issue, caucus rescinded its decision to oppose the bill.

Mr Du Plessis said the levying of VAT on services should be seen "in a proper perspective".

Calculations had shown that in most cases the implementation of VAT at 12% would not necessarily mean a 12% increase for the consumer — in the case of medical services, for example, the effective VAT rate could be as low as 7%.

Further, he stated, exemptions on the face of things could mean a 12% saving for the consumer, which translated into increased costs might not only reduce the 12% saving, but also lead to structural cost increases.

Mr Du Plessis said it was expected implementation of VAT in its present form would in the course of time exert a "broad cost-reducing influence throughout the economy".

He said government envisaged being in a position after discussions with interested parties such as RSCs and suppliers of mass services to determine in good time what the net effect of VAT would be and also "where initially necessary and at all possible to take steps to soften the impact".

Speaking prior to voting on the bill yesterday — it was passed by all three Houses — the Democratic Party spokesman on finance, Mr Jasper Walsh, said the DP was opposed to the bill because the rate was too high and no adequate relief was targeted to compensate the poor for having to pay VAT on basic foodstuffs.

He said the introduction of VAT had been "traumatic" and was now shrouded with uncertainty.

PRETORIA. — The Minister of Finance, Mr Barend du Plessis, has told the Medical Association of South Africa (Masa) that he would hold a follow-up meeting with them soon on the proposed introduction of VAT (Value Added Tax) on health services.

Masa said in a statement yesterday this decision followed an urgent meeting with Mr Du Plessis on Thursday to discuss the implications of VAT on health services. — Sapa

Ratepayers to foot VAT exemption bill

S.Times (Bus Times) 19/5/91 (320)

By TERRY BETTY

EXEMPTION of assessment rates on property from VAT will not bring ratepayers the savings they might have expected.

City and town councils pay VAT on all their inputs. They would be entitled to refunds from the Receiver of Revenue of the VAT they paid if rates were subject to the tax. But because rates are exempted from VAT they will not be entitled to refunds.

Consumer

They will therefore have to cover the cost of their VAT payments by raising their rates. One source estimates that it will cost ratepayers countrywide an additional R300-million a year.

VAT-exempt rates will also add to the cost of doing business. Businesses are entitled to refunds of the VAT they pay. They will have to pay higher rates to cover councils' VAT expenses, but will receive no refunds.

Assessment rates subsidise libraries, parks, swimming pools, art galleries and other public facilities. It is the VAT incurred in running these services that makes the figure so large.

Johannesburg City Council senior deputy treasurer Lucas Opperman estimates that his council alone will incur an extra R40-million a year on irrecoverable tax expense. About R23-million of it will be reclaimed from the 130 000 ratepayers through assessment rates, and the balance capitalised.

"Johannesburg will recover its loss through rates, because recouping it through services, such as water and electricity, which are 'vattable', would proportionately push up the tax the consumer has to pay," says Mr Opperman.

Some municipalities asked the Government to exempt rates from VAT, saying it is a tax on tax. After the Government agreed to do so, they realised that they should have asked for rates to be zero rated and not exempted.

Had they been zero rated for VAT they would still be VAT free. But the councils would have been entitled to refunds of the VAT they pay on their inputs.

Mr Opperman stresses that Johannesburg did not at any stage advocate exemption.

But Finance Minister Barend du Plessis says councils will have to live with the consequences of their strongly politicised decision to seek exemption.

Flaws and all VAT is on the way

320

S/Times (Bus Times) 19/5/91.

By TERRY BETTY

THE VAT Bill was pushed through Parliament on Friday in spite of the fact that it contains contentious clauses.

Had it not been passed, VAT could have been delayed until early 1992.

The main objection is that industrialists are immediately eligible for full rebates of VAT they have paid on capital goods. This is a significant proportion of total VAT revenue and will drain the Receiver of Revenue's cash flow. He has been obliged to set the VAT rate higher than it need have been in the beginning.

This, in turn, places a bigger than necessary VAT burden on consumers.

The Labour Party in the House of Representatives was initially the main opponent of the Bill because it "should not be applied ... to the detriment of the needy and poor in the community".

But the party believes it is better than GST.

When VAT was introduced in several European countries industrialists were initially eligible for only partial credits on tax paid on their capital expenditure. They were entitled to full credits after only five years. This allowed the VAT rate to be lower.

SA's system of keeping the VAT rate high and having full refunds on capital goods has put the burden of supplementing the tax base more on the ordinary person than on business.

The medical and pharmaceutical profession, municipalities and regional services councils are asking for VAT exemptions. But a spokesman for Inland Revenue says VAT is to be introduced in as pure a form as possible.

"Assistance will be provided outside the Act in the form of subsidies and other financial aid, instead of ammending the Act.

"The Minister of Finance is having discussions with these people to ensure an easy passage for VAT's implementation".

Emergency

If the Bill had not been passed by all three Houses of Parliament, it would have gone to the President's Council, and could have been delayed until February.

But an emergency caucus meeting of the Labour Party before the vote decided not to oppose the Bill.

Observers say this was a move by the Labour Party to protect its future.

Les Abrahams, Labour Party finance member who sat on Vatcom, said meetings had been held with the Minister of Finance "to obtain clarification on matters affecting the needy and poor, and to obtain undertakings in other respects". He believed the necessary changes would be made.

VAT AND YOUR BUSINESS

The conditions for becoming a vendor

S Times (Bus Times) 19/5/91 (320)

THIS is the second article in a series based on material for a series of workshops to be presented tomorrow and on Tuesday and Thursday.

The organisers are chartered accountants Levenstein & Partners. The presenters will be Tony Dreisenstock and Nick Friedland at the Sunnyside Park Hotel, Johannesburg.

The articles are based on a manual to be presented at the workshops. The manual is available at R49,50 (excluding GST) from: VAT: Levenstein & Partners, Box 18600, Hillbrow 2038.

Inquiries for workshop registration: Tel (011) 484-3900.

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.

IT WILL be compulsory for vendors to charge VAT on goods and services when their supplies exceed R150 000 a year.

Only a vendor can charge VAT on the value of his supplies and receive input credits for the tax he pays. The proposed Bill defines a vendor as anyone carrying on an enterprise.

To be classified as such all these conditions will have to apply to the business:

● The enterprise must be an activity carried on continuously or regularly. So casual sales of second-hand goods and hobbies are exempt from VAT.

Even if a home-owner sells his residence for more than R150 000 he will not be charged VAT unless he continuously or regularly trades in residential property.

Another example is an individual entering into a once-off commercial transaction. Even if turnover on the deal exceeds R150 000, it is not a continuous or regular business, and so VAT will not be charged on the goods sold.

● Unless goods and services are supplied to "another person", the supplier is not an enterprise, and so not a vendor.

Holding and subsidiary companies are "other persons", so trade between them will carry VAT. But trade between branches or divisions of one company will not carry VAT and one tax return must be submitted.

But Section 50 (1) of the proposed Bill provides, on application, for separate registration of branches and divisions if they can be separately identifiable with reference to their location or nature of activities.

They would have to maintain an independent accounting system.

● Another requirement for an enterprise is that a consideration must pass between the two parties. A consideration includes any payment made or to be made, whether or not for money.

For example, in a barter transaction where the consideration is not for money, the open value of the goods must be used for VAT.

Where something is sold for R10 000 and only R2 000 need be paid immediately, the consideration is R10 000 and VAT will be levied on this amount.

Goods transferred for nothing between two companies will be free of VAT as the consideration is nil.

But where the companies are "connected persons", and the recipient company is not a vendor, VAT will be charged on the open market value of the goods supplied.

This is to prevent abuse of the system when the recipient company cannot receive credit for the VAT it pays because it is not a vendor, and so will transfer the good for the lowest possible value.

A deposit made at the start of the contract is not a consideration if it is merely used as a security. But when the deposit is used in part settlement of the debt or is forfeited, it is regarded as a consideration and VAT will be levied on it.

One exception is a deposit on a returnable container. It is regarded as a consideration, so VAT will be charged on it and not be refunded together with the deposit.

COMPANY ROUND-UP

PRELIMS	Turnover (Rm)	% change	Profit before tax (Rm)	% change	Earnings a share (c)	% change	Div a share (c)	% change
Morkels	268,3	+31	19,2	+64	23,7	+64	10,0	+43
Inhold	—	—	—	—	77,8	+46	28,0	+40
Investec	—	—	—	—	120,0	+37	56,0	+40
MediClin	N/A	+40	29,7	+48	12,9	+9	4,0	+33
Penpin	228,3	+32	6,1	−1	15,2	−26	7,0	−22
Penboard	68,8	+46	1,7	−33	8,2	−31	3,5	−30
Yabeng	—	—	15,9	+40	28,6	+38	21,0	+31
Titaco	73,2	−18	2,1	+144	29,9	+182	4,5	N/A
Drop-Inn	153,8	+25	5,0	+12	26,1	−3	5,0	−69
SA Brew	15385,0	+16	1384,0	+19	265,0	+18	118,0	+17
Amcoal	1818,8	+4	536,8	−5	1095,7	+7	425,0	+10
CMS	58,1	+43	4,2	+86	8,6	+13	3,5	+17
GIC	74,1	−3	6,7	+4	90,0	−2	50,0	0
Compass ▲	—	—	23,3	N/A	40,75	N/A	4,0	N/A
Tongaat	3798,4	+2	212,5	−25	190,6	−19	73,0	−8
Woodrow	40,5	+22	3,5	+39	18,0	+12	6,0	+20
[illegible]	44,8	+15	[illegible]	+11	18,4	+11	[illegible]	[illegible]

VAT Bill passed after crisis meeting

BDay 20/5/91.

LESLEY LAMBERT

CAPE TOWN — The VAT Bill was passed in Parliament on Friday when the Labour Party withdrew its opposition after an emergency meeting in which Finance Minister Barend du Plessis agreed to address the question of tax on municipal services.

Sources said Du Plessis had agreed to consider exempting water and electricity bills up to a certain amount. Du Plessis agreed earlier this month to exempt municipal property rates from the tax. 320

Du Plessis said in a statement on Friday that levying VAT on services, particularly medical services and water and electricity, would affect low-income consumers.

He said government would take steps to soften the impact of VAT, where necessary, but stressed it would prefer to do so by way of direct measures rather than permanent changes to the tax system.

Du Plessis said government envisaged being in a position to determine what steps could be taken to soften VAT's impact after consultations with interested parties.

However, he said calculations had shown that in most cases the implementation of VAT at 12% should not necessarily mean a 12% cost increase. In the case of medical services, for example, the effective rate could be as low as about 7%, Du Plessis said.

'Cutting tax will abolish poverty'

THEO RAWANA (320)

THE most effective way to stamp out poverty was to go for economic growth by reducing taxes and government intervention, Free Market Foundation executive director Leon Louw told the Ground Swell conference in Johannesburg on Friday.

Louw said SA was already one of the highest taxed countries, with gross tax revenues at all levels the highest as a proportion of GDP.

Coercive redistribution of wealth sought by some would be administratively impossible and enormously conflict-provoking. BIDay 20/5/91

Redistribution of wealth via a voluntary and free market would be achievable in practice, conflict-reducing, just, rapid, and accompanied by high economic growth.

"This would mean that not only would the victims of apartheid receive a rapidly growing proportion of the country's income and wealth, but the aggregate amount of wealth would itself be increasing in such rate that the absolute condition of the poor would be improved substantially and rapidly even without a proportional redistribution in their favour."

He said the GNP of the world's highest growth economy, Taiwan, increased 12-fold between 1952 and 1982. While the wealthy became richer despite the fact that their share of national income declined from 62% to 38%, the share of the poorest 20% trebled. This was achieved with low personal taxes.

Govt may keep VAT on interest earnings

B Day 20/5/91 (88) (320)

LINDA ENSOR

CAPE TOWN — The confusion over the form of tax to be imposed on financial services which have been exempt from VAT has intensified, with signs pointing to government continuing with the unpopular tax on interest earnings announced by Finance Minister Barend du Plessis in his Budget.

Liberty Life joint MD Mark Winterton said there were indications that the alternative plan proposed by the banks for a tax on fees and bank charges had been rejected by Du Plessis's special advisor, Japie Jacobs, and that it was now back to a tax on the gross interest margin.

A representative of the banking industry confirmed at the weekend that the proposals for a tax on bank charges or salaries was "almost dead" as they presented too many difficulties.

However, another idea being mooted is a payroll tax to replace the 0,75% tax on the gross interest margin earned by banks.

Jacobs, who apparently made the proposal, would have to decide on what the actual percentage of payroll tax would have to be in order for government's requirements to be met. No percentage has apparently been suggested.

While it was impossible over the weekend to clarify what would be included in the definition of payroll, it is believed that this would incorporate the commissions earned by insurance agents and intermediaries, salaries, wages and fringe benefits.

Winterton said life assurers were neutral about a tax on remuneration as they had been assured that they would not pay more than a stipulated quantum of tax and that it was just the formula for payment that had to be worked out.

The banking representative said the problem with the payroll tax was where to draw the line as many financial institutions were involved in other unrelated activities, such as property services.

He said government hoped to raise between R380 m and R400m by taxing financial insitutions.

He said the route to be adopted would probably be a tax on gross interest margins, including all financial services, such as life offices and pension funds.

The confusion over the form of tax for financial services had drawn criticism from the life assurers who have stressed the need for certainty.

Old Mutual chief operating officer Gerhard van Niekerk expressed opposition to the fact that one arbitrary tax was being replaced by another, shortly after the first had been proposed.

Profits

"The proposal is not related to any structure of tax in SA and such a tax would exist on a limb on its own. There should be a uniform system of taxation in the country."

It has been estimated that the tax on gross interest margins would knock off about R131m of the combined profits of Standard Bank, First National Bank and Nedcor. Mining houses which undertake money and capital market activities have also complained about the proposed tax which would impact on an already struggling industry.

The tax on interest earnings was expected to increase the cost of having a bank account.

Tax experts criticised the proposal, saying it was a cascade tax and in conflict with the principles established by the Margo Commission.

VAT may hit insurance cover

(320

GILLIAN HAYNE

INDIVIDUALS could find themselves underinsured after the introduction of VAT on September 30 despite the almost inevitable increase in premiums, some tax experts warn. B Day 20/5/91

Kessel Feinstein tax partner Errol Danziger said individuals should not rely on their existing policies to cover the extra 12% VAT would add to the replacement value of insured items.

"Each policy needs to be reviewed to cover the VAT portion. Although some companies may increase the cover automatically, in the majority of cases it will be the responsibility of the insured to update his policies," Danziger explained.

However, SA Insurance Association chairman Brian Seach said VAT would have a modest effect on individuals' insurance. "Since most people include GST in their sum insured, the change to VAT will have no effect. Those who have not included GST are already underinsured and the move to VAT will make it no different."

Seach added that much of the industry's reaction to VAT and many of the news reports to date had been misleading.

Further confusion surrounds VAT on the premiums themselves. There have been reports that premiums will automatically increase by 12% when VAT comes in.

Ernst & Young tax partner Sally de Boor said although the sum insured could increase, the cost to the company would not; the company could claim a deemed input tax credit from the Receiver.

In fact where policies were already inclusive of GST, De Boor stressed the companies would have a reduction in costs.

Consensus

"Therefore any increases in premiums will be the result of the cashflow disadvantage to the companies and should remain well below the 12% level."

Seach confirmed that VAT would not have a profound affect on premiums but warned that many insurers might use the change over as a smokescreen to increase their premiums.

The VAT question for short-term insurers is still under discussion and a final consensus will be made only towards the end of the month. A guide will be produced for the industry detailing how companies should approach the switchover to VAT.

Severe impact on the family budget

Star 20/5/91. 320

This series has made evident that many more goods or services will be subject to VAT than under the GST system.

However, this does not mean that prices of goods at present exempt from GST will increase by 12 percent the moment VAT is applied.

Nor can it be assumed that prices of goods subject to GST and VAT, when it is introduced, will reduce by one percentage point.

What is certain is that we can expect enterprises which must register as vendors under VAT to incur substantial additional costs.

Train staff

These will arise from the need to gain knowledge on the workings of the tax, to modify or acquire new computer software, and to train staff.

Of equal certainty, most vendors will experience a cash flow disadvantage when paying VAT up front, and any borrowings to bridge the gap until the tax refunds flow back to them will carry an interest burden.

The fact that input tax paid on capital goods can be claimed will definitely not have an immediate effect and will take time to filter through the economics of each enterprise.

VAT AND YOU

Article 23 in a series by André Meyburgh, consultant on indirect taxation with chartered accountants KPMG Aiken & Peat.

Moreover, there will be a drastic increase in prices if vendors do not cost their goods correctly, for example by failing to exclude the VAT they have paid on goods *before* adding a profit mark-up.

In the short-term, therefore, the introduction of VAT could cause some dislocation of business operations that will incur extra costs, some of which quite likely will have to be recovered through higher consumer prices.

The new indirect tax will also have a severe impact on the family budget.

Those who manage the family budget can definitely expect an increase in expenses from September 30.

There will be a jump of possibly 12 percent in prices of GST-exempt foods such as milk, vegetables and meat.

Telephone bills, water and electricity accounts, refuse removal, and car licence fees, will also become more expensive — not to mention doctors' fees and hospitals.

Even certain nursery schools will have to charge VAT on their fees.

Homeowners who intend improving their property can also expect to pay more. Construction service costs such as the building of garden walls and installing a swimming pool or a carport as well as electrical work, if supplied by a registered vendor, will include VAT.

Even garden services will be subject to VAT.

If, however, these services are rendered by non-vendors (those with "taxable supplies" below the annual threshold of R150 000), the contractor will not be able to charge any VAT even though he will have to pay VAT on all his materials and will not be able to claim any "input tax".

Not on labour

In these circumstances the homeowner will pay VAT indirectly on materials only, but not on labour.

Clearly, it would be wise for homeowners to check whether any contractor is, or is not, registered as a vendor.

The last thing a household will need is a VAT charge levied by an unscrupulous non-vendor supplier not entitled to do so.

Family entertainment will also be hit. VAT will be charged on cinema and theatre tickets, entrance fees to a circus, and many other events.

Around-town travelling expenses will also rise. There will be a VAT charge on parking meter and garage fees (but not on bus, train or taxi fares) and, further afield, toll road fees will carry a 12 percent charge.

All short-term insurance policies, including insurance on household content, property insurance, disability insurance, and even funeral policies, will include VAT.

Funerals will also become more expensive.

VAT will be charged not only on coffins and wreaths but also on the undertaker's services, and even a cemetery burial site.

Clearly, from September 30, South Africans will pay VAT to be born (in medical and hospitalisation fees), to live, and to die.

Interest earnings likely to be taxed

LINDA ENSOR (320)

CAPE TOWN — While no finality had been reached on the form the tax on financial institutions would take, it appeared at this stage that the original idea of a tax on interest earnings would be adopted, Finance Minister Barend du Plessis' special adviser Japie Jacobs said yesterday.

Du Plessis announced in his Budget that a 0,75% tax on the gross margin on interest earnings would be imposed as an alternative to VAT from which financial institutions have been exempted.

Jacobs said this appeared to be the best solution to the problem of a tax base for financial institutions, but emphasised that it was one that had emerged from continuing discussions with the industry. He had not dictated what form the tax should take, he said. BDay 21/5/91

Other options considered were a tax on bank charges and a payroll tax.

Were government to go ahead with a tax on interest earnings, there would be no reason to reconsider the rate at 0,75% nor the fact that there would be no tax deductions available, Jacobs said.

However, the tax on interest earnings did pose certain problems such as the stage at which it would be imposed.

Another problem related to instances where government stock was issued at a discount and where there was an element of capital gain in the transaction.

Furthermore, the question of how the banks could pass on the tax to the users of finance still had to be worked out.

Jacobs said there were various ways of passing on a tax on interest earned by a deposit-taking institution, for instance a higher lending rate, lower deposit rate or bank charges and commissions.

'Consultancy fees' will be caught in VAT net

320

B/Day 21/5/91

GILLIAN HAYNE

PEOPLE who have taken out consultancy contracts in preference to being salaried employees will find themselves caught in the VAT net when it is implemented on September 30.

VAT would be imposed on management fees, as on virtually all services, but salaries would not be subject to VAT, Deloitte Pim Goldby senior tax consultant Henry Hollingdrake said.

"It will therefore become critical to make the distinction between salaries and consulting or management fees."

This could raise important issues for individuals who have resigned as employees and undertaken consultancy contracts with their erstwhile employers, he said.

Other tax experts noted however, that for many individuals, working through closed corporations lost its charm when PAYE was introduced earlier in the year.

Revenue found that if there was an employer/employee relationship between the company and the consultant's closed corporation than the employer became liable to deduct PAYE off the consultant's fee.

Only those who could prove a legitimate consultancy relationship — for example by working for many different employers — were allowed to receive a gross fee.

They are the people who will now be caught in the VAT net.

Further complications will arise where management fees are paid by companies, such as finance companies, which are fully or partly exempt from VAT.

"Companies which are fully or partly exempt will not be able to claim the full input tax credit — that is claim back the tax paid on the consulting fee — which could tempt them to artificially reduce the fee," Hollingdrake said.

To discourage the temptation, the VAT bill provides that in these circumstances the fee must be a market-related one.

Tax capital gains, property and land — ANC adviser

320

B/Day 21/5/91

GILLIAN HAYNE

AN ANC tax adviser has explained why he believes in taxing wealth in the new SA.

University of the Western Cape economics professor Lieb Loots wants the ANC to introduce a capital gains tax, a property tax and possibly a land tax. He also wants a minimum tax on companies.

Loots says structuring a tax system which will collect as much revenue as possible to fund a viable and sustainable programme of redistribution is the challenge facing political parties in SA today.

Speaking at a recent Ernst & Young tax conference, Loots said effective redistribution could only be achieved through the expenditure side of the Budget. The tax structure should therefore aim to raise as much revenue as possible subject to the constraints of stability and growth.

Personal income tax, he said, was an inefficient redistributive mechanism as it would not dramatically increase SA's income tax base. Other forms of taxation were necessary.

The first tax Loots suggested was the introduction of a capital gains tax.

Since richer people derived a greater proportion of their "ability to pay" from capital gains it was evident that by exempting such gains an unequal distribution of the tax burden resulted.

Loots suggested the introduction of a version of capital gains tax at a low rate, indexed for inflation; which differentiated between long- and short-term gains; which was confined to dealings in fixed property and securities; was effective from a fixed date; and allowed for capital losses.

He also suggested a minimum business tax with a limit on the maximum number of deductions to be claimed against income or tax in any one year, applicable to both companies and individuals.

This tax should be designed as a portion of taxable income before the subtraction of the concessional deductions, or calculated as a percentage of the sum of the deductions themselves, or on a value-added base.

Loots admitted wealth taxes raised problems such as what should be included (for example household effects, personal effects and jewellery, pension rights, life assurance policies, patents, goodwill); how one valued the assets; and the effect on the market prices of assets.

Premium

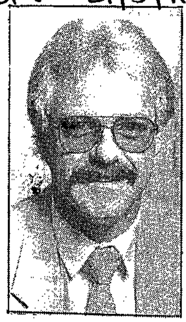
However, a single capital transfer tax should be imposed on items disposed of for no or inadequate remuneration — such as interest-free loans, trusts, gifts, inheritances and the like.

Property tax should be imposed on indexed and regularly revalued fixed property, on which a local premium could be piggy-backed and earmarked for grants to local authorities.

He also suggested a kind of "rural development tax" for development of small-scale farming and rural development, levied on the value of agricultural land.

Houses sold by vendors to carry tax

Star 2/5/91 (320)



VAT AND YOU

Article 24 in a daily series by André Meyburgh, consultant on indirect taxation with chartered accountants KPMG Aiken & Peat.

We must now consider the impact VAT will have on fixed property.

By and large, we can expect value-added tax to send up the price of housing, commercial and industrial buildings from September 30.

Under the general sales tax system, fixed property is free of GST. So are most services rendered by the construction industry. Both will now fall into the VAT net.

We will deal separately with the impact of VAT on construction and the consequences for the property market.

For the purpose of VAT, fixed property will fall under the definition of "goods", and will include all the modern versions of home ownership, such as sectional title units and shares in a shareblock company, as well as time-sharing holiday accommodation.

But there will not be a blanket VAT liability when buying and selling fixed property.

Full price

VAT will apply when fixed property is sold by a registered vendor such as a builder or a property developer and the full price of the transaction will be taxed.

This will have the effect of raising the price of all fixed property deals so handled immediately after VAT is introduced.

However, VAT will not apply if fixed property is sold by a non-vendor, or the transaction takes place between private individuals — who, in effect will be regarded in VAT legislation as non-vendors.

In the latter case, no VAT will be payable even if the transaction is handled by an estate agent. But the estate agent will have to pay VAT on his or her commission.

Moreover, where an estate agent who is a registered vendor sells fixed property on behalf of another vendor, he or she will have to pay VAT on the full selling price and the commission, and then set these off through "tax invoice" claims.

What about transfer fees?

The good news is that any fixed property deal which attracts VAT will be exempt from transfer duties. However, considering that rates of transfer duties vary from only one to five percent, the relief afforded by this concession is not much to write home about.

It follows that a deal between private individuals (remembering that they are non-vendors) will carry with it the obligation to pay transfer duties.

VAT also brings into its net the sales of any fixed property which is owned by a vendor. The key element here is whether the property is to be used to make "taxable supplies".

To show how this works, let's use the example of a vendor doctor who forms a close corporation (CC).

The CC in turn owns his surgery, situated either in a sectional title office block, or a separate building.

The surgery clearly would be used to make "taxable supplies" — the doctor's fees.

If, subsequently, that property were to be sold, the purchaser would have to pay VAT on the full purchase price, precisely because it was used to make "taxable supplies".

However, if the doctor were to purchase fixed property for a surgery and he paid VAT on the purchase price, as a vendor he would be able to claim the full "input tax" paid, because once again the building clearly would be used for the purpose of making "taxable supplies".

Where a sale of fixed property is concluded before September 30, no VAT will be payable.

However, certain people who buy fixed property before that date may be surprised to find that the selling price is subject to VAT.

An option

This unusual happening will arise in circumstances where the purchase agreement was subjected to a right of pre-emption and where that right is exercised after September 30.

Similarly, where a person has an option to buy fixed property, and that option is exercised after September 30, it will be subject to VAT if the seller is a vendor.

All this clearly indicates that the fixed property market will be influenced by VAT, and that fixed property sold by vendors will be more costly, and agents' commission fees will increase.

Bearing in mind the huge shortage of low-cost housing, the question to be asked is: Can we afford the application of VAT in such a sensitive sector of the economy?

TOMORROW: VAT and the construction industry.

Readers who have specific value-added tax questions or problems are invited to address these to: Managing VAT, KPMG Aiken and Peat, PO Box 7400, Johannesburg 2000. Replies will be dealt with confidentially, but interesting issues raised may be discussed in general terms in this series.
● A booklet comprising all the articles in this series will be available soon and can be ordered from The Star Promotions, PO Box 1014, Johannesburg 2000, at R20 plus GST.

VAT and doctor's bills to be discussed at highest level

21/5/91 ARG

By VIVIEN HORLER
Medical Reporter

VAT and doctors' bills will be the subject of a hastily arranged meeting between the Minister of Finance and the head of the Medical Association of South Africa this week.

"We've rejected the imposition of VAT on medical services from the outset," said Dr Tony Behrman, a spokesman for Masa's Cape Western branch.

"We're waiting for the outcome of the latest meeting with a sense of hope. We want to be zero-rated in terms of VAT."

The Minister, Mr Barend du Plessis, and the chairman of Masa's federal council, Dr Bernard Mandell, met in Pretoria last week and agreed to talk again this week before a final decision was made.

Doctors believe that VAT on medical services will mean an additional and unfair tax burden on sick people, causing the country's health bill to soar and forcing more people to seek heavily subsidised health care from the State.

They resent reports that have indicated they rejected an offer to be "exempt" from VAT.

"It now appears that Masa is in favour of VAT and that the government offered VAT be 'exempted' but Masa rejected this offer. This is not so.

"There is confusion about the meaning of the term 'exempt' which, in terms of VAT, doesn't mean what it appears to mean.

"It certainly doesn't mean that no VAT will be paid at all."

As the situation is understood by the Medical Association, "exempt" status means no VAT will be charged on professional services or disposable items such as plasters and spatulas, but the doctor will have to pay VAT on monthly running costs such as rent and electricity, and on medicines.

"As the doctor cannot subsidise the new tax, costs will have to be recovered from the patient," said Dr Behrman.

"Zero-rated" means that VAT on professional services, monthly running costs, disposables and medicines will be levied at zero percent. This represents a saving of 13 percent to the patient, who pays GST on all medicines at present.

"Standard" means VAT would be paid on professional services, disposables and medicines, and could all be claimed back from the patient.

"We believe categorically that medical services should be free of all VAT. This means we need to be 'zero-rated'.

So far the government has rejected the calls for zero-rating. "They have suggested that if Masa doesn't accept exempt status, then we will have standard rating imposed on us. This again means medical services will be taxed."

No room at the inn — in Durban, in Ju

The Argus Correspondent

DURBAN. — Finding accommodation in the city over the July weekend is like trying to find hen's teeth, Durban hoteliers have said.

There is practically no accommodation left over the weekend of the premier racing event — May 5 to 7 — with all the top and beachfront hotels chock-a-block.

The few hotel beds that are left should be "quickly secured," before they are also booked, hoteliers adv

Most bookings f weekend were months ago. booked the we days before

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Robbery sus charges sh

The Argus Corresp

DURBAN. — A man facing fo robbery inv R500 000 and court yester during an week.

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VAT on track in spite of rumours

(320)

GILLIAN HAYNE

BDay 22/5/91

THE implementation of VAT is still on track for September 30 despite rumours that government may be compelled to delay its introduction to give the TBVC states — Transkei, Bophuthatswana, Venda and Ciskei — time to change their own tax systems to VAT.

Strong rumours in tax circles suggested that although all of the TBVC states had agreed in principle to move to VAT, it was unlikely they would achieve the changeover by September 30.

One source close to the multilateral VAT committee (set up between SA and the TBVC states) said there was still scepticism about whether VAT would be introduced at all as there were still many unresolved and apparently insurmountable problems.

However, Inland Revenue's chief director: tax policy development Trevor van Heerden said there was no truth in the rumours. He said the latest round of discussions with the TBVC states, which took place yesterday, confirmed yet again that everything was on line for the deadline.

Transkei's military ruler Gen Bantu Holomisa said yesterday his government had agreed in principle to VAT and would be ready on time. "We have been participating in VAT discussions since their incep-

□ To Page 2

VAT

BIDay 22/5/91.

(320)

□ From Page 1

tion and are just awaiting approval by the Cabinet. There is no excuse for any of the TBVC states to delay SA's VAT implementation date."

Holomisa said the only point of contention was the 12% rate, which he believed would be too great a burden for the Transkeian people to bear.

A spokesman for the Ciskei government said the multilateral VAT committee was still working to the September 30 deadline and whatever the SA government decided would be piggybacked by Ciskei.

Venda government spokesmen could not be reached for comment.

President Lucas Mangope said last week Bophuthatswana would introduce a VAT system, but no details on the rate or timing of the adoption have been released.

Under the VAT system the TBVC states are not considered export countries, which means businesses will have to charge VAT on goods sold there.

Construction services to be taxed

Star 22/5/91. (320)

When assessing the implications of value added tax for the construction industry, we should recall that VAT will be levied on almost all goods and services.

Under the general sales tax system, a distinction is made between construction services such as the erection of a private dwelling, which escapes GST, and "taxable services" such as the construction of plant and machinery used in a process of manufacture, on which GST is paid.

There will be no such distinction when VAT is introduced. All construction services will attract VAT — if supplied by registered vendors.

This brings into the tax net services such as fixed property erection, electrical services, garden services, and so on.

But it does not mean the cost of these services will increase by 12 percent, the VAT rate.

The reason is that for the first time vendors will be able to claim "input tax" on materials used, which could have the effect of reducing the cost of materials by 13 percent, the GST rate.

VAT AND YOU

Article 25 in a series by André Meyburgh, consultant on indirect taxation with chartered accountants KPMG Aiken & Peat.

Provided this price reduction is channelled to the buyer, prices should not increase by as much as 12 percent.

However, as most construction services are labour intensive, we can expect that components within services rendered by vendors will become more costly after September 30.

In the same context, we can expect the services of non-vendors to be offered at rates competitive to vendors because their labour and other service costs will not be liable for VAT.

However, as we have previously explained, nonvendors will incur VAT on their purchases without being able to set these off through "input tax" invoice claims.

Indirectly, therefore, the extra costs of materials will be borne by the buyer of non-vendor services through higher costs of materials through which the non-vendor will hope to recoup VAT costs.

Vendors in the construction industry will also have to be wary of the fact that VAT will be an "inclusive" system.

The VAT Bill makes specific provision for the variation in contract prices that may arise from the imposition of VAT.

But there will be wisdom in advising clients that the prices of contracts entered into before September 30 might increase after that date as a result of VAT.

Moreover, where prices are quoted for services to be rendered after September 30, care should be taken to ensure that they include VAT.

If this is not done, prices will be deemed to include VAT, which could be detrimental to the profit margin.

For example, if a contractor enters into a contract after September 30 for the erection of garden walls, and quotes a price which does not include VAT, he will be liable to bear the tax and will not be able to recover it from the purchaser.

As regards retentions, it will also be important to realise that the timing of issuing tax invoices may affect cash flows.

Where a contractor, for example, issues an invoice for, say, R20 000 and the amount is subject to a 10 percent retention, he will have to pay VAT on the R20 000 although VAT on R2 000 of the amount will be recovered by him only at a later date.

To avoid this problem, contracts should be structured in such a manner that separate invoices for retention sums will be issued only when they become due.

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VAT on track despite rumours

CIT 22/5/91 (320)

Own Correspondent

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Transkei's military ruler Gen Bantu Holomisa said yesterday his government had agreed in principle to VAT and would be ready on time. "We have been participating in VAT discussions since their inception and are just awaiting approval by the Cabinet. There is no excuse for any of the TBVC states to delay SA's VAT implementation date."

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VAT will increase mines' profitability

(320)

BDay 23/5/91

GILLIAN HAYNE

MINES could increase their profitability, through reduced costs by 4%-6% on implementation of VAT on September 30, tax experts say.

Deloitte Pim Goldby senior tax consultant Henry Hollingdrake said the major benefit would come through claiming back tax paid on capital expenditure. Many working costs would also be reduced through input tax credits. "The introduction of VAT is very opportune for many mines which are either operating at a loss or on the brink of closing down," he added.

Anglo American Corporation group tax consultant Marius van Blerck said mines could reduce their costs by as much as 8% depending on the percentage of funds used for capital expenditure and consumable stores which attract GST.

Although the treatment of mines is no different to other industries, the benefit to be derived by mines is far greater because of their extensive capital expenditure.

In 1990 alone, producing mines which were members of the Chamber of Mines spent R2,5bn on capital expenditure. This figure does not include new mines which are spending millions on capital expenditure but have yet to produce any minerals.

Van Blerck dismissed the argument that VAT would benefit highly mechanised mines more than labour intensive mines, saying: "GST distorted mines away from capital expenditure in favour of labour because of the double tax element of GST. VAT will just remove that distortion."

Mines producing primarily for the export sector would get the added benefit of being zero-rated, which means they would not have to charge VAT on their exports while claiming input tax credits.

KPMG Aiken & Peat tax partner Alister MacKenzie said although massive retrenchments and cost-cutting measures had been undertaken by many mines, output had not changed.

VAT will enable mines to reduce costs

320

CT 23/5/91

Own Correspondent

JOHANNESBURG. — Mines could increase their profitability, through reduced costs by 4% and 6% on implementation of VAT on September 30, tax experts say.

Deloitte Pim Goldby senior tax consultant Henry Hollingdrake said the major benefit would come through claiming back the tax paid on capital expenditure. Many of the working costs would also be reduced through input tax credits.

"The introduction of VAT is very opportune for many mines which are either operating at a loss or on the brink of closing down," he added.

Anglo American Corporation group tax consultant Marius van Blerck said mines could reduce their costs by as much as 8% depending on the percentage of funds used for capital expenditure and consumable stores which currently attract GST.

Although the treatment of mines is no different to other industries, the benefit to be derived by mines is far greater because of their extensive capital expenditure.

Van Blerck dismissed the argument that VAT would benefit highly mechanised mines over labour intensive mines, saying: "GST distorted mines away from capital expenditure in favour of labour because of the double tax element of GST. VAT will just remove that distortion."

Mines producing primarily for the export sector would get the added benefit of being zero-rated, which means they would not have to charge any VAT on their exports while still claiming input tax credits.

Currently there is a tax element on exports.

KPMG Aiken & Peat tax partner Alister MacKenzie said although massive retrenchments and cost-cutting measures had been undertaken by many mines, output had not changed. VAT would give them another avenue to save costs.

Employer will pay tax on perks

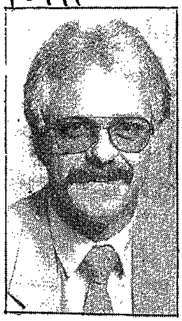
Star 23/5/91. (320)

Salaries and wages will not attract value added tax but the new legislation deems the "supply" by a vendor of certain fringe benefits to be a "taxable supply".

This provision, however, will apply only to the benefits set out in the Seventh Schedule of the Income Tax Act, and only if these defined benefits are in themselves "taxable supplies" at the standard VAT rate of 12 percent.

To make this more understandable, remember that the other rate is "zero", and that there is also the "exempt supply" category.

The "taxable supply" and "standard rate" stipulations automatically exclude the non-vendor. Since his goods or services do not attract VAT, any fringe benefits he supplies will escape VAT.



Article 26 in a series by André Myburgh, consultant on indirect taxation with chartered accountants KPMG Aiken & Peat.

VAT AND YOU

First step

The task of the taxpayer, then, will be to determine whether a fringe benefit will be subject to VAT, using knowledge of what are "taxable supplies", "exempt supplies", and the standard and zero rates of tax, and how and where these are applied.

The first step will be to check whether the fringe benefits is listed and defined in the Seventh Schedule.

The second is to ascertain whether that benefit is a "taxable supply" at standard rate.

So, using these processes of exclusion, we can arrive at the conclusion that where a vendor pays a travel or similar allowance to an employee, it will not attract VAT because it is not a Seventh Schedule fringe benefit.

Similarly, low-cost housing allowances or low-interest home loans will not be subject to VAT because these "financial services" benefits are classified as "exempt supplies".

And, if the employer were to pay for an employee's holiday in Mauritius, that benefit would not be subject to VAT because it is a "zero-rated" supply, the rate applied to goods and services to defined export countries (but not to Transkei, Bophuthatswana, Venda and Ciskei).

However, if vendors were to supply employees with benefits such as the use of a company car, or holiday accommodation in South Africa, then value added tax would be payable.

And, as we have said in an earlier article, VAT would not be paid by the employee. The supply of such benefits are deemed to be "taxable supplies" made by the vendor.

It is the employer, therefore, who is liable to pay the VAT.

In VAT legislation there is, however, no provision that prohibits the employer from recovering the tax from the employee. If this is done, the employer will receive a double benefit because the employer also will have the benefit of claiming "input tax" on such benefits.

The VAT to be paid on fringe defined in the Seventh Schedule will be based on the cash equivalent of such benefits.

There is one exception —'cars.

Because vendors will not have the benefit of claiming "input tax" on "company motor cars", yet another tax table is to be published on which VAT will be calculated.

This table will probably tax only the running costs of the vehicle, not the fixed cost.

In theory, this means that the "input tax" claimed by the vendor on actual repairs and maintenance costs will be equal to the VAT he will pay on the fringe benefit.

This provision should ensure that VAT will not confer an advantage on either trvelling allowances or company cars or over other fringe benefits, nor should fringe benefits supplied by a vendor be more costly than benefits supplied by non-vendors — a long-term insurer, for example, who renders a financial service.

TOMORROW: VAT and the insurance industry.

Readers who have specific value-added tax questions or problems are invited to address these to: Managing VAT, KPMG Aiken and Peat, PO Box 7400, Johannesburg 2000. Replies will be dealt with confidentially, but interesting issues raised may be discussed in general terms in this series.

● A booklet comprising all the articles in this series will be available soon and can be ordered from The Star Promotions, PO Box 1014, Johannesburg 2000, at R20 plus GST.

Allowance fails to boost capital goods

BDay 24/5/91

(320)

LINDA ENSOR

CAPE TOWN — Large industries have continued to put all capital goods purchases on hold until the introduction of VAT at end-September — despite the additional 15% depreciation allowance announced by Finance Minister Barend du Plessis to counteract delayed purchasing.

Capital goods suppliers report dull trade after the Budget announcement that inputs on capital goods would be claimable under VAT. They say the concession has not had any stimulatory effect on purchasing.

The concession of a 15% additional depreciation allowance on capital goods bought before September 30 brought the total allowance for the first year to 35%.

Haggie Rand financial director Walter Sherwood said the group had postponed purchasing until October to save paying GST. He said the depreciation allowance was really only a timing difference, whereas not having to pay GST was a definite cash advantage.

Sherwood felt that inflation was an intangible and that it was unlikely prices would increase by 13% by October.

Atlantis Diesel Engines MD Fritz Korte said that many customers had cancelled orders despite the 15% concession as they believed they could get a better deal under VAT. "I do not think the 15% concession is sufficient to make good the difference of not paying GST."

Arthur Andersen tax manager Shane Ferguson said a number of the firm's clients involved in the supply of capital goods had reported dull trade.

"A lot of clients have decided that, as far as is practical, they will delay the purchase of capital goods," Ferguson said, adding that for the mines a 15% concession made no difference as they were granted a 100% concession in the first year.

However, he said that the tax situation of some industrialists might favour delayed purchasing with a rental arrangement until October.

SA Chamber of Business chief economist Ben van Rensburg said capital goods suppliers had reported a dramatic decrease in demand since the introduction of the special provision, which he said relieved only about half the influence of GST. He said, however, that it should be borne in mind that inflation and the exchange rate which was deteriorating against importers were factors favouring immediate purchases and could nullify the benefit of the remaining 6% to 7% of GST.

"I think decision makers are not taking all those considerations into account," Van Rensburg said.

Revenue will post VAT forms next month

GILLIAN HAYNE

THE posting of VAT registration forms, which ultimately will give companies their registration numbers, will begin ~~by the~~ middle of next month. (320.)

Inland Revenue deputy director Peter Frank said yesterday that the VAT 101 forms would be posted between June 17 and July 7. B/Day 24/5/91

Tax experts have said that it is vital for companies to be allocated their registration numbers as soon as possible, because until then they are unable fully to prepare their administration to VAT requirements.

Ernst & Young national tax consultancy director Chris Hassall said that by following Revenue's timetable, it was unlikely that companies would receive their registration numbers before the end of July.

"Companies which choose to register their branches as separate tax entities should collect the branch registration forms — VAT 102 — from their nearest Revenue office," Frank said.

Star 24/5/91 (58) (320)

Most insurance will attract VAT

Article 27 in a series by André Meyburgh, consultant on indirect taxation with chartered accountants KPMG Aiken & Peat.

Not all insurances will attract VAT. Any insurance in the form of retirement annuities and life assurance (as "financial services") will be exempt from VAT.

Life assurance does not, however, mean or include disability insurance or death policies. The premiums on policies for the cover of the latter two "catastrophes" will be liable to the tax.

The premiums for all other forms of insurance such as cover for cars, household contents, fixed property, or cover against loss of income and the like, will attract VAT.

The industry will also have to deal with the wide spectrum of goods which, under the general sales tax system, are free of GST but which will become liable for VAT from September 30.

Thinking this through, it becomes clear that the value of goods that were insured free of GST will not be the same once the same goods become liable to VAT.

Put another way, when it comes to an insurance claim, the goods might become under-insured if no provision were to be made to include VAT in the replacement value, which itself might be increased because of the imposition of VAT.

Between them, therefore, the insurance company and the insured will have to make sure that the insured value of goods is upgraded to meet VAT-driven replacement costs if they are not to suffer financially.

For this reason, some insurance premiums are bound to rise.

The fact that short-term insurance premiums will be subject to VAT in themselves should not on its own give rise to a 12 percent increase in premiums.

After all, insurers at present pay GST on goods which they replace for which no claim-back procedure exists.

In any event, under VAT, any tax so paid by insurance companies will be allowed as an "input credit".

Vendor policy holders will be treated differently from individual policy holders.

The fact that vendors will be paying VAT on insurance premiums will cause no pain, because they will be entitled to claim it as an "input tax" deduction.

VAT legislation furthermore provides that where any indemnity is paid by the insurance company on a claim received it may claim, as an "input tax" an amount calculated by means of the tax fraction 12/112 formula introduced earlier in this series.

The bad news is that when the insured person is compensated in cash the full amount will be liable to VAT, resulting in a lower net receipt by the insured.

In the event of the recipient being a vendor, VAT paid will be categorised as an "output tax".

Where the short-term insurance company replaces lost, stolen or damaged goods with goods of similar standard or value, the company will be charged tax on the purchase price, which may be claimed as an "input tax".

The insured vendor, on the other hand, will not pay any VAT on the goods received.

The accompanying table shows the manner in which VAT on insurance claims by vendors will be treated.

In this example a retailer insures his stock for R11 200 (amount inclusive of VAT). The goods are subsequently destroyed by fire and he submits a claim.

If the insurer had replaced the goods, he still would have paid R11 200 for the stock, and would have claimed as "input tax R1 200. The main difference in this treatment is that the retailer would have been spared VAT administration and a brief dent in his cash flow.

Where insurance brokers sell insurance on behalf of insurers, their commission will attract VAT.

In such cases, the insurer will be able to claim the commisson as an "input tax".

On the export side, logically in terms of VAT's approach to overseas matters, insurance relating to international transportation of goods or passengers will be taxable at a zero rate.

The single largest problem that insurers face with VAT relates to tax invoices.

Most premiums are paid by debit order, for which no invoices are issued.

To meet this situation, insurers will have to issue tax invoices either monthly or annually in respect of premiums to at least those insured who are vendors — who naturally must have and will demand them if they are to set off the VAT on premiums paid against "output" taxes.

The enormous administrative burden that will ensue for insurers could bring an increase in insurance premiums.

MONDAY: VAT and welfare organisations.

INSURER		RETAILER	
Insurers pays indemnity (Inclusive of VAT)	R11 200	Retailer receives	R11 200
VAT includes in the above payment	R1 200	Retailer pays "output tax"	R1 200
		Buys new stock R10 000 Pays VAT R1 200 (input tax)	
Claims "input tax"	R1 200	Claims "input tax" as deduction	R1 200
Net VAT payment	NIL	Net VAT payment	NIL

FM 24/5/91 (320)

VAT FM 24/5/91 (320)

MEDICAL TWIST

Whether medical and dental services and medicines will be subject to VAT at full rates still seems unresolved even though the VAT Bill now going through parliament provides that all these categories will be fully taxable.

Government's latest thinking is contained in press releases by Deputy Finance Minister Theo Alant and Finance Minister Barend du Plessis.

The key passage in the first quotes the Medical Association of SA (Masa) to the effect that the cost of medical services will increase by only 7% provided that practitioners can pass on the full benefit of input tax credits to patients. The cost of all medicines should fall because VAT is being imposed at 12% in place of GST at 13%.

In the second, Du Plessis emphasises the broad cost-reducing effects of VAT. Further, that the goal of softening the impact of VAT "should not be sought through permanent changes to the system, but rather through . . . direct aid." Otherwise SA would end up with an adulterated and inefficient system like GST.

Government will give extended temporary powers to Du Plessis so that he can make any adjustments needed for VAT's smooth and equitable implementation.

It seems that Masa and the dental association were sent away from meetings with a request to do more homework — on the impact of VAT on their cost structures — and then produce constructive proposals.

Not everyone in the private sector is persuaded by the argument "VAT at all costs." Arthur Andersen senior tax partner Pierre du Toit argues that countervailing relief to offset the added cost of VAT on medical services must meet vital criteria to make it broadly acceptable to the public.

Firstly, any relief measures must be thoroughly workable and practical. Secondly, they must be politically visible. Thirdly, they must be in place in good time.

If government gambles with any of these it risks gravely compromising public acceptance of VAT — which in turn would threaten to discredit VAT and make it unenforceable. This would be a political as well as a fiscal catastrophe because government has already deliberately discredited GST to lay the foundations for VAT.

VAT is now the only politically feasible indirect tax; and SA must have an indirect tax to generate a major part of revenue.

Ernst & Young tax partner Sally de Boor is also uneasy about the social implications of subjecting the sensitive area of medical and dental costs to VAT. Her preference is for a zero-rating even though this would be an undesirable precedent.

Take precedence

On the other hand, KPMG Aitken & Peat tax partner Alister MacKenzie feels that the integrity of the VAT structure should take precedence over concessions even in relation to medical and dental services. Deloitte Pim Goldby partner Willem Cronje agrees.

The *FM* shares this view. Medical services should be brought in at full rates, subject as soon as possible to appropriate relief measures to help mainly the very poor.

There are two collateral issues of great importance. First, the rural poor, the most deprived group. They have almost no access to adequate medical services so cost is largely irrelevant.

Second, the high cost of medical services is deeply interlocked with the poor design of medical aid schemes. If these could be restructured to lock incentives, to keep down costs, into the system (which is often the opposite of current arrangements), the added costs of VAT could be made up over and over again. This should be at the forefront of further discussions between the medical and dental professions and government. ■

Industries delaying capex owing to VAT

24/5/91

(320)

Business Correspondent

LARGE industries have continued to put all capital goods purchases on hold until the introduction of VAT at end-September — despite the additional 15% depreciation allowance announced by Finance Minister Barend du Plessis to counteract delayed purchasing.

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SA Chamber of Business chief economist Ben van Rensburg said capital goods suppliers had reported a dramatic decrease in demand.

Medics can claim for their inputs

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S Times Bus Times 26/5/91

By IAN CHAMBERS, tax consultant, Fisher Hoffman Stride

WHEN the draft legislation was released for comment in July 1990, medical services were exempt from VAT.

This meant that although medical practitioners would have to pay VAT on the acquisition of all of their supplies, including capital equipment, because they were supplying an exempt service, they would not be entitled to claim a VAT input tax for any VAT paid.

Furthermore, any goods necessary for and subordinate and incidental to the supply of the services in a hospital or nursing home or services provided in any clinic conducted by a local authority would also have been exempt.

On the other hand, the supply of medicine after consultation would have been subject to tax.

This initial decision to exempt medical services and so relieve practitioners of the administrative burden of VAT would have been an administrative nightmare in the case of a dispensing practitioner who would be supplying both taxable and exempt goods.

Under current legislation, sales tax is levied on certain goods used by the medical profession. With a wider VAT base, several of other services are subject to VAT but not to sales tax.

They include rent, electricity, water and professional services. This means the practitioner would be faced with higher costs without being able to claim any input tax credit, resulting in either reduced profitability or increased fees.

In areas of high capitalisation costs, essentially pathology and radiography, these practitioners would be most adversely affected.

As a remedy, Vatcom proposed that the exemption be withdrawn and all medical services be subjected to VAT. Medical-aid schemes on the other hand are defined as financial services and are exempt. Medical-aid contributions will not attract VAT.

The recommendation was accepted by the Government and was included in the Bill passed by in Parliament last week. This places the medical profession in exactly the same position as any other, such as law, accountancy and architecture.

Consequently, the fees that medical practitioners charge will be subject to VAT, but at the same time they will be entitled to claim an input tax credit for the acquisition of all supplies they buy to provide their services.

At the same time, rent, electricity, water and professional fees will now be subject to VAT. They are not subject to GST. VAT will have to be paid, but will be recovered.

The medical practitioner will merely have to fund this VAT until such time that he submits his VAT return.

Business Times Feature

The time to buy a house is now . . .

S/Times (Bus Times)

26/5/91

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IF YOU are thinking of investing in property do it before September 30.

That is the advice from Mike Bisset, executive director of Pam Golding Properties, who says VAT will inflate property prices in the short term.

"First, the effect of VAT on the price of a property will depend on who the seller is. If you buy from an individual who is selling his own home, no VAT is payable. However, if you buy a house or a sectional title unit in a new development from the developer, he will be obliged to add VAT to the price.

"This is because he is a registered vendor selling property in the course of his business."

However, says Mr Bisset, there is no justification for the price of a newly built house to increase by a full 12%.

"Building materials are the only element in the price of a house to attract GST. But VAT will be paid not only on building materials, but on labour costs and the developer's profits.

"If building materials comprise 40% of the cost of a new house, then the effect of VAT will be to add 12% to the balance of the costs, i.e. a 7,2% increase.

"It is generally agreed that VAT will add between 6% and 8% to the price of new houses and sectional title units."

Although VAT is not payable on second-hand homes, Mr Bisset says there will up upward pressure on their prices.

With VAT pushing up the prices of new homes, sellers of second-hand ones will be tempted to cash in on the higher prices. It is a case of such a seller saying: "If a new home costs 7% more, I'll add a similar amount to my asking price."

VAT will also affect the payments of transfer duty.

Mr Bisset says: "Sales of new homes subject to VAT will be exempt from transfer duty. Sales of second-hand homes which don't incur VAT will still be subject to normal transfer duty. No VAT is payable on the transfer duty."

VAT will also be payable on the agent's commission and the attorney's conveyancing charges. This is irrespective of whether a new or second-hand house is bought.

Business Times Feature

Vital decisions for small firms

S Times (Bus Times) 26/5/91

By JOHN TUDHOPE, director of Tudhope Tax & Financial Services

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OWNERS of small businesses must make several VAT-related decisions which could have a significant effect on their cash flows.

Businesses with an annual turnover of less than R150 000 have been exempted from registration as VAT vendors. The consequences are that VAT cannot be charged on supplies (outputs) made, and more significantly, input tax refunds will not be granted in respect of purchases (inputs).

Most businesses will however be eligible for voluntary registration and will have to decide whether the level of input tax paid on their purchases would justify charging VAT on supplies before applying for registration.

Although VAT paid on purchases can be recovered in the sale price of supplies, registration should be considered where most sales are to registered vendors. These vendors will want to claim, as an input tax refund, the VAT they have been charged.

Another decision facing the small businessman is whether to account for VAT on an invoice or payments basis. Taxable supplies (excluding special or abnormal circumstances) must not exceed R1-million a year (excluding VAT) if an election is made to account on the payment basis.

Businesses that make supplies on a cash basis while paying for their purchases on credit (say, 90 days) are likely to select the invoice basis. This will entitle them to an immediate input tax refund despite only paying their creditors later.

On the other hand businesses that pay cash for their purchases but are paid by their customers on terms, will probably elect the payments basis because they will be required to pay the VAT collected only when it is received from customers.

Accounting records must be adapted to facilitate preparation of the VAT return to Revenue. A VAT ledger account should be opened in the vendor's general ledger so that all output tax collected can be credited to this account and all input tax paid on purchases, imported goods and services, and capital equipment etc can be charged to this account.

The balance on this account is either paid to or refunded by the Receiver. Businesses should maintain separate VAT ledger accounts for each two-month tax period, i.e. six ledger accounts should be operated in a particular financial year.

Separate

It is recommended that vendors create a separate column in their purchases journal in which deductible input tax is recorded. The cash book should also have a separate VAT column for expenses not processed in the purchases journal.

No VAT input credit may be claimed if a vendor does not have a tax invoice. All vendors must adapt their sales invoices or print new invoices.

Registered vendors will be allowed to deduct VAT on capital equipment.

Businesses that have paid GST on consumable goods (including maintenance spares) to be used in the course of their enterprises may reclaim the GST as an input tax credit when such consumables are used after September 30.

Daunting task faces financial institutions

S/Times (Bus Times) 26/5/91 (320)

By MARK BADENHORST, tax partner, Price Waterhouse

BECAUSE financial services have been exempted from VAT, it is essential to categorise the exceptionally wide range provided by institutions into taxable and exempt supplies.

This is a demanding exercise and raises complex technical issues about the treatment of goods and services bought by institutions providing financial services.

A supplier of tax-exempt goods or services will not collect VAT from his customers, but will not receive a credit for the VAT paid on goods or services consumed in providing the service. VAT paid on goods or services consumed represents a real cost which will result in a reduction of margins unless these costs are passed on to the customer.

The exemption of financial services can lead to tax avoidance.

Nevertheless, practical and conceptual difficulties which arise when attempting to tax financial services have persuaded virtually all countries to abandon the idea.

An important exception to the rule that most services provided by financial institutions will be exempt is encountered in relation to advisory services provided where a separate fee is charged for them. Such services will be subject to VAT at the standard rate.

If the advisory services are merely incidental and no separate fee is charged the supply will be exempt. This is of relevance to portfolio management.

Services regarded as exempt cover a broad front and embrace those provided by life assurers, pension, provident and retirement annuity funds, medical aids, banks, stockbrokers, foreign-exchange dealers, confirming houses, finance houses, factors, debt collectors, futures dealers, discount houses and many others.

Many financial intermediaries provide both taxable and exempt services. Subject to a de minimis rule, those providing financial services will be required to allocate their inputs or goods and services consumed, between their use in making taxable supplies and exempt supplies in order to determine their entitlement to an input tax credit.

Purpose

This exercise will cause most of the heartache attached to VAT for financial institutions, but will also provide most of the planning opportunities.

Any organisation which does not qualify for exclusion under the de minimis rule will be faced with the daunting task of capturing all VAT paid and then allocating the inputs to the services provided.

The allocation of costs relating to capital goods or overheads can cause special difficulties where changes in use over time will occur. The law's provisions aspect require careful study and management.

It is the purpose for which goods or services are required by the organisation which will determine whether VAT paid by it will qualify as input tax. The direct attribution method takes precedence over all other methods and involves allocating as accurately as possible that proportion of the consumption or usage in the course of making exempt or taxable supplies.

Where inputs cannot be identified as relating directly to taxable or non-taxable use, use can be calculated on turnover. However, this method will often not prove satisfactory. The organisation may be compelled to turn to other methods which will be more appropriate, such as use of an asset, floor space occupied and many others.

It may be expected that the authorities will apply the direct attribution method strictly and that financial institutions will not be allowed to gain an advantage by increasing taxable supplies or to merely apportion VAT paid simply on the rate of tax-exempt supplies to the total of taxable and tax-exempt supplies.

MARK BADENHORST

The proposed interest levy on finance charges and interest earned by financial institutions will have a significant effect on fine margins. The present lack of information on exactly how this levy will operate makes for difficult assessment of its true impact.

Distortions

The problem with a tax of this nature is that it tends to introduce distortions as taxpayers try to shift transactions to avoid the tax. This manipulation of the tax base once again offers tax planning opportunities.

In planning effectively for both VAT and the tax on interest and finance charges, financial institutions will be facing one of their biggest fiscal challenges in recent years.

Nearly all services now under whip

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S/Times (Bus Times) 26/5/91.

By IAN MacKENZIE, tax partner, Ernst & Young

UNDER GST several services are designated specifically as taxable.

They include the installation and repair of goods, advertising services, dry-cleaning,, dressmaking, hairdressing, printing, signwriting and certain other personal services.

In all these cases the provider of the services is required to add GST to the fee charged to the customer, but is able to buy free of tax certain goods or services.

Any service not listed in the Sales Tax Act as a taxable service is not subject to GST, but the provider of such is correspondingly required to pay GST on all his purchases of goods and taxable services.

With the implementation of VAT, virtually all services will become taxable supplies subject to VAT. The only exceptions are those services designated exempt in respect of which the supplier will not have to charge VAT:

- Fees, contributions, premiums and interest charged for financial services rendered by banks, building societies, financiers, stockbrokers, life-assurance companies and pension, provident, retirement annuity and medical-aid funds.
- Tuition and boarding fees charged by pre-primary, primary and secondary schools, technikons and universities.
- Rates and taxes charged by municipalities and other local authorities.
- Fares charged to passengers travelling in buses, trains and taxis.
- Levies charged by shareblock companies and bodies corporate managing residential properties operated under sectional title, shareblock and aged-person housing schemes.

These services which were not subject to GST are examples of those which will become subject to VAT:

- Professional services supplied by doctors, dentists, accountants, lawyers, architects and engineers.

Doctors

- Administrative, advisory, management and technical services supplied by any business enterprise.
- The services of commission agents.
- Services and facilities supplied by sporting, social and recreational clubs.
- All forms of entertainment for which a fee is charged.
- Transport of goods and passengers (other than the exempt service of transporting passengers in buses, trains and taxis).
- All short-term insurance cover for stock, fixed assets, any other goods, loss of profits, public liability and personal accident.
- Services (other than those funded by rates and taxes) supplied by local authorities, for example, electricity and water).
- Services supplied by regional services councils.

Irrespective

Any business supplying a taxable service will have to charge VAT on its fee irrespective of who the customer is, and will be able to claim a full input tax credit for all VAT paid on its purchases of goods and services.

Where the customer is a registered vendor (generally any business operation), he will similarly claim an input tax credit

However, where the customer is not a registered vendor, he will not be able to claim an input tax credit and will thus bear the VAT cost of the services supplied.

THE VAT Bill has been passed by Parliament. What are the practical implications for the businessman, particularly the small businessman who has no access to in-house financial advice?

This feature offers pointers to matters that will have to be dealt with by September 30. All articles have been contributed by specialists in value added tax.

June set for registration

320

S/Times (Bus Times) 26/5/91

Business Times Reporter

REGISTRATION of businesses for VAT will take place in June.

"Application for registration is made on form VAT 101, which will be sent to vendors on the existing sales tax register," says Trevor van Heerden, chief director of Inland Revenue.

"Inland Revenue will also send registration forms to firms which render professional and other services not subject to GST but subject to VAT.

"The return will be accompanied by a registration brochure and a trade classification index. Businesses which do not receive application forms by the middle of July, but believe they will be liable for VAT, should obtain forms and information from their Receiver of Revenue."

Inquirers should phone the Receiver and ask for the VAT section.

The Department of Inland Revenue will offer training courses for vendors from June 11. Inquiries may be made through the Receiver's office.

Mr Van Heerden says VAT returns will be submitted by most vendors every second month, some on even month-ends, others on uneven ones.

Vendors making taxable supplies of more than R30-million a year will, however, be required to submit returns monthly.

Farmers who make taxable supplies of less than R1-million a year may apply for six-monthly tax periods. Returns must be submitted within 25 days of the end of a tax period.

Other requirements are that records and books of account be retained for five years and a vendor must issue a tax invoice to another vendor when requested to do so within 21 days.

Inland Revenue says brown bread, graded mealie meal and exports (other than to Transkei, Bophuthatswana, Venda and Ciskei) are zero-rated supplies.

Exempt supplies are:

- Bank charges.
- Educational services in a pre-school, primary or secondary school (both public and private), university or technikon.
- Housing subsidies.
- Interest.
- Letting of residential accommodation.
- Levies to bodies corporate.
- Life assurance.
- Motor licences.
- Low-interest loans.
- Municipal rates.
- Passenger transport by bus, taxi or train.
- Sale of an enterprise as a going concern.
- Traffic fines.

Petrol and diesel are subject to the fuel levy and are not subject to VAT.

On your toes for those in the counting house

S/Times (Buss Times) 26/5/91

(320)

THE WORDING of the VAT Act is such that every keeper of an accounting system will have to be on his or her toes.

By BOB WILKIN of Wilkin & Associates Management Advisory Services

It says "every vendor shall keep charts and codes of account, the accounting instruction manuals and the system and programme documentation which describe the accounting system used in each tax period in the supply of goods and services".

Also, the VAT Commissioner may "without previous notice, at any time during the day enter any premises whatsoever and on such premises search for any accounts, books, moneys, records or other documents".

Accounting systems will be affected by VAT requirements in these ways:

GENERAL LEDGER

Currently all ledger systems account for GST as a tax on sales. VAT, however, is also paid on purchases. It will therefore be necessary to open an additional account for this input tax.

Although this may not be significant in itself, the two accounts will be required to be netted off to establish the amount to be paid over. It will thus be necessary to open a third account.

This account will also then be used to effect all adjustments, such as timing differences, exempt supplies and bad-debt adjustments.

SALES INVOICING

All pre-printed invoices will need to be modified to add the additional VAT charge column.

But more significantly, however, the invoicing programs will also need modification to calculate VAT at the line item level and possibly at differing rates.

Settlement discount can also no longer be dealt with as a reduced payment, but a credit note must be raised and signed detailing the financial credit, the VAT credit.

The original invoice number will need to be cross referenced.

PURCHASES

The most significant impact in this area will be the accounting for inventories which have been subjected to VAT and those which have not because of the change to the new tax.

We suggest that the implementation date and rate of the new tax be held at the product level in order to differentiate between taxed and non-taxed supplies. This will necessitate significant systems changes, which should be tested long before VAT's introduction.

Both of the above functions will need to be modified at the customer level to differentiate between customers and suppliers who account for VAT at the invoice or at the payment stage.

GENERAL SYSTEMS CONSIDERATIONS

If you are currently operating on packaged software, these questions need immediate consideration:

- Is your software house still in existence and if so, what will it do to modify your system?
- If your software house is not still in existence, what modifications are available to you and if they are in existence, when will the new version of the package be available and at what cost?
- Will there be sufficient time to test and train staff on the new or modified software?

If your systems are "home-grown" or developed inhouse:

- What systems documentation is available to you?
- What language were they written in and are these skills still available?
- The question of sufficient time for modification and training must be considered.

It may be in your best interests to consider the introduction of a fully functional and well-supported software package which is flexible enough to cater for VAT. If this is the case, it is necessary to act soon.

VAT crucial for health of new SA economy — Alant

S Times (Bus Times) 26/5/91 (320)

THE Value-added Tax Bill — expected to become an Act of Parliament within the next week or two — represents the most comprehensive and important tax reform since the introduction of sales tax 13 years ago, says Dr Theo Alant, Deputy Minister of Finance.

"The success of the new South Africa will depend to a large extent on the performance of the economy, and a just, neutral and effective tax system is a critical element affecting the economy," Dr Alant said in an interview.

"VAT has a proven track record in a large number of countries, both developed and developing. It is a fair, efficient and neutral system as the tax burden is spread evenly over all economic activities without distortions. It is therefore a tax system which can successfully be used now and in the next century.

"The VAT system is based on the domestic consumption of goods and services, supplied by registered vendors.

"VAT is also the product of much research and wide consultation. The draft Bill published for comment in June 1990 was the result of a few years of intensive research. For a period of six months the committee on Value-added Tax (VATCOM) heard evidence and consulted with all interested parties. Much valuable input was made to VATCOM. It is clear from the extensive and detailed VATCOM Report that careful consideration was given to all representations.

"No less than 112 amendments were made to the original draft Bill as a result of the VATCOM recommendations. The Government accepted with a few exceptions all the recommendations of the Committee."

In Dr Alant's view, the most important features of VAT — and improvements over GST — are:

● **ADMINISTRATION**

Inland Revenue (and not Customs and Excise) will administer most aspects of VAT. An important advantage is that cross checking between VAT and income tax records will be facilitated, which would show up attempts at tax evasion.

● **ZERO RATING**

Dr Theo Alant, Deputy Minister of Finance: "VAT has a proven track record world-wide. It is fair, efficient and neutral, and will favourably impact on the economy."

ness will pay VAT on its purchases (for which it will not be able to claim input credit), its sales are tax exempt. The value added by these businesses will effectively not be subject to tax.

● **TAX PERIODS**

Dr Alant pointed out that the VAT tax periods were designed to minimise administration. Businesses with a turnover of more than R30 million a year will — as under GST — be required to calculate and pay VAT monthly.

But at a turnover level below R30 million, the tax period will be two months, thus effectively reducing tax administration by 50 per cent. Inland Revenue will also benefit from the reduced number of returns which will

export trade whose sales are zero rated may regularly be in this position.

The Bill provides that the Receiver of Revenue must refund any excess to the vendor within 21 business days of a vendor submitting his return, unless the return is incomplete or defective. If Inland Revenue has not refunded the excess within this period, it is obliged to pay interest at market related rates.

● **VAT INCLUDED IN PRICES**

Advertised prices will include VAT; the price you see is the price you pay. Research shows that consumers, especially less sophisticated people, look forward to the inclusive concept as a major VAT benefit.

● **CHARITIES**

In most countries charitable organisations are exempt from VAT. Although they do not have to impose VAT on their sales, they nevertheless have to pay VAT on their purchases.

In South Africa it would have been difficult to treat charities in the aforementioned manner, because at present they are allowed to buy tax free.

Thus it was decided to let charities pay VAT on their inputs, but to let them levy VAT only on income received from persons to whom assistance is rendered. The bulk of their income — donations, state subsidies and income from investments will not be subject to VAT.

The practical effect in most cases will be that input tax will exceed output tax, thus entitling such organisations to a tax refund.

Those charity bodies that depend for the bulk of their

Four months of training for small businesses

OF PARTICULAR importance to the small business sector is the training programme developed by Inland Revenue which is about to be implemented. The programme will employ several media including workshop/seminars, training videos, a comprehensive self help manual and a quick guide for businessmen.

The guide addresses those issues which are businesses' main concerns. Excerpts:

1. Who should register for VAT?

There are two categories of registration:

— compulsory registration, and

— voluntary registration.

A person must register if he makes 'taxable supplies' (see 2) of goods or services in the course of a continuous or regular 'enterprise' carried on by him, and the total value of such taxable supplies exceeds R150 000 per annum.

Businesses which are registered for GST will not have to register for VAT if they do not meet the requirements mentioned above.

2. What are 'taxable supplies'?

The following types of transactions will, inter alia, fall under the definition of 'supply':

- the sale of new or second-hand goods (movable and immovable)
- the rental and leasing of goods (excluding residential accommodation)

4. What are my obligations as a registered vendor?

- Submit returns to the Receiver of Revenue by the due date. This will usually occur ever two months, depending on your tax period.
- Pay VAT on or before the due date to the Receiver of Revenue (25th day after the end of a tax period).
- Furnish "tax invoices" (invoices with specific details) to vendors within 21 days of supply.
- Issue credit and debit notes (where necessary) with specific details.
- Maintain sufficient records, for a minimum of 5 years, to enable the Receiver of Revenue to verify your VAT liability. These may be retained on microfilm or computer tapes if so authorised by the Receiver of Revenue.
- Advise the Receiver of any change in particulars.

5. What is a 'person' for the purposes of registration?

Only a 'person' may register for VAT purposes. The term 'person' includes:

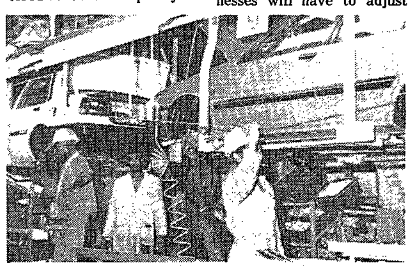
- natural persons (eg, sole proprietors)
- companies
- close corporations
- partnerships
- trusts
- bodies of persons (associations)
- clubs
- deceased estates
- insolvent estates
- local authorities
- certain government departments.

made, whichever is earlier. Similarly, they recover input tax on purchases, at the time the invoice is obtained whether or not payment has been made.

8. What is the payment basis?

Vendors who are permitted to use the payments basis will only be required to account for VAT to the extent that payment has been made or received. In other words, output tax is accounted for on the tax period's cash receipts from taxable supplies and input tax is recovered only on payments made for taxable supplies during the tax period.

The categories of registered vendors who qualify for



A local car assembly line — under VAT, no more double taxation in the productions/sales chain. The consumer will pay tax once only.

the payments basis of accounting are:

- public authorities
- local authorities
- associations not for gain/welfare organisations
- smaller businesses whose

basis of accounting for VAT may incur an interest cost of carrying the VAT content of debtors beyond the date upon which the VAT is payable to the Receiver of Revenue.

This cost would, however, be reduced by any cash flow advantage gained through the VAT system — in particular, any recovery of or credit for input tax in relation to supplies which are only paid to a supplier subsequent to that recovery, as well as VAT received from customers which needs only to be paid over 25 days after the end of the tax period.

10. Must records and accounting systems be amended?

To some degree most businesses will have to adjust their records. For example, are the records able to distinguish between taxable and exempt supplies? These details will be required on the return form and vendors will be expected to be able to en-

Official information provided by Inland Revenue and published by the Department to guide the private sector towards the implementation of VAT

For freight agents implications are important

S Times (Bus Times) 26/5/91 (320)

THE INTRODUCTION of Value-Added Tax (VAT) on September 30, this year, will impact on freight transporters and agents in many ways - which does not mean that working with VAT as such will be complicated.

Tax experts believe that the administration of VAT is going to be a realtively simple business, at the end of the day not involving much more than keeping an accurate record of purchases and sales.

Zero-rating will benefit export greatly

Of course, the main principles and benefits of VAT, all of which will impact on the freight industry, will have a far more profound effect than merely those specific measures perculiar to the freight business.

VAT will be a vastly more efficient system than GST. It will eliminate huge amounts of double taxation. It will protect large amounts of money that currently go wasted due to tax fraud and evasion. And it will inject into the economy more than R6 billion worth of tax on capital and intermediates, which at present are subject to GST.

How exactly will VAT treat the freight business?

AGENT/PRINCIPAL

Firstly, you have to ascertain whether you are, in terms of VAT, an agent or a principal. If you act as both, it is important to distinguish between those transactions where you act as an agent, and those where you act as a principal. The Bill in fact does not define an agent and our common law does not contain a clear definition either.

In terms of the VAT Bill, agents will simply act as a conduit whereby the VAT charges are passed on to principals. This means that agents acting on behalf of SA resident principals are not entitled to claim input tax credits in respect of disbursements incurred on behalf of such principals. Similarly, such agents are not obliged to

Fees

The agent normally charges the client fees for services such as:

- preparation of import/export shipping documents;
- clearing of goods through customs;
- arranging insurance for export goods in transit; and
- arranging of export transport and freight.

Fees charged for services relating to the first two mentioned above will attract VAT. Fees for the latter two will be zero rated ie no VAT will be charged. Any fee charged in respect of disbursements paid on behalf of the client will attract VAT. Should the agent charge interest on the granting of credit (paying to have goods cleared up front and only being paid later), this would be deemed to be a financial service as defined and will be exempt.

That some of the agents' services may be zero rated and other standard rated will mean that where an agent charges an all inclusive fee for services rendered, he will have to apportion the fees between the two rates. Furthermore, if he is also rendering exempt services, he will have to apportion all inputs between the rated (standard and zero) services and the exempt services to ascertain which credits he may claim. This could cause an administrative difficulty; but in fairness to VAT, the likelihood of

additional charge payable to Customs & Excise when the goods are being cleared. Should goods be placed in bond and not cleared immediately, the VAT will be payable when the goods are finally cleared.

Where the agent pays freight to the shipper on behalf of his client, no VAT will be due. The freight charge is in respect of international transport and is zero-rated according to the Bill. However, the value for customs duty includes the freight charge and this duty will be subject to VAT as seen above.

Harbour fees, container handling charges and other related charges will be subject to VAT on the basis that they are not supplied by the same person that supplied the international transport, and therefore do not qualify for zero-rating. Similarly, where the agent arranges for the transport of the goods from the harbour to the importer's premises, such transport will attract VAT.

EXPORT

The principles applicable to imports apply similarly to exports. The charges relating to international transport ie freight and insurance, will be zero-rated. Port related charges will attract VAT as will any overland transport (in the RSA) which is not supplied by the supplier of the international transport.

A few points to ponder:

- According to the Bill, a resident of South Africa is

or sectional title unit
- the rendering of a service, e.g.
  — the professional services
  — services by local authorities and certain public authorities
- the cession of a right
- certain fringe benefits.

Imported goods and services will be taxed to ensure that all domestic consumption is taxed and to ensure that local suppliers are not placed at a disadvantage as compared to foreign suppliers.

It should be noted that only supplies by registered vendors (see 1) are subject to VAT. This means that private transactions (between persons who are not vendors) will not attract tax. For example, VAT will not be payable where Mr Citizen sells his home or motor vehicle to Miss Citizen.

3. What supplies should be taken into account when calculating turnover for purposes of registration?

Include
- Value of taxable supplies (see 2)
- Zero-rated supplies
- State subsidies
- Indemnity payment (insurance)
- Taxable fringe benefits

Exclude
- Exempt supplies (e.g. commuter transport on buses, trains and taxis)
- Certain abnormal receipts
- Unconditional donations

arate registration of any enterprise/branch/division for VAT purposes if each enterprise/branch/division:
— maintains an independent system of accounting, and can be separately identified in terms of the nature of the activities carried on or the location thereof.

Transfers between separately registered enterprises/branches/divisions are subjected to VAT.

6. Can I cancel my registration?

Cancellation of registration takes place when the value of taxable supplies falls below the limit of R150 000 per annum and the vendor applies for cancellation of registration; or if the business ceases to trade.

7. What is the invoice basis?

Vendors who are on the invoice basis must account for output tax on all sales, both cash and credit, where or not payment has become received for supplies made. A supply of goods or services is deemed to take place, as a general rule, at the time an invoice is issued or any payment of consideration is

exceed R1 million per annum.

9. What additional cost will VAT create for a business?

The general rule is that VAT is not a cost to be borne by any business.

VAT paid by a vendor on the purchase of goods or service is allowed as a credit against tax collected or is refundable. The VAT on goods and services sold by the vendor, which forms part of the amount charged to the purchaser, is required to be paid to the Receiver of Revenue.

However:

In the case of suppliers of exempt goods and services there is a VAT cost borne by them. The VAT attributable to their purchase of goods and services is not recoverable from the Receiver of Revenue.

There may also be a VAT cost to a business where a fringe benefit granted to an employee involves the supply of taxable goods or services, or where goods or services are applied for non-business purposes.

Businesses which do not use the "cash" (i.e. payments)

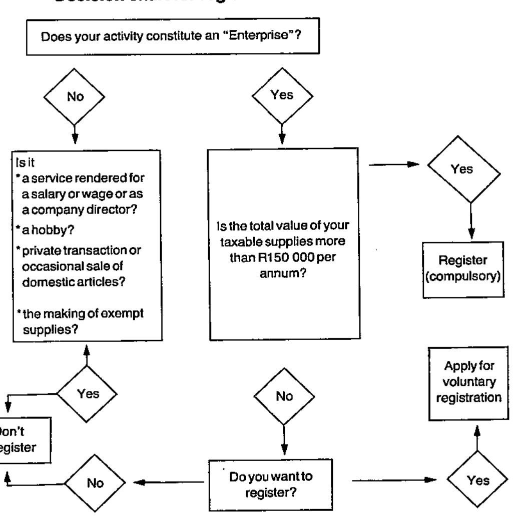
Get your copy of the "quick guide" soon

Inland Revenue's quick guide to VAT – on which this article is based – will be mailed to businesses countrywide next week. You will also be able to get a copy from your nearest Receiver of Revenue office after June 10. Or call 012-315-5679, and a copy will be mailed to you right away.

Who registers for VAT?

Should I or shouldn't I? Not all businesses have to register for VAT – and even those who don't, have a choice. Follow this chart – it may help you make up your mind.

Decision chart for registration



Vendors will also have to consider whether the information required by the accounting basis allocated to them is available from their present records.

It is also possible that vendors who have computerised accounting systems will have to have programmes altered to take the new requirements into account. Vendors who operate manual systems will probably have to add columns to their books of prime entry to ensure compliance.

11. What are tax periods?

On registration vendors will be allocated a registration number and a tax period. A tax period is the period of time in respect of which a VAT return must be submitted. The VAT Act specifies tax periods of one, two or six months.

A standard two-month tax period will be allocated to vendors on the following basis: Category A: Ending on the last day of January, March, May, July September and November. Category B: Ending on the last day of February, April, June, August, October and December.

The allocation of a two-month period will reduce work for vendors and reduce administration costs. It will also allow the Receiver of Revenue to spread his workload.

Larger enterprises whose turnover exceeds R30 million a year, will be required to submit returns on a monthly basis. Other enterprises, such as those which expect regular refunds of VAT, will also on application be allowed to adopt the one-month tax period.

Farmers may apply to submit returns on a six-monthly basis if the total value of taxable supplies from farming does not exceed R1 million a year.

12. When must payments and returns of VAT be made?

The VAT-return for each tax period, and any tax payable in respect thereof, must be made to the Receiver of Revenue not later than the 25th day after the end of a tax period. For example, where a tax period ends on 31 March, the return will be due by 25 April. Bear in mind that a vendor may choose a tax period ending within 7 days of the end of a month. It may, for example, be more convenient for you to close your books on the 28th of each month as the end of your tax period, but you will still have to submit your return and make payments by the 25th of the following month. Electronic transfers of payments, however, are due by the last business day of every month.

When the vendor's input tax exceeds his output tax for a tax period, the difference is refunded to the vendor by the Receiver of Revenue within 21 business days of a return being submitted. If the refund is delayed the Receiver of Revenue must pay interest unless the return was not completed properly.

rating is that it enables the government to — effectively — free an item or service from VAT; but is more efficient than a GST exemption which does not completely get rid of the GST hidden in the price of goods and services. The zero rate will i.a. apply to the sales of certain stable foods, and to the exports of goods and services.

"The zero rating of exports will encourage exports meaningfully, thus boosting economic growth and the creation of jobs," says Dr Alant.

● ELIMINATING OF DOUBLE TAXATION

The GST system suffers from the serious disadvantage that GST is applied to GST. The result is that the price of any article represents some element of GST even before the consumer pays GST. Credit will be allowed for tax paid by businesses under VAT, which will impact favourably on consumer prices.

● REGISTRATION OF SMALL BUSINESS

"Of utmost importance to South Africa is the job creation capability of the small business sector," Dr Alant said.

"Everything possible ought to be done to encourage this sector."

This includes increasing the turnover limit beyond which businesses must register for VAT, to R150 000. Although this will constitute a significant potential income loss to the Treasury, the Government is confident that this will be in the best general economic interest of the country.

What it means in practice is that a business turning over less than R150 000 a year, need not register for VAT, does not levy VAT on its sales, and does not submit any VAT returns to the Receiver. Although such a busi-

● ELIMINATION OF TAX CERTIFICATES

Under the sales tax system vendors are entitled to purchase goods free of tax where such goods were intended for resale. In a VAT system tax is paid at all stages of the production and distribution chain. This eliminates misuse of vendors' registration certificates, one of the serious flaws of the GST system.

It does mean, however, that enterprises will sometimes find that the input tax they have paid exceeds the output tax they collect, particularly after the purchase of large capital items. Vendors engaged mainly in the

like, will enjoy the major benefit; whilst VAT will be slightly less beneficial to organisations that tend to earn more market related income. Charities that render free help, will recover all of their tax inputs.

● A PURE VAT SYSTEM

"We chose a pure VAT system," Dr Alant said, "that allows virtually all business inputs to qualify for input tax credit. This will eliminate the payment of VAT upon VAT, thus enabling business to reduce its costs and in many instances its prices. Both local consumers and our exporters stand to benefit."

sales. Should the principal be a nonresident, the agent shall be deemed to be the principal, and will therefore assume VAT responsibilities.

TRANSACTIONS

Disbursements

Clearing and forwarding agents disburse considerable amounts in respect of freight, customs duty, harbour duties, surcharges and other charges on behalf of clients. They are acting as agents and will therefore not be able to claim any input tax credits on the items they handle, but will merely pass them on to the principal. Agents will receive tax invoices and redirect them to clients.

a... the above activities, is limited.

What of the fees charged by an agent to foreign principals? The zero rate, according to the Bill, will apply where the agent's services 'are supplied directly to a person who is not a resident of the Republic'.

IMPORTS

The general rule is that VAT will be paid on all imports. The VAT will be calculated on the sum of:

Customs duty value plus
10% of customs value plus
All other duties and surcharges.

VAT will therefore be an

public any enterprise or other activity and has a fixed or permanent place in the Republic relating to such enterprise or activity'.

If a client abroad has an office in SA, it will clearly not qualify as a non-resident and will have to register as a vendor in terms of VAT.

- The bill provides for the zero-rating of transport (including ancillary transport services) supplied in SA provided the services are supplied by the same supplier that supplies the international transportation of the goods in question.
- The essential characteristic of agency is that the agent has the power of affecting the legal position of the principal ie the contracts entered into by the agent will be binding on the principal.
- Where the agent agrees to collect the client's goods abroad and deliver them to the client's premises in SA for an agreed price, the agent will contract for transport on its own behalf and act as a principal and not as an agent. In such case the agent will have to pay VAT on the overland transport in SA and port charges. However, if the agent is the same supplier of all the transport (land and sea), his charge to the client will be zero-rated, and the VAT paid to the transport contractor in South Africa, will be refunded.
- Where the agent acts as an agent for a local principal in respect of disbursements paid on behalf of the client, the agent will not account or output tax and will not claim input tax credits, but will merely act as a conduit and pass on to the principal who will account for the taxes.
- Where the agent acts as a principal and charges the local client a fee, he will have to account for the output tax and will be allowed the input tax credits (provided of course the agent is registered as a vendor).
- Where the agent acts on behalf of or charges a non-resident client, the agent will be deemed to be the principal and will have to account for the output tax and will be allowed the input tax credits (again, if a registered vendor).
- Charges in respect of the loading and off-loading of goods by stevedores will attract VAT.
- 'Ancillary transport services' is defined as stevedoring services, lashing and securing services, cargo inspection services, preparation of customs documentation, container handling services and storage of transported goods or goods to be transported.

VAT will have many implications for freight agents and others who move freight. But the main benefit — VAT on exports will be zero-rated.

VAT and the farmer

(Bus Times) St Times 26/5/91 (320)

— not many major surprises

TO MANY FARMERS, the implementation of VAT will not come as a major surprise, because many of them already are registered sales tax vendors with experience of the workings of an indirect taxation system.

With GST, farmers with annual turnovers exceeding R50 000 were required to register as vendors. When VAT is introduced on 30 September 1991, registration becomes compulsory only where turnover exceeds R150 000 a year. According to the Commissioner for Inland Revenue ony 8 400 farmers — some 12 per cent of South Africa's 70 000 farmers — will have to register for VAT.

Small farmers who sell mainly to end-consumers or non-registered vendors will probably elect to stay outside the VAT system — in this way their value-added (mainly wages and profit) will not be taxed and they avoid an administrative burden imposed by the system. On the other hand, if they sell mainly to co-ops, supermarkets, on municipal markets or to other registered vendors, they will probably choose to register so that the VAT paid on any farming inputs can be deducted from the VAT they collect on their sales.

As a result of representations made to VATCOM by the South African Agricultural Union, measures have been introduced to assist farmers:

- Farmers with annual turnovers of less than R1 million may use the payment basis of accounting for VAT instead of the more exacting invoice basis, i.e. output tax is paid on actual receipts from customers and input tax is claimed on payments to suppliers.
- Farmers registered for VAT purposes may acquire the following inputs at the zero-rate (i.e. free of tax), provided the price per item exceeds R500: stock feeds, fertilizer, herbicides, insecticides, fungicides, dips, stock licks, livestock vaccines, seed and plants.
- Most businesses will have tax periods of one or two months, but separately registered farming enterprises with turnovers of less than R1 million a year may elect six-monthly tax periods: that is, farmers may choose to do their VAT returns to the Receiver only twice a year.

Which of course does not mean that farmers registered for VAT pay less tax than other businesses! These measures are merely intended to assist them as far as record-keeping and cash flow are concerned.

Under the GST system farmers had to pay tax on tractors, trucks, machinery, implements and even loose tools. With VAT they will pay tax when they require capital and intermediate goods of this nature but will be entitled to deduct this VAT from the VAT they collect on sales, which will lead to a reduction in their production costs and will possibly even enable them to lower their prices.

VAT will be payable on the purchase of a farm or farming land, but again this tax will be deductible from VAT collected by the farmer on his sales. If the VAT paid by a farmer exceeds that which he collects on sales, the difference must be refunded to him by the Receiver of Revenue within 21 days of a return being submitted.

Another interesting point — where VAT is payable, transfer duty falls away, even if the VAT is deductible or refunded.

Granite pulls out of headlong dive

S|Times (Bus Times)
26|5|91

Business Times Reporter

THE GRANITE industry looks like recovering from last year's severe slump.

Offtake of Rustenburg grey, which dominates the high-volume utility market, is increasing and stocks in South Africa and Italy are falling.

Fierce competition among producers has eased and prices have recovered from $350 to more than $400 a cubic metre.

Resurgence of demand in the Middle East since the end of the Persian Gulf war is one reason for the recovery.

Losses

There has also been an increase in demand for Belfast black at the expense of Zimbabwe and other black material from places such as Transkei.

After experimenting with Zimbabwe black because of its lower price, many foreign customers are returning to Belfast for its superior quality.

Demand for SA granite has been hit by world recession and the Mid-East crisis since September 1990 because Saudi Arabia is a major market for Italian exports of finished stone.

Overproduction of grey granite sparked a price war. New SA producer Aurora lost more than R4-million in its first year to the end of June 1990 and was taken over by Kudu.

Of the three major producers, only the largest, Keeley, improved results in 1990. Marlin's pre-tax profits fell by more than a third in the year to last June to R18,3-million. Kudu lost R728 000 in the six months to last December.

There was a catastrophic collapse in Marlin and Kudu share prices from highs of 800c and 475c respectively in 1989 to their current 140c and 95c.

Sustained growth which the industry experienced in the 1980s ended in 1990 and investor sentiment turned sharply against the sector.

In 1987 the granite sector made its debut on the JSE with the listing of Keeley, Marlin and Kudu — and the spotlight fell on a hitherto low-profile industry.

These three companies, plus unlisted Impala, were the major producers in an industry which promised good returns for investors. In June 1989 Aurora joined the granite producers on the JSE.

The term granite is used in a commercial rather than in a strictly geological sense. It refers to rocks of different mineral composition, but all of igneous origin (cooled from molten magmas in the earth's crust).

Granite has two major applications: building and monumental, mainly tombstones.

Value

The building industry has provided the major impetus to worldwide growth in demand for granite. It is used for floors and interiors but mainly for exterior cladding because of its attractive appearance and resistance to physical and chemical degradation.

Acid rain in the industrial world has boosted the use of granite at the expense of marble, which is subject to chemical attack.

World production of granite is 10 million tons a year. SA and Bophuthatswana have an annual production of 600 000 to 700 000 tons. More than 80% of production is exported. SA is the world's largest exporter and major competitors include India, Spain, China, Brazil and the Scandinavian countries.

Italy is the centre of the world granite trade and imports raw stone, which is cut into slabs and polished and re-exported.

Most of SA's granite is quarried in the Transvaal: grey from the Rustenburg and Brits districts, black from Belfast and red from Potgietersrus. Grey granite comprises about two-thirds of production, but black commands a price nearly four times higher.

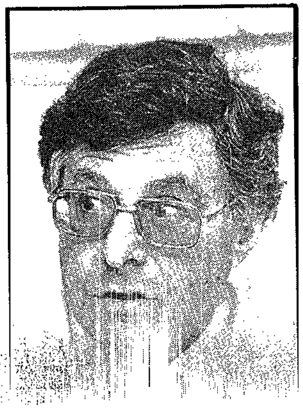
Prices of granite vary considerably according to quality and block size. Current average prices of the three types are about $1 500, $750 and $400 a cubic metre for black, red and grey respectively.

SA producers are gradually moving to increased beneficiation of granite through sawing of raw blocks and polishing to produce slabs and tiles for domestic and export markets. This trend will strengthen the granite sector through higher added value and provide an additional attraction for the long-term investor.

The way to avoid economic disaster

S|Times (Bus Times)
26|5|91.

By RONNIE BETHLEHEM, chief economics consultant at JCI



SOUTH AFRICA's economy is at a crossroads.

What happens politically in the next 12 to 18 months will determine whether it will continue to progress as a modernising, Western-type industrial country or be driven closer to sub-Saharan disaster.

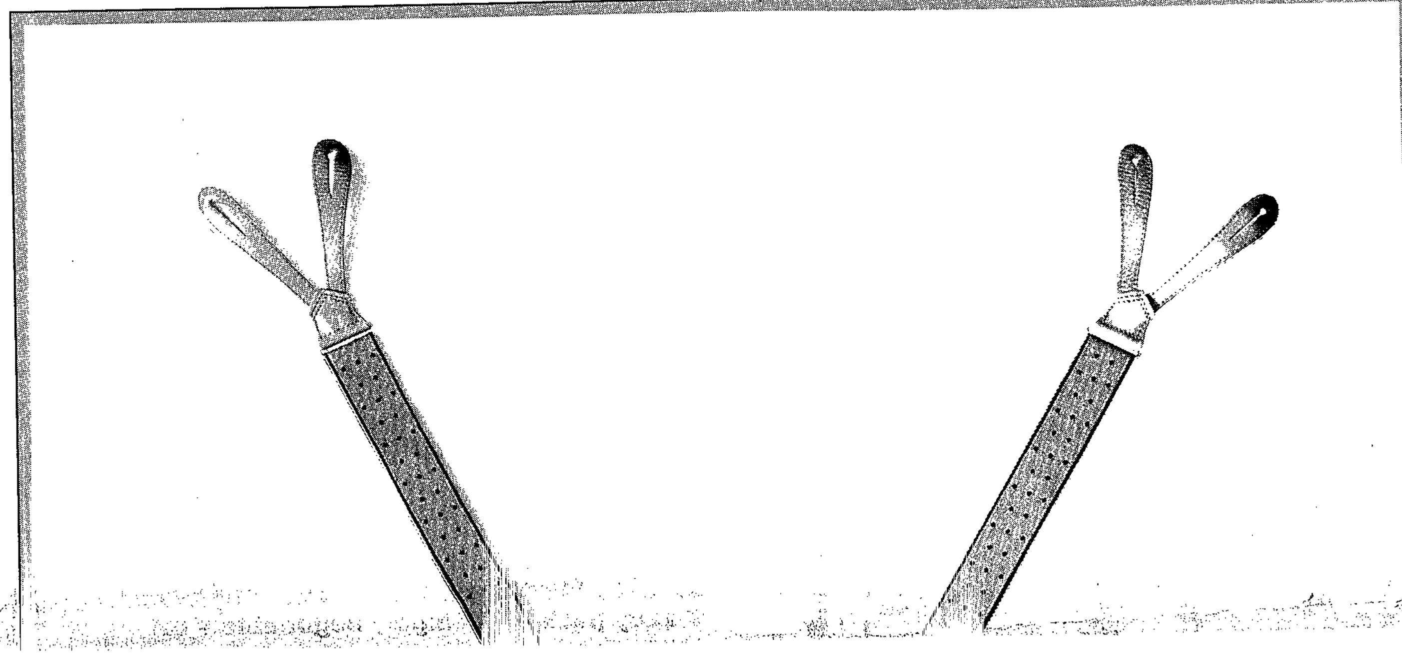
This article focuses on three questions:

- How long will the recession last?
- What are the prospects for inflation?
- What needs to be done to get the economy moving again in a sustainable and meaningful way vis-a-vis existing unemployment?

It is necessary to begin with a basic axiom: *It is not possible to create jobs on a durable basis by simply printing money.*

This was a lesson painfully learnt by SA in the 1980s and the authorities are rightly resisting the temptation to repeat it in present circumstances.

Th[illegible], two factors will govern how long



● [illegible] economy on which SA vitally depends.
● What changes are made to monetary and fiscal policy.

This year is likely to be a problematical one for world growth. Two of SA's leading trading partners, Britain and the US, are in recession. But growth in Germany and Japan is offsetting this and by the second half of the year broader global recovery could be under way. International inflationary expectations are subdued.

Serious

With the gold price depressed and with an uncertain outlook for non-gold exports, continued caution on the part of the monetary and fiscal authorities is necessary.

Also, they cannot relax policy now while the *net* reserves (gross reserves less short-term foreign liabilities) remain depressed and inflation remains high (over 14% compared with an average of about 4% in leading trading partner countries).

To relax too soon, notwithstanding the short-run help to employment and the mining sector, could have serious negative medium- to long-term consequences. It could sacrifice altogether the opportunity of getting inflation back to near single-digit levels, and that is essential *before* political transformation occurs.

What then can be done about unemployment in the short and long run? Needed here is a specific State-led, but consensus-supported, strategy directed to urgent mass job creation.

This can be achieved within the discipline of strict monetary and fiscal policies only by a restructuring of State expenditure. If the fiscal deficit is to be kept to about 3% of gross domestic product and taxes are *not* to be increased (both necessary requirements) such a restructuring is the only way.

A major house-building and related public works programme could kick-start the economy to a higher rate not only of real GDP growth but also, and equally importantly, to a higher rate of employment growth. (In the past, employment growth has underperformed compared with real GDP growth — the capital intensity problem — hence the rise in structural unemployment.)

RONNIE BETHLEHEM: Spurn the money printers

But a kick-start by itself is not enough. It should constitute only phase 1 of an accord-backed strategy aimed at normalising SA's position as a developing country and therefore logically in deficit on balance of payments current account, of getting capital inflows through the removal of sanctions, by getting SA readmitted to IMF and World Bank arrangements, and by encouraging a return of risk investment to the country (the real long-term prize).

What is being advocated is both Keynesian and monetarist in the context of a market economy. (Central planning is out. The SA State is bound to operate subject to market disciplines because the global economy is a market economy.)

Duplication

Keynesian-type intervention (providing bottom-line private sector incentives for construction) deals with mass unemployment and homelessness.

Monetarist discipline (strictly controlling aggregate State spending and deficit funding) deals with the imperative that neither the BoP nor the currency can be sacrificed.

Restructuring State expenditure has two aspects

● Reordering national priorities (i.e. house-building before defence or apartheid bureaucratic duplication).
● Improving cost-benefit regarding existing State spending (i.e. eliminating waste and improving efficiency, especially in such areas as black education and decentralistion policy).

The possibilities for both of these are so great as to give encouragement to the hope that a strategy along the lines suggested could indeed succeed.

show a VAT inclusive price. that the perceived increase clusive price of every article.

Careful preparation will ensure financial reward

S/Times (Bus Times) 26/5/91

(320)

By STEPHEN MINNE, tax partner, Arthur Andersen & Co

WHAT is the difference between an organisation that adopts a workable VAT conversion and one that achieves a really successful one?

The distinction is subtle in its characteristics, but dramatic in bottom-line impact.

One of the key differences is whether the organisation opts for an integrated solution or a diffused conversion process.

The nature of the objectives is also of fundamental importance. Is the aim to cope administrative with VAT requirements, or is the conversion process geared to achieving specified savings and efficiency targets?

The variety of functions in the organisation that are affected by VAT is remarkable.

Among others, finance is concerned about conversion costs, treasury about the impact on working capital requirements, marketing needs to deal with customers who want to defer purchases until September 30, procurement needs details of technical interpretations, personnel has to consider VAT on fringe benefits and systems needs to know almost everything about the effect on everybody.

In addition, the execution of the conversion plan tends to require decentralised effort. No wonder that the conversion process can become diffused.

In such a scenario the business needs a strong hand to guide it, set targets and ensure that opportunities receive as much attention as problems do.

For once, a committee approach — through a VAT taskforce — can be effective. But the executive with ultimate responsibility must manage the process assertively.

Sound professional advice can be invaluable. But the adviser must likewise adopt an integrated approach. It would be ineffective to deal with the systems advice separately from the tax advice. The service must integrate all dimensions.

Geared

In the course of the systems review planning opportunities that are unrelated to systems work as such will surface. But they will often be overlooked unless the operation of the project team is geared to their identification.

Potential savings fall in two categories — those associated with the remaining part of the GST regime and the switch-over period, and those relating to subsequent operations during the VAT era.

The former is conceptually straightforward — as shown by recent Governemnt action intended to turn the tide of large-scale deferment of capital expenditure until VAT is introduced.

However, the potential applications of this concept go further than meets the eye. This does not mean that the door has been opened for large-scale tax avoidance. On the contrary, the anti-avoidance provisions built into the VAT legislation have more teeth than their income-tax counterpart.

In fact, it is possible that careless execution of certain perfectly normal transactions having the effect of resulting in a VAT input credit could result in a denial of that benefit because of an inadvertent appearance of tax avoidance.

Opportunities to achieve continuous savings once VAT has been introduced require particularly careful planning. Here cash flow is the keyword, and the objective is to have access to a source of permanent and interest-free working capital through slight, legitimate acceleration of inflows and postponement of outflows under the VAT system.

By September 30, most businesses' VAT systems will probably be in place. But those who approached it as a process to be managed to best advantage, instead of merely being an administrative burden, will be able to claim success.

They may find, and might even have set as a target, that the additional savings that were consciously identified have more than compensated for the conversion cost.

It's only fair that

Advertising faces challenge in advance of the big change

S/Times (Bus Times) 26/5/91 (320)

By Keven Lief, senior consultant, Fisher Hoffman Stride

THIS year's Budget speech confirmed that VAT would include an inclusive pricing system.

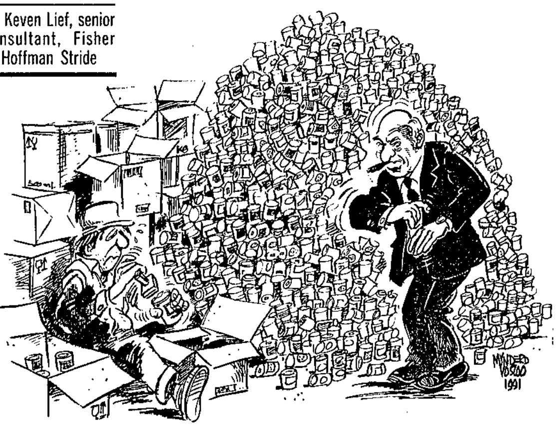
As Finance Minister Barend du Plessis put it, the price you see will be the price you pay.

The adjustments required in many sectors, from the exclusive GST pricing methodology to the inclusive one, are many and varied.

As legislation stands, all prices charged must include a VAT component. Any consideration quoted for supply of goods or services is deemed to include the VAT charge.

It follows that goods must be marked inclusively. Only one price tag will appear on goods — the VAT inclusive price.

A notice saying the goods are VAT inclusive must be posted in shops.



Interim

As an alternative, the Act provides that a vendor may mark goods with a tax exclusive price as long as the VAT payable and the total price inclusive of VAT are also displayed on the goods.

The direct implication of this legislation is that before the change to VAT, some form of physical re-mark of stock in shops will have to be made.

Either a VAT inclusive price will have to be displayed instead of a GST exempt price, or new price tags showing VAT payable on an item and the inclusive price will have to be added.

It was with this physical re-mark of goods in mind, that Vatcom recommended the transition date be moved a day forward so as to fall on Monday September 30 instead of Tuesday October 1.

This will allow vendors a weekend in which to re-mark stock.

The legislation also provides for special interim measures which would have to be specifically approved by the Receiver for this transition period. A typical example would be the dual marking of stock with two separately coloured stickers or price tags. One would refer to the GST price and one would to the VAT price.

The Act also says that any prices advertised or quoted must be inclusive of tax. Alternatively, the three amounts previously mentioned may be quoted.

This implies that all advertising material has to be updated before the transition. All leaflets, brochures and flyers, as well as any price lists distributed to clients, will have to be updated to show a VAT inclusive price.

Similarly, any radio spots or television advertisements will have to be updated where they have previously quoted GST exclusive prices. Advertisements that appear in newspapers or periodicals will have to be updated to appear differently from the date of transition onwards.

These issues are important because provision is made in the Act that incorrect pricing or charging of goods is an offence for which a R4 000 fine and/or 12 months' imprisonment could be imposed.

There are, however, more important issues at stake than those that appear in the legislation. Advertising may well have to play a new role.

With the transition from GST to VAT, it is important that the perceived increase in prices is not translated into a real one. This would be inflationary. Therefore, advertising media must communicate the fact that the new prices represent a different pricing method rather than an increase because of the new taxation.

Where GST was levied previously, new prices should be cheaper because the new tax will be a percentage point lower than GST.

An important spin-off of the adoption of the inclusive pricing mechanism is the fact that any future changes in the VAT rate, would result in the exact same operation as the initial transitional process.

A change of the rate, for example, from 12% to 10%, would actually change the inclusive price of every article. Therefore, the re-marking exercise would have to be gone through once again.

The effects that VAT has on advertising and quoting of prices will significantly affect the way advertising agencies and concerns do business. Businesses involved in advertising will find themselves in a similar situation to other vendors — all their business outputs will be taxed at a VAT rate of 12%. All their business inputs, however, while taxed at a rate of 12%, will be allowed as a VAT claim (there are specific deductions for which a claim is disallowed).

This effectively means that any supplies on which GST was previously paid, effectively become 13% cheaper while, to their clients, all advertising services (assuming GST was not paid on these them) effectively become 12% more expensive.

It should be remembered that, where this cost is borne by taxable persons, which is normally the case, this 12% will be claimable as an input tax claim.

The elimination of the double taxation element of GST goods in an advertising concern, combined with the input tax claim for VAT paid on advertising, means that actual advertising costs to a taxable person should ultimately drop.

The volume of business for an advertising concern will increase during and directly after the transition period. The various advertising requirements that are demanded by VAT may not be fully comprehended by business persons at large.

Workload

It is, therefore, the responsibility of advertising agencies to communicate these responsibilities to clients.

The increased workload that advertising concerns will have to face will sorely tax their staff members. It is, therefore, advisable for them to approach clients as soon as possible to try to establish what their individual requirements will be before and during the transition.

Generally, VAT may either simplify or else tremendously complicate the advertising process. Where an inclusive pricing method is adopted, advertising becomes remarkably simple.

One price need be displayed, quoted and advertised. Therefore, the cost of producing this advertising material compared with the GST system, should be equal or less.

Where three prices instead of one need to be displayed, the cost of advertising will obviously increase.

VALUE ADDED TAX

A Business Times Feature

Standard, zero and exempt in nutshell

S Times (Bus Times) 26/5/91 (320)

THE tax implications of standard-rated, zero-rated and exempt sales need not be as daunting as they initially appear.

By BRUCE HAMILTON, senior tax consultant, Coopers Theron Du Toit (Natal)

As we move closer to the implementation of VAT, detailed documentation and guidelines will become more readily available and it would be wise for any entrepreneur to review them.

A registered vendor must collect tax on the supply of all goods and services that are provided in the normal course of business.

The amount of tax actually payable by the vendor to the Receiver of Revenue will not be the same as that he has charged his customer.

A vendor is responsible for paying the difference between the tax charged to customers (output tax) and the tax payable to suppliers for purchases used to carry out his business activities (input tax).

If the tax on purchases exceeds the tax charged to customers, the vendor will be entitled to a refund of the difference from the Receiver.

Output tax, charged on the supply of goods and services, is the amount of VAT — at 12% on the amount charged — that is included in the selling price of standard-rated goods and services.

VAT is not applicable to exempt sales, such as interest charged on financial services, and the vendor therefore incurs no liability for output tax in respect of such sales.

VAT may be charged, but at zero percent, on the supply of certain goods or services, such as exports or brown bread. The VAT actually collected is then also zero. These are known as zero-rated supplies.

Complex

Tax paid on purchases of all goods and services, including capital property or fixed assets, used in connection with a commercial enterprise is normally fully recoverable.

No input tax credit is permitted on purchases to be used for the making of exempt supplies, ie sales that are not subject to VAT.

The situation does become more complex when purchases are used for making both taxable and exempt supplies of goods or services. Credit on input tax must be reviewed and divided, depending on the actual degree of use, between taxable and exempt activities.

But if the intended use of the purchase is at least 90% for taxable activities, no apportionment is necessary and full credit may be taken for the input tax.

Full input tax credit is allowed on goods and services which are bought for making zero-rated sales in spite of the fact that ultimately no VAT will be charged on the sale to the customer.

Because credit on input tax is generally available in the tax period in which the requisite tax invoice is received from the supplier, it is not normally necessary to delay a credit until the supplier is paid.

There are some circumstance when input tax credits are not permitted. They include entertainment expenses, cars, except when acquired by a motor dealer for resale, and most importantly, if the prescribed supporting documentation is not available.

Obviously, if purchases of exempt or zero-rated supplies are made such as municipal rates and brown bread, no input credit may be claimed because no VAT was paid.

Adjustments to input credits are required in various situations, such as credit notes and settlement discounts to customers and bad debts written off.

Output tax payable is also adjusted in some instances, such as credit notes and settlement discounts from suppliers, certain fringe benefits and bad-debt recovery.

VAT

Sunday Times

Business Times

26/5/91

320

SOME PROBLEMS ARE BEST HANDLED BY PROFESSIONALS....... ....SO CALL IN **PAG**

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Are your staff qualified to implement VAT?		
Do you know exactly which areas are standard rated, zero rated and exempt?		
Have you evaluated your present systems' ability to cope with VAT?		
Are you aware of the the cost reduction to you under the VAT system?		
Are you aware of the implication of this on competitive pricing?		
Do you know what changes are required for general ledger, invoicing/debtors, purchases/ creditors, receipts, fixed assets, and payroll?		
Has your accounts staff formulated a planned approach to making the necessary changes?		

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As a prudent business executive you are obviously planning to ensure that your new or revised systems are up and running long before 30th September so as to avoid costly mistakes brought about by last minute changes. Remember the mistakes made with the introduction of GST? Avoid the problem and contact PAG today.

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VALUE ADDED TAX

A B

Smooth and efficient way for businesses to prepare

S/Times (Bus Times) 26/5/91

(320)

By ERROL DANZIGER, tax consultant, Kessel Feinstein

WITH proper preparation, the implementation of VAT on September 30 can be smooth and efficient and the cost can be minimised.

It will demand much planning, particularly in relation to accounting and computer systems, staff training, and the preparation of documentation, as well as the consideration of strategic matters, such as the manner in which registration is to be effected, tax periods and the VAT accounting basis to be used.

REVIEW THE BUSINESS

Fundamental to implementation is a review of the entire business structure and the identification of entities which will be registered for VAT.

This exercise will ensure both that registration options are optimised and serve as a starting point for the implementation programme.

ACCOUNTING AND COMPUTER SYSTEM

Accounting systems need to be revamped so that they meet the demands of VAT. Every system should be able to track the business's input and output tax by isolating them in a VAT suspense account so that they can be collated in order to prepare the information necessary for the completion of the VAT return.

Creditor systems in particular will need to be upgraded.

Computer accounting software will have to be revised or replaced because few existing systems make proper provision for VAT.

Specific care will have to be given to systems which produce documentation, such as invoices, so that these documents comply with the VAT specifications and that tax invoices are not duplicated where multiple documents are produced.

DOCUMENTATION

Central to the VAT system is the generation, movement and preservation of documents — tax invoices, debit notes and credit notes.

Existing documentation should be reviewed and decisions taken about changes which will have to be made. A system should be set up to store documents issued and received for the mandatory five-year period.

STAFF

VAT will make new demands on staff. Initially, staff at the management level should be selected to supervise and control the implementation of VAT.

This could involve the appointment of an in-house VAT committee, or the selection of an individual to take responsibility.

Thereafter, staff members who will be involved with VAT day to day — accounting staff, sales persons, and computer personnel — should be given the training they need.

CONTROLLING CASH FLOW

In theory, VAT has no direct cost for businesses which are fully taxable. But even if this is so, VAT will always have some cash flow cost, which is not kept under strict control, could have serious effects.

Once the formal effects of VAT on the business have been investigated, the cash-flow consequences should be analysed.

This will help the business to take whatever steps are necessary to either reduce cash flow disadvantages, on take advantage of any cash-flow opportunities which may materialise.

COSTS

Whether a business is big or small, the implementation of VAT will involve some cost. What this will amount to will depend on the size of the business and the degree of complexity which VAT compliance will involve for it.

This cost should be quantified, whether it involves minor aspects, such as the purchase of a rubber stamp for invoices, or major changes, such as the reprinting of all documentation.

Far from the end of story

S|Times (Bus Times) (320)

26|5|91

By CHRIS FRAME, national taxation director, Price Waterhouse

THE VAT Act has been drafted with a view to maintaining a low rate of tax, which can only be maintained on the broadest possible base.

The Government has resisted all pleas for special treatment and all advice relating to the necessity for more detailed treatment of particular economic activities.

The result: we have a relatively simple VAT Act applying a uniform rate at a reasonable level.

Ignored

Although this may appear to be good news, it is unlikely to last for long. The Government has consistently taken this approach in the past, both by reference to the Income Tax Act and the General Sales Tax Act.

Unfortunately, as soon as the law is applied to the real world, it will be found to be inadequate.

Fiscal legislation amounts to one of the basic codes of rules whereby an economy functions from day to day. Such rules cannot be of a general nature and cannot be dictated by principle. We must recognise the economic and political facts of life.

Although it is claimed that the South African VAT has benefited from the experience of other jurisdictions, it is truer to say that the legislation simply ignores the problems which those jurisdictions have recognised in their legislation.

VAT legislation, like the GST before it, will be subject to rapid and arbitrary change, resulting in the usual patchwork legislation as soon as the Act has to be applied to real and detailed economic transactions.

We have yet to learn that economic legislation must be as detailed and as complex as the real world and it is better to recognise this reality from the start.

The structure of VAT legislation is subject to other political considerations. It is true to say that whichever government comes to power in the future will require VAT as the only system which can be relied on to collect the revenue required by the State.

However, VAT is a regressive tax and does penalise the poor. The legislation as it stands does little to redress this problem.

There is little doubt that a new government will want to see a multi-rate VAT system, a high rate related to luxuries and perhaps a zero rate related to basic necessities. This in turn may lead to adjustments concerning VAT input tax in relation to capital goods.

Complex

The development of VAT in this country will come as a surprise to few people. The legislation itself will become more complex and will increasingly deal with special-interest groups. This is, in fact, the case in relation to all tax legislation anywhere in the world, despite the professed resistance of all governments and professions concerned with it.

CHRIS FRAME

Given the enormous gulf between the future revenue requirements of a new government and the existing means of generating that money, VAT rates are likely to rise steeply, though probably on a highly differentiated basis.

Tricky VAT registration choice

BIOP 27/5/91 (320) (880)

GILLIAN HAYNE

COMPANIES must carefully consider whether to register for VAT as one entity or to register their branches as separate units, say tax experts.

Deloitte Pim Goldby tax manager Rob Collins said the decision was one of the most crucial VAT issues. He recommended that companies register their branches individually if they were already separate cost-accounting centres.

"I believe companies should consider the single entity route only if the administration would otherwise prove too onerous, or the company operates from a centralised computer system anyway."

With separate branch registration, normal VAT rules would apply to inter-branch stock transfers. One branch would have to charge VAT on the stock as an output tax and the receiving branch would have to pay input tax.

As input tax credits could be claimed, there would be no cash disadvantage attached to separate registration, only an additional administrative element.

Collins added that separate registration could become a management tool.

"Head office will be able to monitor the cashflow situation of each of its branches and thereby have a clear indication of the performance of each cost centre if the branches maintain separate VAT records."

The separate registration was an option for branches only if they were separately identifiable and had adequate accounting records. Group registration was not an option.

Inland Revenue deputy director Peter Frank said last week that VAT registrations forms — VAT 101 — would be posted between June 17 and July 7.

Companies which had not received forms by the first week in July should contact their nearest Revenue office. Companies which chose to register their branches as separate tax entities should collect the branch registration forms — VAT 102 — from their Revenue office.

Ernst & Young national tax consultancy director Chris Hassall said the late release of forms was putting a strain on companies' preparations for VAT.

The burden facing welfare groups

Star 27/5/91. (320)

The introduction of value-added tax is going to place a huge administrative burden on welfare organisations because most will have to function as an "enterprise" and exercise all the procedures required for "input" and "output" taxes — even though they may not even charge for the benefits they provide.

If nothing else, the people running welfare organisations are going to handle a great deal of paper.

To understand the position of welfare organisations under VAT legislation, we need to look at a number of definitions.

By its nature, a welfare organisation must provide benefits to those who cannot provide for themselves.

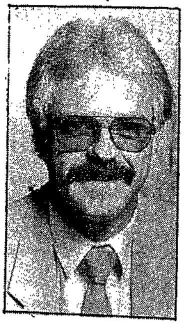
For VAT purposes they must be registered in terms of the National Welfare Act.

Any organisation not so registered will be treated as an ordinary vendor by the VAT taxman.

For VAT purposes, a Welfare Act-registered organisation is defined as "an organisation not for gain" that provides benefits in the form of food parcels, meals, board and lodging, clothing and many other necessary items or services for the comfort of the aged, indigent children, the physically disabled and mentally handicapped.

In VAT terms, the provision of food, comforts and services is regarded as the "carrying out of an enterprise".

So, in effect, even though the annual turnover of an organisation's "taxable supplies" may not reach the R150 000 threshold which automatically divides enterprises into vendors or



VAT AND YOU

The 28th in a daily series by André Meyburgh, a consultant on indirect taxation with chartered accountants KPMG Aiken & Peat on how value-added tax (VAT) will affect you.

non-vendors, it may still find it worthwhile to volunteer for registration as a "vendor".

Here, we must remember that non-vendors will not be able to charge VAT or claim "input" as a credit.

Clearly, a welfare organisaton must buy or acquire goods and services to function.

From September 30 they will have to pay VAT on everything they buy.

But, because they will be regarded as vendors "carrying out an enterprise", they will be able to deduct the tax as an "input" tax.

Take the case of a welfare organisation that provides food or clothing to indigent children.

In VAT terms, the "enterprise" will be providing "taxable supplies" — even though no "consideration" or payment is made.

Because they are vendors, tax paid on the purchase of such food or clothing will qualify as an "input" tax credit.

This neatly balances the familiar +input–output set-off equation.

Of course, in VAT terms, were our welfare enterprise to charge for food and clothing, no matter how nominal, the amount charged would be subject to VAT — at the standard rate.

And, like any other vendor, it will have to raise VAT on all "taxable supplies" made for a "consideration", and will also have to submit the required returns.

This could materially disrupt cash flow because the organisation will have to submit VAT payments up front and then wait for refunds.

Another "wrinkle" special to welfare organisations is that VAT will be levied on the subsidies the Government pays to them — but at the zero rate.

However, as the legislation reads, a welfare organisation will not need to account to the Receiver of Revenue for VAT on any subsidy — or make any payments to him.

The reasoning: because the recipient welfare organisation is the intermediary between the supplier of funds (the Government) and the recipients of the benefit (orphans, the aged or disabled), it will be "deemed" to be providing a service to the Government.

The nice aspect of that point is that welfare organisations using that money to deliver benefits (carrying out their registered duties) will be able to claim all "input" taxes for goods or services it buys or acquires.

The inflow of a government subsidy obviously could put a welfare organisation's annual "taxable supplies" over the R150 000 threshold.

In the case of a below-the-threshold organisation not wishing to volunteer for registration, it is important to note that any such subsidy should be disregarded in determining its turnover.

Therefore, should the turnover from other "considerations" received be below R15 000 a year, an organisation may choose not to register and so avoid collection of VAT for "considerations" it may charge for "supplies made".

For example, a charity running a feeding scheme, and which charges a nominal fee to raise funds and which remains below the threshold, may find it cheaper to pay tax, but cut out costly administration expenses.

Finally, it should be noted that if a welfare organisation's activities do not fall within the definitions we have discussed, any subsidy it receives from the Government will be subject to VAT at the standard rate.

TOMORROW: VAT and secondhand goods.

Software houses in VAT disarray

BDay 28/5/91 (320)

GILLIAN HAYNE

WITH many computer software houses in apparent disarray over the introduction of VAT, and with limited knowledge of its workings, tax experts fear that businesses will be hard-pressed to meet the September 30 deadline.

Tax adviser Errol Danziger said the problem was that many software companies were waiting for clients to approach them with requests for system changes, while companies were relying on software houses' expertise in identifying the areas that needed to be adapted.

He said the software houses should take the initiative and approach their clients with system adjustments. "Software houses should bear in mind that they will probably be held responsible for failures or errors if system adjustments are not correct."

Ernst & Young tax partner John Davis said there were other software houses selling overseas packages which were incorrectly assuming their VAT versions would be appropriate to the SA VAT system.

"One cannot lift a package off the shelf and plug it into the SA system. The SA VAT has unique aspects and different reporting and timing requirements. Software packages will have to be adapted carefully

Davis also warned that companies which were stalling their VAT preparations, in the belief that the implementation of VAT would be delayed, could find themselves in trouble on September 30.

Companies selling computerised accounting packages said the difficulties of creating fully automatic systems was that the packages had to cater for three systems in one — be able to work on a payment basis, invoice basis or fall outside the VAT net completely.

Pink Software MD Philip Copeman said upgrading and testing locally developed TurboCASH, which is used in the UK and New Zealand, would cost about R500 000.

Randburg eases VAT blow

Star 28/5/91

320

By Jacqueline Myburgh

Randburg Town Council kept down the cost of rates and services, aimed at cushioning the VAT blow at the end of September, when it presented its budget for the next financial year last night.

The record budget of more than R210 million was 29 percent up on last year's total, but the cost of rates and services was kept down to benefit the consumer, management committee vice-chairman Christo Geyer said.

This meant that the average account of a domestic consumer would go up by only R12,48 a month.

In a surprise move, the cost of water to domestic consumers was reduced from R1,11 a kilolitre to R1,08. This will mean an effective 2,4 percent lowering of the average domestic account.

The electricty rate was restructured, but this will only affect business, commercial and industrial consumers and not bona fide domestic consumers, Mr Geyer said.

The tariff structure had previously not spread the burden evenly between business and the private home-owner, to the extent that power had been sold to the former below cost. Restructuring meant that the domestic consumer no longer subsdised big business, but their tariffs were still in line with surrounding towns, Mr Geyer added.

The total increase in respect of electricity and water during 1990/91 amounts to R11,64, or 4,58 percent.

The total increase in rates and services will be R12,48 a month on the average domestic account — an increase of 4,6 percent.

Mr Geyer said the net effect of VAT on an average account, when it was introduced later this year, would be 9,3 percent.

The aim of the budget had been to keep the increase on rates below the rate of inflation, and he was pleased this had been achieved.

The capital budget was R43 541 888, with R166 887 174 earmarked for the income and expenditure account.

Mr Geyer said almost R7 million of the capital budget had been provided for Randburg's area traffic control system, with a centralised computer due for completion in September.

The total provision for security was R1 689 588. This money would be used to institute effective protection and crime prevention measures to ensure that residents, businesses, properties as well as assets of the council were protected.

Mr Geyer said the saving of R260 000 on commercial services when GST was done away with had already been worked into the budget and had had a positive effect on the adaptation of commercial service tariffs.

Attempts had been made to keep tariffs, on which VAT would be levied, as low as possible, he said.

It was not clear whether the council would have to pay VAT on subsidies such as ambulance services, bus services or regional services Councils.

The budget further earmarked:

- R1,25 million for renovations and additions to the Civic Centre.
- R770 000 for the expansion of the Magistrate's Court complex, the cost of which will be claimed from the State.
- R50 000 for development of the Braamfontein Spruit.
- R1 441 800 for projects relating to the Golden Harvest Park. Some R665 000 of this amount has been provided to build a dam in the park.

A further R20 000 has been provided to improve the Kiepersol Lapa.

Sandton to pay more for water

Star 28/5/91

The Sandton Town Council last night approved an increase in the cost of water and refuse removal services.

The cost of water supply to consumers will be increased by 9,56c a kilolitre from July and the removal of refuse will cost residents 20 percent more.

The increase in the cost of water is a result of an increase announced by the Rand Water Board. A portion of the money will be contributed towards the construction of the Lesotho Highlands Water Project.

The charge for water supply to domestic consumers will increase from 77,75c/kl to 87,31c/kl.

The charge for businesses goes from R1,18 to R1,27/kl. — Staff Reporter.

Second-hand goods

Star 28/5/91

(320)

To understand how value added tax will be applied to second-hand goods, we need to set the scene that exists under general sales tax.

One of the complicating and unfair factors under GST pinpointed by the Margo Commission, to which we have referred several times in this series, is the "cascade effect" (or inflation of prices) and double taxation that general sales tax can generate, in particular when the same goods are sold more than once.

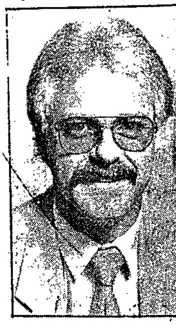
A prime example is the sale of second-hand cars.

As a measure to restrict tax avoidance, no vehicle can be registered unless proof of GST payment is presented.

When it is realised that a car can change hands many times, with GST being paid on every ownership change, the cascade effect as well as the multiple taxation factor becomes all too apparent.

In meeting Margo's objective of eliminating this penal consequence, the newly-approved VAT Act will no longer make it necessary to present a certificate of tax paid before motor vehicles, caravans, motor cycles and similar "goods" can be registered.

The procedure of "input tax" credits which vendors will be able to claim on all taxable transactions is



VAT AND YOU

Article 29 in a series by André Meyburgh, consultant on indirect taxation with chartered accountants KPMG Aiken & Peat.

also directed at removing the cascade effect, as well as double taxation penalties.

But, we must always remember that no "input credits" will be permitted for certain transactions involving "motor cars" (remember that this is a specially defined VAT term, as dealt with in article No 15 of this series), nor for entertainment or club subscriptions for reasons we explained earlier.

There is no doubt that the removal of unintended double taxation undoubtedly will be one of the great benefits of VAT when dealing in second-hand goods, especially "big ticket" goods such as cars, and has been greeted with relief by the motor industry and second-hand car dealers in particular.

For the record, it should also be noted that gold coins such as Krugerrands which are free of GST will be become subject to VAT from September 30.

When bought from the South African Mint or Rand Refineries they will be taxed at the standard rate. Thereafter, they will be classed as second-hand goods.

In one respect, value-added tax will be no different from general sales tax. VAT will carry over the GST rule that no tax is paid on the *occasional* sale of goods or services where the "consideration" (the price paid) is R1 000 or below.

The occasional provision effectively removes fom the VAT net any transactions of second-hand goods, no matter what the amount may be, between private individuals (usually they do not regularly sell second-hand goods and, remember, they cannot be registered as vendors).

Under the present general sales tax system, traders in second-hand goods and non-vendors (here we are referring also to private individuals) are on almost equal footing.

TOMORROW: More on second-hand goods.

Readers who have specific value-added tax questions or problems are invited to address these to: Managing VAT, KPMG Aiken and Peat, PO Box 7400, Johannesburg 2000. Replies will be dealt with confidentially, but interesting issues raised may be discussed in general terms in this series.

● A booklet comprising all the articles in this series will be available soon and can be ordered from The Star Promotions, PO Box 1014, Johannesburg 2000, at R20 plus GST.

More services may be exempted

Barend to get wider powers in VAT Bill

BDay 29/5/91

(320)

BILLY PADDOCK

CAPE TOWN — Finance Minister Barend du Plessis told Parliament yesterday he would amend the VAT Bill later in the session to give himself wider powers to exempt or zero-rate goods and services.

● DU PLESSIS

The VAT Bill, due to be voted on today, already gives Du Plessis discretionary powers to exempt or zero-rate basic foodstuffs. The new amendment would allow him to do the same to, among other things, municipal and medical services.

He said the clause in the amendment would only apply for one financial year to sort out transition problems, but the period could be extended if Parliament ratified it.

Other amendments envisaged included:

- That VAT on municipal rates be exempted;
- Fixing the VAT rate at 12%; and
- Specifying the exemption from VAT of maize meal and brown bread.

A tax official stressed that most of the amendments were of a technical nature and that Du Plessis preferred that his discretionary powers be exercised outside the tax system.

It was not a good practice to change the strict imposition of VAT on all goods and services, but there was, perhaps, reason to exempt certain services to tide them over the transition period, he added.

Du Plessis said he was still consulting the Medical Association of SA. Masa had put forward recommendations that medical services be zero-rated but government felt this would be unfair.

There was also uncertainty about how municipalities were going to implement VAT on goods and services.

However, he said government was not happy about the suggestions that municipal services be exempted or zero-rated. It was prepared to consider targeted aid in some form.

"Will they (local authorities) retain profits taken on services such as water and lights or will they minimise profits and shift the income to assessment rates to minimise tax on services," he said.

He said he had heard representations from the Labour Party about people losing their homes because of the increase costs VAT would result in. However, exemptions and zero-rating could not be granted just because lower income people were experiencing hardship.

Government was still investigating the matter and how to render assistance to those in the lower income groups.

DP deputy finance spokesman Jasper Walsh said his party was opposing the Bill because the 12% rate was unacceptable; tax on basic foodstuffs would not be alleviated by targeted relief; and because changes from Vatcom were made without consultation.

□ To Page 2

VAT Bill

BDay 29/5/91

(320)

□ From Page 1

Walsh said there was too much uncertainty about the final form of VAT. Amendments that were not contained in the Bill included upfront payment of VAT on imports, the wear and tear concession to counter deferral of capital purchases and the exemption on municipal rates.

Sacob chief economist Ben van Rensburg said yesterday that "any element of uncertainty introduced at this moment to the implementation of VAT would be detrimental to business confidence".

Van Rensburg said the chamber welcomed Du Plessis' dismissal of calls for exemptions or zero-ratings on municipal services.

Sacob had always argued that the VAT net should be cast as wide as possible to cover all goods and services, and "to make it possible for the VAT element in business costs to be passed on to the consumer".

GILLIAN HAYNE reports that tax experts have criticised Du Plessis' decision to award himself discretionary power.

Ernst & Young tax partner Ian MacKenzie said the clause was disastrous because of the uncertainty it created.

"Businesses cannot work with legislation which can be changed at any time without warning. Changes, if any, should be limited to an annual basis."

Price Waterhouse partner Chris Frame said the clause went against every principle of tax law. "Taxpayers should either be taxable under the law or not. To discriminate between taxpayers through arbitrary interference is nonsense.

● See Page 3

VAT won't add to tensions — Alant

320

BDay 29/5/91

THEO RAWANA

DEPUTY Finance Minister Theo Alant yesterday predicted VAT would not cause more tension in an already tense society.

Addressing the Southern Transvaal African Chamber of Commerce (Soutacoc) AGM, Alant said getting SA's economy right was as important as getting the political situation right.

"Without economic expansion and jobs for our people, this land will slip into chaos. A man without a job will easily turn to crime: a man without prospects of a future will turn to frustration and violence.

"We must use every means at our disposal to put our economy on a growth course. VAT is one means to this end," Alant said.

He said a geat deal of thought, study and consultation had gone into the preparation of VAT. No less than 112 amendments were made to the original draft Bill following the recommendations of Vatcom, a committee of 16 of whom five members were from the national black business organisation Nafcoc.

Outlining government schemes for dealing with poverty, Alant said the recent Budget already contained a number of measures to enhance economic growth and reduce backlogs in respect of social services. It also extended the "safety net" for the destitute — increases in old-age assistance and a commitment and movement towards parity in this field.

Alant said there was also the zero-rating of white maize meal and brown bread under VAT, the provision of R220m for special assistance to the underprivileged and R50m for special job creation programmes.

"In addition, R950m was set aside for special capital projects in respect of, inter alia, education and health. After the Budget a further R1bn was announced, a significant portion of which will contribute to improving living standards."

Alant said the working group involved in targeted assistance would consult widely on its approach to poverty, the criteria underlying targeted assistance, the target groups and the best way to manage such assistance.

"A period of liaison has now been entered into, following which the delivery process will be set in motion."

□ Also speaking at the AGM, ANC information director Pallo Jordan invited black businessmen to join the campaign for the release of political prisoners.

He said: "If there is to be a chance for peace in this country, our white compatriots, from the highest reaches of government to the lowest echelons of its various services, must accept the humanity of their black fellow citizens."

Hostages

Jordan said the businessmen could devise their own ways of campaigning. It could be by sponsoring their own form of action as a black business community.

"We cannot permit the government to use the political prisoners as hostages in the pre-negotiation talks. We also shall not permit them to die."

Jordan said there was no ambiguity in the terms of the Groote Schoor and Pretoria Minutes on the issue of political prisoners. "It was an undertaking made by government that the process of release of the prisoners would be completed by April 30."

Jordan said instead of building on the goodwill the ANC had shown in initiating the Groote Schuur summit in May 1990 and taking the lead and calling for a summit in August 1990, government had read these moves as evidence of weakness and an anxiety to negotiate at any price.

"We have had cause in recent months, however, to become alarmed by both the actions of the SA government and by the utterances of a number of its leading figures," he said.

Nafcoc president Sam Motsuenyane at yesterday's Southern Transvaal African Chamber of Commerce AGM.
Picture: ROBERT BOTHA

Survey studies new tax's effects on property

B/Day 29/5/91

(320)

LINDA ENSOR

CAPE TOWN — The profits of tax-exempt residential properties such as blocks of flats will be negatively affected by the introduction of VAT, whereas the profits of taxable properties will be slightly boosted and their cash flows significantly improved, a Rode Report study has found.

The survey was based on the typical expenses of an office building in the Johannesburg CBD and a large block of flats in Randburg.

Comparing the situation in terms of a 13% GST and a 12% VAT, the true profit of the two types of property, namely VAT exempt and VAT taxable, would change but only by about 2%. The impact on the VAT-exempt properties would be negative and the VAT-taxable positive.

As regards the effect of VAT at 12%, landlords in the case of gross leases (where the landlord pays virtually all expenses) would pay only 7,6% more for outgoings provided they received the full benefit of the abolition of GST from their suppliers of services.

Barend claims new powers in VAT Bill

(320)

CT 29/5/91

FINANCE MINISTER Mr Barend du Plessis told parliament yesterday he would amend the VAT Bill this year, giving himself wider powers to exempt or zero-rate goods and services.

The bill already gives Mr Du Plessis discretionary powers to exempt or zero-rate basic foodstuffs, and the new amendment would allow him to do the same on municipal and medical services specifically.

He said the clause in the amendment would only apply for one financial year to manage transition problems, but the period could be extended if parliament ratified it.

Among other amendments envisaged are:

● Those agreed to with the United Municipal Executives that VAT on rates would be exempted;

● The rate at which VAT was to be levied had to be fixed at 12% because the existing bill was published before the budget, and

● That the basic foodstuffs, maize meal and brown bread, were to be exempted.

A tax official stressed that most of the amendments were of a technical nature, and that Mr Du Plessis preferred that his discretionary powers would be exercised outside the tax system.

It was not a good practice to change the strict imposition of VAT on all goods and services, but there was perhaps reason to exempt certain services over the transition period.

Mr Du Plessis said he was still consulting the Medical Association of South Africa (Masa), who had recommended that medical services be zero-rated. The government believed this would be unfair.

VAT expected to change incomes from property

(320) CT 29/5/91

By PIETER COETZEE
Financial Editor

THE profits of tax-exempt residential properties — typically blocks of flats — will be affected negatively by the introduction of VAT, according the a Rode Report study on the effect of VAT on property profits and cash flows.

The profits of taxable properties, however, will be boosted slightly and their cash flows should also improve significantly.

Comparing the situation in terms of 13% GST and 12% VAT, the true profit of the two types of property (VAT exempt and VAT taxable) will change, but not more than about 2% — the former negatively and the latter positively, says editor of the Rode Report, Erwin Rode.

As regards the effect of VAT at 12%, landlords, in the case of gross leases (where the landlord pays virtually all outgoings), will pay only 7,6% more for outgoings provided they receive the full benefit of the abolition of GST from their suppliers of services (creditors).

In the case of net leases (virtually all outgoings are passed on the tenant) this depends very much on the lease:

- Where the amount of the expenses which is to be passed on to the tenant is fixed as per the lease (latter-day leases), the tenant's invoice will be inflated by 12%.
- Where the amount of the expenses which is to be passed on is not fixed in the lease, tenants hope that landlords will pass on GST savings, resulting in only the calculated 7,6% increase as a result of the 12% VAT.

"Cynics will say that this will not happen — either the suppliers of services to landlords (for example electricity) will not pass on their GST savings, and/or landlords would not.

He points out that in the case of a rented office block, the earnings could be enhanced by the landlord's cash flow timing. Because VAT is collected in the begining of the month (as it is added to the rent bill), large landlords will have the collected VAT in their bank account from at least the 5th until the 25th of the month.

In addition, landlords can claim VAT credits from the Receiver for moneys they have not disbursed, but for which they have been invoiced. Because accounts payable are normally only settled after 30 to 60 days, the cash flow advantages of VAT could be considerable for landlords.

"The really fortunate ones are the 'small' landlords (those with an annual turnover of less than about R200m), according to our calculations. Their cash flow advantages will be even better."

Rode says the cash flow of an exempt-supplying landlord, such as the owner of a block of flats, will be affected detrimentally.

Because no VAT is collected on the exempt supply, while VAT has to be paid on all supplies of taxable goods and services received by the landlord, without a concomitant VAT credit.

No VAT relief for municipal services

Star 29/5/91 (320)

The Government would not consider suggestions to exempt or zero-rate municipal services, **Minister of Finance Barend du Plessis** said in Parliament yesterday.

But, speaking in the second reading debate on the Value Added Tax Bill, he said the Government would consider aid in some form.

"We would not like to see people losing their homes."

He said the Government still needed time to complete investigations and decide on assistance.

The United Municipal Executive (UME) had to give a better idea of how local authorities would react, he said.

"Will they retain profits taken on services such as water and lights? Or will they minimise profits and shift the income to assessment rates, so minimising tax on services?" he asked.

Amendments to the Bill, which had been agreed on with the UME, would be embodied in changes before the end of the session.

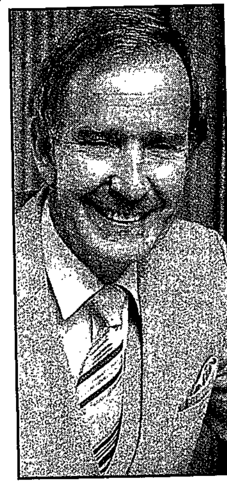
These included a clause whereby the Minister of Finance would have the power to exempt taxes on certain goods and services if he thought fit.

Another clause would be attached to this, according to which it would apply only for a particular financial year.

On VAT on medical services, Mr du Plessis said he was consulting the Medical Association of South Africa, which had exchanged useful information.

Dr Francois Jacobz (NP Helderberg) said a videotape explaining the system of VAT would be available to the public in July.

A number of publications on VAT would also be released soon. — Sapa.



Barend du Plessis . . . no tax exemption for municipalities.

VAT will help to put economy on track

CT 29/5/91 (328)

Own Correspondent

JOHANNESBURG. — Deputy Finance Minister Theo Alant yesterday predicted VAT would not cause more tension in an already tense society.

Addressing the Southern Transvaal African Chamber of Commerce (Soutacoc) general meeting, Alant said getting SA's economy right was as important as getting the political situation right.

"Without economic expansion and jobs for our people, this land will slip into chaos. A man without a job will easily turn to crime: a man without prospects of a future will turn to frustration and violence.

"We must use every means at our disposal to put our economy on a growth course. VAT is one means to this end," Alant said.

He said a geat deal of thought, study and consultation had gone into the preparation of VAT.

No less than 112 amendments were made to the original draft Bill following the recommendations of Vatcom, a committee of 16, of whom five members were from the national black business organisation Nafcoc.

Outlining government schemes for dealing with poverty, Alant said the recent Budget already contained a number of measures to enhance economic growth and reduce backlogs in respect of social services.

It also extended the "safety net" for the destitute — increases in old-age assistance and a commitment and movement towards parity in this field.

Alant said there was also the zero-rating of white maize meal and brown bread under VAT, the provision of R220m for special assistance to the underprivileged and R50m for special job creation programmes.

"In addition, R950m was set aside for special capital projects in respect of, inter alia, education and health. After the Budget a further R1bn was announced, a significant portion of which will contribute to improving living standards."

● Also speaking at the general meeting, ANC information director Pallo Jordan invited black businessmen to join the campaign for the release of political prisoners.

He said: "If there is to be a chance for peace in this country, our white compatriots, from the highest reaches of government to the lowest echelons of its various services must accept the humanity of their black fellow citizens."

Jordan said the businessmen could devise their own ways of campaigning. It could be by joining the one-day fast this tomorrow, or by sponsoring their own form of action as a black business community.

SOWETAN Wednesday May 29 1991

VAT's aim is to boost economy - Minister

(320) Sowetan 29/5/91

SAM MOTSUENYANE

CREATING a sound economy was every bit as important as political reform and this is why an efficient taxation system like Value Added Tax should be introduced without delay.

By ALI MPHAKI

This was said by the Deputy Minister of Finance, Dr Theo Alant, at the annual conference of the Southern Transvaal Chamber of Commerce at the Jan Smuts Holiday Inn yesterday.

Alant said without economic expansion and job creation South Africa could slip into chaos.

"We must use every opportunity to put our economy on a growth course. Value Added Tax is one means to this end," he said.

The Minister said despite the risk of VAT creating more tension in an already tense society, it was the responsibility of the Government to introduce the system because of three major benefits. These were that:

* VAT did away with sales tax on purchases not meant for resale. This effectively eliminated double taxation, reduced manufacturing and distribution costs and assisted business in containing price increases to the benefit of both local consumers and South Africa's export effort;

* VAT did away with the distorting effect of GST which taxes mainly goods and few services. Because of its broader base, VAT would treat rich and poor alike, thus becoming a fairer and more efficient tax; and that

* VAT was less prone to evasion than GST. The extensive tax losses caused by GST meant that tax rates were unnecessarily high and that the State could not provide certain social services because its revenues were being lost.

An intensive programme of informing and guiding the business community on VAT would start next wek.

"Nevertheless, the administration of VAT is going to be a relatively simple business, ultimately involving not much more than keeping an accurate record of purchases and sales," he said.

The conference attracted hundreds of businessmen. Also attending was Nafcoc president Mr Sam Motsuenyane.

Aida tax protest over training expenditure

• B Day 30/5/91 • (320)

PETER GALLI

ESTATE agency group Aida Holdings has lodged an objection with the Receiver of Revenue over the disallowance of expenditure previously claimed for training employees.

Aida's tax bill almost doubled to R675 000 in the year to end February, and this was one of the reasons behind the group's 80% fall in taxed profit to R102 000.

Countrywide turnover under the Aida name rose 25% to R944m but earnings dropped 84% to 0,7c a share. The dividend was maintained at 1,5c a share.

Aida staff said yesterday that management was unwilling to talk about the results before publication, and directors could not be reached in Swaziland where they were holding a conference.

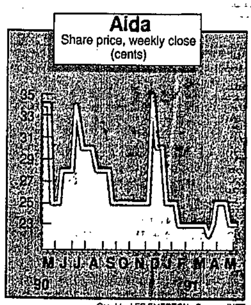
But a statement accompanying the results said: "The improvement in turnover shows that Aida is still growing.

"This growth is seen in the number of franchises which are operating out of our 77 offices compared to 60 last year."

The national television advertising campaign launched at the end of 1990 had already improved business, and management expected this exposure to account for a better turnover in the next report.

The group was still moving into the black housing market, with the franchisee operating in this area selling 434 units this year compared to 119 for the corresponding period last year, it added.

Aida Holdings, through its subsidiary Aida National Franchises (ANF), has teamed up with Time Life Insurance to provide bond protection insurance for property buyers, the group announced this week.



Graphic: LEE EMERTON Source: INET

Known as Aida Bond Protector, it will provide bond holders with insurance in the event of death or disability.

Aida chairman Aida Geffen said earlier this week that a separate company, Aida Financial Services, would be formed to administer the new product, and would extend the level of service that could be provided to clients.

Parliament approves VAT Bill

8/10 ai 30/5/91 (320)

Political Staff

CAPE TOWN — The controversial VAT Bill was yesterday approved by all three Houses of Parliament and now needs only the approval of President F W de Klerk to become law.

Three opposition parties — the CP, the DP and the National Peoples Party — voted against the Bill.

However, the majorities in all three Houses supported it.

The Labour Party, still the majority party in the House of Representatives, initially said it would oppose the Bill but after negotiations with Finance Minister Barend du Plessis over the payment of VAT on municipal services, it withdrew its opposition to it.

The VAT Bill gives Du Plessis discretionary powers to exempt or zero-rate basic foodstuffs.

However, Du Plessis said this week that the Bill would be amended before the end of the parliamentary session to give him wider powers to exempt or zero-rate goods and services, such as municipal and medical services, for the period of one financial year to sort out transition problems. This power could be extended if approved by Parliament.

Parliament's decision yesterday effectively means VAT will be introduced in September at the rate of 12%.

A CP MP said yesterday the introduction of VAT could result in a poll tax-type rebellion in SA.

INFORMATION TECHNOLOGY

Electronics companies lose trade to tariff dodge

B'Day 30/5/91.

Reports by MELANIE SERGEANT

LOCAL electronics manufacturers are avoiding duties and tariffs on imported components by getting overseas manufacturers to assemble products.

This harms many players in the local electronics industry and does not bode well for its future.

Tek Industrials MD Wallace Roome says cutbacks in telecoms and defence spending have already affected printed circuit board (PCB) manufacturing and some of SA's largest operators have closed their doors.

Les Wood, of the Business Equipment Association (BEA) says moves by companies to get PCBs made and populated with overseas components could seriously harm local manufacturers.

"The problem has a long history and is one which the BEA has been fighting for many years.

"We reckon classifications (of tariffs) aren't practical for this country because it's almost impossible to distinguish whether a populated board is for a computer, a TV or a washing machine.

"The nature of the products makes them virtually indistinguishable.

"Adding to the complexity is that there are different tariff headings and different duties applied for each, depending on what the PCB is designed to do.

"If a board is imported for a computer, there is a 2% duty, but for other machines it could be as high as 60%. Unscrupulous importers declare the product as something which it is not."

Disincentive

In 1984, he says government imposed ad valorem duty on computers; the computer industry was seen as "wealthy" and an ideal source from which to raise additional revenues.

But duties were not only imposed on imported computers, but also on locally manufactured products and this was a major disincentive for local manufacturers.

"There's an 11,5% ad valorem duty if one imports a mother board with a box around it, but if one brings in only the mother board it's classified as a part so a 2% duty applies."

If one imports the mother board, and puts a case on it locally, then excise duty is payable on the finished product — and this is based on the 11,5% import duty.

Duties on components vary from nil to 25% or more, depending on whether products are made locally.

"There's really no incentive to make anything locally," says Wood, and this is illustrated by the number of local assembly and manufacturing operations which have closed their operations over recent years.

He says the issue has been raised by the Electronics Industries Federation (EIF) and he is on a task group seeking solutions.

Companies approached by Business Day say they are either getting electronics goods made in the Far East and elsewhere or are considering doing so.

Tek's Roome agrees that overseas PCB population is taking place.

As far as PCB production is concerned, he says: "Demand from telecoms and military users is way down, and we are facing competition from places like the Far East.

"We have closed our Johannesburg operation and the East London facility has fewer shifts."

He says the PCB industry has already been rationalised, with a number of large players closing down, but believes that if current levels of demand are sustained, remaining operations can be viable.

"However, if the market drops by more than about 10%, there will be problems."

IT conference set in Nairobi

A NUMBER of major African consultancy firms will be represented at a Nairobi Information Technology conference.

The East African Computer and Telecomms Show is set to run from June 26-28, and is organised by ITP Africa File, publishers of Computers in Africa and Communications Middle East Africa magazines.

Convener Sean Moroney said ITP intended to focus on the combination of foreign trends with IT priorities in Africa.

Systems experts from the UK, US, SA, Nigeria and Zimbabwe will address delegates.

VAT to cause 'chaotic times'

SA businesses have less than 90 working days left to gear themselves up for VAT's implementation. (320)

Senior partner at Ernst & Young, André Botha, says financial and managing directors have lots of planning to do for the massive changes in store.

He says chaotic times are in the pipeline for businesses which do not plan correctly. "The time to worry about these far-reaching changes is not in October, but now," he says.

B'Day 30/5/91

Larger companies are more geared to cope, because they have more expertise, and are au fait with using consultants, but smaller and medium-sized companies may have some catching up to do.

"Many are holding their breath and hoping VAT will simply go away," he says.

There are several accounting packages on the market which are being touted as able to cope with VAT, but buyers — or those planning to upgrade existing systems — should ensure that the systems cope with SA's particular version of VAT.

One system being touted is Omicron, which has worked under various VAT legislations worldwide.

The system has a successful customer base of more than 7 000 sites internationally and more than 400 in SA.

The package has been tested by local tax consultants, and satisfies requirements of SA's VAT Act.

With this package, VAT can be calculated by both line item and rate differential. The general ledger can be set up with numerous VAT accounts, allowing for amounts and returns to be summarised in a variety of reports.

Calculations are made automatically, even when a supplier does not break VAT down on an invoice.

VAT Bill passed by Parliament

CT 30/5/91

By BARRY STREEK
Political Staff

THE controversial Value-Added Tax Bill was yesterday approved by all three Houses of Parliament — and now needs only the approval of President F W de Klerk to become law.

Three opposition parties — the Conservative Party, the Democratic Party and the National Peoples Party — voted against the bill.

However, the majorities in all three Houses supported the bill.

The Labour Party, still the majority party in the House of Representatives, initially said it would oppose the bill but after negotiations with the Minister of Finance, Mr Barend du Plessis, over the payment of VAT on municipal services, it withdrew its opposition to the bill.

The VAT Bill gives Mr Du Plessis discretionary powers to exempt or zero-rate basic foodstuffs.

However, Mr Du Plessis said this week that the bill would be amended before the end of the parliamentary session to give himself wider powers to exempt or zero-rate goods and services, such as municipal and medical services, for the period of one financial year, to sort out transition problems.

Hernus Kriel . . . learnt to confess his sins.

Value Added Tax Bill passed

Star 30/5/91

The Value Added Tax Bill was passed by Parliament yesterday.

320

The objection of the Democratic Party and the Conservative Party in the House of Assembly, the National People's Party in the House of Delegates and the Democratic Party in the House of Delegates was recorded.

Ackerman predicts ex-VAT drop in prices of 1 percent

(320)

Argus 30/5/91.

From ROY COKAYNE

PRETORIA. — Pick 'n Pay chairman and chief executive Mr Raymond Ackerman believes the introduction of value added tax (VAT) should result in a 1 percent drop in the price of non-perishable goods.

This was because of the introduction of VAT at 12 percent compared with the current 13 percent rate of GST paid on these goods.

But, Mr Ackerman said, perishable goods, which were exempt from GST, would rise by 12 percent, although the input credits granted under the VAT system meant the increase could amount to about 10 percent.

"These perishable items represent about 40 percent of our sales," he said.

Mr Ackerman is "terribly worried" about how manufacturers and retailers are going to react to the change to VAT because he believes many retailers will use the introduciton of VAT to raise prices.

Mr Ackerman has now opened a campaign to get the Government to adopt an "add-on" system for VAT.

"I'm campaigning for an 'add-on' and not an 'add-in' system for VAT because it will show perishables have gone up by 12 percent and all other items have come down by 1 percent.

"Customers will be able to see retailers have brought the price down. The input costs credits that will be allowed under VAT will also enable us to restrict the increases, but this will not be visible to customers.

"I'd love to have the 'add-on' system because I have a long list of items where we will be able to bring down the price. But customers will not be able to see it," he said.

Mr Ackerman agreed the 'add-in' system was easier for unsophisticated people because they paid the marked price, but said the system "hides a number of sins" of manufacturers and retailers both.

The 'add-in' system was also a nice tool for the government to "blame everybody else", he said.

Mr Ackerman predicted the sins of manufacturers and retailers would prompt the government to establish watchdog bodies whose members would be paid thousands of rands to "point fingers".

Mr Ackerman said at this important time in the country's development, the government's way would create divisions in society, while his way would create peace and harmony.

● Creating a sound South African economy is every bit as important as political reform, and this is a major reason why an efficient taxation system such as Value-added Tax (VAT) ought to be introduced without delay, says Dr Theo Alant, deputy Minister of finance, The Argus Correspondent reports from Johannesburg.

Without economic expansion and job creation, South Africa could slip into chaos. Unemployed people frequently faced a future of frustration, violence and crime.

"We must use every opporyunity to put our economy on a growth course. Value-added tax is one means to this end," he said.

In spite of the risk of VAT creating more tension in an already tense society, it was the responsibility of government to introduce VAT because of three intrinsic and major benefits:

● VAT did away with sales tax on business purchases not meant for resale and effectively eliminates double taxation, reduced manufacturing and distribution costs and assisted business in containing price increases to the benefit of local consumers and South Africa's all important export effort;

● VAT did away with the distorting effect of GST taxing mainly goods and few services, where because of its broader base VAT would treat rich and poor alike; and,

● VAT was less prone to evasion than GST and the extensive tax losses caused by GST meant tax rates were unnecessarily high and the State could not provide certain social services because its legitimate revenues were being lost.

"VAT is an internationally proven tax," Dr Alant said. "In time it will generate the revenue needed for the social upliftment and other projects vital to the future of South Africa. VAT is an efficient and modern tax, tied to the extent of people's expenditure."

Dr Alant claimed VAT would not constitute an additional tax burden. On the whole VAT would earn the Treasury about R1 billion less from its September 30 introduction until the end of March next year than would have been the case with GST.

Because of its essential improvements over GST, the VAT Bill, of which the second reading took place in Parliament this week, represented the most comprehensive and important tax reform since the introduction of sales tax 14 years ago.

Dr Alant said extensive study had gone into the preparation of South Africa's VAT saystem. The Department of Finance had studied VAT systems worldwide; International Monetary Fund experts had been to South Africa to advise on the development of a local VAT system; and, VATCOM's extensive hearings and recommendations had resulted in the adoption of 112 amendments to the original draft bill.

All medical services will fall into the tax net

Star 30/5/91. (320) (299)

The Value Added Tax Act, in what appears to be a complete turnaround from the provisions set out in the Draft Bill, now subjects all the services of a medical practitioner to VAT.

In the Bill's original form, all medical services would have been exempt. In effect, the medical practitioner would have had to carry the burden of VAT on all supplies he bought to service his practice.

From September 30, all medical services become taxable at the standard rate of 12 percent.

Before or by that date, medical practitioners whose practices generate "taxable supplies" above the threshold of R150 000 a year will have no option but to register as vendors.

They will have to levy tax at the standard rate of 12 percent on every medical bill presented to patients, and will have to pay this across to the Receiver of Revenue on due date.

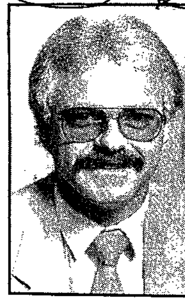
However, they will also now be able to claim all "input taxes" paid to their suppliers as "input tax" credits.

This means that the introduction of VAT will lead to an immediate rise in the cost of medical expenses for the patient.

It will also immediately affect the cash flows of most medical practitioners since, in most instances, patients are granted credit and the practitioner from September 30 will have to pay to the Receiver of Revenue all VAT due on services supplied in the tax period in which they were performed.

In addition, medical practitioners will find their practices burdened with largely the same administrative duties, including the collection and payments of VAT, that will be placed on other vendor businesses.

This series, updated and expanded to include graphics of how VAT works plus an easy-to-understand glossary of the most common VAT terms, will be the basis of a booklet to be published jointly by The Star and chartered accountants KPMG Aiken & Peat within the next few weeks. Priced at R20 plus GST, it can be ordered from The Star Promotions, PO Box 1014, Johannesburg 2000.



VAT AND YOU

This is the thirty-first and final article in the series by André Meyburgh, consultant with chartered accountants KPMG Aiken & Peat.

Exception

There [illegible]

[illegible] no tax use for them.

The inclusion of doctors in the indirect tax system underlines once more that VAT will follow the man in the street from birth (hospitalisation and other medical expenses) through illness to the day he is buried.

But the VAT Act has not singled out the medical profession for taxation purposes. Its reach brings all professional services into the tax net (there simply are no exceptions).

So, for the first time since GST was introduced in 1978 as the first form of indirect taxation, professions such as accountants, attorneys, quantity surveyors, architects, management consultants and the like will have to collect VAT on the fees they charge, provided their annual [illegible]

— practitioners probably will be spared the need to issue tax invoices since all medical services will be rendered to the end-users in the VAT chain, namely the patients, who would have [illegible]

[illegible] ceed R150 000 a year.

In the case of vendor-to-vendor transactions, the burden to a certain extent may not be too onerous.

Vendor firms using outside professional services will be able to claim the tax paid on fees as an "input tax" credit and set this off against "output taxes".

It is the man in the street once again who will feel the financial squeeze from September 30.

For the first time, he will have no option but to pay VAT on bills received for every professional consultation he needs or initiates, be it for the design and building of a house, doing his tax returns, obtaining legal advice, or seeking a divorce.

Auditing

Like medical practitioners, the vendor professions will be saddled with the administration burden that accompanies VAT [illegible]

[illegible] be another factor that will lead to increased fees as professions seek to recoup at least some of the extra cost of handling VAT.

The very nature of consulting or professional services makes it important to look at the transitional period.

Let's use auditing services as an example.

Should the audit of a vendor company's records span the implementation date of September 30, ~~an apportionment of the audit fee~~ would have to be made to ensure that work in progress completed before VAT Day does not attract VAT.

The Act specifically prohibits payment of fees in advance for work started before September 30 and completed well after that date to escape payment of VAT — for example, a three-year professional service contract which spans the transitional period.

The sudden application of extra cost, which could be as much as 12 percent on fees hitherto free of indirect taxation, may tempt a company to pay the fee in advance.

Should such an attempt be made, and if such payments are not customarily made in this way, then the advance payment will attract VAT as if it was made on the implementation date (this same penalty will apply in the case of advance payments made for short-term insurance contracts).

If any professional contract also involves intermediate goods and these are held in stock at September 30, it would be wise to take stock on [illegible]

The reason: the value of the GST paid on the stock will qualify as an "input tax" deduction in the VAT system.

There will therefore be at least some benefit when VAT is introduced.

SOWETAN BUSINESS

Prices could fall with VAT: Pick 'n Pay

320

Sowetan 30/5/91

PICK 'n Pay chief executive Mr Raymond Ackerman said the introduction of Value Added Tax should result in a 1 percent drop in the price of non-perishable goods.

The drop would correlate with the reduction in the tax rate, from the current 13 percent rate of GST to the 12 percent VAT rate.

However, Ackerman said perishable goods, which were exempt from GST, would rise by 12 percent.

Perishable items represent 40 percent of Pick 'n Pay's sales, he said.

Ackerman also said he was "terribly worried" about how manufacturers and retailers are going to react to the changeover to VAT because he believes many will use the introduction of VAT to raise prices.

Ackerman has now launched a campaign to get the Government to adopt an "add-on" system for VAT, in which a good's marked price would not include the tax.

He said: "I'm launching a campaign for an 'add-on' and not an 'add-in' system for VAT because it will show perishables have gone up by 12 percent and all other items have come down by 1 percent.

"Customers will be able to see retailers have brought the price down."

"I'd love to have the 'add-on' system because I have a long list of items where we will be able to bring down the price. But customers will not be able to see it."

Ackerman agreed the 'add-in' system was easier for unsophisticated people because they paid the marked price. But, he said, the system "hides a number of sins" of both manufacturers and retailers.

TAX FM 31/5/91 (320)

DEDUCTION AT RISK

A recent Australian tax case carries a major threat to an existing financial practice — the issue of bankers' acceptances (BAs) or promissory notes as a popular mechanism for raising finance. This follows on the heels of a Transvaal Special Income Tax decision by Mr Justice Melamet, that interest payable on negotiable certificates of deposit was incurred by the borrower day by day, so that no deduction of the entire amount of interest could be claimed upfront.

This line of reasoning was reapplied by the same judge to promissory notes in the unreported plantation case. Deloitte, Pim Goldby tax partner Orlando Fernandes says a major advantage of BAs and promissory notes is that they generally cost less than prime overdraft rate. But the deductibility of the discount for tax purposes (especially its timing)

Continued

is evidently vital.

Despite the recent Special Court judgments, tax treatment of timing is still unclear. There is, says Fernandes, one view that the discount on the issue of BAs or promissory notes is deductible when the instrument is issued (a so-called "upfront deduction").

In terms of the Income Tax Act, expenditure is deductible when "actually incurred." The courts have held that "actually incurred" does not mean expenditure actually paid during the year of assessment. Rather it means all expenditure for which unconditional liability has arisen that year (on the argument that the nature of BAs and promissory notes is such that on their issue the borrower incurs an unconditional liability).

Other commentators maintain that the discount is akin to interest. Hence, the interest/discount accrues per day, so is incurred proportionately over the instrument's life.

Yet another school holds that the discount is only deductible at the end of the term of the instrument. On this view, mere issue of the instrument does not necessarily give rise to immediate unconditional liability.

The issue is critical, as the timing of the deduction for the discount will have a major impact on the cost of borrowing. Now, apart from the Transvaal judgments, the issue has been comprehensively dealt with in Australia in *Coles Myer Finance vs Federal Commissioner of Taxes.*

By a majority decision, the court concluded that the discount on BAs and promissory notes is deductible only at the end of their period. (Fernandes notes that Australian tax precedent has always been particularly persuasive in SA, as the SA Act was based on the New South Wales counterpart.)

In relation to BAs, the Australian court held that one must go beyond the mere terms on the face of the instrument. On a proper analysis, at the time of acceptance of the bill by the bank, the drawer incurs only a contingent liability.

This contingent liability is to indemnify the acceptor bank only in the event that it has to discharge the bill out of its own funds. That is, the principal debtor does not become indebted to the surety until the surety discharges the debt.

The court also found that the discount is deductible for promissory notes only at the end of their term. It felt bound by an earlier Australian High Court decision in which timing was only a subsidiary issue (a view not fully convincing to tax specialists).

The position in SA is not fully clarified, despite the Transvaal decisions. There is no departmental rule of practice. Matters are left to the ingenuity of the taxpayer.

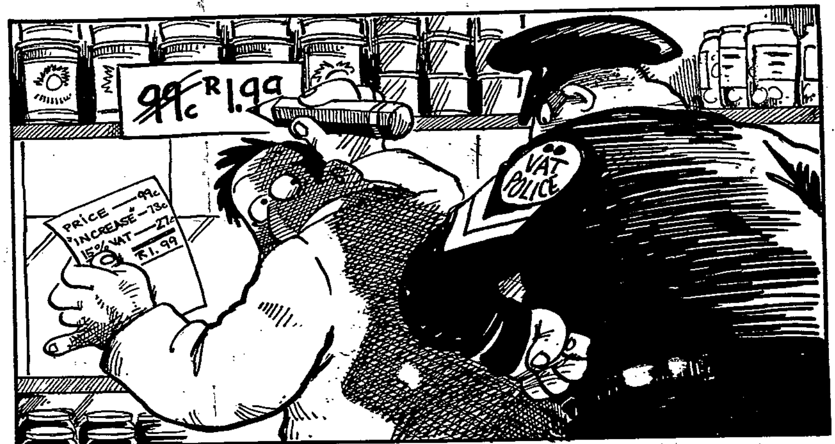
By default, in many instances, taxpayers make no adjustment in their tax returns for the timing of the deduction. That is, they adopt the accrual basis for deducting the discount expenditure for both book and tax purposes. If the term of the instrument extends over more than one tax year, some taxpayers have claimed the entire deduction upfront. Others have spread the deduction over the life of the instrument.

The Australian decision is even more unfavourable for borrowers than Judge Melamet's Transvaal decisions. The divergence between the two makes it desirable for legislation to be passed to establish full certainty and clarity on this important commercial issue. If equity is to be the guide, an amendment would favour Melamet's approach. ■

VAT cheats had better watch out

(320)

Star 1/6/91.



DEREK TOMMEY

RETAILERS and wholesalers tempted to load their prices before the introduction of VAT on September 30, had better watch out.

The authorities intend keeping an eye on prices through a "VATWATCH" committee which is to be set up under the chairmanship of Professor Louise Tager of the University of the Witwatersrand.

This is to ensure that vendors do not take advantage of VAT to increase their prices and then put the blame on the Govenment, says the Deputy Minister of Finance, Dr Theo Alant.

The committee will operate independently of the Government and is aimed at maximising the benefits of VAT for the consumer.

The committee will be launched in about two weeks' time when more details of its activities will become available.

Dr Alant said this week that the introduction of VAT will result in lower taxes on many products. The rate of 12 percent was one percentage point below the current 13 percent GST.

The IMF has said there should be little or no changes in the CPI even with a 13 percent VAT rate, provided the VATWATCH functioned successfully.

"Downward pressure on prices should be greater and while the VAT rate is higher than some people might have expected it was below the 13,3 percent needed to ensure that VAT was revenue-neutral with GST".

Now that Parliament has approved the VAT legislation, a major drive will begin to inform businessmen and the public about the tax.

Starting almost immediately, Inland Revenue will mail a guide to VAT to the 650 000 business on its records.

VAT registrations forms will be issued in the next two weeks. The forms have to be returned within 21 days but this will enable businesses to get a VAT number well before September 30.

Inland Revenue had printed a million registration forms and had extra computer capacity and extra punch operators to punch in the information.

The system is much more computerised than any previous ones and once the information has been captured the numbers will be allocated and the registration certificates sent out automatically.

In addition, a huge publicity and advertising campaign costing R5 million will be launched to inform the public.

Mr Trevor van Heerden, Chief Director, Inland Revenue, says that the TBVC countries have all announced that they will introduce VAT on September 30.

As they have not done a great deal of administrative work the South African authorities had offered to assist them on an agency basis.

It was important for the whole region that it went on to VAT on the same day.

Mr van Heerden said the Department did not intend taking a hard line with VAT offenders at first. "At this stage the Department would rather encourage business than penalise people".

VAT a blow to business, say black traders

C/Press 2/6/91

(320)

By DERRICK LUTHAYI

BLACK businessmen are disgruntled with VAT which they claim will have a negative effect on their business, Southern Transvaal Chamber of Commerce (Soutacoc) president Joe Hlongwane said this week.

Addressing Soutacoc's 21st annual conference Hlongwane asked deputy Finance Minister Theo Alant – a guest speaker at the conference – to convey to the government his organisation's grievances over the new tax system.

Hlongwane said many of the black businessmen affiliated to Soutacoc knew very little about VAT because the government had not educated them. Many of these businessmen would default with the law and thousands of small traders would go bankrupt as a result of this, he said.

"Let the government write off all GST assessment before we go into VAT.

Unfair

"We should be exempted for at least two years from the unfair huge assessments the inspectors of the Receiver of Revenue imposed on our businesses," said Hlongwane.

Earlier Alant had said that VAT would create a sound economy.

He said that despite the risk of VAT creating more tension in an already tense society, it was the responsibility of the government to introduce the new system because it would do away with sales tax on business purchases not meant for resale.

VAT eliminated double taxation, reduced manufacturing and distribution costs, assisted business in containing price increase to the benefit of both local consumers and important export effort, and did away with the distorting effect GST, he said.

In his presidential address, Hlongwane said liberation was on the doorstep and racial discrimination was on the way out.

"The coin of freedom requires that all individuals be given the right and opportunity to take control and responsibility for their own lives and to act creatively, work hard, take risks, create goods, provide employment and enjoy the fruits of their endeavours in equal measure – and thereby increase the wealth of the country and its people.

"The government, present and future must recognise the vital importance of economic freedom and self-reliance of the individual.

"We also draw attention to the punishing effects of past laws and the continuing violence – and the consequent need to rehabilitate and support entrepreneurs in a substantial way to underpin a future, sound, free enterprise system."

PAC deputy president Dikgang Moseneke told delegates that economic empowerment does not occur in a political vacuum.

Development

National political self-determination and democracy were primary aims, but could be hollow victories without appropriate economic development.

"Our struggle for the liberation of the African people is not only for political liberation but also for economic empowerment of all the people of our country.

"It is primarily a struggle against poverty, ignorance and disease.

"In short our struggle is one for the total well-being of our people" he said.

ANC chief information officer, Pallo Jordan, said that South Africa belongs to all who live in it, black and white, and that no government can justly claim authority unless it is based on the will of all the people.

Clampdown on avoidance schemes

B/Day 3/6/91

GILLIAN HAYNE

A VAT scheme entered into by a business will automatically be deemed to be for the purpose of obtaining a tax benefit unless the contrary is proved, according to drastic anti-avoidance provisions in VAT legislation.

"In short, when a court considers a VAT scheme, the taxpayer is guilty until proven innocent," said BDO Spencer Steward tax director Matthew Lester.

Businessmen had to be careful when attempting to legitimately arrange their affairs to get around the VAT system, he said.

In terms of Section 73 of the VAT Bill the Commissioner for Inland Revenue has the power to decide whether, in substance, a scheme — transaction, operation or understanding — was entered into to gain a tax benefit.

Lester said such subjective powers as reference to the "substance" of a scheme would make it very difficult to defend any scheme as being a worthwhile venture in its own right if it was deliberately structured to have positive VAT implications.

The legislation also provides for severe penalties for businesses which do not comply with VAT laws.

Throughout the VAT legislation the Commissioner for Inland Revenue and Finance Minister are given extensive discretionary powers. (320)

Although some tax experts and government officials support the discretionary powers as a means of facilitating the smooth transition to VAT, most believe the reliance on discretion iniquitous.

Lester said: "No revenue officer has enjoyed powers such as those contained in the VAT legislation since the days of Robin Hood and the Sheriff of Nottingham."

The VAT Bill gives the Finance Minister discretionary powers to exempt or zero-rate basic foodstuffs. On Tuesday it was announced that he could determine the need for further exemptions.

VAT starting date 'is not negotiable'

320

BDay 3/6/91

GILLIAN HAYNE

THE September 30 implementation date for VAT is not negotiable, says Deputy Finance Minister Theo Alant.

He told a news conference on Thursday that despite the time pressure created by delays in pushing the VAT legislation through Parliament, and the lack of preparation by the TBVC states — Transkei, Bophuthatswana, Venda and Ciskei — the introduction of VAT would go ahead as planned.

Inland Revenue chief director Trevor van Heerden added that although the TBVC states had "not done a lot of administrative work to date", SA would assist them on an agency basis during change-over.

For the benefit of local businesses Revenue has launched an intensive information campaign, designed to explain the workings of VAT. This will be followed by more comprehensive guides, seminars, workshops, and training videos aimed to benefit small enterprises.

Although Alant said special attention would be given to the business sector in the following months to explain VAT, methods of effectively assisting the poor were still under discussion.

"Poverty in SA is a long-term problem and therefore government's programme of assisting them must be one that will work efficiently in future years. Plans on how the R220m targeted assistance granted by the Minister should be spent, will be released by September 30," he said.

Reacting to questions on the inflationary impact of VAT, Alant said VAT was expected to have little or no affect on inflation. "People are incorrectly assuming VAT is an additional tax. It is not, it is replacing GST at a lower rate."

To monitor VAT's effect on prices Alant asked University of the Witwatersrand professor Louise Tager to head up Vatwatch.

"She will put together a committee of experts and interest groups with the objective of closely watching price movements before and after the implementation of VAT."

The precise goals of Vatwatch have not been determined and an announcement on the details in expected in the next couple of weeks.

● See Page 6

Tax experts differ on the course of VAT registration

B Day 3/6/91 . GILLIAN HAYNE (320)

THE question of whether companies should ~~register~~ register for VAT as one entity or register their branches as separate units has left tax experts at loggerheads.

Some tax experts have advised clients to register separately and to register as one unit only as a last resort, while others believe individual branch registration would be a fatal mistake.

Deloitte Pim Goldby tax manager Rob Collins said companies should "seek to get the VAT registration as low as possible down the company structure".

He said it would provide management with a tool to monitor the cashflow situation of each of the branches, thereby giving a clear indication of the performance of each cost centre.

However, Ernst & Young tax partner Sally de Boor said companies would be very unwise to go that route.

"By registering individually, branches would have to start accounting for inter-branch transactions which would create enormous problems. In New Zealand many companies which chose individual registration are regretting the choice because of the administrative hassle," she said.

Often companies had operational branches with the head office providing management and financial services.

If the branches were registered separately, head office would suffer by having a partial denial of the input tax credits related to its financial services, she said.

Secondly, the debit and credit notes, which under the VAT system followed a fairly complicated procedure, would be a burden.

De Boor advised companies to arrange for the branches to submit their VAT details to head office on the 25th of each month, which, assuming the company were linked to Revenue by electronic transfer, would give head office until month-end to sort out queries and submit the final return.

Arthur Andersen tax manager Shane Ferguson also favoured the single entity route although he said there was no ultimate right or wrong choice.

He said individual branch registration opened branches up to the strict timing rules and forced them to formalise cost allocations between branches.

However, Ferguson added that where branches were already operating on an autonomous basis and currently generated their documentation on inter-branch transactions, then individual registration would be justified.

KPMG Aiken & Peat tax consultant Henry Clark agreed that companies had to examine their current systems and look at what the cost would be of changing their accounting systems to fit in with either single or branch registration.

However, he advised that companies which had divisions operating in the export market as well as branches operating in the local market register as a single unit.

"Companies would then be able to offset their VAT inputs and outputs rather than having to suffer the cashflow disadvantage of waiting for Revenue to refund them excess tax paid."

Govt's VAT info drive enters last phase

320

Star 3/6/91

The final phase of the Government's extensive public information and training programme on value added tax will begin this week, according to Deputy Finance Minister Dr Theo Alant.

Dr Alant said a comprehensive campaign aimed at the general public would begin this week, and special attention would be given to the business sector.

"The smooth and effective implementation of VAT will depend heavily on the ability of business to administer VAT with the minimum disruption from September 30 this year," Dr Alant said.

He announced a number of actions which would be taken to familiarise businessmen with the new tax system, including "a quick guide" to VAT which would soon be mailed to all businesses countrywide and a series of seminar workshops to be held in major centres. — Political Staff.

VAT date 'not negotiable'

320

CT 3/6/91

Own Correspondent

JOHANNESBURG. — The September 30 implementation date for VAT is not negotiable, says Deputy Finance Minister Theo Alant.

He told a news conference that despite the time pressure created by delays in pushing the VAT legislation through Parliament, and the lack of preparation by the TBVC states — Transkei, Bophuthatswana, Venda and Ciskei — the introduction of VAT would go ahead as planned.

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The precise goals of Vatwatch have not been determined and an announcement on the details in expected in the next couple of weeks.

Get VAT on track, businessmen told

Political Staff 320 ARGUS 4/6/91

FINANCE Minister Mr Barend du Plessis has assured businessmen they can safely go ahead and plan their VAT systems according to the VAT Bill, with September 30 as the starting date.

A delegation of the SA Chamber of Business and the Afrikaanse Handelsinstituut met Mr du Plessis yesterday to discuss business uncertainty because of government policy changes since the Bill was published.

as all toll roads are the responsibility of the State, and toll-road companies currently operate and maintain the toll routes and plazas as agents of the State.

(2) The State did in the past provide guarantees to the financiers of toll roads in order to secure funding for toll-road construction. All toll-road funding has however, with effect from 1 April 1991, been undertaken by the South African Roads Board. The rejection of the National Roads Amendment Bill during 1990, which had total privatisation as goal, demanded this action.

Own Affairs:

Vacant school premises: disposal

65. Mr R M BURROWS asked the Minister of Welfare, Housing and Works:

(1) Whether vacant school premises are transferred from the Department of Education and Culture to his Department for disposal; if so, (a) how many school premises are on the books of his Department, (b) how many of these are not being utilised for education purposes and (c) in respect of what date is this information furnished;

(2) what is the average delay in handling requests from outside bodies and/or Government Departments for the use of unutilised school buildings for education purposes;

(3) whether he will make a statement on the matter?

B822E

The MINISTER OF WELFARE, HOUSING AND WORKS:

(1) Yes,

(a) 52.

(b) 36.

(c) 26 April 1991.

(2) Taking the prescribed procedures into consideration, as set out in Question 23, as put by you for written reply, a certain time-table can not be linked to the handling of requests for the usage of redundant school buildings as it will differ from case to case.

(3) No.

HOUSE OF DELEGATES

320

QUESTIONS

†Indicates translated version.

For oral reply:

General Affairs:

Question standing over from Tuesday, 28 May 1991:

Indian artists: taxes collected

*1. Mr D K PADIACHEY asked the Minister of Finance:

(1) Whether any amount was collected in taxes from a group of artists from India who recently toured South Africa, and whose name has been furnished to the Minister's Department for the purpose of his reply; if so, what is the name of this group;

(2) whether the promoter and/or sponsor of the show in question, whose name has also been furnished to the Minister's Department, applied for any tax concessions; if so,

(3) whether any tax concessions were granted; if not, why not; if so, what was the value of these concessions?

D158E

The MINISTER OF FINANCE:

(1) The Commissioner for Inland Revenue is aware of the relevant tour and will ensure that the provisions of the tax laws are complied with. In the light of the secrecy provisions contained in section 4 of the Income Tax Act, details of his actions and findings may, however, not be furnished to any person other than the tapayer or his lawful representative.

(2) and (3) In view hereof I can furnish no further information or comment in reply to the hon member's questions.

The MINISTER OF FINANCE: Mr Chairman, first of all I would like to thank the House for allowing this question to stand over. It was not possible for me to be in two places at the same time. I had questions to answer in one of the other Houses. I thank hon members for the courtesy.

New questions:

Certain organisation: request for grant-in-aid

*1. The LEADER OF THE OFFICIAL OPPOSITION asked the Minister of National Health:

Whether her Department has received a request for a grant-in-aid from a certain organisation, the name of which has been furnished to the Minister's Department for the purpose of her reply; if so, (a) when, (b) what (i) were the reasons for and (ii) was her Department's response to this request and (c) what is the name of this organisation?

D175E

The MINISTER OF NATIONAL HEALTH:

No, (a), (b), and (c) fall away.

The LEADER OF THE OFFICIAL OPPOSITION: Mr Chairman, arising out of the hon the Minister's reply, I would like to know for the purpose of the record whether it is correct that the name of the organisation referred to in this question is Highway Hospice?

The MINISTER OF NATIONAL HEALTH: Mr Chairman, that is correct, but that was not the question.

Transit camp: Lenasia Ext 9 and 10

*2. Mr D K PADIACHEY asked the Minister of Planning, Provincial Affairs and National Housing:

(1) Whether, with reference to his reply to Question No 6 on 21 May 1991, a superintendent has been appointed for the transit camp in Lenasia Extensions 9 and 10; if not, why not; if so, what are the details in this regard;

(2) whether there has been an increase in the number of squaters in the above camp since November 1990; if so, by how many;

(3) whether any steps have been taken to contain the growth of this camp; if not, why not; if so, what steps;

(4) whether water, sanitation, refuse removal and other services are being provided at this camp; if not; why not; if so, what are the relevant details?

D178E

Go-ahead for VAT

By Peter Fabricius
Political Correspondent

Star 4/6/91

CAPE TOWN — Finance Barend du Plessis has assured businessmen it is safe for them to go ahead and plan their Vat systems according to the Vat Bill, with September 30 as the starting date.

He was speaking yesterday when a delegation of the SA Chamber of Business (Sacob) and the Afrikaanse Handelsinstituut (AHI) met him to discuss business uncertainty about Vat.

Uncertainty has arisen because of policy changes since publication of the Vat Bill.

Sacob said Mr du Plessis had told the joint delegation that although there were still a couple of issues outstanding, businessmen could proceed with their planning.

Mr du Plessis outlined the Government's proposed steps to disseminate further information on Vat and measures to handle queries when the system was implemented.

The delegation told Mr du Plessis that businessmen must now be put in a position to be able to plan ahead on a more definite basis.

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They also said that:

- Registration forms for businessmen and related information should be distributed as soon as possible;
- A focused and well-directed information campaign was essential for the public and for business;
- There was a need for a total strategy to provide safety nets before Vat was implemented;
- Vat tax harmony should be secured in good time with TBVC countries.

about the Implementation of VAT ...

Revenue's long lasso will pull tax evaders into line

B/Day 4/6/91.

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GILLIAN HAYNE

TAX evaders and those slow to hand over their income tax to Revenue will be pulled into line with the introduction of VAT.

Inland Revenue chief director Trevor van Heerden said that, through information gleaned from companies' VAT registration forms, Revenue would be able to link companies' VAT liability with their income tax liability.

Dreisenstock and Associates director Tony Dreisenstock said: "If a company has paid too much VAT and is entitled to a refund, but has not submitted its VAT return, or if Revenue discovers a shortfall in the company's other tax payments, it will be able to set one off against the other without warning or even notifying the company."

However, the company would have to be a constant defaulter for Revenue to take such drastic action.

In addition, Revenue could insist that the defaulters make a security deposit upfront to cover future liabilities. This, too, could be used to offset other tax liabilities.

Van Heerden said the new computer system installed for VAT would make Revenue collections much more efficient — in linking companies' different tax liabilities and also in monitoring their VAT positions.

The VAT system, created, installed and tested by outside consultants, was already up and running. An audit programme was in place and would run a full spectrum of tests to ensure each company was fulfilling its VAT obligations.

"Inspectorate visits to companies will normally take place only if the computer identifies unusual behaviour during its audit test. We will, therefore, be using our 800-strong inspectorate much more efficiently, allowing them to concentrate on companies where known discrepancies and problems exist," Van Heerden said.

He said companies could request an information visit from Revenue to study their computer system and controls. Should Revenue find the controls adequate, future inspections were unlikely.

He added that although penalties for not complying with VAT requirements were stiff, Revenue would not take a hard line until everyone knew how the system worked.

"We will encourage and advise rather than penalise," he said.

John Griffiths, ... Regional Services Council, briefed the ... today's budget meeting.

Bill aims at faster end to disputes

Political Staff

CAPE TOWN — Provision for speedier settlement of legal disputes through mediators and alternative "short process" courts is made in a Bill tabled in Parliament yesterday.

The Department of Justice said in a memorandum, attached to the Short Process Courts and Mediation in Certain Civil Cases Bill, that the measure was aimed at cost-saving, expeditious adjudication and increased accessibility to courts.

In terms of the Bill, the Minister of Justice will be empowered to appoint mediators in an area from names submitted by the Association of Law Societies, the General Bar Council and the Department of Justice.

After a notice has been issued subjecting a dispute to mediation, the parties will be required to appear before a mediator in chambers.

"After the interview with the parties the mediator shall issue an order which shall later form part of the record of the resulting action in the court concerned." B/Day 4/6/91

Treason remark: CP leader off the hook

Political Staff

CAPE TOWN — CP leader Andries Treurnicht yesterday escaped censure for last week's "treason" comments when the Speaker of Parliament, Louis le Grange, ruled he had made a hypothetical statement. BDay 4/6/91

Le Grange added that Treurnicht's remarks did not amount to a calculated action against the chair.

Last week seven CP MPs were "named" and suspended from the House for five days for calling NP members "traitors" during bitter debate on the Abolition of Racially Based Land Measures Bill.

Treurnicht had said that any group who turned their own people's land into "nobody's land" were guilty of treason.

He said he meant no disrespect to the chair but stood by his comments.

Cape ups budget

BDay 4/6/91 Political Staff

CAPE TOWN — The Cape's budget is to be increased by R39,8m to a total of R3,67bn for the 1991/92 financial year to make provision for increased pensions and welfare grants to blacks.

According to the supplementary estimate of expenditure for the province, which was tabled in Parliament yesterday, an additional amount of R19,5m has been provided for blacks' old age pensions, which will now cost R223,4m.

A further R1m will be provided for pensions for the blind for a total cost of R5,9m, an additional R9,5m will be provided for pensions for physically disabled people for a total of R96,8m and a further R9,8m for maintenance grants for a total of R39,9m.

These increases fall under the Cape's community services vote.

VAT registration forms on way soon

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BDay 4/6/91.

LESLEY LAMBERT

CAPE TOWN — VAT registration forms and information booklets would be distributed to companies later this month, Sacob director-general Raymond Parsons said yesterday after a meeting with Finance Minister Barend du Plessis.

Parsons, spokesman for a joint Sacob and Afrikaanse Handelsinstituut delegation which met Du Plessis, said the registration forms were due out by the middle of the month.

The delegation, which included Sacob tax committee chairman Bob Wood and AHI tax representative Gerhard Swiegers, met Du Plessis to clarify implementation of the new tax, which was passed by Parliament last week, and to stress the need for a co-ordinated system of targeted food assistance.

In a statement issued yesterday, the delegation said there was still a great deal of uncertainty in the business community about the implementation of VAT.

"The Finance Minister said that although there were still a couple of issues outstanding, businessmen could now safely go ahead and plan their systems for VAT on the basis of the VAT Bill — and with September 30 as the implementation date," it said.

Parsons said Du Plessis outlined steps to disseminate further information on VAT and to handle queries.

He said the delegation stressed the importance of developing a total strategy of directed assistance for the poor before the implementation of the new tax.

"We said we hoped the investigations of the Caltz Commission into poverty would be expedited."

Commissioner for Inland Revenue Hannes Hattingh said amendments to the VAT Bill were still being finalised and would be introduced in Parliament this month.

Business group urges clarity on VAT issues

(320)

VAT REGISTRATION forms and information booklets would be distributed to companies later this month, SA Chamber of Business (Sacob) director-general Raymond Parsons said yesterday after a meeting with Finance Minister Barend Du Plessis.

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The joint Sacob/Afrikaanse Handelsinstituut delegation, including Sacob tax committee chairman, Bob Wood, and AHI tax representative, Gerhard Swiegers, met with Du Plessis to clarify the implementation of the new tax, which was passed by Parliament last week, and to stress the need for a co-ordinated system of targeted food assistance.

The delegation said there was still a great deal of uncertainty in the business community about the implementation of VAT. — Business Staff

Taxman burning midnight oil getting ready for VAT

BDay 5/6/91

BDay

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BILLY PADDOCK

CAPE TOWN — Inland Revenue was hard at work preparing seminars and guides on VAT to help businesses get ready for the tax's implementation on September 30, Finance Minister Barend du Plessis said yesterday.

In a statement issued after he had met a joint Sacob and AHI delegation on Monday, he said preparations were well advanced with Inland Revenue finalising 14 sector-oriented VAT guides.

One-day seminars were being arranged for businessmen countrywide.

A VAT video, aimed at the small businessman, was being prepared. A "self-teach" manual for businessmen was also being finalised, he said.

Du Plessis said an advertising campaign aimed at the general public would be launched soon using the electronic media, the Press and open-air advertisements.

Inland Revenue was also posting 350 000 comprehensive information brochures to businessmen.

Du Plessis said negotiations with the TBVC states to harmonise tax systems were also at an advanced stage with all the states planning to implement VAT.

How VAT affects property market

B/Day 5/6/91.

(320)

Reports by
PETER GALLI

MOST property owners or people who are considering buying property are uncertain about the effects VAT will have for them when it is implemented in September.

In her property review, Pam Golding, chairman of Pam Golding Estates, says transactions subject to VAT are "the taxable supplies of goods and services by any vendor in the course of furtherance of his enterprise".

Thus, if a sectional title unit is bought from someone who has been living in it, the purchase is not from a "vendor" who is selling "in the course of his enterprise". Therefore VAT is not payable.

"If, however, the seller of the sectional title flat is a developer who has sectionalised the block in order to sell off the units, he falls within the scope of the definition, and VAT will have to be paid on the purchase price," Golding says.

The same criteria apply when a house is sold. If the purchaser buys from a private individual who is selling his own house, no VAT is payable. Conversely, if a house is in a new development and bought from the developer, VAT will have to be added to the selling price. This is because the seller is a registered vendor "selling the house in the course of his enterprise".

However, there is something of a bonus in that sales of property subject to VAT will be free of transfer duty. It follows that transactions to which transfer duty applies will not be subject to VAT. Nor is VAT payable on transfer duty.

VAT will be charged on the agents' commission and the attorneys' conveyancing charges, as they are supplying a service in the course of their enterprise.

The levies charged by managing bodies of sectional title units and shares in a shareblock company will be viewed as exempt supplies, provided the cost of supplying the services is met out of the levies, Dreisenstock and Associates director Tony Dreisenstock says.Levies incurred on timeshare will not be exempted and will therefore be subject to VAT.

VAT will not be charged on rentals where the accommodation is a place of residence "used by a natural person". This excludes accommodation intended as commercial rental establishments.

A commercial rental establishment is any hotel, motel, inn, boarding house or similar place where lodging is regularly provided to five or more people for a periodic charge, Dreisenstock says.

It also includes any house, flat, room, caravan or camping site which is systematically let for continuous periods not exceeding 45 days for each occupant, and where total annual receipts from domestic goods and services exceed R24 000. The definition also applies to any hospital, nursing home, hospice, convalescent home or rest home, he adds.

□ Fixed property is defined as "land together with any improvements thereto, any sectional title unit, any share in a block company or timeshare in a timeshare scheme".

Gold mines in VAT debate

BDay 5/6/91

MATTHEW CURTIN

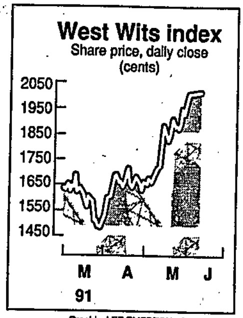
MARKET sources disagreed yesterday over whether the improving rand gold price and the introduction of VAT were enough to start pulling the gold mining industry out of its current depression.

Both factors were no more than "straws in the wind", Gengold MD Gary Maude said.

While he was more confident about the industry's future than he was a year ago, the fundamental conditions responsible for the trough the gold mines were in had not changed.

It was crucial that confidence was restored so that projects, currently on the shelf, could be given the go-ahead to secure the prosperity of the gold mines in 10 years time. However, the gold price would have to leap by $100 before boards of directors would agree to such projects.

He said the industry was in a transition period before the much hoped-for recovery took hold. It was too early to say if the improved rand gold price could be sustained. Yesterday the gold price traded around $362 an ounce, equivalent to R1 014 an ounce, or about R32 600/kg, about R2 000/kg from the ruling price in the first two quarters of the year.



Graphic: LEE EMERTON Source: INET

Maude said the introduction of VAT was a step in the right direction, but the benefits derived by Gengold's mines would be less than the 4% cut in costs some observers had forecast. (244) (320)

Rice Rinaldi analyst Mike Worth said the effect VAT would have on gold mining costs was filtering through to the market, fuelling increasingly bullish sentiment.

Market sentiment was also helped by what he saw as trend towards a stronger dollar gold price.

Chamber of Mines economist Ivor Liebowitz said the introduction of VAT would provide a once-off boon for the industry. Thereafter, costs would continue to escalate, albeit from a lower base.

He said: "As with reductions in the rate in mining tax, VAT will benefit profitable rather than marginal gold mines the most."

Frankel Kruger Max Pollak analyst Rob Gillan said although VAT might contribute to the industry's cost cutting measures, forward selling was still capping the market, containing the gold price's volatility.

"There will be no real investment opportunity in gold shares until 1992," he said.

NSA Investments to fight on

B/Day 5/6/91

SUSAN RUSSELL

EVERY possible action would be taken to oppose the R55m transaction which gives Fedlife the right to obtain control of Saambou, NSA Investments MD Hardie Joubert said yesterday.

Joubert was reacting to the failure yesterday of an urgent court application by NSA Investments and associated company CC Exchange challenging the validity of the agreement between Fedlife and Saambou. NSA Investments and CC Exchange are both Saambou shareholders.

Both are also associated to insurance brokers Prestasi.

Mr Justice Zulman yesterday dismissed with costs their application to have the Fedlife agreement declared null and void and unenforceable.

Joubert said NSA Investments was still opposed to the transaction and the court case was only one of the steps taken to fight it.

"We are convinced the transaction is detrimental to the shareholders," he said.

"It is in the interest of the small shareholders that we continue opposing the transaction".

Prestasi chairman ~~Jan~~ Erasmus said he was willing to co-operate with Fedlife and Saambou management to find ways in which the best interests of small shareholders, Saambou and its personnel could be served.

NSA Investment's attorney Henry Vorster said the court had not given Fedlife carte blanche to convert their debentures into shares.

"It appears that the deal will need to be restructured and resubmitted to Saambou's shareholders for approval, should Saambou and Fedlife wish to continue with the transaction," he said.

Vorster said the judgment would first be studied before NSA Investments decided what further steps could be taken.

Joubert said Saambou and Fedlife's actions would be carefully monitored, and that he was satisfied he had assisted in guarding the minorities' interests.

Not too late to claim on exports — tax man

B/Day 5/6/91

GILLIAN HAYNE (320)

TIME is running out for exporters wanting to claim tax deductions on money spent marketing exports, but it is not too late for some benefits to be gained, Ernst & Young tax partner Raoul Kaplan says.

Claims under section 11 bis of the Income Tax Act will be discontinued on March 31 1992, although expenditure unclaimed at that date — because of turnover limitations — can be carried forward and claimed aginst export turnover in the year to March 31 1993.

The allowance, which is to be discontinued partly because of its use in tax avoidance, has been changed from time to time. The most recent change limited an exporter's claim to 20% of export turnover. The restriction applied to expenditure incurred after March 9 1989, unless the exporter was contractually bound to incur the expenditure at that date.

However, there are ways to increase the deduction while section 11 bis is around, Kaplan says.

The export marketing allowance is available to exporters of goods and to the export service industry. This means that where exporters conduct their export business through an agent, the agent and the exporter qualify for the section 11 bis deduction.

"The agent can be within the same group but in order to ensure the Receiver identifies it as an arm's length transaction, the agent should also carry out exports for other exporters outside the group," Kaplan warns.

Expenditure on advertising in an export country is also deductible in terms of section 11 bis.

Kaplan says: "It is therefore possible to claim a double deduction in respect of expenditure on sponsoring sports or cultural events in an export country and in so doing finance the sponsorship through the equivalent tax saving, whilst receiving very good exposure."

Once section 11 bis has been discontinued exporters will be able to get help through "primary export market research assistance".

23 000 out of work over three months

B/Day 5/6/91

GERALD REILLY

PRETORIA — About 23 000 employees lost their jobs in SA's mining, quarrying, manufacturing and construction industries between last December and the end of March this year, Central Statistical Service's (CSS's) latest employment report has found.

At the end of the four months 2 540 166 people were employed in these sectors, the report said.

In the mining and quarrying industry, employment levels dropped by 9 103 to 650 948.

Job losses in the manufacturing industry totalled 8 300 between December and March with 441 118 people keeping their jobs by the end of that period.

During the same period 7 400 construction workers lost their jobs reducing the total number of employees in that sector to 396 300.

Employment levels in the electricity industry remained static at 48 000.

Economists have warned that layoffs in these major sectors are likely to continue until the first half of 1992.

Ergo chairman Sunter welcomes VAT

WILLIAM GILFILLAN

THE VAT system will help curb the cost of new investments and operations in the mining industry, says Ergo chairman Clem Sunter in his Chairman's Review released this week.

In one step the significant sales tax burden borne by mines on such costs will be eliminated, he says.

This, together with the reduction in the import surcharge to 5% from 10%, will contribute significantly to efforts to contain costs in the gold mining industry.

Sowetan 6/6/91

Sunter also states that closer communication links are being forged with Ergo's suppliers in order to make clear to them the gravity of the situation in the gold mining industry.

~~224~~ 320

In the interests of the SA gold mining industry's long-term future co-operation by all parties, whether suppliers, unions or government, is vitally important.

TAX

FM 7/6/91

INTERESTING

(320)

The Department of Inland Revenue has changed the layout of tax assessments to reflect, separately and clearly, interest on the "excess credit amount" arising when a taxpayer overpays provisional tax. A note draws attention to the fact that IT3 forms (reflecting interest paid during a year of assessment) are not issued to cover interest credited, which is itself taxable.

Some taxpayers will have been assessed for the 1989 tax year on the old forms, but all assessments from 1990 are on the new forms.

Interest arising in this way will have to be included in the return for the year in which the assessment for a previous year is issued.

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Mark Crisp, a tax partner at Deloitte Pim Goldby, explains that this will arise when, under section 89 of the Income Tax Act, taxable income exceeds R20 000 for a company, or R50 000 for an individual. In such cases, interest on any over- or underpayment will be calculated from the date of the "third topping-up payment."

It does not apply to other provisional taxpayers, who are not liable for the third payment. For them, overpayments will be credited or refunded without interest.

A taxpayer will have to pay interest on an underpayment — and this is not deductible.

The revised form evidently reflects discussions late last year between the Commissioner for Inland Revenue and the Taxation Committee of the SA Institute of Chartered Accountants. Taxpayers did not always correctly identify the interest, nor understand that it was taxable.

The commissioner then indicated that IT3(a) forms would not be issued, but that interest would be more clearly disclosed. ■

VAT FM 7/6/91 (320)

CUT-PRICE EXPORTS

Inland Revenue chief director Trevor van Heerden says the TBVC states have promised to introduce VAT by September 30. Inland Revenue has offered them assistance on an agency basis. The BLS countries and Namibia will not introduce VAT, but custom controls will be stepped up and exports to these countries will be zero-rated.

TBVC states will be at a commercial disadvantage if they do not introduce VAT along with SA. The VAT Act, passed by parliament last week, says SA products sold to TBVC countries will not be regarded as exports, so won't qualify for the zero rating which applies to all other exports. This is because there is no effective border control on the inflow and outflow of goods.

The commercial disadvantage would be most acute were TBVC countries to sell goods to SA made from raw materials bought from SA. These raw materials would have borne VAT, while goods sold to SA will also be subject to VAT — double taxation. Some of these countries already levy sales tax which, if kept, would add further to the tax burden.

If VAT is harmonised between SA and the TBVC states, as envisaged for EC countries in 1992, VAT paid in any of these states on SA products will be allowed as input credit, eliminating double taxation.

Zero-rating of exports is an important element for competitiveness abroad. Revenue expects a 4%-5% reduction in the price charged buyers of SA products. The exact amount will depend on how capital- or labour-intensive the export industry is.

Van Heerden says zero-rating exports removes some of the competitive disadvantage SA exporters have experienced under GST, when they paid tax on some inputs but could not reclaim it. With VAT, exporters must still pay VAT on inputs — in fact, on a wider range of inputs — but can claim it back. Exempt goods on the other hand do not have VAT added to the end product, but the producer cannot claim back VAT on inputs.

Van Heerden says GST is partly an origin-based tax; some tax is charged in the country where the product was made. VAT is destination-based; tax is charged only in the country where consumption takes place.

Though prices of commodity exports are not directly affected by the zero-rating of exports — they are set on world markets — lower production costs caused by zero-rating will improve mines' profitability.

Anglo American tax consultant Marius van Blerck reckons savings could amount to a 3%-6% cut in mining costs. He says because of constant renewal and capex — which will now cost less — savings are easier

continue

FM 7/6/91 (320)

to estimate for mines than manufacturers.

He says that costs of gold producers belonging to the Chamber of Mines totalled R16,4bn in 1990. A 3% saving on this in nominal terms is around R490m. Revenue estimates that mines in total will be able to claim R600m-R700m a year in VAT refunds on minerals exported. ■

and (b) when were they brought to his attention;

(2) whether any steps have been and/or will be taken in regard to these conditions; if so, (a) what steps and (b) when?

B947E

The MINISTER OF JUSTICE:

(1) Yes. The Magistrate, Cape Town, received complaints from his personnel.

(a) The conditions complained of were the occurrence of fleas and rats. Cockroaches also frequently occur.

(b) The Magistrate was aware of the situation and dealt with the matter locally. The matter came to my attention on 19 February 1991 as a result of a report in the newspaper "Die Burger".

(2) Yes.

(a) The Magistrate, Cape Town, made arrangements during the summer of 1990 with the Regional Representative: Public Works and Land Affairs, Cape Town, to bring the plague under control. The latter Department contracted a private pest control firm to eliminate the rodents and insects.

(b) Since October 1990 the pest control is done quarterly.

VAT returns: investigation

362. Mr A P OOSTHUIZEN asked the Minister of Finance:†

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Whether he or his Department has conducted an investigation into the estimated return that Value-Added Tax (VAT) will produce over a period of 12 months; if not, why not; if so, what will the return be at the different percentages that were used for the purpose of the calculations?

B967E

The MINISTER OF FINANCE:

Yes. The national accounts of the South African Reserve Bank were used as the basis of all calculations regarding value-added tax. On the basis of the Bill (ie prior to the exemption in respect of municipal rates) it was estimated that the revenue yield (at a 12% rate) for the full 1991/92 financial year would amount to R18 240 million. That implies that for every 1% just over R1 500 million would be collected by way of VAT. 320

Building sold/donated to ANC

366. Mr C UYS asked the Minister of Finance:†

(1) Whether he has been notified that a certain company, whose name has been furnished to the Minister's Department for the purpose of his reply, recently sold or donated a building to the ANC; if so, (a) what was this building so sold or donated, (b) where is it situated and (c) what is the name of the company concerned;

(2) whether he will investigate or has investigated the matter in order to ascertain whether there are any tax disadvantages or fiscal implications for the taxpayers of South Africa involved in this sale or donation; if not, why not; if so, what are the relevant details?

B976E

The MINISTER OF FINANCE:

(1) and (2) Yes. By way of reports in the media.

The duties of the Commissioner for Inland Revenue are not limited to the collection of taxes; he must also ensure that there is compliance with the tax laws. He will accordingly consider any tax implications arising from the transaction. In the light of the secrecy provisions contained in section 4 of the Income Tax Act, details of his actions and findings may, however, not be furnished to any person other than the taxpayer or his lawful representative.

In view hereof no further information or comment can be furnished in reply to the hon member's question.

Certain magisterial districts: GST collected

371. Mr J J WALSH asked the Minister of Finance:

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Where were the amounts of general sales tax collected in the magisterial districts of (a) Bloemfontein, (b) Welkom, (c) Odendaalsrus, (d) Virginia, (e) Sasolburg, (f) Kroonstad, (g) Bethlehem, (h) Harrismith and (i) Bothaville in the 1989-90 and 1990-91 tax years, respectively?

B1001E

The MINISTER OF FINANCE:

The relevant information is only available in respect of financial years and not in tax years.

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	1989/90 financial year	1990/91 financial year
	R	R
(a) Bloemfontein	207 992 308	227 033 751
(b) Welkom	248 634 877	249 257 737
(c) Odendaalsrus	2 372 640	2 466 658
(d) Virginia	3 943 369	3 964 049
(e) Sasolburg	7 942 388	8 950 339
(f) Kroonstad	35 460 057	35 890 913
(g) Bethlehem	22 876 404	19 462 093
(h) Harrismith	8 666 689	8 588 766
(i) Bothaville	3 741 450	4 021 488

Certain magisterial districts: taxpayers/ tax collected

372. Mr J J WALSH asked the Minister of Finance:

What was (a) the number of taxpayers according to race, and (b) the personal income tax collected, in the (i) Bloemfontein, (ii) Welkom, (iii) Kroonstad, (iv) Sasolburg and (v) Virginia magisterial districts in the 1988-89 and 1989-90 tax years, respectively, in each of the following income categories, *viz* (aa) R12 001 to R20 000, (bb) R20 001 to R30 000, (cc) R30 001 to R40 000, (dd) R40 001 to R50 000, (ee) R50 001 to R60 000, (ff) R60 001 to R80 000, (gg) R80 001 to R100 000 and (hh) R100 001 and more?

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B1002E

The MINISTER OF FINANCE:

A meaningful breakdown of tax collected in magisterial districts cannot be furnished. Some 75% of individual tax is collected by way of Pay-As-You-Earn (PAYE), and many employers make their PAYE payment in areas other than those in which their workers are employed. Statistics are accordingly furnished on the basis of assessments issued to taxpayers resident in the relevant magisterial districts.

(i) Bloemfontein

Taxable income group	*1988-89* Number	*1988-89* Tax	*1989-90* Number	*1989-90* Tax
		R		R
12 001 – 20 000	4 086	5 630 667	1 663	1 972 732(a)
20 001 – 30 000	5 466	20 580 114	3 647	12 359 520
30 001 – 40 000	4 858	33 679 538	4 677	33 002 790
40 001 – 50 000	2 609	28 229 967	3 242	34 629 754
50 001 – 60 000	1 506	22 393 456	1 556	22 995 704
60 001 – 80 000	1 148	23 359 547	1 351	27 675 780
80 001 – 100 000	429	12 325 216	394	11 505 859
100 001 +	679	43 139 695	451	26 625 430

(ii) Welkom

Taxable income group	*1988-89* Number	*1988-89* Tax	*1989-90* Number	*1989-90* Tax
		R		R
12 001 – 20 000	2 062	2 519 821	611	755 805(a)
20 001 – 30 000	2 515	10 034 669	1 297	4 485 197
30 001 – 40 000	3 141	22 256 469	2 645	19 100 517
40 001 – 50 000	2 260	24 760 593	2 525	27 418 759
50 001 – 60 000	1 376	20 463 459	1 900	28 312 226
60 001 – 80 000	1 071	22 170 454	1 653	33 770 216
80 001 – 100 000	333	9 728 207	488	14 425 812
100 001 +	363	23 145 713	422	24 694 263

Brace yourselves for the VAT price push

(320)

wlmail 7/6 - 13/6/91

Despite government's best intentions, the introduction of Value Added Tax later this year is set to push up inflation, reports MONDLI MAKHANYA

BUSINESS

WHILE the government tries to convince the South African public that Value Added Tax will not inflate prices, it is becoming clear that we are going to have to fork out more to stay alive.

According to the Standard Bank and Old Mutual's economic research departments inflation is set to jump by between one and a half and two and half percentage points when the 12 percent VAT replaces GST on September 30.

Residential accommodation prices will also take an upward knock. Professor Piet Botha — a quantity surveyor at Pretoria University — estimates that housing construction will cost between six percent and eight percent more.

As far as rented property is concerned, Real Estate Surveys director Erwin Rode says rental rates hikes will range from seven percent to 12 percent. In cases where expenses are fixed the lease rentals will increase by 12 percent. But where they are not fixed the landlord may pass on the savings brought about by the removal of General Sales Tax and this will thus increase by only seven percent.

However the year- on- year Consumer Price Index will not show a dramatic increase because the introduction of VAT will happen exactly 12 months since the Gulf crisis sent fuel prices soaring last year.

The increase in the inflation rate will mainly be due to the inclusion in the VAT net of items which are presently exempt from GST.

This expected price hike runs in the face of an International Monetary Fund recommendation to the government that VAT could cause a seven percent reduction in the inflation rate.

The departments of finance and inland revenue are to embark on a publicity campaign to refute widespread public sentiment that VAT will lead to widescale price hikes. Deputy Finance Minister Theo Alant was at pains at a media briefing last week to point out the price benefits of the elimination of the tax-on-tax cascading effect inherent in GST.

Any major price jump, Alant said, would be due to businesses taking advantage of the confusion and inflationary expectations of consumers. To counter such unscrupulous action by businesses, the department of finance has appointed an independent committee — Vatwatch — to monitor price movements in the period leading up to implementation of VAT.

Alant may have had a point, since a number of businesses are said to have begun introducing higher-than-usual price increases in recent months. One major chain is understood to have taken this decision at a high-level management meeting.

Undoubtedly the main cause of the expected inflation hike will be the fact that while only 50 percent of consumer goods quoted in the CPI basket were subject to GST, this will increase to about 75 percent after VAT is introduced.

While, theoretically, this could be offset by the input credits granted to producers as well as the removal of the cascading effect as the government argues, this will not be the case.

Says Old Mutual chief economist David Mohr: "One can't rely on the savings on input costs to determine the final prices of the products. There are other factors that come into play on determining prices, such as labour and the environment in which the industry or company is operating. This saving may also be passed on to employees or to shareholders and not to the consumer."

Unions are also certain to demand higher wage increases to compensate for the inclusion of basic foodstuffs under VAT — thus adding fuel to the inflationary fire.

This, according to Econometrix director Azar Jammine, will be exacerbated by the concentration of economic power in South Africa.

"My fear is that the power of the trade unions and the concentration of corporate power in few hands will definitely increase inflationary expectations. Labour will see an officially higher inflation rate and demand higher wages. The powerful corporations will pass this on to the consumer and thus the vicious inflationary circle will continue as wage earners demand more to offset this."

Jammine says this augurs ill for the unemployed since the informal sector provided a haven for the poor in a country with such high structural unemployment.

In recognition of the fact that the taxing of basic foodstuffs will adversely affect the poor, the government is investigating ways of assisting the needy. In this year's Budget R220-million was allocated for this task but Alant says the government is still "identifying target groups".

(iii) Kroonstad

Taxable income group	1988-89 Number	1988-89 Tax	1989-90 Number	1989-90 Tax
		R		R
12 001 – 20 000	1 377	1 886 909	486	616 442(a)
20 001 – 30 000	1 777	6 330 935	1 452	4 949 101
30 001 – 40 000	1 138	7 782 623	1 340	9 232 138
40 001 – 50 000	634	6 827 256	713	7 568 810
50 001 – 60 000	282	4 145 430	379	5 542 290
60 001 – 80 000	230	4 675 757	249	5 043 778
80 001 – 100 000	101	2 895 009	88	2 601 321
100 001 +	152	10 068 668	141	8 944 787

(iv) Sasolburg

Taxable income group	1988-89 Number	1988-89 Tax	1989-90 Number	1989-90 Tax
		R		R
12 001 – 20 000	1 362	1 619 327	255	322 010(a)
20 001 – 30 000	1 523	5 729 899	853	2 895 607
30 001 – 40 000	2 221	15 810 918	1 430	10 540 563
40 001 – 50 000	1 482	15 898 758	1 916	20 778 413
50 001 – 60 000	567	8 359 866	1 148	16 914 612
60 001 – 80 000	338	6 692 057	656	13 245 442
80 001 – 100 000	97	2 811 492	128	3 716 931
100 001 +	71	3 818 593	87	4 283 011

(v) Virginia

Taxable income group	1988-89 Number	1988-89 Tax	1989-90 Number	1989-90 Tax
		R		R
12 001 – 20 000	628	657 729	180	199 247(a)
20 001 – 30 000	777	3 027 835	301	1 062 616
30 001 – 40 000	1 145	8 039 085	896	6 469 061
40 001 – 50 000	841	9 166 766	930	10 061 886
50 001 – 60 000	367	5 421 425	657	9 784 054
60 001 – 80 000	268	5 439 560	437	8 819 867
80 001 – 100 000	66	1 937 977	117	3 435 097
100 001 +	56	3 364 574	78	3 771 162

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NOTES

(a) Statistics in respect of taxpayers earning less than the applicable Standard Income Tax on Employees (SITE) limit are not available and therefore not reflected in these figures.

(b) Statistics are no longer compiled under race groups.

Personal income tax collected: details

379. Mr J J WALSH asked the Minister of Finance:

What was the amount of personal income tax collected in the 1988-89 financial year in (a) the Republic of South Africa, (b) the Orange Free State, (c) Bloemfontein, (d) Welkom and (e) Sasolburg from persons employed in each of the following sectors, *viz* (i) agriculture, (ii) mining, (iii) manufacturing, (iv) construction, (v) commerce, (vi) Government services, (vii) transport and (viii) banks and financial services?

B1003E

The MINISTER OF FINANCE:

A meaningful breakdown of tax collected in magisterial districts cannot be furnished. Some 75% of individual tax is collected by way of Pay-As-You-Earn (PAYE), and many employers make their PAYE payments in areas other than those in which their workers are employed. Statistics are accordingly furnished on the basis of assessments issued.

Personal Income Tax Assessed

Sectors	Districts (a)	(b)	(c)	(d)	(e)
Agriculture	394 320 303	86 991 612	16 755 806	2 082 443	665 785
Mining	499 076 947	128 687 365	700 417	75 395 018	3 922 178
*Construction/Manufacturing	1 695 237 099	73 814 715	7 931 802	6 588 776	41 627 631
Commerce	1 001 633 341	77 034 535	32 205 878	14 192 405	2 820 787
Government Services	1 494 457 802	96 886 587	52 160 559	8 223 887	4 219 871
Transport	352 461 354	25 250 160	14 141 409	938 617	979 619
Banks and Financial Services	352 849 800	20 267 637	9 788 946	2 531 460	659 975

*No distinction between these two sectors can be made.

Key to Districts

(a) Republic of South Africa

(b) Orange Free State

(c) Bloemfontein

(d) Welkom

(e) Sasolburg

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NOTE

Statistics in respect of taxpayers earning less than the applicable Standard Income Tax on Employees (SITE) limit are not available and therefore not reflected in the above figures.

GST: amounts collected

380. Mr J J WALSH asked the Minister of Finance:

(a) What was the total amount of general sales tax collected in South Africa during the 1988-89 and 1989-90 financial years, respectively, and (b) what was the amount collected in each of the (i) provinces and (ii) self-governing territories in each of these years?

B1004E

The MINISTER OF FINANCE:

		1988/89 financial year	1989/90 financial year
		R	R
(a)	Total	12 972 824 530	16 551 068 041
(b)(i)	Cape Province	2 961 285 497	3 757 836 179
	Natal	1 285 579 929	1 642 796 784
	Transvaal	8 211 827 470	10 546 134 800
	Orange Free State	514 131 634	604 300 278
(ii)	Lebowa	4 756 160	4 858 508
	Gazankulu	2 165 545	2 799 309
	KwaZulu	11 221 619	12 625 505
	Qwaqwa	6 244 511	5 178 779
	KaNgwane	3 051 977	1 974 095
	KwaNdebele	594 119	1 122 065

Justices of the peace: number

407. Mr D J DALLING asked the Minister of Justice:

(a) How many (i) male and (ii) female justices of the peace of each race group are there in each province and (b) in respect of what date is this information furnished?

B1073E

The MINISTER OF JUSTICE:

(a) (i) and (ii) The records of the Department does not distinguish between male and female or race groups in respect of persons appointed as justices of the peace. Details in this regard are therefore not readily available. The number of justices of the peace appointed for each province are as follows:

The Cape of Good Hope	:	1 514
Transvaal	:	1 149
Orange Free State	:	378
Natal	:	324

(b) This information is furnished as at 27 May 1991.

Personal income tax

417. Mr J J WALSH asked the Minister of Finance:† 320

What was (a) the number of taxpayers according to race who were liable for personal income tax and (b) the personal income tax act collected per income category in the Orange Free State in the 1988-89 financial years, respectively?

B1068E

The MINISTER OF FINANCE:

A meaningful breakdown of tax collected in provinces cannot be furnished. Some 75% of individual tax is collected by way of Pay-As-You-Earn (PAYE), and many employers make their PAYE payments in provinces other than those in which their workers are employed. Statistics are accordingly furnished on the basis of assessments issued to taxpayers resident in the relevant province.

Orange Free State

Taxable income group	*1988-89* *Number*	*1988-89* *Tax* R	*1989-90* *Number*	*1989-90* *Tax* R
0 – 12 000	4 375	1 564 435(a)	1 965	887 459(a)
12 001 – 20 000	14 305	18 318 300	5 222	6 206 410(a)
20 001 – 30 000	17 904	66 681 902	11 503	38 437 627
30 001 – 40 000	16 933	117 815 688	15 014	106 024 208
40 001 – 50 000	10 519	113 158 452	12 314	132 023 783
50 001 – 60 000	5 399	79 319 784	7 266	107 256 732
60 001 – 80 000	4 085	82 485 389	5 565	112 839 406
80 001 – 100 000	1 477	41 661 523	1 624	47 149 334
100 001 +	2 086	130 840 788	1 717	100 791 316

NOTES

(a) Statistics in respect of taxpayers earning less than the applicable Standard Income Tax on Employees (SITE) limit are not available and therefore not reflected in these figures.

(b) Statistics are no longer compiled under race groups.

Phuthaditjhaba/Industriqwa: amount spent

418. Mr J J WALSH asked the Minister of Development Aid:

What total amount was spent on industrial infrastructure in (a) Phuthaditjhaba and (b) Industriqwa in each financial year from 1978-79 up to and including 1989-90?

B1069E

The MINISTER OF DEVELOPMENT AID:

(a) Phuthaditjhaba

	Financial year	Amount spent on industrial infra-structure
(i)	1978-79	R 115 000
(ii)	1979-80	R 474 000
(iii)	1980-81	R 961 000
(iv)	1981-82	R 1 189 000
(v)	1982-83	R 1 480 000
(vi)	1983-84	R22 456 000 (1)
(vii)	1984-85	R 9 451 000
(viii)	1985-86	R12 751 000
(ix)	1986-87	R15 444 000
(x)	1987-88	R14 769 000
(xi)	1988-89	R10 529 000
(xii)	1989-90	R 5 720 000

(b) Industriqwa

	Financial year	Amount spent on industrial infra-structure
(i)	1978-79	Nil
(ii)	1979-80	Nil
(iii)	1980-81	Nil
(iv)	1981-82	Nil
(v)	1982-83	Nil
(vi)	1983-84	Nil
(vii)	1984-85	Nil
(viii)	1985-86	Nil
(ix)	1986-87	R 30 000
(x)	1987-88	R 3 298 000
(xi)	1988-89	R 6 691 000
(xii)	1989-90	R15 246 000

(1) Includes an amount of R17,43 million which was a transfer from the then Corporation for Economic Development Ltd to the Qwaqwa Development Corporation Ltd.

The above-mentioned figures and explanations were furnished by the Qwaqwa Development Corporation Ltd.

Own Affairs:

***Per capita* expenditure**

82. Mr J H MOMBERG asked the Minister of Education and Culture:

What was his Department's *per capita* expenditure on education in respect of (a) the Republic, (b) the Orange Free State and (c) Natal during the latest specified 12-month period for which figures are available?

B1103E

The MINISTER OF EDUCATION AND CULTURE:

(a) R3 960

(b) R3 919

(c) R4 042

Information as per SANEP system for 1990/91 financial year.

*Capital works excluded.

Amount spent on management training

83. Mr J H MOMBERG asked the Minister of Education and Culture:

What (a) amounts and (b) percentage of the education budget of his Department was spent on management training during the latest specified 12-month period for which figures are available?

B1106E

The MINISTER OF EDUCATION AND CULTURE:

(a) and (b) Information is not available, as it is not possible to separate the amount expended on management training from the total costs of in-service training.

OFS: total number of classrooms

86. Mr R M BURROWS asked the Minister of Education and Culture:

What is the total number of classrooms in schools in the Orange Free State falling under his Department?

B1115E

The MINISTER OF EDUCATION AND CULTURE:

2 856.

Fair play is VAT target

(320)

Business Times Reporter

A COMMITTEE of experts is being set up to act as a consumer watchdog on price increases after the introduction of VAT on September 30.

Wits University's Louise Tager has agreed to convene the Vatwatch committee which will monitor price movements before and after VAT comes into effect.

Deputy Finance Minister Theo Alant says Vatwatch will try to ensure that benefits of the elimination of GST go to consumers as fully and quickly as possible.

Watwach will be independent and consumer organisations will be represented on it.

Fears

Committee members and its full mission and goals should be announced in June.

Dr Alant says: "It will aim at maximising the benefits of VAT for the consumer."

VAT will be a percentage point below the 13% for GST. Because of the elimination of tax-on-tax, it should cause no increase in the consumer price index. But there are fears that middle men in the supply chain, manufacturers and retailers, will use the changeover to conceal increases in their margins.

Dr Alant says: "It seems likely that in the long term, VAT will have little effect on the rate of inflation. If anything, it will help to contain prices and keep inflation in check.

"We believe that a concerted effort by business and consumers will help to maximise the potential benefit of VAT to consumers.

S Times 2/6/91 (Bus Times)

Final

"We will encourage business to fine tune its cost calculations to pass on to consumers as early as possible and as extensively as possible the many price benefits that must come about as a result of the elimination of tax-on-tax."

The final phase of the Government's information and training programme for VAT begins this week. More than 112 amendments were made to the VAT Bill in its passage through Parliament.

The focus on training will move to the business sector. "The smooth and effective implementation will depend heavily on business," says Dr Alant.

VAT expected to clog up cash flows

B Day 10/6/91.

GILLIAN HAYNE

ALTHOUGH VAT is undoubtedly good for companies' profit levels — through the granting of input tax credits — it could seriously affect cash flows, tax experts say.

Businesses registered for VAT will have to pay their imputed VAT liability to Revenue within 25 days of the end of the tax period whether they have received the tax from their customers or not.

BDO Spencer Steward tax director Matthew Lester says unless enterprises modify their cash flow forecasts and planning soon, they could find themselves strapped for ready money when VAT comes into effect on September 30.

Businesses which will be more severely affected include those which will provide a service which incurs a VAT charge but which is at present exempt from general sales tax.

Such enterprises will, for the first time, be in the predicament of having to remit VAT before they have collected the tax from customers.

Lester warns that the situation will be aggravated when invoices are raised immediately before the end of the tax period. This is because the company's VAT liability is created at a date earlier than that of invoice, delivery or payment. If the invoice is raised at the end of the tax period, the vendor only has 25 days in which to receive payment from customers.

Enterprises with debtors books which are long will also have to remit their VAT to Inland Revenue before it is received. As is the case with the sales tax system, no debtors' allowance will be granted.

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However, businesses based on cash payments will enjoy significant cash flow benefits as the VAT received will only have to be remitted to the fiscus every two months for businesses with less than R30m turnover a year.

Although cash businesses will gain on the output taxes (tax charged on goods or services), they will lose on the input taxes (tax paid on inputs into the company).

Lester explains that if stock is bought for cash at the beginning of a tax period, the company will have to finance the VAT for up to 106 days (two months plus 25 days plus 21 days for the refund.)

Planning opportunities exist for companies, such as monitoring stock levels so that purchases are only made towards the end of a tax period, or purchasing on credit so that payment for goods is made after an input tax credit has been claimed.

☐ Inland Revenue staff could be celebrating Christmas in the office this year.

The deadline for the first VAT return for most companies — those with a turnover of less than R30m a year — is December 25.

And if the Receiver fulfils its promise to post the relevant refunds within 21 days, a lot of administration will have to be completed by January 15 1992.

(320)

VAT pricing errors 'could lead to major cash losses'

B|Day 10|6|91

GILLIAN HAYNE

INDIVIDUALS and businesses alike could lose money after the introduction of VAT if proper attention is not given to pricing, says Arthur Andersen tax manager Shane Ferguson.

For businesses, pricing becomes critical because, under the VAT regime, companies will no longer have the statutory right to recover tax from their purchasers.

In other words, if a company erroneously omits to charge VAT — incorrectly believing the item to be zero-rated or exempt — it will still have to pay the fiscus, but will no longer be entitled to claim the tax back from the purchaser.

"If companies are not careful with their pricing they could see their margins decreasing," says Ferguson.

Confusion

Individuals could also lose money if they do not understand the workings of VAT. For example, an individual will not charge VAT when selling second-hand goods to a dealer — such as trading in a car — but the dealer will be able to claim a portion of the total price back from Revenue. This is known as a deemed input tax credit.

"In effect the dealer will be paying less and as such the seller could maybe command a higher price," Ferguson said.

Further confusion surrounds the advertising or quoting of prices. Under VAT, enterprises have two options: they can show one price which will be inclusive of VAT, or they can give the exclusive price, the VAT portion and then the inclusive price.

Ferguson says the second option can be used only if an actual amount can be quoted, so agents who charge commission on a percentage basis will be able to give only prices inclusive of VAT.

Of more significance is the effect VAT's pricing requirements will have on auctioneers — who sell items for both businesses and individuals. Businesses have to charge VAT but individuals do not, which means the auctioneer will have to specify individually if the price bid is inclusive of VAT or exempt.

Ferguson suggests the auctioneer take advantage of the statutory provision to be considered the seller, rather than agent, and as such all his items would automatically be inclusive of VAT.

Problems also exist for companies which operate on different discount levels for different clients. Ferguson says these companies must quote their prices exclusive of VAT.

A further point of confusion is that many companies will mark up their goods including VAT, even though they will be able to claim the VAT portion back from Revenue. "Companies must be careful to exclude the VAT portion paid on goods before adding their mark up," Ferguson said.

Trade unions up in arms over tax

~~137~~ (320)
Star 10/6/91

Trade unions are up in arms about the implementation of VAT on trade unions' subscriptions which will come into effect later this year.

The Federation of Salaried Staff Association of South Africa (Fedsal) with a predominantly white membership and Cosatu have slammed the imposition of VAT on union subscriptions.

It is believed that VAT would be imposed on unions' subscriptions exceeding R150 000 a year.

Fedsal called for a meeting with Finance Minister Barend du Plessis to discuss the implications of VAT on union subscriptions and to obtain first-hand information on the practical implementation of VAT.

After this meeting Fedsal will call for a trade union summit involving all trade unions to discuss the issue of VAT on unions' subscriptions.

The effect that VAT would have on union members and the working class in general should be addressed in this joint forum, Cosatu said. — Staff Reporter

Interim bill little help to one city, one tax base plan

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CT 10/6/91

THE government's Interim Measures for Local Government Bill appears unlikely to help more than a handful of municipalities towards the goal of "one city, one tax base".

This proposed "enabling legislation" has been designed to let those local authorities which want to come to agreements with their counterparts of different colours to get on with the job right away instead of waiting three years for negotiations to be concluded at central government level.

Various criticisms have been levelled at this legislation, one being that it gives municipalities, management committees and town councils an effective veto over the de-racialising process.

Another is that there is not much of an inducement for white local authorities to come to agreements with others.

Cape Town City Council has resolved to lobby for the interim bill to be withdrawn "pending negotiations with all parties involved on a new system of local government".

The bill has its shortcomings, but it seems the major obstacle lies outside the legislation itself — the financial realities of the situation in which white and black local authorities find themselves. The bill says virtually nothing about finance, or about what is to be done about the accumulated deficits of failed black local authorities.

Even aside from the deficits, Mrs Eulalie Stott, of Cape Town City Council's executive committee, disclosed during the council's budget debate last month that over R50 million was required just to balance the iKapa Town Council budget this year.

CIVIC DIARY

By PETER DENNEHY

She added that if Cape Town municipality alone were to take upon itself the entire responsibility of balancing the iKapa budget — which would be unfair — "it would mean another 20% on our rates".

This may seem like an inflated estimate of the impact that shouldering such a burden would have on Cape Town with its R1,7 billion budget, but Mrs Stott knows what she is talking about.

Services provided by the council are to a large extent paid for by either the users of those services (like water and electricity), or the government. Rates are levied just to balance the budget.

At present, for each extra R2,5m of City Council spending that has to be covered by rates, the rates have to be raised by a further 1%.

Some municipalities — like Simon's Town, Stellenbosch, Knysna and Kimberley — have been making progress towards overcoming the racial divides that characterise the administration of every South African town and city, even before the interim bill was tabled.

Why is this? Well, their circumstances are quite different from those of Cape Town.

A Kimberley delegate at the Cape Province Municipal Association Congress earlier this year revealed that Kimberley was looking at a rates increase of just an extra 5% this year, over and above what it would ordinarily have been.

This is a result of the agreement with Galeshewe township in terms of which white and black Kimberley residents pay for their services on an equal basis. Previously, the township residents used to pay more for electricity.

Small cities have an advantage over larger ones in that fewer players are usually involved in coming to an arrangement.

Matters are simplified if there are basically two "sides", especially if each has enlightened and pragmatic leaders and enough of a hold over its supporters to ensure that agreements stick.

In Greater Cape Town, we have a multiplicity of white local authorities with different outlooks. And in our townships the civic associations do not yet have the political hegemony that they enjoy elsewhere.

Later this year there is to be a conference which it is hoped will bring together all potential future participants in making Cape Town a "single tax-base city".

At least the Interim Measures for Local Government Bill provides for the establishment of a negotiating forum which might arise from such a meeting — if the various bodies are willing to participate in the process.

Taxes needed to fight poverty – ANC

320 CT 10/6/91

Own Correspondent

JOHANNESBURG. — Although the ANC was still in the process of discussing its tax proposals, the organisation believed new taxes would be necessary to combat poverty, Max Sisulu, head of its Department of Economic Policy, said at the weekend.

He said the ANC was willing to listen to other suggestions, but organised business had so far failed to come up with a viable alternative to address crucial issues such as redistribution, poverty and unemployment.

An ANC budget would include a capital gains tax, a capital transfer tax, a land tax, a progressive property tax and a minimum business tax to boost tax revenue to 35% of GDP.

Mr Ben van Rensburg, chief economist of the South African Chamber of Business (Sacob), said organised commerce and industry remained convinced that taxes should be kept as low as possible and the government sector as small as possible.

Bloom 11/6/91. (320)

New tax board to speed up appeals

LESLEY LAMBERT

CAPE TOWN — A new Income Tax Appeal Board is to be established to speed up the hearing of tax appeals and break the log-jam created by numerous pending cases.

The new appeal board has been proposed in the Income Tax Bill which will be tabled in Parliament this week.

Unlike the current mechanism — a special income tax court presided over by a Supreme Court judge — the new board will include attorneys, advocates and accountants who will hear smaller cases involving amounts less than R20 000.

The special court will continue to hear appeals involving larger amounts. It will also hear appeals of appellants who are dissatisfied with appeal board decisions.

Board members will be appointed by the Finance Minister in consultation with the Judge Presidents of the various Provincial Divisions. One member will be nominated as chairman. The Commissioner for Inland Revenue will designate an officer from his department to appear in support of an assessment at an appeal hearing.

The Bill gives expression to new tax measures and amendments announced in this year's Budget. It also contains new amendments including one proposing the taxation of fringe benefits enjoyed by retired people and another confirming the taxation of trust funds.

The need to confirm the taxation of trust

☐ To Page 2

Tax board

Bloom 11/6/91. (320)

☐ From Page 1

funds arose from a recent special court decision which upset the authorities' practice of taxing trust funds. The court found that trust funds without obvious beneficiaries could not be taxed in the hands of their trustees because they were not included in the definition of a taxable "person".

The tax authorities countered this by proposing an amendment to include trustees in the definition.

Other new amendments include the extension of tax deductions for corporate donations to education institutions to include donations to primary schools, and an alteration, for purposes of fringe benefits tax, to the taxable value of company cars.

Important amendments already announced in the Budget include the separate taxation of married women's investment income, the increase of SITE from R40 000 to R50 000 and the full implementation of the mining industry's new tax formula.

To prevent a married person recording his or her investment funds in the other partner's name in an effort to avoid tax, the authorities have included a tough anti-avoidance clause in the Bill.

New body to ease tax appeals logjam

(320) CT 11/6/91

Political Staff

AN Income Tax Appeal Board is to be established to speed up the hearing of tax appeals and break the logjam created by numerous pending cases.

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Unlike the present mechanism — a Special Income Tax Court presided over by a Supreme Court judge — the new board will include attorneys, advocates and accountants who will hear smaller cases involving amounts of less than R20 000.

The Special Court will continue to hear appeals involving larger amounts.

It will also hear appeals referred to it at the request of appellants who are dissatisfied with decisions taken by the Appeal Board.

Members of the board will be appointed by the Finance Minister in consultation with the judge presidents of the various provincial divisions and one of the members will be nominated as chairman.

The Commissioner for Inland Revenue will designate an officer from his department to appear in support of the assessment at an appeal hearing.

The Income Tax Bill gives expression to new tax measures and amendments announced in this year's budget.

It also contains some new amendments including one confirming the taxation of trust funds and another proposing the taxation of fringe benefits enjoyed by retired people.

Union dues will be caught in VAT net

GILLIAN HAYNE

TRADE unions will have to add VAT to members' dues when the new tax system is implemented on September 30.

The Federation of Salaried Staff Associations of SA (Fedsal), which has 250 000 members, has hit out at the taxation of union subscriptions. The organisation is to meet Finance Minister Barend du Plessis on August 13 to discuss the implications of VAT on members' fees and try to get an exemption.

Fedsal general secretary Piet Heymans said: "Trade union subscriptions are paid with money which has already been taxed, and it will now be subjected to double taxation."

If an exemption was not granted, Fedsal would call for a trade union summit to discuss putting pressure on government to reconsider its ruling, Heymans said.

Cosatu spokesman Neil Coleman said the unions were also very concerned about broader VAT issues, such as its effect on the cost of living.

(320)

Cosatu had commissioned a study on VAT which showed that each household would have 5% less to spend on essentials after the introduction of VAT.

"Although the increase in union membership fees obviously concerns us, at this stage we are more concerned about how VAT will influence the cost of living for the

□ To Page 2

Union dues

B/Day 12/6/91

(320)

□ From Page 1

lower income group and the poor," he said.

National Union of Mineworkers (NUM) spokesman Martin Nickel said the NUM had not yet decided how to respond to the taxation of union subscription.

Arthur Andersen tax manager Shane Ferguson said trade unions, because they provided a service to members, would have to charge VAT.

But the unions themselves would benefit from the introduction of VAT. They would have to register as vendors and as such would benefit from being able to claim refunds on their inputs — such as legal expenses, office expenses and the like.

Other tax experts said in most cases trade union fees were collected by employers on behalf of unions. Unless unions explained to their members why there would be an increase in dues, employers could find themselves "facing the flak" for the increase, they warned.

They said if trade union members became "difficult" because of increased pay deductions, employers could leave VAT collections to the union.

Tough measures on tax avoidance

BDay 13/6/91. (229)

CAPE TOWN — Tough anti-avoidance measures have been drafted into the Income Tax Bill to discourage married people from using the recently introduced separate taxation of married women's investment income as a way of avoiding tax.

Deputy Finance Minister Theo Alant warned in Parliament yesterday that husbands and wives who split their investment income to avoid tax would face harsh penalties, including costly fines.

"The word is already doing the round that a husband should, for example, donate his investment capital to his wife so that the income accrues to her and thus she can also enjoy the advantage of the tax rebates and progressive rates," Alant said during the introduction of the Bill.

"Where such donations are made with the intention of avoiding tax, the donor runs the risk of being taxed on such investment income. He may also become liable for additional tax of up to twice the amount of tax applicable to that investment," he said.

Separate taxation of married women's investment income was announced in the Budget.

Married women over the age of 65 would also benefit from an increase in their tax rebate to R2 100, Alant said.

Although it had not been possible to

LESLEY LAMBERT

eliminate fiscal drag this year because of "other priorities" which required attention, the personal tax rate had been reduced to 43% and government remained committed to its goal of reducing it to 40%.

Individual taxpayers would receive additional relief from an increase in the maximum SITE level from R40 000 to R50 000. Fewer would have to submit annual income tax returns as a result of the amendment.

The reduction in the corporate tax rate from 50% to 48% would ease the financial burden of companies while gold mines would be subject to a lower single tax formula following a decision to move directly to the last phase of mining tax reform.

The Bill included three amendments to fringe benefits tax.

The way in which the taxable benefit of company cars was determined was simplified to a monthly 1,2% of a car's cost price.

For the purposes of car allowance schemes, the distance assumed to have been covered in private travel was increased from 10 000km to 12 000km.

Finally, the Bill recommended the taxation of certain part-time employees who still received benefits linked to past employment services.

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Perks tax shock shakes country's car industry

From Magnus Heystek ARG 13/4/91

THE scrapping of tax breaks on company bursary and telephone payment schemes and drastic changes to perks tax on cars will savage the pockets of many South Africans.

Announcing the sweeping changes last night the Government cited "widespread abuse" as motivation for the moves.

One shock is that people receiving a car allowance will have PAYE deducted on 25 percent of their allowance, which will have a negative effect on cash flow.

The most important change affects fringe benefits on company cars and company allowances. In future, the total fringe benefit payable will be calculated by means of a set formula, namely 1,2 percent of the fixed value of the car, excluding GST or VAT.

This replaces the current calculation of fringe benefit taxation, which is done according to a complicated table as well as the engine capacity.

While the total tax collected from fringe benefits on motor cars is set to rise on average by 20 percent, it will affect people with luxury vehicles more than others. And were it not for intense behind-the-schene lobbying by the motor industry, the taxable value of fringe benefits would have been substantially higher.

For the already-depressed motor industry, this announcement comes as very bad news. It also follows hard on the heels of sharp increases in short-term insurance premiums as well as increases in import duties, which was announced last week.

According to a spokesman for the motor industry the increase in fringe benefit taxation comes at a "particularly difficult time for the motor industry".

A further drop in motor car sales can be expected, particularly in the case of luxury vehicles.

Mr Chris Moerdyk, media spokesman for BMW (SA) commented: "The motor industry is already suffering from weak car sales as a result of the depressed economy and other announcements relating to ad valorem import duties and higher local content. This will make things even worse."

Last night Mr Barend du Plessis, the Minister of Finance, introduced several amendments to the Income Tax Act in Parliament.

According to a spokesman for the Department of Finance the bill will most likely be accepted by Parliament next week.

The taxation on company cars is set to rise substantially as a result of a radical change in the way in which fringe benefits on company vehicles and car allowances are calculated.

These changes are set to come into effect on August 1.

For instance, the taxable value of a car car worth R100 000 will increase by R187 more a month in terms of the proposed changes.

However, people driving smaller and cheaper cars, will benefit by paying less tax. The taxable value of a car worth R20 000 will decline from R260 to R240 per month.

People receiving car allowances will be particularly hard hit by the proposed changes. Under current legislation the first 10 000km travelled each year is deemed to be of a private nature, with the rest considered to be business use. Private usage now rises to 12 000km a year, while the maximum distance that can now be travelled for business puroposes is only 20 000km.

Any usage exceeding 20 000km will be allowed only if a logbook has been used.

Other changes to the fringe benefit taxation include:

- The practice of companies paying for telephones at home has been disallowed;
- Retired people who still receive fringe benefits from a company will in future have to pay tax on that benefit; and,
- Bursary schemes whereby employees forfeit either a salary or a bonus in favour of a tax-free payment to employees' children as a kind of bursary has been scrapped.

According to Mr Ian Meiklejohn, director of legal drafting at the Commissioner of Inland Revenue, this follows widespread abuse in these areas.

~~[illegible]~~ ARG 13/4/91

Bad news for motor industry

Tax blow on fringe benefits

(320)

8Star 13/6/91

By Magnus Heystek
Finance Editor

The Government last night announced sweeping changes to fringe benefit taxation — including scrapping certain company bursary and telephone payment schemes and drastic changes in calculating fringe benefits on cars.

The Government cited widespread abuse by taxpayers for the changes.

Last night Finance Minister Barend du Plessis introduced several amendments to the Income Tax Act.

According to a spokesman for the Department of Finance, the Bill will probably be accepted by Parliament next week.

The taxation on company cars is set to rise substantially, because of a radical change in the way in which fringe benefits on company vehicles and car allowances are calculated.

These changes are set to come into effect on August 1.

In addition, people receiving a car allowance will now have PAYE deducted each month on 25 percent of their allowance.

In future, the total fringe benefit payable will be calculated by means of a set formula, namely 1,2 percent of the fixed value of the car, excluding GST or VAT.

This replaces the current calculation of fringe benefit taxation, which is done according to a complicated table as well as the engine capacity of the car.

While the total tax collected from fringe benefits on motor cars is set to rise on average by 20 percent, it will affect people with luxury vehicles more than others.

For instance, the taxable value of a car worth R100 000 will increase by R187 more a month.

However, people driving smaller and cheaper cars will benefit. The taxable value of a car worth R20 000 will decline from R260 to R240 a month.

Lobbying

People receiving car allowances will be particularly hard hit.

It has emerged that were it not for intense behind-the-schenes lobbying by the motor industry, the taxable value of fringe benefits would have been substantially higher.

For the already-depressed motor industry, this announcement comes as bad news.

It also follows hard on the heels of sharp increases in short-term insurance premiums as well as increases in import duties, which were announced last week.

According to a spokesman for the motor industry, the increase in fringe benefit taxation comes at a "particularly difficult time for the motor industry".

A further drop in motor car sales can be expected, particularly in the case of luxury vehicles.

Chris Moerdyk, media spokesman for BMW (SA), commented: "The motor industry is already suffering from weak car sales as a result of the depressed economy. This will make things even worse."

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According to Ian Meiklejohn, director of legal drafting at the Commissioner of Inland Revenue, the changes follow widespread abuse in these areas.

Star 13/6/91

Tax curbs needed in the new SA

By Derek Tommey 320

Any new constitution for South Africa should contain some means of limiting taxation, says the South African Chamber of Business (SACOB). It should also prevent governments destroying assets through runaway inflation.

These proposals are contained in a document issued by Sacob last night discussing the economic aspects of a new constitution for South Africa.

Mr Raymond Parsons, director general of Sacob, said that no matter how many checks and balances were built into a constitution, this still would not prevent a Government from ruining a country through economic mismanagement, and particularly through excessive inflation and high taxation.

The document states that it is not only the fact of ownership as such, but the implications and benefits of ownership that need to be safeguarded and respected within reasonable limits.

"In shaping a future South African constitution the position of the Reserve Bank should be secured."

The main purpose of the Reserve Bank should be to protect the purchasing power of the country, the document says.

"It should be clearly understood that inflation can be kept under control only if strict monetary policy is underpinned by an equally conservative fiscal authority.

"It is important to accord the Reserve Bank a high degree of de facto autonomy in deciding monetary policy."

But the Reserve Bank could not be completely independent because there should not be any organisation which was not accountable to anyone in the new South Africa, said Mr Parsons.

The document says that the relentless increase in the tax burden in many countries was largely the result of the weakening status of parliaments in relation to their executives.

"As the central government assumes more functions which require ceaseless management rather than the mere laying down of basic rules or private behaviour, parliament as the law maker becomes relatively toothless".

Mr Parsons said that it could be difficult finding a suitable formula.

He points out that the social order of South Africa and its counterparts in Western civilisation know no other principle of constraint on taxation than that of consent and representation.

"The introduction of a quantitative "fiscal rule", (such as limiting taxation to a certain percentage of the gross domestic product), whatever its merits, would have to be regarded as a political innovation against the traditions of the South African order."

However, at this point the primary issue was to gain consensus among the negotiating parties about the need to entrench some constraint as a precondition to proceed further along the road of political reform.

"While a constitution can protect citizens against individual excesses, a sound economic policy is essential to underpin economic growth and wealth creation in the best interests of the whole population.

Harsh penalties for tax avoidance

ST 13/6/91 (320)

By LESLEY LAMBERT

TOUGH anti-avoidance measures have been drafted into the Income Tax Bill to discourage married people from using the recently introduced separate taxation of married women's investment income as a way of avoiding tax.

Deputy Finance Minister Theo Alant warned in Parliament yesterday that husbands and wives who split their investment income to avoid tax would face harsh penalties, including costly fines.

"The word is already doing the round that a husband should, for example, donate his investment capital to his wife so that the income accrues to her and thus she can also enjoy the advantage of the tax rebates and progressive rates," Alant said during the introduction of the Bill.

"Where such donations are made with the intention of avoiding tax, the donor runs the risk of being taxed on such investment income. He may also become liable for additional tax of up to twice the amount of tax applicable to that investment," he said.

Separate taxation of married women's investment income was announced in the Budget and given effect in the Income Tax Bill.

Married women over the age of 65 would also benefit from an increase in their tax rebate to R2 100, said Alant.

Although it had not been possible to eliminate fiscal drag this year because of "other priorities" which required attention, the personal tax rate had been reduced to 43% and government remained committed to its goal of reducing it to 40%.

Individual taxpayers would receive additional relief from an increase in the maximum Site level from R40 000 to R50 000. Fewer would have to submit annual income tax returns as a result of the amendment, said Alant.

The reduction in the corporate tax rate from 50% to 48% would ease the financial burden of companies, while gold mines would be subject to a lower single tax formula following a decision to move directly to the last phase of mining tax reform.

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Finally, the Bill recommended the taxation of certain part-time employees who still received benefits linked to past employment services.

CCI slams phasing-out of tax rebates

CT 13/6/91

By AUDREY D'ANGELO 320
Business Editor

EXPORTERS will be discouraged by the phasing-out of tax rebates for marketing expenditure overseas, says the Cape Chamber of Industries (CCI).

These rebates are due to end on February 28, 1992. But the Private Sector Export Advisory Committee (PSEAC), which represents the interests of the export community, is asking the government to continue to give realistic marketing assistance.

Harold Storey, chairman of the CCI foreign trade committee, said yesterday that new exporters, in particular, would be discouraged by the loss of allowances for costs such as advertising and promotional literature.

He said it could cost between R50 000 and R100 000 to break into a new export market. This was a lot for a company — particularly a small one — to spend without any certainty of a return.

The CCI weekly bulletin says it is "essential that some form of marketing assistance, beyond what is provided under the unrealistic budget for Export Marketing Assistance (EMA), should remain available for the many bona fide exporters and potential exporters."

The bulletin says it is being argued that Section 11 (bis) of the Income Tax Act, under which rebates for marketing expenses are given, "should at least be replaced by an expanded EMA to incorporate certain existing expenditure items of Section 11 (bis)."

The Cape Regional Export Advisory Committee, which is represented on PSEAC, recommends that, while export marketing assistance should be performance based, it should include travel and hotel costs.

The committee recommends that established exporters should be able to claim 50% of travel and hotel costs, up to 2% of turnover, and that new exporters should be able to claim 75% of these costs in the first year, up to a limit of R50 000.

Many tax changes will reduce burden — Alant

320

Star 14/6/91

Wide-ranging changes to the payment of income tax were announced by **Deputy Finance Minister Dr Theo Alant** when he introduced the Income Tax Bill for debate yesterday.

Many of the measures reduced the tax burden of the individual, he said.

- Married women's investment income will be taxed separately and those who are already 65 years old will be eligible for an additional rebate of R2 100.

Dr Alant warned that strict anti-avoidance measures were incorporated into the Bill to prevent the splitting of income between husband and wife where the split was intended to avoid the payment of tax.

- The maximum income level applicable to SITE increased from R40 000 to R50 000, thereby increasing the number of taxpayers who would not have to submit an income tax return.
- Company tax has been reduced from 50 to 48 percent.
- Tax rates in mining have been adjusted.
- Long-term assurers' tax rates have been reduced from 45 to 43 percent to correspond with the maximum marginal rate in respect of individuals.
- Taxation on fringe benefits will move closer to the recommendations of the Margo Commission.

"The manner in which the taxable benefit in respect of company cars is determined has been amended to a simpler system, namely 1,2 percent per month of the cost price of the relevant car."

Regarding car allowance schemes, "the distance which is presumed to be travelled in respect of private travelling in cases where the taxpayer has not kept records of his travelling is increased from 10 000 km to 12 000 km".

Dr Theo Alant . . . announces new board for hearing appeals.

Dr Alant said the recommendations made by the Margo Commission a few years ago were that fringe benefits should be taxed at their full value and that the legislation regulating fringe benefits should discourage remuneration in the form of fringe benefits. A move towards cash remuneration should be stimulated.

"These recommendations were based on the fact that the commission took notice of the problems surrounding fringe benefit taxation and the distortions which they create in the labour market in the area of remuneration packages."

Several exemptions in respect of the taxation of fringe benefits have also been repealed.

Retired and certain part-time employees who still receive benefits which are linked to services which they rendered as full-time employees will pay tax on them.

Dr Alant said an acute need had developed for contributions for the advancement of education, especially by the business community.

"Section 18a of the Income Tax Act has been amended to provide for a deduction in the hands of a company in respect of donations made by it to certain trust funds which use their funds exclusively for educational and training purposes in respect of primary and secondary education."

He said a move which should generally be welcomed was the creation of a special board for the hearing of income tax appeals.

At present a special court existed for the hearing of appeals, with a judge of the Supreme Court as presiding officer and two members to which a taxpayer may appeal if he or she was dissatisfied with a decision of the Commissioner for Inland Revenue.

The need had arisen for a more streamlined mechanism in terms of which small appeals could be dealt with more speedily and in a more informal manner.

The proposed board would be a tribunal which would hear appeals where the amount in dispute did not exceed R20 000.

The proceedings would be informal, and an attorney or advocate nominated from a panel would act as chairman. Taxpayers would personally appear before the board and they may be assisted by the person who prepared their return of income. — Sapa.

Union alarm over VAT

W/Mail 14/6-20/6/91

The introduction of VAT later this year will be an added burden on consumers. Organised labour seeks to create a broad front to examine the new tax system.

By DREW FORREST 320

AS ITS September 30 implementation date looms, Value Added Tax — and specifically its impact on workers and the unemployed — is emerging as a central issue on the labour front.

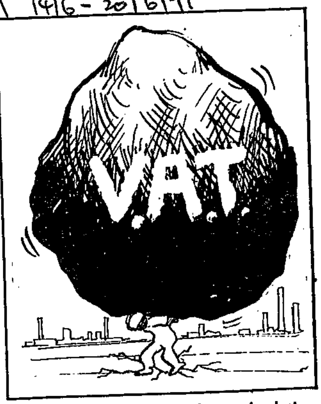
This week, the Congress of South African Trade Unions said it would welcome a joint union drive on VAT. "In fact there is room for a much broader front — civics and consumer bodies have also expressed concern," said Cosatu press officer Neil Coleman.

The issue could find its way on to the agenda of a special central executive committee meeting later this month, he added.

Cosatu was reacting to a call by the 250 000-member Federation of Salaried Staff Associations (Fedsal) for a union summit to fight the levying of VAT on union dues, which it described as double taxation. Fedsal also called for talks with Finance Minister Barend du Plessis on the issue.

Cosatu's concerns about the new tax, due to replace GST on September 30, are much broader than this. Research by the Labour Research Service (LRS), commissioned by the federation, argues that VAT at the proposed rate of 12 percent will more than double the sales tax paid by the poor.

"Low-income households will pay, on average, between R26 and R38 a month more sales tax ... This will reduce the money that each household can spare for essential goods and services by five percent," it says. It goes on to argue that in order to maintain the purchasing power of workers' wages, union negotiators need to press for inflation plus five percent this year.



Heavy burden ... VAT will hit the poor hardest

The LRS findings are already feeding into pay negotiations. In metal industrial council talks, the National Union of Metalworkers has demanded an additional five percent to offset the impact of VAT.

The key difference between GST and the new tax, the LRS stresses, is that a wide range of essentials — including white bread, meat, fish, milk, vegetables, fruit, medical services and medicines — will no longer be tax-exempt.

The government had acknowledged that VAT would impose a heavy burden on the poor and had set aside R220-million for "targeted aid schemes" for the severely indigent.

This was less than half the R546-million in extra sales tax low-income households would pay in the 1991/2 budget year, "not a very good deal in anyone's books".

In addition, Vatcom, the government-appointed committee on VAT, had estimated the number of South African and homeland residents deserving assistance at 16,3-million. On the doubtful assumption that relief could be directed to all deserving cases, each person would receive R2,25 a month.

At the same time, the government would spend R25-million less in 1991/2 on job creation and R20-million less on training for the unemployed than last year.

The LRS also takes issue with the exemption of machinery purchases from VAT, which it says will save manufacturers R3,75-billion in the six months after the tax is introduced.

Under recessionary conditions, this is more likely to be pocketed than invested in new jobs or passed on to the consumer in the form of lower prices, it says.

It also stresses that by reducing capital costs relative to those of labour, the concession is likely to undermine job creation.

The effect of VAT will be to redistribute wealth away from the poor to the economically privileged, it contends.

LRS argues that a six percent VAT would be equivalent to the current 13 percent GST rate and therefore "fair for workers while still reducing the cost of investment".

Lost revenue should be recovered from the rich, by reintroducing the tax on dividends, by taxing capital gains, company profits and luxury goods, and through higher estate and gift taxes, it holds.

FM 14/6/91

INSURANCE (320)

VAT POSERS

FM 14/6/91

Insurers and brokers are reeling under the potential impact of VAT. Unlike many interest groups, the short-term industry has expressed little objection to being in the VAT net, though it made a case at the outset for exemption. At this stage, however, it doesn't know how to handle the tax.

Renewals for October 1 — VAT-day — must be systemised in August, so the industry has a mere 10 weeks to get its act together. Nor has it any useful foreign experience to draw upon. Except in New Zealand, insurance is not within the indirect tax net, and legislation there is not particularly relevant.

An SA Insurance Association (Saia) committee, chaired by Commercial Union's Roger Schooling, is working on the problems. Saiba, the brokers' organisation, has its own committee headed by Bill Robinson of First Bowring. Both have called in Ann Pappenheim, tax partner at Deloitte Pim Goldby, to help thread the needle.

Among the problems on which the Receiver will have to issue guidelines are:

- ☐ Treatment of excesses. The question here is, in a R5 000 claim in which the insured bears the first R1 000, who pays VAT on the excess? Robinson feels strongly the sum insured, claim and excess should all be inclusive of VAT. So far, there is no general agreement;
- ☐ Time of supply is a principle underlying VAT collections. At present it seems that this will be the date on which a premium is paid to the underwriter. That could leave a gap of several weeks between payment by the client via the broker to eventual payment of VAT. In any case, insurers do not issue VAT invoices but "invitations to renew." It looks as though brokers will have the use of extra cash flow for up to three months. Schooling says that is so, but brokers could also lose out because commissions are subject to VAT and these cannot be increased because they are regulated. It's a grey area;
- ☐ Averaging, the practice of paying a proportion of a claim when a client is found to be under-insured, creates complications;
- ☐ What of Lloyd's? The London market could enjoy a 12% rating advantage if it is classified as a foreign supplier. Here the argument is that Lloyd's is a registered SA insurer (in terms of the Insurance Act), actually has an SA representative and also has funds deposited here.

  Obviously, the local market wants Lloyd's classified as an SA vendor. But if locals do not win the argument, Lloyd's will not have anything like a 12% advantage, because Lloyd's will not claim input credits;
- ☐ The transitional period is likely to be difficult. Most commercial premiums are paid annually. Premiums paid this month, for example, are not subject to GST. After September 30, premiums will be in the net. Robinson says a decision is needed now from underwriters. Will they fully indemnify claimants after October 1, including the VAT element, he asks, or will they simply say "that's your bad luck?"

  Schooling says the Saia committee last week reached consensus: all 22 short-term insurers will be asked to carry the VAT charge on such accounts, until the next renewal. The argument is that insurers will have received VAT-less premiums and will pay claims against which they charge input credits. It should be a case of swings and roundabouts; and
- ☐ Reinsurance is a potential minefield. Premiums handed to local reinsurers are clearly in the net. Premiums to foreign reinsurers may not be. One view is that these are exports and therefore zero-rated. But then, asks Robinson, what of the input costs of the local broker who arranged the transaction? Adding to the conundrum, there is reinsurance inwards — when the local market is offered a share of an overseas risk.

Robinson says the industry is trying to finalise a list of problems and get guidelines from the Department of Finance quickly. Meanwhile, there has been wild speculation about the effect VAT will have on rates.

"There's been a simplistic assumption that there will be a 12% effect, which is not so." Some underwriters agree, estimating that the true effect will be around 4%-6%. Robinson is worried that underwriters may take advantage of VAT to make increases of perhaps 15%-20% — price hikes that are really necessary because of underwriting losses, not because of the new tax.

Schooling recognises the danger. In practice, insurance classes that incur heavy losses should have precisely enough input costs to cancel the effect of VAT, so VAT is no excuse for a rate increase. To underline the point, CU will increase rates before October 1 and there will be no further increase until there is a clear distinction between the introduction of VAT and the underlying state of the insurance market. ■

Car tax shock (320)

Business Editor CT 14/6/91

THOUSANDS of people who receive car allowances will take home smaller pay packets after August 1, as a result of the Income Tax Bill introduced this week.

People with company cars will be taxed on 1,2% of the cost per month. This means they will find themselves better off than under the present system if they have the cheapest vehicles and worse off if they have larger, more expensive ones.

But tax experts said yesterday that the difference would be comparatively small.

It would be unlikely to cause a swing to smaller cars, to save a sum ranging from R53 to about R228 a month, particularly if image was taken into consideration.

● Full report — Page 7

CT 14/6/91 (320)

New tax laws scale down benefits

By AUDREY D'ANGELO
Business Editor

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But tax experts said yesterday that the difference would be comparatively small.

It would be unlikely to cause a swing to smaller cars, to save a sum ranging from R53 to about R228 a month, particularly if image was taken into consideration.

They said the main effect of the introduction of PAYE on the first 25% of a car allowance would be to reduce the recipient's cash flow during the year.

Those who could justify most of the allowance would receive a refund after the end of the tax year.

They said it was impossible to give general advice on whether it would be better to have a tax allowance or a company car.

"This will vary with the individual and everyone will have to work it out for himself, depending on income, rate of tax, the value of the car, the mileage covered and the way in which the allowance is paid," said Colin Wolfsohn of Kessel Feinstein.

David Clegg of Ernst & Young said the new legislation was milder than had been expected.

"We were all expecting a fairly draconian increase in tax on company cars and allowances. But this is nothing like draconian.

"The tax tables for company cars have been simplified and in the process they have been bumped up in most cases, depending on the value of the car."

In addition to affecting car allowances the new legislation — aimed at eliminating or scaling down fringe benefits — will hit retired people who continue to enjoy fringe benefits.

"Some people structure their packages so that they will continue to receive fringe benefits after they retire," said Wolfsohn.

"In the past, if they were re-employed at a salary less than R5 000 a year after retirement, the fringe benefits were tax free. Now they will be taxed."

The legislation also does away with tax benefits on company bursary and telephone payment schemes.

Wolfsohn and Clegg said many people arranged to take a lower salary but a tax-free bursary under an established scheme.

Wolfsohn pointed out that anyone genuinely using a domestic telephone for business would be able to claim a realistic amount on his tax form.

The legislation also increases the penalty that can be charged for returning tax forms late, from R300 to R2 000.

Explaining that it was impossible to give a general ruling on whether to have a company car or a car allowance, Wolfsohn said that the mileage covered was one of the factors that could change the picture.

"An unmarried man with a net salary of R5 000 a month, receiving a travel allowance of R1 500 a month, will now have to pay PAYE on a quarter of his travel allowance — or R375 a month — at his top marginal rate.

"That means he is paying an extra R157 a month. The increase in the mileage considered to be private use, from 10 000 km a year to 12 000 km a year, will also make a little dent."

But if the man travelled 40 000 km a year, the refund of the PAYE he had paid on his travel allowance would be R1 274. If he travelled 50 000 km a year the refund would be R1 800.

The amount paid by a man driving a company car would depend on his tax rate as well as on the cost of the vehicle.

Other factors had to be taken into consideration. A sales representative with a high mileage which meant his car would have to be changed frequently would do better to have a company car.

But Wolfsohn normally advised a client to take an allowance which would cover the cost of buying a car, because it would remain his own property when he left the firm.

BUSINESS

ARG 15/6/91 (320)

Double blow from VAT?

TOM HOOD

Business Editor

FEARS that value-added tax will boost inflation to 18 percent from about 15 percent at present and bring new upward pressure on interest rates are voiced by the Stellenbosch Bureau for Economic Research.

The bureau, in its latest Economic Update, says it forecast earlier that the recession would bottom out in the second half of the year.

"This is still possible, even probable, but the Reserve Bank's announced intention of not allowing a further cut in bank rate before year-end is likely to put a damper on growth," the bureau said today.

Psychological

"At the time of compiling the forecast we assumed that VAT would not add much to inflation — and technically it should not.

"However, the general psychological climate is such that it probably will add 2 to 3 percentage points. This by itself could lead to upward pressure on interest rates."

The bureau says its previous forecast of a 0,5 percent growth in real gross domestic product could be on the optimistic side.

"The same holds true for our forecast of a slowdown in the inflation rate. The introduction of VAT is likely to cause more inflation than we made provision for."

A new retail survey showed for the first time since the start of the current downswing that most **retailers** did not report an increase in their volume of sales compared with a year ago. In fact, the net majority reported a level of sales similar to a year ago, the bureau said.

"As a result they have placed more orders. They are apparently unsure about future demand as they have indicated an intention to cut back on orders in the third quarter. This would suggest that they are unsure about the fourth quarter's demand."

Promising

Their outlook for price increases in the third quarter was promising. The majority expected a drop in the rate of increase for both purchase prices and selling prices.

Confidence deteriorated in the second quarter but this was likely to change in the third quarter.

Most **motor traders** still labelled business conditions at the time of the survey as "unsatisfactory" — for new and used cars. Traders were satisfied with spare parts business, however.

The level of vehicle stocks in relation to expected demand was regarded as too high. Apart from being costly, the implied lack of demand was also dampening confidence.

Not only were motor traders unhappy about the second quarter's sales, they were also fairly depressed about the near-term outlook. As a result fewer orders were placed during the second quarter and the indications were that this lacklustre performance would be repeated in the third quarter

Most **wholesalers** reported a decline in the volume of sales and expected a further decline.

They were less optimistic about a lowering in the rate of price increases. A majority suggested that purchase prices as well as selling prices will increase faster in the third quarter.

Expectations by **manufacturers** of increased sales did not materialise and the volume of sales and of production was down on that of a year ago.

"As result the confidence of manufacturers has taken a turn for the worse. Should their expectations be realised then their confidence is likely to improve."

VAT: Taxing time for timeshare industry

320

JEREMY REES Argus 15/4/91

Weekend Argus Correspondent

TIMESHARE will be badly hit by the introduction of value-added tax (VAT) later this year.

VAT is to be imposed on the purchase price of a timeshare week and not only on the value of the shares as is the case with share-block properties.

Rioma Cominelli, managing director of H Lewis Trafalgar Timeshare, says the change will be a great disadvantage to timesharing and that Finance Minister Barend du Plessis has not given the matter sufficient thought.

"The margins on reasonably priced timesharing are often extremely small in spite of speculation to the contrary. The nature of the risks are often larger than in many other property markets and to add 12 percent VAT will certainly affect sales levels negatively by creating affordability problems for the purchaser.

"Even more disconcerting is that timesharing, whose main competitor is the hotel industry, is now losing its edge to some degree because hotel rates will not be affected by VAT since they have attracted GST all along."

The transition from GST to VAT will also be a particularly painful event because of the very nature of timesharing. In addition, timeshare levies will be subject to VAT and since a large component of the levies constitute labour which was not previously subject to GST, consumers will feel the pressure of VAT, Ms Cominelli says.

"Confusion exists where levies are billed annually in advance. Must the management agents now only ask owners who own from October onwards to pay VAT or should all timeshare owners throughout the year pay.

"I believe Mr Du Plessis should consider very carefully the matter of VAT on timesharing and our group is currently considering the full implications.

VAT could cut hotel costs

320 CT 15/6/91

By BARRY STREEK

BUILDING and equipping new hotels could be 13% cheaper after the introduction of value added tax (VAT), the Deputy Minister of Finance, Theo Alant, said last night.

The cost of hotel accommodation for business travellers could also be reduced because the VAT charged for this could be reclaimed by their employers.

The introduction of VAT would not constitute a new impost on the hotel sector, as accommodation and services were already subject to GST, Alant said at the Hotel and Catering Industry Training Council's prizegiving ceremony in Sandton.

And the sector would benefit considerably from the granting of input VAT on practically all purchases.

"One thinks of things such as new hotel buildings, extensions to hotels, refurbishment, and even linen, cutlery and crockery.

"The only exception is that entertainment will not qualify for input credit.

"It is often extremely difficult to distinguish between entertainment expenses incurred for business purposes and those incurred for private purposes.

"Experience with income tax in SA and in other countries is that entertainment expenses claimed often have only a very tenuous link with business activities.

"Abuse of the deduction also takes place."

However, business seminars would qualify for input credit and this was a great improvement on the present position, where this expense had to be borne by business.

"It will therefore become cheaper for companies to use conference facilities, and since conferences nowadays constitute a major portion of hotel and catering business the spin-offs for your industry should be considerable."

His department had also received requests for hotel accommodation for foreign travellers to be zero-rated to encourage tourism.

"Our VAT system, in keeping with that in other countries, taxes all local consumption, and I therefore regret that we cannot accede to these requests.

"The allowance of input credit on many of the purchases which now bear GST, should, however, enable hotels to lower prices, and this should itself make tourism to SA still cheaper," said Alant.

Beneficiation target for incentives

Tax breaks planned to boost exports

Business Day 17/6/91

(320)

LESLEY LAMBERT

CAPE TOWN — Tax deductions for capital goods and property used in the beneficiation of base minerals are to be extended as part of a government initiative to boost exports of processed minerals and intermediate products.

This is one of a range of new assistance measures being planned to kick-start the economy, improve its international competitiveness and boost exports. Beneficiation — in which base minerals are processed to yield greater value — is a key element of the strategy because of its export potential.

Currently, industrialists can claim tax deductions only for capital goods and property used in beneficiation processes once they have been put into operation.

But amendments proposed in a Bill tabled in Parliament on Friday extend these concessions and provide significant additional relief to companies that export at least 60% of beneficiated products.

The Taxation Laws Amendment Bill proposes that deductions for depreciation and finance charges incurred on new or used plant, machinery and property acquired for beneficiation purposes be granted in the tax year in which the goods were bought or leased.

Companies that can guarantee new capital goods will be used for beneficiation can thus claim tax allowances for depreciation and pre-production interest charges immediately after their acquisition, even if they do not use them at once.

The Bill proposes the appointment of a committee by the Finance and Trade and Industry Ministers to approve claims.

To qualify, companies will have to give assurances that the capital goods for which they are claiming will be used for beneficiation and will be commissioned within a period determined by the committee.

They will also have to convince the committee that the process adds substantial value to the processed mineral or intermediate product, that it is conducted on a scale that makes it internationally competitive and that at least 60% of the intermediate or final product will be exported.

Existing concessions allow for deductions on the full amount paid for capital goods. The Bill proposes that the committee be empowered to allow for deductions on more than 100% of the cost, to be calculated "on an amount equal to the sum of the expenditure (on the new capital goods), increased by a percentage determined by the committee".

The Taxation Laws Amendment Bill includes vital amendments to the VAT Bill. It proposes the introduction of VAT at 12%, lists the two food items — brown bread and maize meal — to be zero-rated and includes changes such as the exemption of municipal property rates and the extension of the Finance Minister's powers to make amendments to next February.

The Bill also proposes a 0,75% levy on the interest turnover of financial institutions as a proxy for VAT and it gives expression to a number of the tax amendments proposed in this year's Budget which were not included in the Income Tax Bill debated in Parliament last week.

The Bill contains about 78 clarifiying VAT amendments which provide relief to companies during the transition to VAT. More amendments are expected to emerge before implementation on September 30.

Donations to educational institutions: tax benefits

*12. Mr R M BURROWS asked the Minister of Finance: (320)

(1) Whether it is the intention to provide additional tax benefits to persons or institutions making donations to educational institutions; if not, why not; if so, (a) what additional benefits and (b) with effect from what date;

(2) what are the tax benefits available to individuals or organizations making donations to educational institutions in the current tax year?

B1196E

The MINISTER OF FINANCE:

(1) and (2)

Section 18A at present provides for a deduction against the taxable income of a taxpayer in respect of donations made by him to a university, college, the Bible Society of SA and certain educational funds, to an amount of R500 or 2 per cent of the taxable income (whichever is the greater) in the case of individuals and 5 per cent in the case of companies. Educational funds include *inter alia* the National Study Loan and Bursary Fund as well as certain funds whose sole purpose is the promotion of secondary education.

The Margo Commission recommended that the ambit of section 18A be broadened to also allow for the deduction of donations to primary schools. This recommendation was accepted by Government, subject to the administration of the system being tightened up and existing abuse being removed. Discussions in this regard are, however, taking place on an ongoing basis with the Department of National Education and other interested parties such as the Urban Foundation, but it is clear that there is no quick solution to these problems and I can assure you that various alternatives in this regard have been and are being investigated.

The Government realises the need for and the importance of education in South Africa and is not unsympathetic in this regard. The Government's action should, however, always be balanced, and notice must be taken of the fact that the way in which section 18A is structured at present may be criticised. As people are more inclined to donate to institutions from which they or their relatives will benefit directly, rather than to those institutions where the greatest need exists, it can be said that the system favours the wealthy.

In addition it should be borne in mind that the tax system should not be the primary channel to finance and stimulate education. It should only be supplementary in this regard. Hon members will recall that I was criticised on several occasions this year for not giving enough tax relief, and my reply thereto was that there were other more important priorities. One of these is of course education in respect of which approximately 20 per cent of the National Budget is applied.

It has come to light, however, that the corporate sector at present has a pressing need to make donations to educational institutions for the advancement of primary and secondary education needs on a broad basis. Section 18A has accordingly been amended this year to provide for a deduction in respect of donations by any company to a few large educational funds for the advancement of both primary and secondary education. Thus, while the current system can lead to a concentration of donations to more affluent schools, the new provision should result in a more even distribution among schools, particularly to less affluent schools.

The amendment will apply in respect of donations made on or after the date of promulgation of the Income Tax Act, 1991, to an approved new educational fund.

HR: party-political documents

*13. Mr R M BURROWS asked the Minister for Economic Co-ordination and Public Enterprises:

(1) Whether he has used any of his staff to devise, create or distribute any documents of a purely party-political nature having a bearing on members of Parliament in the House of Representatives joining the National Party; if so, (a) for what reasons and (b)(i) which members of staff are involved and ~~(ii)~~ by whom are they remunerated;

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

B1197E

The MINISTER FOR ECONOMIC CO-ORDINATION AND PUBLIC ENTERPRISES:

(1) Mr Douglas McClure, a communications consultant who renders certain services to my Ministry on a contractual basis, and who does not hold an appointment in the Public Service, distributed a media release concerning the resignation of a Deputy Minister in the Labour Party of South Africa and his consequent request to join the National Party.

(a) He performed the distribution after working hours, in his own time, as a personal favour to the relevant Deputy Minister, who is a long-standing friend of his.

(b) (i) Only Mr McClure is involved in this matter.

(ii) As the undertaking was a personal favour, performed by a consultant after working hours, he was not financially remunerated, nor expected to be so.

(2) No.

Swaziland: RSA donation for education

*14. Mr A GERBER asked the Minister of Foreign Affairs:†

Whether the South African Government recently donated an amount to Swaziland for educational purposes; if so, (a) what amount, (b) when, (c) why and (d) for what facet or facets of education?

B1198E

The MINISTER OF FOREIGN AFFAIRS:

Yes.

(a) R30 000.

(b) 22 February 1991.

(c) To upgrade community schools in neglected areas of Swaziland.

(d) For the provision of additional classrooms and/or educational equipment.

INTERPELLATION

The sign * indicates a translation. The sign †, used subsequently in the same interpellation, indicates the original language.

Own affairs:

Agricultural credit committees: members

*1. Adv C H PIENAAR asked the Minister of Agricultural Development:

(1) What criteria apply at the appointment of members of an agricultural credit committee;

(2) whether he adheres to these criteria; if not, why not; if so, to what extent?

B1211E.INT

*The DEPUTY MINISTER OF AGRICULTURAL DEVELOPMENT: Mr Chairman, the appointment of agricultural credit committees is regulated by the Agricultural Credit Act, Act 28 of 1966.

Section 6 of the Act provides that the Minister may appoint an agricultural credit committee for one or more agricultural districts under the chairmanship of the local magistrate. In the case of Pretoria the head of department may appoint an official of the department as chairman. The committee comprises at least three members of whom the aforesaid chairman is one. Furthermore, the Act provides that the Minister may appoint the other members of whom at least two are resident in a particular magisterial district or part thereof. They should also have a thorough knowledge of farming and be acceptable to the community. They are appointed in consultation with the Agricultural Credit Board.

The Act also provides that a member of an agricultural credit committee be appointed for a period determined by the Minister, but not exceeding three years. To simplify administration, the terms extend from 1 October to 30 September. If valid reasons exist, the Minister may terminate the term of office at any time.

In order to receive inputs from grass-roots level regarding an appointment or filling of a vacancy in the agricultural credit committee, at least three nominations per vacancy are received from the district agricultural union or the farmers' association, if the former does not exist. The magistrate's motivated recommendations concerning the nominees are furnished to the Agricultural Credit Board in order of preference. Nominees should preferably not be in debt to the department. However, exceptions are made in the cases of home loans to farm workers, soil conservation loans and harvest production and

QUESTIONS

†Indicates translated version.

For oral reply:

General Affairs:

Allocation of land/houses: responsibility

*1. Mr K PANDAY asked the Minister of Planning, Provincial Affairs and National Housing:

(1) Whether his Department will be responsible for administering the allocation of land and/or houses after the repeal of the Group Areas Act, No 36 of 1966; if not, which Government Department will be charged with this responsibility; if so, to what extent;

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

D198E

The DEPUTY MINISTER OF PLANNING (for the Minister of Planning Provincial Affairs and National Housing):

(1) The present constitutional arrangements in this regard remain unchanged.

(2) In terms of Item 5 of schedule 1 of the Republic of South Africa Constitution Act, 1983, community development i.e. housing and the development of land, is regarded as an own affair and the various own affairs departments will continue to administer it. The functions of the Department of Planning, Provincial Affairs and National Housing provincial administrations and the Department of Development Aid in respect of housing and the development of land, will likewise be maintained pending the rationalising of functions and deliberations with a view to a new constitutional dispensation.

VAT: service charges on municipal houses

*2. Mr K PANDAY asked the Minister of Finance: 320

(1) Who will be responsible, once value-added tax has been introduced, for paying service charges on municipal houses in cases where prices of houses have not been finalised because of delays by the Minister of Housing or municipality concerned;

(2) whether he will make a statement on the proceudre that will be followed in this regard?

D199E

The MINISTER OF FINANCE:

(1) Rental of dwellings used for accommodation of a natural person is exempt from value-added tax and municipal rates are not subject to the tax. The supply of services such as water, electricity, gas, sewerage and refuse removal is, however, subject to the tax. The person responsible for the payment of the tax to the State is the person supplying such services. He will normally recover the tax from the person to whom he supplies the goods or services in the consideration he charges for the services.

(2) No. The procedure to be followed depends on the contractual relationship between the supplier of the service and the person to whom the service is rendered.

The LEADER OF THE OFFICIAL OPPOSITION: Mr Chairman, arising out of the hon the Minister's reply, is it not correct that he once stated in the Chamber of Parliament that even he does not clearly understand the VAT details? [Interjections.]

The MINISTER OF FINANCE: Sir, if the hon the Leader of the Official Opposition did not see my tongue in my cheek, it is not my problem! [Interjections.] I would gladly have myself subjected to cross-questioning in any circle. However, I must add that if it were expected of me to become so *au fait* with taxes at the lowest accounting level, I would seek other employment, because then I would act as a consultant, and it would not be necessary for me to work at my present salary! [Interjections.]

Control of medicines: stock/agricultural remedies

*3. Mr N JUMUNA asked the Minister of National Health:

(1) Whether she intends to extend the control exercised over human and veterinary medicines in terms of the provisions of the Medicines and Related Substances Control Act, No 101 of 1965, to include stock remedies and agricultural remedies presently controlled in terms of the provisions of the Fertilizers, Farm Feeds, Agricultural Remedies and Stock Remedies Act, No 36 of 1947; if not, why not; if so, (a) why and (b) what are the relevant details;

(2) whether she will make a statement on the matter?

D203E

The MINISTER OF NATIONAL HEALTH:

(1) No, there is clear differentiation between a stock remedy and an agricultural remedy on the one side and a veterinary medicine on the other side, according to the respective Acts. They exclude each other;

(2) no.

Mr N JUMUNA: Mr Chairman, arising out of the hon the Minister's reply, will she agree that the deletion of the reference to Act 36 of 1947 from Schedule 1 to the Medicines and Related Substances Control Bill, will extend control of Act 101 of 1965 to include stock remedies and agricultural remedies? I have the deletion from Schedule 1 here with me.

The MINISTER OF NATIONAL HEALTH: Mr Chairman, I shall have a look at the explanation put to me by the hon member. However, I stand by the explanation provided by my technicians, namely that one excludes the other.

INTERPELLATION

The sign * indicates a translation. The sign †, used subsequently in the same interpellation, indicates the original language.

Own Affairs:

Second access road in Chatsworth: procedure

1. The LEADER OF THE OFFICIAL OPPOSITION asked the Minister of Housing:

(1) Whether he intends following the same procedure in regard to the second access road in Chatsworth as he did in regard to providing the Chatsworth/Shallcross link road; if not, why not;

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

D215E.INT

The MINISTER OF HOUSING: Mr Chairman, the answer is no. The provision of this road is the responsibility of the Durban City Council which mooted the road as an essential requirement when the plans for the development of Chatsworth were formulated.

The answer to the second part of the question is no.

The LEADER OF THE OFFICIAL OPPOSITION: Mr Chairman, I am surprised that the hon the Minister now says that matter is the responsibility of the Durban City Council. This interpellation is linked to the Shallcross link road which, by virtue of the statement made by the hon the Deputy Minister on 23 May 1991 in this House at the request of the hon the Minister of Housing, is also the responsibility of local government bodies, one of which is the Durban City Council. That is why a loan arrangement was being negotiated.

If, however, one were to put the Shallcross link road and the Chatsworth second access road on a scale, the importance of the Chatsworth second access road would far outweigh that of the Shallcross link road. What we want to know is why there are differences in approach. Why are there double standards? According to the last submission made by the hon the Minister of Housing at the housing advisory committee meeting held in Durban, there is a new designed road. Consequently the question of the new designed road cutting across the Stainbank Nature Reserve is no longer an obstacle.

I think this House and the community deserve an explanation in that the Chatsworth second access road is a direct link to Chatsworth which is a resettlement housing scheme in respect of which the Durban City Council is only the agent of the State. Therefore, one has to consider, on the one hand, a small population which is benefiting and on the other, the welfare and the benefit of approximately a quarter of a million of South Africa's people.

I find it strange and unacceptable that the Department of Housing has not undertaken to appoint consultants to go on tender in order to award contracts in respect of the Chatsworth second access road where we accept that the

Introduction of VAT 'negative' for the industry

BDay 18/6/91. (320)

ESTIMATES vary on the precise effect the introduction of VAT will have on the commercial and industrial property market, but there is unanimity in the industry that it will be negative.

The sales of land and fixed property do not at present attract sales tax. However, once VAT is implemented, such sales will be subject to tax.

Deloitte Pim Goldby senior tax consultant Henry Hollingdrake says sales by vendors (property developers and others who are registered businesses under the VAT system) will be subject to VAT, with VAT levied on the value of the sale.

"An implication for the property industry is that, if a vendor buys a building from another vendor or developer, VAT will be payable on the transaction, but no transfer duty will be payable.

"An advantage here is that the vendor could claim an input tax credit for the VAT charged.

"Unlike sales tax, no VAT is included in the cost of materials, so a building erected by a property developer (vendor) will be VAT free."

For the individual buyer, a person not registered for VAT, the purchase from a developer or any such vendor will be subject to VAT and, although no transfer duty will be payable, no input credit on the VAT is allowed, Hollingdrake says.

Using a building figure, including all costs except GST and VAT, of R3,08m for the development of a factory, and of R5,12m for an office block, Hollingdrake says the cost of factory buildings will rise by 6,9% and for office blocks by 5,6%.

Register

A way to plan the sale of a building would be for the owner to register for VAT and thereafter sell the building to the buyer, who must also be a registered vendor.

Otherwise, it may be better to engage in a private sale. In the former case, the purchasing vendor will be entitled to the input credit and no transfer duty will be payable.

Construction group Concor chairman Brian Murphy says the implementation of VAT will not result in fewer commercial and industrial property developments.

"VAT is just another cost increase to property developments, along with all the others with which the industry must contend.

"It will be passed on in the form of higher rentals if the market can take it, otherwise margins will have to be squeezed further," he says.

Investron MD Allan Goldring says VAT is inflationary and there will be a "beat VAT rush" into industrial property.

The new tax will have an impact on the small businessman, with rentals escalating in sympathy with increased development costs, hitting the small man and adding to the burdens of the larger corporations, whose bottom lines are already hit by the poor economy.

"In future, every purchaser of industrial or commercial property, irrespective of the nature of the property, will be charged VAT," Goldring says.

Many businessmen will be able to treat VAT as a deductible input tax against their business and therefore VAT will cost them nothing.

"The problem is that in practice the businessman or investor will have to lay out the 12% additional tax up front and this will be built into his costs," Goldring says.

However, landlords of commercial or industrial property, engineers, accountants and other professionals also qualify for VAT rebates, known as the "claw back", he says.

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Two tax bills passed

Political Staff

BOTH the Income Tax Bill and the Taxation Laws Amendment Bill were passed in Parliament yesterday.

The Income Tax Bill gives expression to changes announced in the Budget, including some important amendments to fringe benefits tax. It also allows for the establishment of a board to hear income tax appeals.

CT 18/6/91

Tax assistance on minerals to boost exports

(320)

Political Staff CT 18/6/91

NEW assistance measures for companies involved in mineral beneficiation were aimed at encouraging investment in new projects with export potential," deputy Finance Minister Theo Alant said yesterday.

Introducing parliamentary debate on the Taxation Laws Amendment Bill which contains proposals for the new measures, Alant said they would accelerate write-offs of the costs of machinery, plant and buildings used in beneficition processes, and of any pre-production interest incurred on those costs.

An explanatory memorandum issued yesterday pointed out that the enhanced allowances would only be available for beneficiation plants erected after the implementation date to be fixed by the State President.

If the bill is approved by Parliament, companies involved in beneficiation would be allowed to claim for tax deductions on the depreciation and interest costs of the capital goods and property immediately after they had been bought, rather than when they were put into operation.

A total write-off in excess of the actual cost incurred on the goods would be permitted at the discretion of a special committee established to assess claims for the enhanced allowances. But, if taxpayers recovered portions of the cost, they would be taxed on the amount recovered.

Taxpayers' whose tax bases were not large enough to absorb the deductions allowable would be able to apply to the Commissioner for Inland Revenue for the issue of a negotiable tax credit certificate, instead of having an assessed loss.

Married women to gain from tax bill

CT 18/6/91

By LESLEY LAMBERT

MARRIED women will in future be able to claim a tax deduction for medical expenses incurred by their children, in terms of an amendment in the Income Tax Bill.

The general rule of the amendment is that the spouse who paid the medical expenses will be entitled to claim a deduction regardless of whose benefit it is.

The amendment is a consequence of the separate taxation of married women.

The Democratic Party's expert on pensions and medical aid, Brian Goodall, said the bill would apparently have a minimal effect in real terms on tax deductions on medical aid.

Individuals face R1,4bn increase in tax

LESLEY LAMBERT

CAPE TOWN — From October, private individuals would pay R1,4bn more in tax each month as a result of changes announced in the Budget and the introduction of VAT, Ken Andrew (DP Gardens) said in Parliament yesterday. BDay 18/6/91

Individual taxpayers would pay the Receiver about R700m more in income tax from next month as 500 000 more people were pulled into the tax base.

The introduction of VAT in October would bring in an additional R600m a month from consumers, bringing the total to R1,4bn. This translated into an average R100 more each month for single adults and an average R200 for families.

320

Andrew was speaking during the second reading of the Income Tax Bill in Parliament yesterday.

He said the DP's main objection to the Bill was that it placed an "unreasonable extra tax burden" on middle-income families when they were battling to make ends meet.

The burden of an average 27% increase in individual income tax would be made worse once VAT was introduced. This would have a "devastating" effect on many households.

The additional tax burden was likely to cause a dramatic cutback in consumer spending, Andrew said.

VAT changes — too little to allay fears

(320)

CT 18/6/91

By AUDREY D'ANGELO
Business Editor

THE Taxation Laws Amendment Bill introduced in Parliament on Friday has done too little to allay uncertainties about value added tax (VAT), the chairman of the SA Chamber of Business (Sacob) taxation committee, Bob Wood, said yesterday.

Pointing out that the Bill, which made 78 last-minute adjustments, had given the Minister of Finance "fairly unlimited powers" to make further changes to cope with any unexpected difficulties, Wood said that this general clause created uncertainty in the business community.

"We would have preferred the Bill to be more specific."

Matters covered by the Bill included tax concessions for capital goods and property used in the beneficiation of base minerals for export.

This is part of the government's general strategy to boost exports.

Tax consultant David Clegg of Ernst & Young said the new concession would benefit the mining industry but was unlikely to have much effect on the Western Cape economy.

"Perhaps the local limestone quarries and cement-making operations will benefit."

Another concession in the Bill will enable retailers selling goods to overseas visitors to zero-rate VAT on their purchases, relying on the purchaser to supply the relevant documentation to Customs on leaving, if they wish.

"This could be useful in a sale to a reputable regular customer, such as a representative of a famous London auction house," Clegg commented.

"But it is unlikely that a shopkeeper would take such a risk with an ordinary tourist on holiday."

Clegg said a concession exempting municipal rates on property from VAT would apply only if the municipality separated rates on property from rates for the provision of services.

The deputy director of the Cape Chamber of Industries (CCI), Colin Boyes, said a concession in the Bill intended to help producers of capital goods in the interim period before VAT was of very little help.

Boyes said he was constantly receiving complaints from local engineering firms manufacturing machinery, whose customers were delaying orders until September for fear of being charged GST.

The concession given in the Taxation Law Amendments Bill, increasing the depreciation allowance for heavy machinery bought in the interim period by 15%, was not enough to overcome this reluctance to buy now.

"Engineering companies report that their plants are standing idle. This — coming on top of already harsh economic conditions — means that they are suffering from an added burden.

"They employ highly paid artisans and this falling-off in orders while customers wait for September could cause retrenchments and short-time working."

Boyes said the CCI and Sacob had approached the Ministry of Finance about this. "But their attitude seems to be that there are only three months to go and these firms should bite on the bullet."

R1,4bn shock for taxpayers

(320) CT 18/6/91

Political Staff

FROM October, private individuals would pay R1,4 bn more tax each month as a result of changes announced in the Budget and the introduction of VAT, Mr Ken Andrew said in Parliament yesterday.

Individual taxpayers would pay the Receiver of Revenue R700m more in income tax from next month as 500 000 more people were pulled into the tax base.

The introduction of VAT in October would draw an additional R600m a month from consumers, bringing the total to R1,4 bn.

This translated into an average R100 more each month for single adults and an average R200 for families, Mr Andrew said during the second reading of the Income Tax Bill in Parliament yesterday.

He said the Democratic Party's main objection to the Bill was that it placed an "unreasonable extra tax burden" on middle-income families.

An average 27 percent increase in individual income would become greater once VAT was introduced. This would have a "devastating" effect on many households.

The additional tax burden was likely to cause a dramatic cut-back in consumer spending, Mr Andrew said.

"A sharp drop in retail demand would, in turn result in further bankruptcies and retrenchments."

● Vat fears live on — Page 13

Experts to give VAT guidelines

320

By John Miller
Starline

Star 18/6/91

Value added tax and how it will affect the public will be explained during a meeting between Government and private-sector experts at the University of the Witwatersrand tomorrow.

Speakers at the meeting will include Trevor van Heerden, a director at Inland Revenue and generally considered to be one of the architects of VAT, and Dr Azar Jammine of Econometrix.

Lyn Morris of the Housewives League said the idea of the meeting was to inform the consumer and to allow consumer questions. It would not be a question-and-answer session for the businessman.

Mrs Morris said that although she did not agree with the percentage of VAT to be imposed later this year, in principle she thought VAT was far better than GST.

She said those unethical retailers who had been and were still putting everything in their back pockets would now be able to do so only with the last bit of tax at the end of the line.

"I do have a problem with capital and intermediary goods and the input and output credits. This will save business about R7 billion a year, which should be passed on to the consumer, but I wonder if it ever will be."

Mrs Morris said that with the exception of a few items, everything from postage stamps to dog licences, fruit and vegetables would be subject to VAT.

The meeting will begin at 7 pm in the New Commercial Block 1, West Campus, which is next to the Tower of Light.

Tax changes will boost capital projects

(320)

By Magnus Heystek
Finance Editor

Star 18/6/91

The Government has taken another decisive step to promote exports with its decision drastically to increase the allowances for capital-intensive projects geared to the export of beneficiated local raw materials.

As a result, capital projects worth several billions of rands could be announced in the next few months.

This follows on major changes proposed last week in the Taxation Laws Amendment Bill now before Parliament.

An announcement of at least one major capital project is expected this week, according to a government source.

Re-evaluated

Other capital projects, which have been suspended in recent months, could be re-evaluated in the light of the proposed tax changes.

This includes the stainless steel plant Highveld Steel has been planning in conjunction with Samancor for several years.

A spokesman at Samancor declined to comment yesterday morning, however.

The drastic changes to the tax allowances were likely to boost exports of beneficiated goods substantially and create many thousands of job opportunities in the next couple of years, economists said.

Anne Moore, a general manager of Safto, welcomed the proposed changes to export allowances, saying they would lead to increased exports and have a trickle-down effect on job-creation in the long run.

In terms of the proposed changes, announced in the Government Gazette on Friday, industrialists will in future be able to claim tax deductions for capital goods and property in the year in which the goods were bought or leased.

At present, these allowances are calculated only after the completion of the project.

Exemption

These changes, taken in conjunction with the exemption of capital goods from VAT, would boost SA's export competitiveness even further, analysts said.

Companies that can prove that capital projects are geared to export marketss and to the local beneficiation of raw materials will in future claim tax allowances for depreciation and pre-production interest charges immediately.

The Bill also proposes the appointment of a committee by the Department of Trade and Industry, which could include members of the private sector, to approve claims.

Further announcements in this regard were expected from the office of the Department of Inland Revenue, a spokesman said.

320 CT 19/6/91

Medical aid: No perks tax

Staff Reporter

EMPLOYEES whose medical aid subscriptions are paid by their companies as a perk, will not be directly affected by the new fringe benefit taxes, a Department of Finance spokesman confirmed yesterday.

He said there had been no change in the law in this regard, while other fringe benefits such as car allowances, company bursaries and telephone payment schemes had been restricted due to widespread abuse.

However, the introduction of VAT on medical services will result in a 7% to 8% increase in costs, and a corresponding increase in medical aid subscriptions.

Export tax plan seen leading to big projects

320

From MAGNUS HEYSTEK

ARGUS 19/6/91

JOHANNESBURG. — The government has taken another decisive step to promote exports by drastically increasing the allowances for capital-intensive projects geared to the export of beneficiated local raw materials.

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This includes the stainless steel plant Highveld Steel has been planning in conjunction with Samancor for several years.

A spokesman at Samancor declined to comment yesterday morning, however.

The drastic changes to the tax allowances were likely to boost exports of beneficiated goods substantially and create many thousands of job opportunities in the next couple of years, economists said.

Ms Anne Moore, a general manager of Safto, welcomed the proposed changes to export allowances, saying they would lead to increased exports and have a trickle-down effect on job-creation in the long run.

In terms of the proposed changes, announced in the Government Gazette on Friday, industrialists will in future be able to claim tax deductions for capital goods and property in the year in which the goods were bought or leased.

At present, these allowances are calculated only after the completion of the project.

These changes, taken in conjunction with the exemption of capital goods from VAT, would boost South Africa's export competitiveness even further, analysts said.

Companies that can prove capital projects are geared to export marketss and to the local beneficiation of raw materials will in future claim tax allowances for depreciation and pre-production interest charges immediately.

The Bill also proposes the appointment of a committee by the Department of Trade and Industry, which could include members of the private sector, to approve claims.

Further announcements about this were expected from the office of the Department of Inland Revenue, a spokesman said.

VAT ruling 'not final'

B/Day 19/6/91.

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GERALD REILLY

PRETORIA — Government had not closed the door on the issue of imposing VAT on medical services, says Medical Association of SA (Masa) federal council chairman Bernard Mandell.

At a news conference yesterday, he said this had been made clear in discussions with Finance Minister Barend du Plessis and National Health Minister Rina Venter. Both attended the council's AGM yesterday.

Du Plessis said the issue should not be argued on the basis of the morality of taxation. The financial realities confronting government had to be taken into account.

Mandell said the council had made clear its concern about any proposed move which made health care less affordable and less accessible. That would be a tax on illness, he said.

Yesterday's meeting was one of several with government on VAT and efforts would be made to arrange further discussions with the Ministers, he said.

He said Venter was aware of the urgent need to stop, or at least slow down, the drain of doctors from the public sector.

Doctors were leaving at an increasing rate for private practice and for other countries.

The drain of "excellence" from academic medicine was critical.

However, the crisis could not be resolved by permitting limited private practice at academic hospitals, which was being investigated by Venter. Limited private practice had been rejected by the Masa council as a way of augmenting full time practitioners' salaries.

Limited private practice would lead to neglect of indigent patients and of teaching and would threaten essential research.

"We believe it is the responsibility of government to ensure the salaries and conditions of service of public sector doctors are acceptable enough to retain their services."

☐ Our Cape Town correspondent reports that a Finance Department spokesman said yesterday employees whose medical aid subscriptions were paid by their companies as a perk, would not be directly affected by the new fringe benefit taxes.

However, the introduction of VAT on medical services would result in a 7% to 8% increase in costs and a corresponding increase in medical aid subscriptions.

Cosatu to consider VAT action

(320)

CT 20/6/91

Own Correspondent

JOHANNESBURG — Members of Cosatu's national campaigns committee will meet next week to consider action on the new VAT system.

Cosatu media officer Mr Neil Coleman said yesterday that a report commissioned by Cosatu from the Labour Research Service (LRS) would be discussed at the meeting.

The report proposes that taxes on wealth should be introduced to recover revenue lost through lower rates.

This could include the reintroduction of tax on dividends and increased tax on company profits and estates.

The LRS report argues that at a rate of 6% consumers would pay the same amount of VAT as the 13% GST — making this VAT rate much fairer than that proposed by the government.

Cosatu gears for VAT action

BDay 20/6/91. (320)

VERA VON LIERES

MEMBERS of Cosatu's national campaigns committee will meet next week to consider action on the new VAT system.

Cosatu media officer Neil Coleman said yesterday a report commissioned by Cosatu from the Labour Research Service (LRS) — arguing that VAT at a rate of 6% would be fairer than the proposed 12% — would be discussed at the meeting.

The report proposes revenue lost through lower rates should be recovered by introducing taxes on wealth.

This could include the reintroduction of tax on dividends and an increased tax on company profits. Further taxes could include the taxing of capital gains, increasing the tax on estates and introducing tax on gifts or donations.

Policy options highlighted by the LRS report argue that at a rate of 6% consumers would pay the same amount of VAT as GST with a rate of 13% — making VAT a much fairer system than that proposed by government.

"VAT is, technically, a better sales tax than GST because there is less evasion. But at 12% VAT will hit the poor harder than GST does."

Working on a household earnings figure of R778 a month, the report says low-income households would pay, on average, between R26 and R38 a month more under VAT, reducing household expenditures on essential goods and services by 5%.

For VAT to be effective, it needed to be broad-based with few exemptions, and the rate should be low.

The LRS is a research institute providing economic analysis to the trade union movement.

VAT and its effect on workers' cost of living will be one of the main issues on the agenda of the campaigns committee meeting scheduled for June 26 and 27.

Coleman said the question of policy, strategies and campaigns on VAT still had to be determined within Cosatu structures.

He said the fact that the 250 000-member Federation of Salaried Staff Associations of SA (Fedsal) last week called for a trade union summit to discuss pressing government to reconsider the levying of VAT on union dues, raised the possibility that other groupings could be drawn into initiatives around VAT.

(320)

Tax changes favour small cars

GILLIAN HAYNE

THE taxman's crackdown on fringe benefits would profit individuals driving small, cheaper cars while it would hurt those with luxury cars, Charter Life senior manager Martin Sweet said yesterday.

"Although the taxable value of a car worth R100 000 will increase by R187 a month, a car worth R20 000 will decline from R260 to R240 a month."

From August 1 the fringe benefit applied to company cars will be deemed to be 1,2% of the total cost of the vehicle each month.

BDO Spencer Steward tax director explained that in the past the fringe benefit was determined by a table which valued a car according to its cost and engine capacity.

He said as a rule of thumb the amendments increased the cost to the individual by 20%, but this figure did not take into consideration the fact that fringe benefits increased as the price of cars increased.

The National Association of Automobile Manufacturers of SA (Naamsa) has endorsed the standard flat rate.

Director Nico Vermeulen said it was simple to calculate, equitable to all vehicle manufacturers and provided much needed clarity and certainty in the application of fringe benefit tax on campany cars.

Naamsa did not expect the changes to lower new vehicle sales.

Another amendment comes into effect on August 1 when travel allowances will have PAYE deducted at a rate of 25%. The deemed private mileage allowed for travel allowances will increase from 10 000km to 12 000km.

Parliament and Politics

Exemptions on bursaries to go

CT 21/6/91

Political Staff

TAX exemptions for company bursaries are to be withdrawn in March next year — another addition to the list of increasing costs and funding cutbacks which are placing tertiary education out of the reach of most South African families.

The Income Tax Bill, passed in Parliament earlier this week, contains a number of shocks for consumers. One is the abolition of tax exemptions for education bursaries paid by companies for the education of their employees' children.

The bursary money received by employees for university, technikon and secondary school education is currently tax-free. But, from March next year, it will be taxable. The full amount awarded to the employee will be added to his or her salary for income tax assessments and, depending on the amount received, will add substantially to the tax burden.

The bill, introduced by deputy Finance Minister Mr Theo Alant, also abolishes concessions on the payment of education subsidies of up to R750 a year to employees below the tax threshold, and sponsorship of professional exams passed by employees. One important concession it introduces is tax exemption for corporate investments in primary school. Currently, companies can claim deductions only for the sponsorship of tertiary and secondary education.

Financial implications

But it is the abolition of tax exemptions for company bursaries which has the most disturbing implications for current and future funding of all education, but particularly tertiary.

Employees using the company bursary facility will have to reassess its financial implications and the impact of this on their ability to afford their children's school and university education.

Parents in lower-income categories who intend using the bursary facility will have to find other funding sources. To many who are already using the facility, it will become unaffordable, forcing them to cancel payments. Tax experts argue that this consequence makes the amendment retrospective, because of the effect it will have on scholars whose funding will dry up before they have completed their studies.

The prospect of finding other sources of funding is becoming increasingly grim as costs rise and economic conditions force the private sector to cut back on bursary schemes.

Government subsidies to universities have declined substantially, forcing the institutions to increase their annual tuition fees by percentages in excess of inflation. Efforts by the private sector to absorb a greater portion of the burgeoning demand for financial assistance have been thwarted by economic conditions.

THE VAT MAN TAKETH AWAY

FM 21/6/91 (320)

Raoul Kaplan is international tax partner, Ernst & Young.

The general export incentive scheme (GEIS) provides incentives payable on exports of qualifying products sold on or after April 1 1990. If the claim is equal to or greater than R25 000 payment is made by a tax-free promissory note carrying taxable interest at 15%. Actual cash is paid for lesser claims.

The present GST system has no effect on the quantum of the GEIS receipt. Where the exporter receives an incentive of say R100, the full R100 accrues to him tax free. However, with the introduction of value-added tax (VAT) on September 30, the picture will not be quite as rosy.

For VAT purposes, payment of a GEIS benefit by the Department of Trade & Industry (DTI) to an exporter who is a registered vendor is deemed to be a supply made by the exporter to DTI. The exporter has to pay VAT on the GEIS incentive as though the benefit is part payment for the sale of export goods. Further, though the export sale itself is zero-rated for VAT purposes, the deemed supply (sale) is subject to VAT at the standard 12%, calculated using the so-called tax fraction — on the basis that the R100 received includes VAT.

Applying this formula, the VAT element payable to the tax authorities is R10,71, or 10,71% of the GEIS incentive.

The supply is deemed to take place when DTI pays the incentive to the exporter. So the legislation will apply to payments received only after the introduction of VAT.

This creates a further problem in that the exporter will have to determine when payment is received from the DTI. With a cheque, payment normally takes place when the cheque is presented to a bank for payment. In other words, provided a cheque is received from DTI and presented for payment before September 30, the VAT legislation will not apply.

Unfortunately, the position in the case of promissory notes is not so clear. The period of maturity of the promissory note will normally be between three and 15 months. Is payment made only when the promissory note is presented for payment on maturity?

Our understanding is that the relationship between DTI and the exporter is such that actual receipt of the promissory note constitutes payment. Therefore, where such receipt takes place before September 30, the VAT legislation will not apply. The converse is that the exporter will have to account for VAT on receipt of all promissory notes received after September 30.

Section 72 of the VAT Bill provides that the Commissioner of Inland Revenue may give a direction as to the manner in which the Act shall be applied or may make arrangements to overcome difficulties or anomalies that may arise in regard to application of the Act. We submit that the Commissioner should invoke this section to rule that accrual takes place only when the promissory note is encashed.

To avoid potential problems with the introduction of VAT, exporters who are able to, should submit claims as soon as possible so that, assuming DTI processes its claim timeously, payment of the incentive may take place before the introduction of VAT.

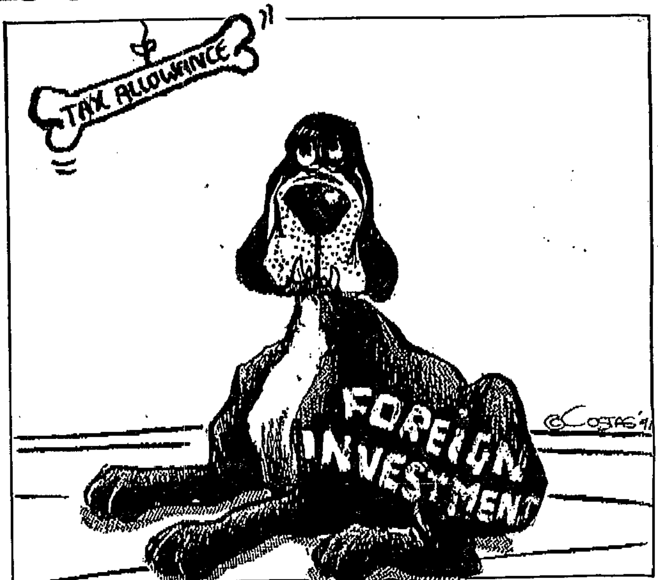
BUSINESS

Tax breaks to lure investors

W/Mail 21/6- 27/6/91

New tax allowance schemes aim not only to promote beneficiation but also to attract new foreign investment.

REG RUMNEY reports 320



THE government has taken a ~~bold~~ step to encourage new foreign investment and boost industrialisation.

It has done this with proposed new tax allowances which:

- Encourage processing of raw materials.
- Offset the high cost of capital in South Africa, something identified as an obstacle to attracting foreign investment.
- Allow companies newly arrived in South Africa to take advantage of tax allowances which might otherwise exclude them.

The Taxation Laws Amendment Bill, unveiled this week, provides for allowances designed to encourage "beneficiation" — the processing of raw materials into products of a higher value, eg chrome ore into ferrochrome into stainless steel into stainless steel products.

Each stage earns more than the one preceding it for the same amount of raw material, and the country benefits in earning more foreign exchange than if the raw material had merely been exported. Beneficiation is widely accepted as imperative to swing South Africa away from its dependence on the export of commodities, whose prices are volatile and out of our hands, being fixed on world markets purely according to supply and demand.

The plan has three prongs:

- The capital allowances normally granted to manufacturers are also granted to beneficiation projects — but the tax deduction starts in the year in which the capital expenditure is incurred, rather than having to wait until the plant and machinery is brought into use.

The beneficiation must add "substantial value" to the base mineral or intermediate product; it must be on a scale which makes it internationally competitive; at least 60 percent by value of the intermediate or final products produced must be exported.

- Subject to approval the normal tax allowance for plant and machinery (20 percent a year over five years) may be "enhanced". For example, the allowance may be increased to, say, 26 percent over the same period, resulting in a write-off of 130 percent.
- Where tax allowances result in a tax loss this loss may be converted into a negotiable tax credit certificate which may be transferred to a taxpaying company.

"These provisions are of particular importance to new mega-projects which traditionally generate tax allowances substantially in excess of income in the early years in which the initial investment is taking place," comments Anglo American group tax consultant Marius van Blerck.

Importantly, new foreign investors, who by definition will have no local taxable income, will be able to benefit from these investment incentives by selling the negotiable tax credit certificates to existing taxpaying entities.

"This is an important step in encouraging investment in beneficiation as it goes a long way towards offsetting the high cost of capital in South Africa," says Van Blerck.

The cost of capital was identified as an impediment to South Africa's international competitiveness in the South African Chamber of Business study on industrial policy released last month. The report showed the price of capital in South Africa is 31,1 percent against 14,5 percent in Australia and 3,4 percent in Japan. The study puts down the failure of beneficiation to show consistent growth to the cost of capital, except where some other input is at a comparative advantage to offset the disadvantage of the cost of capital, eg the ferro-alloy industry with electricity prices and prices for chrome ore below world prices.

If successful the new measures will boost employment and foreign exchange earnings.

However, creating new tax incentives as part of industrial policy seems to run counter to the thinking of the drafters of the government-sponsored report on modifying protection policy published by the Industrial Development Corporation in April this year. That report accepted that tax incentives for exports were being phased out, and that the lowering of the nominal tax rate to a level less than 40 percent to encourage fixed investment should enjoy priority.

The world trend, Van Blerck confirms, has been to reduce the level of tax allowances and at the same time reduce the nominal tax rate itself. These incentives seem to go against that trend.

However, a simple dropping of the tax rate doesn't address South Africa's problem of its high cost of capital. Van Blerck notes that other countries have resorted to letting the currency slide, something the Reserve Bank is clearly not prepared to do.

The provisions do try to give incentives on a selective basis, much like the approach in the newly industrialised countries, such as Korea and Taiwan. Hence there should not be the widespread erosion of the tax base that would happen if the capital allowances were merely increased across the board.

TAX — 1 FM 21/6/91 (320)

MINERAL INCENTIVES

The Taxation Laws Amendment Bill published recently contains important incentives for mineral beneficiation. The proposed Section 37E of the Income Tax Act will provide for accelerated and enhanced depreciation of machinery, plant and buildings used in a benefication process and immediate deduction of any preproduction interest on that cost. A total write-off in excess of the actual cost of plant may be allowed.

Anglo American tax consultant Marius van Blerck is enthusiastic about the proposals and notes the important feature of allowing deductions to start when expenditure is incurred, rather than when assets are taken into use. The generosity of the scheme can be gauged by the current depreciation system: 20% straight line for plant and equipment and 5% for buildings, both starting only when assets are brought into use.

He considers the authorities may agree to write-offs of as much as 130% of the cost of machinery and plant.

The decision on whether a scheme qualifies and how much tax benefit to grant, will rest with a committee still to be formed, which will have to be satisfied that the process:

- ☐ Substantially adds to the value of the product processed;
- ☐ Is to be on a sufficiently large scale to be internationally competitive; and
- ☐ Intends to export at least 60% (or such lesser percentage as the committee may determine) by value to countries outside the customs union.

The definition excludes purification processes in which the product remains unchanged; in physical processes that merely change the shape of the product; and any mining or connected operation.

The committee will have the power to withhold other forms of State assistance and will also be able to impose conditions to ensure that the goals of the scheme are achieved.

Van Blerck draws

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attention to an important innovation: If the taxpayer does not have sufficient tax base for full absorption of deductions, he may ask the Commissioner for Inland Revenue to issue a negotiable tax credit certificate, instead of having an assessed loss determined.

The certificate could be bought by any other company, even a bank, which could use it in part payment of a tax liability. Van Blerck expects certificates to trade at a modest discount of 1% or so.

The proposal is of particular value to a new foreign investor who would be unlikely to have a tax base in SA to use write-offs and to major new domestically financed projects in general. ■

ROUND-UP

FM 21/6/91 (320)

The Income Tax Amendment Bill contains important provisions, apart from those required to give effect to measures already announced in the Budget. These include provisions for a new tribunal to hear income tax appeals involving R20 000 or less — though there is a query over the right to legal representation in the tribunal.

There are also important changes to the rules for valuing cars for fringe-benefit purposes, which will hit users of luxury cars. Beneficiaries of deferred compensation schemes must also watch out for a restriction on the concession for taxing benefits at average instead of marginal tax rates.

Lastly, the Bill indicates the authorities have finally made a welcome if modest start to the important process of repealing the innumerable discretions the Commissioner for Inland Revenue has in the Act — necessary if SA is indeed to move to self-assessment for companies.

Tax tribunal

Kessel Feinstein tax partner Ernest Mazansky deplores the fact that the amendments setting up the new tribunal (a "special board") do not provide for legal representation as of right, except that the person who prepared the tax return under consideration may act as a taxpayer's representative.

Otherwise, the right to representation is at the discretion of the board. Taxpayers, says Mazansky, should be entitled to representation. He points out that, by the time a dispute comes before the board, the person who prepared the return may no longer be acting for the taxpayer. Even if he is, he may not be the most suitable representative.

The amendments also grant jurisdiction to the board if the commissioner and the taxpayer agree, or where no objection to the board's jurisdiction is made at or before the hearing. The chairman must be either an advocate or an attorney, who may be assisted by an accountant or "representative of the commercial community."

There will be a right of appeal from a decision of the board to the income tax special court. Though there is no provision for an order for costs incurred before the board, an amendment authorises the special court to grant costs where the court substantially confirms a decision of the board.

Arthur Andersen tax partner Pierre du Toit hopes that the authorities generally will accept the new board's decisions and appeal only in exceptional cases. Failure to take this approach will leave the small man worse rather than better off.

Company cars

The previous complex system of valuing company cars, taking account both of cost and engine capacity, has been replaced by a simple 1,2% a month of the cost of a vehicle. This will have a major adverse impact on use of luxury models (see table).

For motor vehicle allowances, the deemed distance travelled for private purposes is raised from 10 000 km a year to 12 000 km. The assumption that the balance represents business travel will apply up to a total distance of only 32 000 km. Any claim for business travel over 20 000 km will have to be substantiated with "accurate records."

CAR WOES

Increase in taxable value of company cars (Monthly basis)

Determined value	R25 000	R50 000	R100 000	R150 000	R250 000
Engine capacity	1600cc	1800cc	2000-3000cc	3000cc	3000cc
Value of private use under current legislation	299	555	1 013	1 469	2 269
Taxable value in terms of the Bill	300	600	1 200	1 800	3 000
% increase in taxable value	0,33%	8%	18,5%	22,5%	32%

Source: Ernst & Young

Deferred compensation

Recipients of deferred compensation schemes are entitled to a tax-free benefit of R30 000 on retirement. The balance falls to be taxed at the beneficiary's average rate, excluding the retirement benefit itself. Until now, the retiring beneficiary could spread the benefit over three years and so take it in a year in which his average rate was low. Now, the entire benefit must be taken in the year of retirement and the surplus over R30 000 taxed at the average rate for that year.

Removing discretions

Du Toit notes with approval that a start has been made on removing special discretions awarded to the commissioner by various provisions of the Income Tax Act — over 300 in all. This is a major step back

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towards the rule of law in the tax system.

An important example is the removal of the unappealable discretion the commissioner had to disallow expenditure incurred outside SA (Section 11(b)). Apart from the difficulty in many cases of determining the geographical location of an expense, there never was a logical reason for this. Indeed, many foreign investors expressed discomfort at the provision — especially Americans, who are used to a "supremely codified system."

Not all removed discretions are company-related. In the case of individuals, the commissioner loses the discretion to determine whether termination of services was due to superannuation, or (in the case of a female) whether she left to marry.

In both cases, the individual will be entitled to the concessionary average rate on a termination payment. Contradictorily though, in the same provision, the commissioner retains discretion whether the individual was, for example, made redundant. ■

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DEPARTMENT OF FINANCE

No. 1383 21 June 1991

Statement of Revenue collected during the period 1 April 1990 to 30 April 1991.

Treasury, Pretoria.

DEPARTEMENT VAN FINANSIES

No. 1383 21 Junie 1991

Staat van Inkomste ingevorder gedurende die tydperk 1 April 1990 tot 30 April 1991.

Tesourie, Pretoria.

Head of Revenue	Inkomstehoof	Month April / Maand April	
		1991	1990
		R	R
State Revenue Account	***Staatsinkomsterekening***		
Inland revenue:	Binnelandse inkomste:		
Tax on income	Belasting op inkomste	2 916 976 991	2 578 602 907
Loan Levy 1989–94	Leningsheffing 1989–94	—	—
Sales tax	Verkoopbelasting	1 607 385 318	1 512 018 130
Other taxes:	Ander belastings:		
Non-resident shareholders' tax	Belasting op buitelandse aandeelhouers	30 940 412	29 268 119
Non-residents' tax on interest	Rentebelasting op buitelanders	(41 950)	655 530
Undistributed profits	Onuitgekeerde winste	23 624	22 625
Donations tax	Geskenkbelasting	239 084	640 079
Estate duty	Boedelbelasting	7 458 429	8 456 301
Trade securities	Handelseffekte	23 561 438	31 319 376
Stamp duties and fees	Seëlregte en gelde	60 781 672	53 469 662
Transfer duties	Hereregte	73 680 411	52 513 296
Miscellaneous	Diverse	—	—
Mining leases and ownership	Mynverhurings- en eiendomsregte	95 092	113 327
Interest and dividends	Rente en dividende	7 399 399	906 156
Levies	Heffings	167 778	141 778
Recoveries of loans and advances	Terugvorderings van lenings en voorskotte	1 740 360	598 865
Departmental activities	Departementele bedrywighede	(31 798 156)	11 357 347
	R	4 698 609 902	4 280 083 498
Less: Payments to self-governing national states	*Min:* Betalings aan selfregerende nasionale state	90 285 000	75 702 000
Total: Inland revenue	Totaal: Binnelandse inkomste R	4 608 324 902	4 204 381 498
Customs and excise duties:	Doeane- en aksynsregte:		
Customs duty	Doeanereg	223 939 730	175 118 356
Excise duty	Aksynsreg	229 629 381	221 663 160
Surcharge	Bobelasting	127 262 524	169 201 238
Miscellaneous	Diverse	38 195 949	28 838 518
Fuel levy	Brandstofheffing	312 343 780	326 326 085
Ordinary Levy	Gewone Heffing	3 996 030	17 339 274
	R	935 367 394	938 486 631
Less:	*Min:*		
Amount to the credit of Central Revenue Fund	Bedrag tot krediet van Sentrale Inkomstefonds	—	—
Payments in terms of Customs Union Agreements	Betalings ingevolge Doeane-unie-ooreenkomste	813 225 000	709 544 750
Total: Customs and excise duties	Totaal: Doeane- en aksynsregte R	122 142 394	228 941 881
	R	4 730 467 296	4 433 323 379
South African Development Trust Fund	Suid-Afrikaanse Ontwikkelingstrustfonds	195 358	267 117
Sorghum Beer Research Fund	Fonds vir Sorghumbiernavorsingsfonds	—	—
Allocations from fuel levy:	Toewysings uit brandstofheffing:		
Oil Pollution Fund	Oliebesoedelingsfonds	—	—
South West Africa	Suidwes-Afrika	—	—
TBVC Countries	TBVC-lande		
	R	195 358	267 117
	R	4 730 662 654	4 433 590 496
Revenue Account: House of Assembly	***Inkomsterekening: Volksraad***		
Inland revenue	Binnelandse inkomste	1 891 076	315 519

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Head of Revenue	Inkomstehoof	Month April / Maand April	
		1991	1990
		R	R
Revenue Account: House of Representatives	***Inkomsterekening: Raad van Verteenwoordigers***		
Inland revenue	Binnelandse inkomste	5 987 221	2 093 009
Revenue Account: House of Delegates	***Inkomsterekening: Raad van Afgevaardigdes***		
Inland revenue	Binnelandse inkomste	65 420	21 918
	R	7 943 717	2 430 447
Grandtotal	Groottotaal R	4 738 606 371	4 436 020 943
Reconciliation with statement published by Government Notice No. 790 in *Government Gazette* of 19 April 1991:	Rekonsiliasie met opgaaf gepubliseer by Goewermentskennisgewing No. 790 in *Staatskoerant* van 19 April 1991:		
In Transit, 31 March 1991	In Transito, 31 Maart 1991	—	
In Transit/Overremitted, 31 March 1991	In Transito/Te veel oorgedra, 31 Maart 1991	(240 909 397)	
Collections as above	Invorderings soos hierbo	4 738 606 371	—
	R	4 497 696 974	—
In Transit/Overremitted, 31 March 1991	In Transito/Te veel oorgedra, 31 Maart 1991	418 758 056	
In Transit Revenue Account: Administrations	In Transito Inkomsterekening: Administrasies	—	
Received into Exchequer Account	In Skatkisrekening ontvang R	4 916 455 030	—

No. 1415 **21 June 1991**

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

Treasury, Pretoria.

No. 1415 **21 Junie 1991**

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

Tesourie, Pretoria.

RECEIPTS—ONTVANGSTE

Head of Revenue	Inkomstehoof	Month of May / Maand Mei		Total 1 April to 30 May / Totaal 1 April tot 30 Mei	
		1991	1990	1991	1990
		R	R	R	R
Exchequer Balance, 31 March 1991	Skatkissaldo, 31 Maart 1991	—	—	2 707 707 237	—
Exchequer Balance, 30 May 1991	Skatkissaldo, 30 Mei 1991	596 210 723	—	—	—
State Revenue Account	***Staatsinkomsterekening***				
Inland Revenue	Binnelandse Inkomste	3 672 885 833	3 316 238 422	8 464 026 294	7 414 628 777
Customs and Excise	Doeane en Aksyns	914 679 901	921 435 114	1 039 994 470	1 222 540 487
	R	4 587 565 734	4 237 671 536	9 504 020 764	8 637 169 264
South African Development Trust Fund	Suid-Afrikaanse Ontwikkelingstrustfonds	195 358	5 374 790	195 358	5 374 790
Sorghum Beer Research Fund	Fonds vir Sorghumbiernavorsing	—	—	—	—
	R	195 358	5 374 790	195 358	5 374 790
	R	4 587 761 092	4 243 046 326	9 504 216 122	8 642 544 054
Other Receipts	***Ander Ontvangste***				
Treasury Bills	Skatkisbiljette	5 252 022 096	—	10 771 945 600	—
Loan levy 1989-94	Leningsheffing 1989-94	—	—	—	—
Bonds:	Obligasies:				
Indefinite Period Exchequer Bonds	Onbepaalde Termyn Skatkis-obligasies	50 000	—	303 700	—
Indefinite Period National Defence Bonds	Onbepaalde Termyn Nasionale Verdedigingsobligasies	191 750	—	692 550	—

Move to tax employer-funded bursaries delivers big blow to students

LESLEY LAMBERT

CAPE TOWN — Tax exemption for employer-sponsored university, technikon and school education has been withdrawn.

Inland Revenue Commissioner Hannes Hattingh said yesterday provisions of the Income Tax Bill, which was passed in Parliament on Monday, abolished current tax exemptions for company bursaries granted to employees or their children.

He said the exemptions had been withdrawn because of widespread abuse. "Bursaries were being used by employees as fringe benefits. They were not being granted on merit."

At present, the tax exemptions apply to any "bone fide scholarship or bursary to enable an employee (or dependent) to study at a recognised educational or research institute".

They also apply to school education subsidies of up to R750 a year for employees below the tax threshold.

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When the amendment is implemented on March 1 next year, the tax exemptions on bursaries for employees and their children, and school subsidies, will be withdrawn and employees with be taxed on the amount they receive.

It appears, however, that the exemption will continue to apply in cases where bursaries are granted on "merit". Hattingh said if applicants could convince the Commissioner they were top achievers and the bursary was bone fide, they would qualify for tax-free sponsorship. B Day 21/6/91

"In these cases the bursary would be regarded as capital and therefore not taxable in the hands of the employee," he said.

Hattingh also scotched rumours that the measure would apply more widely to all staff upliftment training schemes.

"These would be regarded as an expense to the employer in the production of income and, as such, we would not place them in the same category as bursaries," Hattingh said.

The abolition of the concessions has serious implications for the funding of education.

Up to 75% of students at Wits University are estimated to receive financial assistance in one form or another. It is likely that a fairly high proportion receive assistance through company bursaries.

The taxation of these bursaries will place them out of the reach of many employers and, thus, their children.

Tax consultants say that the additional financial burden will so great, particularly in the case of lower-income recipients, that many will have to take their children out of university or technikon, or find another funding source.

The prospect of finding other sources is becoming increasingly difficult as state university subsidies dry up and economic conditions force the private sector to cut back on education assistance programmes.

● See Page 8

Tax changes will deprive many of education

B'Day 21/6/91 (320)

LESLEY LAMBERT
in Cape Town

TAX EXEMPTIONS for company bursaries are to be withdrawn in March next year — another addition to the list of increasing costs and funding cutbacks which are placing tertiary education out of the reach of most SA families.

The Income Tax Bill, which was passed in Parliament earlier this week, contains a number of shocks for education-conscious companies and parents. One is the abolition of tax exemptions for bursaries paid by companies for the education of their employees' children.

The tax changes may have other effects. Company-sponsored training which results in a diploma or degree for the employee seems likely to be taxed as a benefit to that individual.

There is less clarity on short-term training schemes which many companies sponsor to improve their employees' skills.

The bursary money received by employees for university, technikon and school education is currently tax-free. But, from March next year, it will be taxable. The full amount awarded to the employee will be added to his or her salary for income tax assessments and, depending on the amount received, will add substantially to the tax burden.

The Bill, introduced by Deputy Finance Minister Theo Alant, also abolishes concessions on the payment of education subsidies of up to R750 a year to employees below the tax threshold, and sponsorship of professional exams passed by employees.

One important concession it introduces is tax exemption for corporate donations to primary schools. Currently, companies can claim deductions only for the sponsorship of tertiary and secondary education.

Abolition of tax exemptions for company bursaries has disturbing implications for current and future funding of all education, particularly tertiary.

Employees using the company bursary facility will have to reassess its financial implications and the impact of this on their ability to afford their children's school and university education.

Lower income parents who intended using the bursary facility in the future will now have to find other funding sources. To many already using the facility, it will become unaffordable because of the huge additional tax bill, forcing them to remove children from technikons or universities. Tax experts argue that this consequence makes the amendment retrospective, because of the effect it will have on scholars whose funding will dry up before they have completed their studies.

The prospect of finding other sources of funding is becoming increasingly grim as costs rise and economic conditions force the private sector to cut back on bursary schemes.

Government subsidies to universities have declined substantially, forcing the institutions to increase their annual tuition fees by percentages in excess of inflation. Efforts by the private sector to absorb a greater portion of the burgeoning demand for financial assistance have been thwarted by economic conditions. This tax amendment will place even greater pressures on the private sector's efforts to assist.

In a memorandum to the Income Tax Bill, the financial authorities argue that the concession was being abused "to such a degree" that it became necessary to withdraw it.

Alexander Forbes Executive Consultants MD Les Lawson, whose company specialises in employee benefits, argues that if the concession is being abused, it should be redefined or limited, not withdrawn.

Other specialists argue that people will find ways of getting around the tax.

But, as Lawson argues, it would be better to close the loopholes and maintain the concessions than to force people to break rules in order to fund their children's education.

☐ ALANT

LETTERS

Business slams bursaries tax

(320) CT 22/6/91

JOHANNESBURG. — The South African Chamber of Business, Sacob, is taking up, with the tax authorities, the "serious implications" for educational bursaries contained in the latest Income Tax Bill.

The bill abolishes tax relief for bursaries given to employees and their children with effect from March 1.

Sacob economist Mr Keith Lockwood said the chamber had taken note of the provisions of the bill and had expressed concern over its implications.

He said Sacob was to meet the departments of Finance and Inland Revenue yesterday afternoon to discuss the issue.

In an interview, Inland Revenue Commissioner Mr Hannes Hattingh said companies would still enjoy tax relief for granting bursaries.

He said the introduction of the new tax was an effort to stop abuse of bursary schemes.

Bursary benefit

"We now find that the child of every employee gets a bursary (and) in effect the employee gets a portion of his income tax-free", Mr Hattingh said.

He indicated that the tax was also introduced to try and encourage employers to grant the bursary benefit as salary in the hands of the employee.

This would attract a higher rate of tax in some cases but for the lower income groups the fringe benefits tax applicable to bursaries would place an undue burden on an already low salary.

However, Mr Hattingh pointed out that "bona fide" bursaries would still be tax free in the hands of employees, if they are granted on merit and are open to all and not only to employees and their dependents, and that this can be proved to Inland Revenue.

In a further statement issued yesterday by the Commissioner of Inland Revenue it was revealed that bursary holders who are obliged to work for companies granting such bursaries, would be liable for tax.

The statement also pointed out these bursaries would only attract tax if the holder of the bursary exceeded the tax threshold of R10 358, including the value of the bursary. — Sapa

□ **DAVID CLEGG:** "Whether we like it or not, the government wants revenue . . . and they're going to take it."
Picture: BRENTON GEACH, Weekend Argus.

VAT may cut prices, says tax expert

GORRY BOWES-TAYLOR

Weekend Argus Reporter

YOUR money, my money, is needed to pay for the New South Africa.

Is VAT, which hits our lean pockets and mean piggy banks on September 30, the most efficient way of getting it?

David Clegg, a Cape Town tax consultant, says yes and says it could cut producer prices by about three percent.

THE RATIONALE

"Whether we like it or not, the government wants revenue and we can complain about the way they spend it, but the fact is they're going to take it. We want to make sure they take it in the most effective and efficient manner. GST was not effective and efficient, for two major reasons:

- it was horrendously and inconsistently complex;
- it created a tax-on-tax spiral which was to the detriment of the consumer.

THE 12 PERCENT

"A lot of people feel that the rate of 12 percent is too high, but we

ELECTRICITY AND WATER

"Both are subject to VAT but there seems to have been some political dealing done by the Labour Party with government — full marks to them. They've got the bottom R100 off the electricity and water bills.

TRANSPORT, DOMESTIC AIR FARES, REFUSE REMOVAL, CAR LICENCES

"Surface transport has been exempted, bus, taxi and train — including the Blue Train at the moment. They're not trying to draw a distinction between commuter and luxury transport. Aeroplanes are VATable. Domestic airfares, refuse removal, car licences are all services acquired by the middle and upper classes, not the poor."

LAND AND BUILDINGS

"VAT applies to commercial but not private sales of property. Commercial rates include commercial developments of residential property. So from a property developer to the new homeowner, there's going to be VAT. The effect of VAT on fixed property means that the cost comes from. VAT removes the GST tax-on-tax spiral, but collects about R4 billion to R5 billion less. The loss is mostly in the form of GST previously paid by businesses and manufacturers on machinery, trucks, computer hardware, furnishings and other capital assets and passed on to the consumer in the form of a higher price.

"The only way government can make up the loss of R4 billion is by moving the rate of VAT up — in our case from a possible low of 10 percent to 12 percent. I understand that this decision was discussed at length with the International Monetary Fund who made the strong recommendation that this should be done in order to get the economy rolling again.

"Now let's get down to some VAT specifics."

FOOD

"Food is politically the most visible of the problems associated with VAT, although a lot of household items will be affected.

"One has to understand that government was very concerned about 70 percent of the food bill paid by the middle and upper earning classes being exempt from GST. The cry is to help the needy, but exempting food helps the rich even more. I would love to have my food zero-rated but on a fiscal, economic and every other level I say it's absolute nonsense. The fact is that much of the preserved food purchased by the poor, which is currently subject to GST, is coming down in price, albeit by only one percent.

"Two foods are zero-rated, brown bread and maize meal — whether that's enough I don't know. There's obviously been some political infighting to get that concession because government, since they announced VAT, has been absolutely firm that there is going to be no zero-rating on food. Quite frankly I've supported that.

"Any exceptions to that rule muck up the system.

The Vatcom report recommends that direct budgetary assistance be provided to the needy outside the tax system. I had expected a clear announcement when the Bill came before Parliament in March but the Bill was passed a couple of weeks ago and there's been nothing spelt out. Whether the various suggestions of food stamps, or increases in social pensions will work, I don't know. I'm not saying there's an easy solution, I am saying government should get their act together and announce what that act is."

CLOTHING

"Comes down by one percent, big deal, but it's better than going up one percent."

cent on new construction. And the secondhand market will probably move in sympathy.

"But transfer duty of three percent is going to be removed, so the nett increase is three percent. Which again, when you compare it to the rate of inflation, is piddling. We're not talking about the 12 percent that some people have at the back of their minds."

MEDICAL

"There's a bit of confusion at the moment, largely in the minds of the medical fraternity, but I believe that medical services will stay in the VAT net. That is how it's proposed at the moment. Medical subscriptions will not be affected in that they will not be directly subject to VAT, but they're going now to have to cover an increase in medical services costs of close to 12 percent.

VAT A COST CUTTER

"Without getting into horrible detail, the estimate that my firm came up with a year ago, and Vatcom came up with recently — which goes to show that the figures are probably about right — is that producer prices on average are likely to drop by about three percent."

WILL VAT BENEFIT THE CONSUMER?

"There's no way we can guarantee that VAT will help the consumer. A lot of people are very sceptical, understandably, that so-called big business will shove it into their pocket and keep it.

"When we say producer prices, we don't just mean manufacturer, we mean wholesaling and retailing as well, which means that everyone's basic costs under VAT are going to go down.

"But you can't rely on the prices coming down, certainly not in the short term. It will take time to filter through into the economy."

"Another answer to the problem of business putting their hands into their pocket — there seems to be a belief that when business takes a bonsella, instead of passing it on, they have a little black sock under their bed and they put all this money into the black sock and there it stays. That isn't what happens. They're going to go out and spend that money, they don't leave it idle. So it gets back into circulation in the economy in diverse ways.

DAVID CLEGG is a tax consultant with Ernst and Young. He writes the popular VAT HOTLINE for Weekend Argus finance pages each Saturday . He has just published a book Tax Law Through the Cases (Juta).

...hree points emerged from a special Weekend Argus inquiry this week:

■ A government working group on poverty, set up to find ways of helping the very poor to make up for VAT on basic foods, has made no recommendations at all up to now.

■ There are no signs that business will pass on to the consumer benefits from enormous tax concessions given them by the government.

■ A family of four will need at least R200 a month more to cope with increases brought about by the new system of taxation, according to a Democratic Party spokesman.

VAT and the new system of individual taxation (which brings in "extra" money by taxing a large number of perks) could add R100 a month to the living expenses of every adult in the country — at least R200 for a two-child family — said Democratic Party spokesman Mr Ken Andrew this week.

He estimated that South Africans would have to fork out an extra R1,4 billion a month to make up firstly, the R8,7-billion "extra" income tax budgeted by government and, secondly, the R19,5 billion which it was estimated GST and VAT would bring in this year.

"VAT will have the effect of shifting some of the former GST burden from businesses directly on to consumers," he explained.

This R1,4 billion amounted to R50 for every man, woman and child in South Africa, he said. Since roughly half the population is under 18, that works out at R100 per adult.

R100 a month is not a huge sum of money. But the disturbing thing about the impending descent of VAT is that nobody can say with any certainty what spin-offs there will be.

One thing is certain: the poorest people will suffer the most. In order to soften the blow to the very poor — who, like everyone else, must now pay tax on basic foods — the government set up a Working Group on Poverty under the chairmanship of Dr Estian Calitz, deputy director-general of the Department of Finance.

At the time, Finance Minister Barend du Plessis said he would rather help the poor in more direct ways than by taking tax off food.

We asked Dr Calitz how far the working group had got towards helping the poor.

"Unfortunately it is not possible to preempt the findings of the working group," he said. "But I must point out that there were a number of related measures in this year's Budget — certain foods were exempted from VAT, pensions were increased.

"It was also announced after the Budget that R1 billion from the sale of oil reserves would be devoted to improving the quality of life of poor people, among other things. We are also looking at a couple of other things and an announcement will be made as soon as we are able to do so."

But while the poor continue to starve and the man in the street is being taxed out of his mind, business has obtained substantial tax concessions.

"A key point," said Mr Jasper Walsh, DP expert on VAT, "is that when VAT was mooted, the government gave businessmen huge tax concessions on capital purchases, amounting to R7,5 billion over 12 months. This was done in the naive belief that business would pass the saving on to the consumer, which of course will not be done."

Mr Walsh appears to be right. Most businessmen consulted by Weekend Argus became very cagey indeed when asked how far they were going to pass the benefit on to consumers.

Mr Albert Schuitemaker of the Cape Town Chamber of Commerce said that "as far as I can remember, no policy statement on this matter has ever been made by any business organisations."

His personal view, he said, was that VAT would increase the cost of administration. But he avoided answering the question by adding: "Everything depends on competition; market forces should determine prices".

Some people, including one or two officials, were extremely sceptical about the possibility of businessmen passing on these tax savings.

"Just wait, they'll slam the whole 12 percent on to their prices and it will be the poor sucker in the street who pays," said one man.

How much will the "poor sucker in the street" pay? The Weekend Argus made some calculations, using an imaginary family:

■ Food: The switch from GST to VAT will not make a very substantial difference to food bills, in spite of 12 percent added to unprocessed and fresh foods which carried no GST — meat, fish, vegetables, fruit and some diary products. This is largely offset by the reduction of GST of 13 percent to 12 percent VAT.

Mr Alan Baxter of Pick 'n Pay worked it out like this: in their supermarkets, about one-fifth of the food sold is in the present tax-free bracket. So out of every R100 spent, tax is paid on about R80, to the tune of R10,40 — giving a total of R110,40.

With VAT, the entire R100 will be taxable (brown bread and mealiemeal excepted) giving a total of R112. So the difference is only R1,09 — 1,4 percent more. Still, it all adds up.

■ Rent: People who rent accommodation will find themselves landed with extra costs because of VAT — but nobody can yet say how much more.

Landlords will — naturally — want to recoup themselves for increased operating costs brought about by VAT. "But it is much too early to assess, even remotely, the effect that this will have on rentals," said Mr Charles Keiffer, a managing director of Divaris Real Estate.

However it is said in some circles, including official ones, that flat rentals could go up between seven and eight percent because of VAT. On a flat with a rent of R750 a month — and there is little for less in the City Bowl or the Southern Suburbs — tenants could have to pay between R44 and R50 more every month, come October.

■ Electricity and cleansing will be subject to VAT, adding another 14 per cent to overtaxed household bills. It will mean an other R7 or R8 a month for households.

■ Insurance. Short-term insurance wi[ll] also be subject to VAT (not life assurance). Mr Ken Saggers, MD of Mutual and Fed[eral], said: "I don't think VAT will ad[d] more than two to three percent to prem[i]ums. We pay the Receiver of Revenue 1[2] percent on premiums of which we will re[-]cover a substantial amount on claim pay[-]ments. That two to three percent will onl[y] be applied as it becomes necessary to re[-]view rates on our business."

Thus, taking two percent, VAT could in[-]volve a family in an extra R4,50 a mont[h] on a house insured for R150 000; abo[ut] R2,00 extra on furniture insured fo[r] R50 000; and about R1 a month more on [a] six-year-old Toyota Corolla 1.6.

■ Medical and dental treatments wi[ll] all go up by 8,1 percent, said Dr Reg Ma[-]gennis, a director of the Medical Associa[-]tion of South Africa.

Moreover there seems to be some un[-]certainty whether private hospital fee[s] will have VAT tacked on to them. Just t[o] make things difficult, medical aid scheme[s] will increase subscriptions to allow fo[r] VAT. Once again, there will be a lot o[f] variations. Mrs Ann Hayman, director o[f] Mediaid Administration, said seven t[o] eight percent increases were likely to b[e] imposed.

■ Legal costs. Should Bob and Kath[y] need to consult a lawyer, VAT will b[e] charged on the fee: a half-hour consulta[-]tion will cost R28 instead of R25 — an ex[-]tra R3. But VAT is not payable on convey[-]ancing or deceased estate fees since thi[s] would amount to taxing a tax, said Mrs In[-]grid Hoffman, director of the Law Societ[y] of the Cape of Good Hope.

■ Building and architects. Bob an[d] Kathy can't afford to do any alterations o[n] their house, but if they could, they woul[d] have a problem, since the cost of buildin[g] will go up. Bifsa's economist Dr Charle[s] Martin said VAT on a new house could ad[d] six to eight percent to the price.

Estate agents' fees will be subject t[o] VAT, which they will recover from the cli[-]ent. But there is no VAT on private sale[s]

Let taxman help pay for retirement

Star 22/6/91 (320) (300)

IN a final look at retirement annuities and the role they play in retirement planning, I will concentrate on that formula that seems to confuse many people.

But before I do that, once again a summary of the advantages and disadavantages of RA's.

● The most important advantage is that it is a very tax-efficient investment. In terms of current legislation the taxman pays a major portion of your contributions to an RA, in some cases up to 43 percent, the highest marginal rate of tax.

With the advent of equity-linked or unit-trust linked RA's this in effect means that the taxman is also subsidising you to buy shares or unit trusts.

● RA's have shown average growth rates of around 20 percent.

● It is a forced and disciplined way of saving.

● RA's are beyond the reach of creditors should the contributor ever be declared bankrupt.

● At retirement a large portion of the benefit, currently R120 000 or

Money Matters

MAGNUS HEYSTEK

R4 500 times the number of years' contribution towards the fund, is tax-free. The rest has to be used to purchase a pension for life. However, RA's also have their disadvantages.

● A retirement annuity is not flexible. Oncecontributions are paid, the money is locked in until maturity. That can be at anytime between 55 and 69 years of age.

● Unlike other kinds of investments, a contributor cannot surrender the contract and withdraw a cash sum.

● It cannot be used as collateral to obtain a loan as in the case of most other investments.

● Income from RA's in most cases is static and does not increase with inflation. If one opts for an escalating RA, the initial income drops quite dramatically.

Now for THAT formula.

You may make annual deductions from your income up to:

(a) 15 percent of your income from non-pension sources OR

(b) R3 500 minus your deductible pension fund contributions OR

(c) R1 750 (whichever is the greater).

The key word here is GREATER and it is for each and every taxpayer to work out what his/her maximum contributions can be in order to qualify for tax deductions.

Ofcourse, one can pay more into an RA, but you don't get any tax relief. At best one can transfer the excess payment into the next tax year, once again subject to the maximum limit.

If you have, for one reason or another, missed making payments in certain years, you could make arrear contributions up to R1 800 which can then be claimed.

For self-employed business people the calculation of RA's is fairly simple. Someone with a taxable income of R100 000 a year (which includes all income, not only from business) will be able to contribute R15 000 to an RA, thereby reducing the taxable income to R85 000. This saves R6 450 in tax.

With salaried people the picture is a little more complicated, as most belong to some kind of pension fund. These contributions have to be deducted from the R3 500 as per formula. In many cases, salaried people will find that after their pension contributions have been deducted, they won't receive any relief for RA contributions.

In many cases people forget to include non-pensionable income, like a special bonus, freelance work (on which income tax is paid) and even interest-income from investments.

Someone earning, say R10 000 from a fixed deposit will be able to make RA contributions up to 15 percent of that income in the form of RA contributions.

But, whenever in doubt, try and find a broker or agent that can explain RA's in simple and plain English.

Banks plan to ease VAT blow

(320) CT 24/6/91

Own Correspondent

JOHANNESBURG. — Banks are considering group restructuring to soften the blow of VAT and the new tax on interest earnings, both of which come into effect on September 30.

Their appeals to the authorities for changes to legislation have fallen on deaf ears. They have responded by looking at ways to reduce the impact, and it is understood the major banks are considering rationalising group structures to shorten the transaction chain.

One possibility being debated is to do away with subsidiaries within banking groups, so that separate merchant banks may fall away. There is speculation that Nedcor could merge the two merchant banks in its group, Finansbank and UAL, while retaining their names. But there is a groundswell of resistance within all the groups' merchant banks, as their independence is treasured.

Nedcor managing director Mr Chris Liebenberg said efforts to minimise interest turnover and VAT due to group structures could be expected.

'All options'

"But to do something just for short-term tax reasons would not make sense. the Nedcor group is undertaking a restructuring not just for those reasons."

It is known that the Standard Bank group is also examining its group structure.

First National Bank senior general manager Mr Viv Bartlett said the group was considering "all options".

Chief tax policy director Mr Trevor van Heerden said banks had to pay VAT on their inputs, but could not charge VAT.

In a group context, this means that a service, like computers, provided by one company in the group to another will be subject to VAT. Banks have asked for the tax to be levied at group level, rather than for the different companies.

Mr Van Heerden said: "The first draft made provision for grouping of the tax, but we decided against it as it would mean the income tax system would also have to change to be consistent.

"Very few countries in the world allow VAT to be paid at group level."

Fill in only one registration form for Vat — Receiver

GILLIAN HAYNE (320)

IF anyone receives more than one application form for VAT registration, he should complete one and return the others marked "duplicate" to the Receiver, Commissioner for Inland Revenue Hannes Hattingh said in a statement on Friday.

Revenue has used various sources to identify potential vendors for VAT and has posted application forms to all of them. However, some names could have been duplicated, Hattingh said.

The application form is accompanied by a guide for registration, a trade classification list and an envelope in which the application form should be returned to the Receiver.

Hattingh asked that the forms be completed and returned promptly so that notices of registration numbers and tax periods could be sent as soon as possible. B|Day 24|6|91

The numbers on the application forms are not VAT-registration numbers, but merely reference numbers for internal use, he said.

Vendors with problems can either telephone Revenue's toll-free service, 0800-115-999, or contact their local revenue office.

Hattingh added that any vendor who had not received an application form by July 7 could obtain one from a local revenue office.

Many complications for life assurance tax

B Day 24/6/91 GILLIAN HAYNE (320)

NOT all products sold by life assurance companies will be exempt from VAT, tax experts have warned.

They pointed out that although the supply of life assurance is a financial service and is therefore exempt from VAT, not all life policies fitted the Insurance Act's definition of life assurance.

Charter Life senior manager Martin Sweet said at a seminar on Friday that the definition of life assurance covered only paying someone if he or she lived to a certain age, or a beneficiary if the person died by a certain age. It did not mention paying them if they became ill.

"In other words a composite policy which includes accident insurance or dread disease cover will be partly subject to VAT. This will be an administrative nightmare for life companies," he said.

Life offices will have to split their premium invoices to clients to show VAT on the short-term element of the premium and the exemption on the long-term element.

The industry itself believes that policies customarily or predominantly regarded as life policies should be fully exempt.

It has been suggested that the Registrar alter the classification of marginal policies to life policies. This would include policies in which accident and disability benefits are added on as supplementary benefits to life policies, and stand-alone policies such as income protection plans and medical costs insurances.

The implications of composite policies being partly taxable extends to brokers. They will have to charge the insurers VAT on the portion of their commission which relates to the short-term element of the premium.

Kessel Feinstein tax consultant Errol Danziger added that if a portion of the premium was subject to VAT the inputs relating to the short-term element could be claimed as an input tax credit. A portion of the tax paid on equipment, such as computers, used in issuing and administering policies would be recoverable from Revenue.

"This further complicates the administration for life offices, which would have to determine the extent each item was used to make taxable supplies and apportion their input tax credits accordingly," he said.

Although many life offices fell within the VAT net in respect of their property dealings, these were usually separate divisions and easier to administer.

Banks look at ways to dodge tax blow

B Day 24/6/91 (58) (320)

GRETA STEYN

BANKS are considering group restructuring to soften the blow of VAT and the new tax on interest earnings, both of which come into effect on September 30.

Their appeals to the authorities for changes to legislation have fallen on deaf ears. They have responded by looking at ways to reduce the impact, and it is understood the major banks are considering rationalising group structures to shorten the transaction chain.

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Nedcor MD Chris Liebenberg said efforts to minimise interest turnover and VAT due to group structures could be expected. "But to do something just for short-term tax reasons would not make sense. The Nedcor group is undertaking a restructuring not just for those reasons."

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Van Heerden said, "The first draft made provision for grouping of the tax, but we decided against it as it would mean the income tax system would also have to change to be consistent.

"Very few countries in the world allow VAT to be paid at group level."

He added that the legislation was "to the detriment" of banks and life assurers, but other groups would not be similarly affected as they could offset the input tax against the output tax. Non-banks could also benefit from rationalisation as it would ease the administrative burden.

Bankers said rationalisation would also help when it came to the new turnover tax on interest as it would reduce turnover by minimising intergroup borrowings.

Taxman will listen to bursary plans

(320)

B/Day 24/6/91

LESLEY LAMBERT

CAPE TOWN — The tax authorities could not backtrack on their decision to withdraw tax concessions for company bursaries but were prepared to listen to suggestions on the issue, Inland Revenue Commissioner Hannes Hattingh said yesterday.

Hattingh was responding to reports that the SA Chamber of Business (Sacob) was planning an urgent meeting with his department to discuss the withdrawal of tax concessions for employer-sponsored university, technikon and school education.

There was nothing the tax authorities could do to accommodate objections because the amendment had been passed by Parliament, he said.

But they were prepared to discuss the matter and would consider proposals put forward.

Reinstatement

Sacob said at the weekend it was planning to take up the "serious implications" of the amendment with the tax authorities. Sacob's Tax Committee is expected to meet Hattingh this week.

Tax Committee chairman Bob Wood said yesterday Sacob would propose the reinstatement of more limited concessions which were not as open to abuse as the old system.

He said: "As a general rule, Sacob does not favour tax concessions on expenditure but in this case we believe the concessions should not have been withdrawn now because of the need to promote education."

Hattingh said the concession had been withdrawn because of widespread abuse. Bursaries were being granted to some employees as a fringe benefit.

He said the provisions applied to employees only and that companies would continue to get tax relief for granting bursaries. Employees would also continue to qualify for tax relief if they received bona fide bursaries based on merit.

University of Cape Town registrar Hugh Amoore said all educational institutions would be affected by the withdrawal of tax concessions but private schools would probably be hardest hit.

Bursary facilities were more available to senior staff whose income levels enabled them to send their children to private schools, Amoore said. The decision could make it difficult for them to afford private schooling.

Amoore said most of the financially assisted students at UCT received bursaries from companies that did not employ their parents and they would not be affected by the move.

□ GILLIAN HAYNE reports that Charter Life senior manager Martin Sweet said the move could not have come at a worse time.

Sweet, who spoke at a tax and insurance information seminar on Friday, said it would have been more reasonable for government to place a ceiling on the amount on which tax relief could be claimed.

"It is the young people wishing to improve their skills who will suffer, and this will lead to further socio-economic erosion in SA," he said.

The exemptions which will no longer be applicable are:

□ Payments of up to R750 a year for the education of an employee's children, where the employee earns a salary below the tax threshold;

□ Amounts paid to an employee for passing an exam or obtaining a degree or diploma; and

□ Amounts paid to an employee in terms of an approved bursary scheme.

● Comment: Page 8

Star 25/6/91 (320) 244

VAT: urgent action needed

Staff Reporter and Sapa

Urgent action is required to curb inflation to soften the VAT blow for the consumer later this year, consumer organisations said yesterday.

They were commenting on the 0,6 percent increase in the inflation rate, as measured by the Consumer Price Index (CPI), released by the Central Statistical Service (CSS) in Pretoria yesterday.

The inflation rate for May increased from 14,6 percent to 15,2 percent.

Lyn Morris of the Housewives' League said the monthly increase in the inflation rate was worrying because it was increasing the base from which VAT would start in October.

"And as long as inflation continues to rise, interest rates will not go down," she said.

"There is no light at the end of the tunnel," Daan Kruger of the Consumer Council said.

He said the most disturbing factor was the continuing increase in the price of food.

The annual rate of increase in the food price index for May was 17,5 percent. This was 1,7 percent up over the April figure.

Mr Kruger said: "If pre-VAT inflation continues at the present rate, it will really hit the consumer extremely hard."

He warned that there was an extra shock in store, since consumers had not yet felt the effect of increased municipal tariffs which would be implemented from July 1.

Top tax man beats block on promotion

(329) CT 25/6/91

'BLOCKED' ... Mr Foster

By RONNIE MORRIS
Supreme Court Reporter

A SENIOR tax official yesterday won his case against the director-general (finance) in the Department of Internal Revenue, who had blocked his promotion.

The Supreme Court yesterday set aside a decision by the director-general that tax official Mr Trevor Norman Foster should not be rated for promotion and that his performance was unsatisfactory.

Mr Acting Justice F D J Brand, with Miss Justice Leo van den Heever concurring, also ordered the director-general to pay Mr Foster's costs of two counsel.

Mr Foster, a deputy director and also deputy head of the special investigations team of the Department of Inland Revenue, had originally also brought the action against the chairman of the Commission for Administration.

Evidence was that on November 8 last year Mr Foster was evaluated by an evaluation committee and was found to be "not at all a candidate for promotion". A merit assessment was also that his work was "not completely satisfactory".

As a result of the evaluation he lost a yearly professional allowance of R20 100.

The court heard that a few days after he had met his immediate supervisor, Mr U Horstmann, on August 17, 1989 to discuss his forthcoming evaluation, an altercation occurred between the men.

In the course of that altercation, Mr Foster alleged that corruption and tax evasion within the department were not being investigated properly.

As a result of the altercation Mr Foster was summonsed to Pretoria and met with three officials. One of them, Mr S Albertyn, told him his conduct would be placed before the evaluation committee and he would be relieved of authority over the staff who reported to him, the court heard.

A 22-man evaluation committee, with Mr M H Raath, chief director, as chairman, met on November 8, 1989 and accorded him a poor merit assessment and zero promotability because of "poor interpersonal relations".

Mr Foster said the rules of natural justice and in particular the audi alteram partem rule (the right to reply) and the rule against a biased assessment had not been complied with.

● Mr C T Prinsloo, chief director: operations, said he and members of the executive had not had time to study the judgment and he could therefore not comment. He was also aware of the allegations of corruption made by Mr Foster and likewise preferred not to comment.

He added, however, that the Department of Inland Revenue strived to treat its staff fairly and justly. There could, however, be cases where an official's grievances must be attended to, Mr Prinsloo said.

Mr P B Hodes, SC, assisted by Mr R W Nuggent, instructed by Mr Jeremy Simon of Gelb Gelb Simon and Shapiro, appeared for Mr Foster. Mr W G Burger, SC, with Mr S A Jordaan, instructed by the state attorney, appeared for the respondents.

Blow for retirement planning

B/Day 25/6/91.

LINDA ENSOR

CAPE TOWN — A last minute change to the Income Tax Act promulgated last week fundamentally tampers with the vested rights of those planning for their retirement, Life Offices Assocation tax committee convenor and Old Mutual's legal advisor Abri Meiring said in an interview.

He said the change had come as a surprise to the industry especially in the light of a categoric government undertaking that changes to the taxation of retirement benefits, as recommended by the Margo Commission, should not adversely affect the vested rights of people providing for their retirement. This was seen as being necessary to promote self-provision for retirement.

The sudden deletion of section 7A (4) of the Act withdrew the provision allowing those who receive a gratuity payment at the time of their retirement to spread the taxable portion thereof over three years.

Whereas previously the first R30 000 of a retirement gratuity was exempt and the tax obligation on the balance was lowered by spreading the tax liability over three years, the entire balance over R30 000 will now be taxed at the time of receipt.

Apart from the loss of the "time value of money" Meiring said the situation would be aggravated because the tax rate would be based on income received in the year of retirement which was normally higher.

The amendment takes effect from August 1 but there is a provision to allow people who have exercised the option before that date to continue to benefit from the 3-year spread.

However, he said: "The long existing plans of people providing for adequate retirement income will be thrown out and the closer they are to retirement, the more difficult they will find it to rectify the position."

An Inland Revenue spokesman said the change had been introduced to streamline the tax system and make SITE more effective.

He said that in terms of an existing provision of the Act a person receiving a gratuity on retirement would benefit by having the gratuity taxed at a lower rate. The gratuity would be taxed separately.

In addition, the first R30 000 of any retirement gratuity would be exempt from tax.

Nationalise, says Saccawu

B/Day 25/6/91

THE 100 000-strong SA Commercial, Catering and Allied Workers' Union (Saccawu) advocated extensive nationalisation without compensation at its third national congress held at the weekend in Johannesburg.

Yesterday Saccawu said it resolved that health, transport and utilities should be nationalised without compensation and banks and other financial institutions should be nationalised.

There should also be "socialisation of the means of production, distribution and exchange".

The union also resolved to remain independent of any political party and to prohibit its top officials from being office-bearers in other organisations.

The union said independence from other organisations, the state and "bosses" was in order to position its forces "for a socialist revolution". — Sapa.

Taxman gets VAT's initial phase rolling

320

GERALD REILLY B/Day 25/6/91

PRETORIA — The first major practical step for the introduction of VAT from September 30 — Operation Vendor Registration — was launched yesterday.

Inland Revenue operational control chief director Chris Dampers said yesterday more than 500 000 forms had been posted to vendors with the warning that they had to be returned within 21 days.

Preparations for the introduction of the new tax were virtually complete, he said.

The department had appointed 780 additional staff, more than 600 of whom would go to the inspectorate staff. A further 386 new workers still had to be appointed. Most would be used to strengthen the inspectorate.

Dempers said the additional cost of nearly 1 200 new staff members would be more than compensated for by the more efficient collection of VAT.

The department was confident that with intensive policing, revenue drainage through loopholes, as experienced with GST, would be plugged.

Dempers said large-scale tax evasion was rife in the GST system. Inspectors had recovered more than R400m in unpaid tax in one year.

The department was confident opportunities for evasion would be reduced to a minimum. But internationally the total elimination of evasions had been found to be impossible.

A more sophisticated audit system for VAT inspections would make evasion extremely difficult and, taking into account penalties, extremely hazardous.

BUSINESS DAY, Wednesday, June 26 1991

Taxman changes tack on retirement annuities

(320)

B Day 26/6/91

LINDA ENSOR

CAPE TOWN — Inland Revenue is no longer allowing the transfer of tax deductions on retirement annuity contributions from a wife, earning no income, to her husband.

The new ruling took effect retroactively from March 1 1991.

Claim

Life Office Association (LOA) tax committee convenor and Old Mutual's legal services manager Abri Meiring expressed concern about the sudden change which altered the Inland Revenue ruling set out in a circular to the LOA in May last year.

The circular said it had been Inland Revenue's practice to allow a husband to claim his non-earning wife's contributions to a retirement annuity as a deduction.

Meiring said this kind of inconsistency was bound to cause hardship where couples had planned to optimise their retirement provision.

"A husband aged 70, who could no longer be a member of a retirement annuity fund, would for example have planned for his younger wife to be the member.

"Where she had no income of her own, which is often the case, he could then deduct her contribution against his taxable income in terms of Revenue practice," Meiring said.

The apparent reason for the change by Inland Revenue was to apply consistently the concept of complete separate taxation of husband and wife.

But Meiring said it could have a serious effect on people's retirement planning.

"A retirement annuity contract is a long-term contract which should exist in a stable tax environment."

It was not good enough to say that the wife could now pay the policy up because the tax concession had been lost.

"This simplistic view ignores the fact that there are certain upfront costs involved," he said.

"If government's change in practice has been motivated by the desire to have a clean system of separate taxation of married couples, then there is no justification for the wife only being entitled to half the maximum limits applying to her husband.

Qualify

A clean system of separate taxation must also mean equal taxation of husband and wife.

The wife should qualify for the same maximums applying to her husband, namely R3 500 less pension fund contributions of R1 750.

Meiring said the matter was being discussed with the authorities and he believed it would be taken further as the total revision of the deductible limits for retirement annuity contributions was "long overdue".

Pressure builds up for VAT changes

(320)

B/Day 27/6/91.

LESLEY LAMBERT

CAPE TOWN — The financial authorities are going to come under increasing pressure in the next few months to reconsider controversial tax amendments which, critics argue, were neither consulted nor adequately debated in Parliament.

Organised business, opposition politicians and extra-parliamentary groups are planning to address unpopular amendments to the Income Tax and Taxation Laws Amendment Bills which were passed during the last-minute rush at the end of the parliamentary session.

The removal of tax concessions for company bursaries, certain elements of value-added-tax legislation and the introduction of tax relief for selected industrial processes with high export potential are among the more controversial amendments.

The SA Chamber of Business (Sacob) has expressed deep concern about the removal of tax exemptions, for employees, on company bursaries.

It has argued that the financial authorities should have consulted the commercial and education sectors on an issue as politically sensitive as the taxation of education funding.

Sacob's tax committee has announced that it will take up the matter with the Commissioner of Inland Revenue at their next meeting.

Sacob has also criticised unconsulted provisions in the Taxation Laws Amendment Bill which grant wider tax relief to companies involved in mineral beneficiation.

While Sacob supports the general thrust of government's industrial development strategy, it disapproves of the discretionary statutory powers given to Finance and Trade & Industry ministers, and a committee appointed by them, to grant concessions to selected projects.

It is understood the chamber plans to discuss the matter with Trade & Industry Minister Org Marais this week.

The DP, which opposed both the Income Tax Bill, largely because of the increased tax burden it placed on the poor, and the Taxation Laws Amendment Bill, because of the 12% VAT rate it legislated, has argued that crucial amendments to financial Bills were neither consulted nor debated widely enough. DP finance spokesman Ken Andrew said the DP also objected to the bursary taxation, certain amendments to fringe benefits taxation affecting car allowances and company telephone bills and taxation of food.

He said he would lodge an official complaint with Finance Minister Barend Du Plessis about the treatment of tax and finance Bills.

Spotlight

"The Bills were not consulted because, in most cases, they are only drafted after the Budget. They came up for debate at the end of the session when there was a rush to get legislation through Parliament; and they were often badly debated because of time limitations and because it was often assumed that issues had already been covered in the Budget debates," he said.

VAT, which has had a relatively easy passage through Parliament, apart from objections to the 12% rate and the taxation of food, appears belatedly to have come under the spotlight of the Congress of SA Trade Unions (Cosatu).

The broad trade union movement is concerned about the impact of the new tax on poor South Africans and is launching a campaign against the rate and the taxation of foodstuffs. The movement will encourage members not to pay VAT on basic foodstuffs and trade union membership fees.

CT 27/6/91

Amendment to tax laws slammed

(320)

By LESLEY LAMBERT

ORGANISED business, opposition politicians and extra-parliamentary groups are planning to address unpopular amendments to the Income Tax and Taxation Laws Amendment Bills, which were passed during the last-minute rush at the end of the Parliamentary session.

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While Sacob supports the general thrust of government's industrial development strategy, it disapproves of the discretionary statutory powers given to Finance and Trade & Industry ministers, and a committee appointed by them, to grant concessions to selected projects.

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The Democratic Party, which opposed both the Income Tax Bill, largely because of the increased tax burden it placed on the poor, and the Taxation Laws Amendment Bill, because of the 12% VAT rate it legislated, has argued that crucial amendments to financial Bills were neither consulted nor debated widely enough.

DP finance spokesman Ken Andrew said the DP also objected to the bursary taxation, certain amendments to fringe benefits taxation affecting car allowances and company telephone bills and taxation of food.

He said he would lodge an official complaint with Finance Minister Barend Du Plessis about the treatment of tax and finance Bills.

"The Bills were not consulted because, in most cases, they are only drafted after the Budget.

"They came up for debate at the end of the session when there was a rush to get legislation through Parliament and they were often badly debated because of time limitations and it was often assumed that issues had already been covered in the Budget debates," he said.

"The argument that the financial authorities have to wait for the Budget before drafting the Bills is a limp excuse.

"There was no reference in the Budget to some of the more controversial amendments in the Income Tax and the Taxation Laws Amendment Bills," he said.

Value-Added-Tax, which has had a relatively easy passage through Parliament, apart from objections to the 12% rate and the taxation of food, appears belatedly to have come under the spotlight of the Congress of SA Trade Unions (Cosatu).

The broad trade union movement is concerned about the impact of the new tax on poor South Africans and is launching a campaign against the rate and the taxation of foodstuffs.

The movement will also encourage members not to pay VAT on basic foodstuffs and trade union membership fees after its introduction in October.

TAXING EDUCATION (320) FM 28/6/91

LAST THING WE NEED

The decision to treat bursaries to children of employees as fringe benefits raises questions in two broad areas: fiscal policy and education policy.

Taking the latter first, it is simply ludicrous for the State to do anything which will deter the private sector from assisting in financing education. It is agreed across the political spectrum that one of our greatest needs in the decades ahead will be to make a skilled, productive work force out of our burgeoning population.

Government accepts that it can't fully finance this itself and is encouraging parents (even of children in "State" schools) to pay more, so that scarce State resources can be applied where they're most needed. For another branch of government to penalise people who do just this is fatuous and counterproductive.

Revenue alleges that the change was necessary to counter widespread "abuse"; to which we answer, first, prove it; and, second, so what?

Figures of how much tax revenue is "lost" (a term which in itself begs a number of questions) by so-called "abuse" are totally lacking — we suspect, because Revenue has no idea of the answer. Indeed, simply to pose the question will suggest to most contemplative people that it's unanswerable.

But, we repeat, so what? Revenue seems more and more to be adopting the view that the function of society is to organise itself in such a way as to maximise the proportion of GDP that goes the way of the tax collector. A society which treats tax maximisation as the ultimate object of public policy — as the Roman Empire did in its last years — will perish under the burden, again, as the Roman Empire did.

Tax is not an end in itself, but a means to an end. It's a way of financing public goods and influencing the composition of total spending (taxes can only redistribute wealth, not create it). To the extent that this ill-considered move will have any impact on total spending, it will diminish the proportion spent on education at a time when we need to raise it.

That is a real cost to society that far outweighs any illusory "loss" to the fiscus created by so-called "abuses".

But there are even broader issues at stake. This latest blunder simply epitomises the breakdown of tax policy and what seems to be a progressive diminution in the extent to which the tax collector is accountable to public influence.

There was a time when the national Budget set out not just the broad determinants of financial and fiscal policy, but also, in pretty specific terms, how it was to be implemented. It could be debated publicly both in parliament and in a wider forum and there was time — and opportunity — to make changes, if they seemed desirable.

Three main changes have eroded the significance of the Budget and the principle of public accountability:

Firstly, the Budget as a whole has come to cover a declining proportion of broad public-sector spending; secondly, there has been an authoritarian trend (and civil servants are always in favour of authoritarian trends) to leave more and more matters to the discretion of officialdom — and we know which way they will exercise that discretion; and, thirdly, the factor most germane to the present issue — fiscal changes are almost clandestinely smuggled in not through the main Budget, but through the subsequent Income Tax Bill. This is necessarily a lengthy and complex document, whose purport is not always immediately apparent.

Moreover, because it's considered a technical rather than a policy measure, it's too easy to shrug off criticism with a blithe "Sorry, but it's too late to make changes now."

That's precisely what seems to have happened with the clampdown on bursaries. Indeed, Commissioner for Inland Revenue Hannes Hattingh said exactly that.

This is simply not good enough. Public policy is a matter for the representatives of the people to decide — not overmighty civil servants.

Especially when the logic of those civil servants is not always easy to follow, as in the case of another provision in the Income Tax Bill, which counter to the trend of recent years shifts relative tax efficiency (for the consumer, that is) back from car allowances to company cars.

When we get this sort of inconsistency from today's officialdom, heaven help us when we're faced with the functionaries of the new SA. ■

Fears as September 30 nears

Star 28/6/91

(320)

THE sales tax load to be carried by the average low-income black family threatens to rocket by more than 100 percent in the switch-over from GST to VAT unless the Government agrees to slash the proposed new 12 percent tax rate, according to a special report released by trade union leaders.

The report was commissioned by the Congress of South African Trade Unions and compiled by the Labour Research Centre (LRC) in Cape Town.

It estimates that the sales tax burden on low-income families threatens to grow by no less than R546 million in the 1991/92 Budget year — by between R26 and R38 a household.

Cosatu planned to hold a top-level meeting of national executive members in Johannesburg today to discuss pressures on the Government to seek radical changes to current VAT proposals.

The researchers recommend that the rate of VAT should be chopped back from 12 percent to 6 percent — with any shortfall in revenue to be made good by heavier taxation on the wealthy.

LRC researcher Dasi Moodley says the report made a special study of the impact of VAT at 12 percent on an average black family trying to survive on about R778 a month — around what the Unisa Bureau for Market Research considers a minimum supplemented living level.

A breakdown of the typical budget (see table) shows that the amount of sales tax to be shouldered would climb from R33,06 to R70,85 a month as basic food items, now tax-free under the GST system, are drawn into the tax net, Mr Moodley says.

Cosatu has been told by the LRC that the living standards of low-income families will drop even lower if the Government presses ahead with proposals to replace the current 13 percent GST system with VAT at 12 percent on September 30.

The report argues that the R220 million set aside by the Government to plough into special poverty-relief schemes to cushion the blow of VAT on low-income families "will not go far".

It says families deserving first call on assistance, based on current proposals, are likely to receive no more than R2,25 a month — "hardly enough for two loaves of bread."

All in all, the proposed 12 percent rate of VAT looks likely to cost consumers as a whole an additional R1,22 billion a year as a result of the removal of concessions on basic food items alone.

The LRC report reminds Cosatu that Government revenue from sales tax is set to climb to more than R20 billion in 1991/92 in the switch from GST to VAT. That compares with revenue of no more than R1,7 billion in 1980/81, when the rate was far lower.

"The VAT system proposed by the Government will redistribute income," it adds. "But not from the rich to the poor, but from the poor to the rich."

It underlines that manufacturers look likely to benefit from current VAT proposals with a massive R3,75 billion in 1991/92 in tax breaks as capital and intermediary goods used in the production process are allowed to escape the tax net.

The Government, it goes on, is "perhaps waiting for a miracle" in hoping that the tax concessions will ultimately find their way to consumers in the shape of lower retail prices and lead to investments that create new jobs.

The report says any shortfall in total tax revenue from a cutback in the proposed VAT rate from 12 percent to 6 percent, which would ensure that low-income households were no worse off than under GST at 13 percent, could easily be made good by additional taxes on the rich, such as:

- Reintroduction of taxes on dividends drawn by shareholders in companies, which were ended in the 1991 Budget at a cost of R650 million a year.
- Introduction of a capital gains tax on profits made out of the sale of residential property and company shares, which would in turn "encourage productive investment instead of speculative buying and selling of shares and properties."
- Minimum taxation of 25 percent on all company profits, cutting across various concessions that result in many companies paying far less than an official 48 percent company tax rate at the moment.
- Special excise duties on luxury goods.
- High estate-duty taxes, now down to only 15 percent on the value of estates worth more than R1 million. □

GST and VAT on a monthly income of R778

The basket	Amount spent	GST. paid	VAT paid
Meat	133,35	—	16,00
Clothing	108,06	14,05	12,97
Cleaning & Household	79,84	10,38	9,58
Electricity	47,48	—	5,70
Alternative fuel	43,07	5,60	5,17
Vegetables	42,37	—	5,08
Milk, cheese, eggs	37,36	—	4,48
Fruit, nuts	25,77	—	3,09
Medical	19,87	—	2,38
Fats, oils	18,33	—	2,20
Coffee, tea	12,28	1,60	1,47
Fish	11,59	—	1,39
Sugar	11,07	1,44	1,33
Rent	44,30	—	—
Education	2,47	—	—
Transport	50,31	—	—
Grain	57,59	—	—
Pension	33,23	—	—
TOTAL	778,34	33,06	70,85

Sources: United Bureau of Market Research and Central Statistical Service.

The sales tax burden on low-income families is likely to soar in the switch-over from GST to VAT, reports MICHAEL CHESTER.

TAX FM 28/6/91. (320)

BURSARIES AXED

The Income Tax Amendment Act includes a provision to repeal Sections 10(1)(q) and 10(1)(qA) of the Income Tax Act. The first section exempts income tax bursaries paid by an employer to an employee who obtains certain educational qualifications. This class of payment may not be linked to remuneration for services rendered.

The explanatory memorandum to the Income Tax Amendment Bill states that because this exemption has often been abused, "and in the light of the general approach to fringe benefits," it will be withdrawn with effect from March 1 1992.

At present, all bona fide bursaries, as well as amounts paid under an approved bursary scheme to any relative of an employee, are exempt from tax under S10(1)(qA). This section, states the memorandum, has also been abused "to such an extent that it has been decided to withdraw the exemption."

Presumably, senior executives of large companies and controlling shareholders of private companies have taken advantage of the section to finance university education for their children on a tax-efficient basis, perhaps through a "salary sacrifice" as quid pro quo for a bursary.

Bursary schemes under S10(1)(qA) had to be approved by the Commissioner, who had to be satisfied that they met certain criteria. These included a limitation of R750 a year for scholarships or bursaries awarded for secondary school education; that the children of *all* staff and not just children of the employer should be eligible, depending on "any objective criterion;" and that the Commissioner was satisfied that awards were made on merit or according to need.

FM 28/6/91 (320)

KPMG Aitken & Peat tax partner Alister MacKenzie deplores the abrupt termination. He feels that a phasing-out period should have been provided.

Kessel Feinstein tax partner Ernest Mazansky asks why the amendments were abruptly included in the Bill instead of being thrown open to public discussion. He argues that limitations could have been introduced to limit possible abuses.

Ernst & Young tax partner Sally de Boor also deplores the effect the amendments will have on funds available for education. ■

VAT pushes up SAA's domestic fares

LINDEN BIRNS

VAT has pushed up SAA domestic fares by 3,9% for all flights after September 30.

Airline spokesman Leon Els said yesterday the tariff increase would be introduced immediately for flights dated from October 1, so that the airline could claim back certain input taxes subject to VAT.

The increase followed a government directive that all items purchased for use after September 30 should be subject to VAT immediately, Els said.

He said SAA paid tax on several input items including fuel, spare parts, food and hotel accommodation. GST was not levied on air fares, he added.

The VAT amount will be clearly indicated on all tickets as the tax can be claimed back by passengers if their trips are for business purposes.

International fares are exempt from VAT.

Domestic services executive manager Johan Kuit said fares, in real terms, had been kept below the consumer price index since 1985.

28/9/91 B/Day

(320)

ARG 29/6/91 (320)

New perks tax blow to bursary schemes

DAVID CUMMING

Weekend Argus Correspondent

JOHANNESBURG. — The axe is poised again to fall on perks, this time with the warning that employees who receive education loans may be in line for a financial blow.

Private sector spending on education and training could attract perks tax next year as high as R8 billion.

Parents, employers and tax experts, stung by the government's move to tax bursaries, have a further education shock in store.

This emerged this week on closer analysis of recent tax amendments.

Mr Martin Sweet, senior manager, legal services, of Crusader Life has pointed out that there will be a further drain of funds for education because the minimum donation to an educational institution for which a company can claim a tax deduction has been set at R1 million.

This effectively means that more modest businesses which have been making smaller donations will simply withdraw this type of support.

The sum which will be subject to perks tax from March 1 next year could be as high as R8 billion. This is Business Marketing Intelligence's estimate of the amount paid out by the private sector for education.

Tertiary education institutions were bewildered this week.

A spokesman for the University of the Witwatersrand said it was taking expert financial advice. About 30 percent of students at Wits get financial assistance of some sort.

A spokesman for the Technikon Witwatersrand said it too would be examining the situation.

Mr Keith Chubb, of International Compensation, has disputed the reason for imposing the tax — that it was subject to widespread abuse.

He said bursary schemes had been subject to the approval of the Receiver of Revenue. "If, then, the schemes were being abused, the Receiver was effectively conniving at that abuse."

Mr Sweet said the new tax moves should be examined against the background of rapidly escalating education costs. "In 1980, it cost about R800 to study for a B Comm and residence cost a further R1 380. By 1990, fees had risen to R4 300 and residence to R6 035. By 2000, fees will amount to R23 113 and residence R30 478.

He said his company had no objection to fringe benefits being taxed. "We would like to see it applied all the way to the top — on cabinet perks, for instance. But the essence of any effective system is that tax is imposed in an orderly way so that employers and employees can plan ahead. Arbitrary, almost whimsical changes signal muddle.

"The future of this country lies in upgrading the skills of people to make this country competitive in a world market.

"I therefore question the wisdom of these moves in the light of the education crisis," Mr Sweet said.

Sixes and sevens as VAT day nears

(320)

S Times (Bus Times) 30/6/91.

By TERRY BETTY

WITH three months to go to the introduction of VAT, businesses are unable to plan for its implementation because they do not know the information they will have to supply on the return form.

Ernst & Young tax partner Charles MacKenzie says the rudimentary instructions in the VAT law are insufficient for businesses to develop their computer systems.

Chief director of tax policy development at the Department of Inland Revenue Trevor van Heerden says the tax form has been drawn up but not printed. He says draft copies have been made available to those who inquired.

But many accountants say they have tried in vain to get details from the Receiver.

Mr MacKenzie says there are fears the form has not been printed because the Receiver may make last-minute changes. This could involve companies in costly alterations.

Many complex issues are arising as experts delve further into the VAT legislation, says Mr MacKenzie. These mainly concern the basis for apportioning input tax between taxable and exempt supplies.

"The department is under great stress and seems to be struggling to cope with the demand for definitive rulings on these matters," says Mr MacKenzie.

"The Department of Revenue must make all its rulings available to the public, otherwise one taxpayer could be given less favourable treatment than another."

It seems the department is incapable of coping with technical problems. Mr Van Heerden says staff members are trained in VAT and there is a toll-free line available to handle VAT queries. But he admits this is probably insufficient for the sort of problems an accountant would have. The main purpose of the service is to handle registration problems.

"There must be certainty if the new tax is to be successful," says Mr MacKenzie. "Revenue has still not published any rulings (practice notes) and business cannot implement VAT without them."

Musica plays sweetly

MUSICA raised its dividend 20% to 2c a share in spite of a 5% slip in earnings to 4,8c for the year to March 1991. Turnover at the music retailer rose 38% to R28-million, but a climb of 118% in tax and the higher number of shares in issue led to the bottom-line drop.

Members are offered six bonus shares for every 100 held. At the current 40c, the bonus is worth 240c whereas the cash dividend yields only 200c.

Protesting teachers sacked

By DAN DHLAMINI

Citpress 30/6/91

MORE than 200 Potchefstroom teachers on a three-week sit-in demanding the reinstatement of eight sacked colleagues, were themselves dismissed this week by the DET.

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Six of the ~~eight~~ who were earlier sacked have been reinstated following negotiations between the South African Democratic Teachers' Union (Sadtu) and the DET.

They are David Sefanyetso, Sinah Pooe, V Fatyela and M Mdlalane of Ikageng; and Suzan Kgotle and Magdeline BhaBha, both of Ventersdorp.

They were sacked in December last year, together with Sadtu regional chairman Oupa Sebolai and Committee member Damelord Tsagae, for refusing to be evaluated by DET inspectors.

There has been no schooling in Ikageng since June 6, when teachers embarked on a sit-in.

The successful negotiations have raised hopes that children will be back at school from tomorrow.

The six teachers, who had defied their sacking and continued working without pay, will have their final interviews with the DET's Diamond Fields regional director, Gunther Merbold, tomorrow.

The DET has not, however, considered the reappointment of Sebolai and Tsagae, pending the outcome of their July 9 court case in which they are accused of intimidation.

In a statement, spokesman for the DET director-general, Corrie Rademeyer, said his department was sympathetic towards the plight of the more than 200 teachers whose services were automatically terminated.

He said that if they individually requested to be reinstated, their requests would be considered without any Sadtu intervention.

TAXATION – 1991

JULY – AUG.

Witty and accessible guide to income tax

(320)

B/Day 1/7/91

INCOME TAX MADE SIMPLE, by MATSHERU MATSHERU (Butterworths, R35)

TO FIND a book on taxation which is witty and does not, as a matter of course, project Revenue as the big bad wolf is refreshing. Matsheru has compiled a book on SA income tax that not only makes "taxese" accessible to laymen but explains why taxes are collected.

He begins with the premise that tax is essential but "the law on the subject is weak. The zeal of the Official is strong and the ignorance of the Taxpayer is colossal."

He then goes on to tell his readers that tax is a game between two players, the taxpayer and the tax collector, where both players should know the rules so the game can be won or lost on fair grounds. He makes the legitimate comment that conflict sometimes arises because the tax collector adheres to departmental rulings, while the taxpayer is not given access to all these rulings.

But the book is not a stab at the fiscus on incompetence, unfairness or unnecessary complexity. The author stresses it is the taxpayer's responsibility to know and stand up for his rights.

Robin Hood stole through a progressive stealing structure.

Matsheru explains basic tax concepts in a way that makes them sound logical and understandable. Issues such as capital versus income are covered, as is tax and the individual, employee and business, and tax planning opportunities.

Nothing is assumed and a useful dictionary on tax terms explains terms which most of us are too embarrassed to admit we do not understand.

Wonderful cartoon illustrations and amusing comments put this in a class of its own.

Although the book is obviously targeted at SA blacks, it is equally relevant to all South Africans who need a simple explanation of what tax is and what it means.

In his introduction Matsheru justifies the creation of yet another tax book for one's shelves saying: "Taxation, like cold air in winter, reaches into every corner of everyone's life, directly or indirectly, for better or for worse.... Surprisingly, thousands of people still pay their tax annually without the slightest idea whether or not they are paying the correct amount of tax."

Matsheru is an independent tax adviser who gained his expertise through the tax and business law programme at Unisa and various other tax courses at Wits University.

GILLIAN HAYNE

Cosatu, Govt set to lock horns over VAT

Star 2/7/91 (320)

By Michael Chester

The Government faces a major battle with trade union leaders over proposals to bring basic food items within the orbit of sales tax when VAT overtakes GST three months from now.

Cosatu yesterday disclosed it was seeking an urgent meeting with Finance Minister Barend du Plessis over the issue.

Cosatu spokesman Neil Coleman said it was intended to try to persuade the Government to overturn its current proposals to clamp a 12 percent VAT tax on all food items — including basic foodstuffs.

Insiders revealed that the Cosatu central executive committee had been alarmed by estimates that proposals to bring basic foods inside the VAT net threatened to more than double the sales tax paid by low-income families.

The results of an investigation commissioned by Cosatu from the Labour Research Service in Cape Town showed that the average tax bill of households trying to survive on about R778 a month looked set to jump from R33 to more

Barend du Plessis

than R70 a month.

The researchers argued that the proposed VAT rate of 12 percent would need to be slashed as low as 6 percent if low-income families hoped to be no worse off in the switch-over from GST to VAT.

They calculated that the removal of tax exemption on basic food items alone would cost consumers as a whole no less than an extra R1,2 billion a year.

They added that Government proposals to set aside R220 million for poverty-relief schemes was equal to no more than R2,25 a month for individuals considered "deserving of the first call on any assistance".

Mr Coleman said Cosatu acknowledged that the Ministry of Finance had made earlier approaches with proposals about a meeting.

The Cosatu central executive committee had now decided to press the Government to abandon plans to bring basic food items within the VAT net.

Objections would also be lodged about the proposed level of 12 percent on VAT taxes in general.

"We find the whole concept of VAT unacceptable under the tax rates that have been proposed," Mr Coleman said.

"As an interim measure, we shall push for all basic foodstuffs — and medicines — to be set at a zero rate."

Cosatu, he said, was inviting all individual trade unions to join a top-level delegation seeking talks with the Minister of Finance.

The issue was already high on the agenda of the Cosatu annual congress due to start in Johannesburg on July 24.

VAT 'unfair on farmers'

3.20

ARG 1/7/91

The Argus Correspondent

JOHANNESBURG. — Meat producers of South Africa have joined Cosatu and agricultural and consumer organsiations in protests against the government's decision to include all basic foods in the VAT base.

Mr Gerhard Bronn, chairman of the Red Meat Producers Organsation, says meat producers cannot absorb the potential financial shock if required to pay Value Added Tax.

Farmers say consumers are unlikely to absorb the tax — expected to earn R1 billion for the government — and keep their meat consumption on the same level. The farmer would have to carry the burden.

VAT alarms meat producers

Star 4/7/91

By George Nicholas

Red-meat producers have joined Cosatu and agricultural and consumer organsiations in protests against the Government's decision to include all basic foodstuffs in VAT.

Mr Gerhard Bronn, chairman of the Red Meat Producers' Organsation, says meat producers are not in a position to absorb the potential financial shock if they were required to pay the Value Added Tax.

At the same time, he adds, the economy is not performing well enough to absorb the VAT price rise on foodstuffs by means of an increase in the buying power of consumers.

Studies by economists indicate the Government stands to gain approximately R1 billion a year from the 12 percent on meat sales alone.

VAT on health undecided

Bday 4/7/91

(320)

GILLIAN HAYNE

HEALTH services might be exempted from VAT before the tax is introduced on September 30.

Inland Revenue chief director Trevor van Heerden said VAT on health services was still under consideration. No decision had been taken.

He said a meeting had been held with the Dental Association of SA (Dasa), Finance Minister Barend du Plessis and National Health and Population Development Minister Rina Venter.

A further meeting was scheduled for August 2 1991.

Dasa president Wynand Dreyer said in a statement yesterday the association was not fighting for a zero rating.

This was because "it seems unprofessional for the suppliers of health care to reap the benefits of the system without accepting its responsibility".

Zero-rating would allow the profession to charge no VAT on services while still claiming a refund from Revenue for VAT paid on inputs.

He said the dental profession was fighting for an exemption from VAT and would be prepared to absorb the additional costs of VAT on inputs.

Calculations indicate the burden to dental practices would be about 1,4% of turnover.

Dreyer said the major reason health

□ To Page 2

VAT

BDay 4/7/91

(320)

□ From Page 1

care should be exempt from VAT was that the cost of it would be unnecessarily increased. It would have a significant effect on "an already overburdened public health sector".

It would further strain the relationship between the health services industry and medical aid societies.

VAT would also place an unnecessary administrative burden on the suppliers of health services.

In an open letter to the profession, Dreyer said Dasa members should attend seminars on VAT in case the tax was introduced on health services.

He said: "This arrangement should, however, not be interpreted as subliminal support for VAT on health services; nothing could be further from the truth and your association will continue to fight the system as best it can."

SOWETAN
Building the Nation

Focus on PROPERTY

How VAT affects the buyer of a new home

Sowetan 4/7/91.

320

Home ownership is not a privilege. It is a reward for hard work and perseverance. But how do you set about buying ground then financing, building and maintaining a home? Join us every Thursday to learn the answers . . . and if you have any questions write to Jacky, PO Box 260835, Excom 2023

THE Value Added Tax Act comes into effect on September 30 this year, replacing the Sales Tax (GST) Act of 1978.

Sowetan readers quite rightly want to know what effect the new Act will have on the cost of new houses.

VAT and GST are not the same. Firstly, VAT will be set at 12 percent whereas the GST rate is 13 percent. Secondly, whereas GST is payable only on the cost of materials, VAT will be payable on the cost of both materials and services/labour.

It is estimated that the price of new houses will increase by between six and eight percent after September 30. So, if you are seriously considering buying a new house, it could be worth your while to start making inquiries immediately.

If you are not yet ready to buy, don't despair. After the introduction of VAT instalments on a 20-year, subsidy-free bond of say R30 000 should increase by not more than R9 a month (calculated at the present bond rate). The extra amount can be included in your bond.

Guarantee

Another question that puzzles many first-time homeowners is: "Who is responsible for problems that I may have with my house after I move in?"

It is important to understand that your builder has to guarantee the house for three months following completion of the contract.

After this time he is only responsible for defects in the roof, which is guaranteed until rain has fallen on it; for structural problems which were impossible to see whey you moved in.

It follows, therefore, that every prospective homeowner must, firstly, take great care to ensure that he or she uses an honest, reputable builder. Either approach an established builder or ask FHA Homes for advice; or if you want to use a small builder, ask to see houses he has already built and speak to people who have used him before.

Contract

Secondly, before you sign a building contract, make sure you fully understand the plans and specifications to which it relates. If you have been reading this series of articles every week, you should be able to read a simple plan with relative ease.

Thirdly, once building has started, visit your site at least once a week to discuss progress with your builder. Insist that he answer your questions to your satisfaction, and constantly check that the house is being built as described in your contract.

Before you move into your new house, your builder will ask you to sign a delivery form. Before reaching for your pen, make an appointment to go through the house with him.

Plan

Check that the house has been built exactly according to plan and that the materials and finishes comply with the specifications.

Are the walls, for instance, straight and neatly finished? Do the doors open, close and lock easily? Are the window frames solidly built-in and is there putty around every sheet of glass?

If you have ceilings, inspect them. Are they straight and undamaged? Try out the taps and check the bath, basin and sink for leaks. If you have electricity, satisfy yourself that the lights, plugs and geyser are working properly.

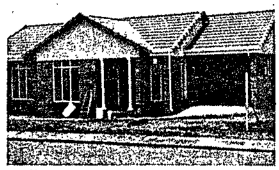
Go outside and inspect the roof. Is it properly erected? If you have fascias, gutters and downpipes, are these securely fitted? If your house is plastered and/or painted, make sure that there are no bubbles or rough patches - particularly on the outside.

Delivery

Do not sign the delivery form until you are completely satisfied that the house has been built according to your contract with your builder.

After you sign the delivery form the builder will give you a three-month guarantee on the house. During this period he will be obliged to repair all defects free of charge, so if you do have any problems during the first three months, be sure to report these to him immediately.

Your house is probably the biggest investment you will ever make, and it is important to keep it in a good state of repair. Next week we'll take a look at some easy, effective ways to care for and maintain your home. - *Prepared by FHA Homes.*



Your house ... the biggest investment

*** Last week's article implied that if the first payments of your first-time homebuyers' subsidy are delayed, your bank or building society may agree to temporarily add the monthly subsidy amount to your loan after the Government starts to make payments.**

This is not correct. You should ask your bank or building society to add the subsidy amount to your loan up to the time that the Government begins to pay your subsidy.

/AT: Health to
)e exempted?

320

85 299

CT 4/7/91

From GILLIAN HAYNE

HANNESBURG. — Health services ght be exempted from VAT before e tax is introduced on September 0.

Inland Revenue chief director Mr Tre- or van Heerden said VAT on health ser- vices was still under consideration. No decision had been taken.

He said a meeting had been held with the Dental Association of SA (Dasa), Minister of Finance Mr Barend du Plessis and Minister of National Health and Population Development Dr Rina Venter. A further meeting was scheduled for August 2.

Dasa president Dr Wynand Dreyer said in a statement yesterday the association was not fighting for a zero rating.

This was because "it seems unprofessional for the suppliers of health care to reap the benefits of the system without accepting its responsibility".

Zero rating would allow the profession to charge no VAT on services while still claiming a refund from revenue for VAT paid on inputs.

He said the dental profession was fighting for an exemption from VAT and would be prepared to absorb the additional costs of VAT on inputs.

Calculations indicate the burden to dental practices would be about 1,4% of turnover.

Dr Dreyer said the major reason health care should be exempt from VAT was that the cost of it would be unnecessarily increased. It would have a significant effect on "an already overburdened public health sector".

It would further strain the relationship between the health services industry and medical aid societies.

VAT would also place an unnecessary administrative burden on the suppliers of health services.

In an open letter to the profession, Dr Dreyer said members should attend seminars on VAT in case the tax was introduced on health services.

Change-over to VAT will have litle impact on inflation — IMF

(320)

By Sven Lünsche Star 5/7/91

The change-over from GST to VAT in October should have little impact on the inflation rate, says a report by the International Monetary Fund (IMF).

The Deputy Minister of Finance, Dr Theo Alant, yesterday released a summary of the report on behalf of Finance Minister Barend du Plessis, saying that SA "had followed very closely the recommendations of the IMF".

The IMF mission found that VAT would bring down the rate of inflation, but that the expansion of VAT to GST-exempt goods would put upward pressure on the rate of inflation.

The likely outcome was thus that VAT on its own would have little impact on the rate.

The other main recommendations by the IMF were:

- A consumption-type VAT from the outset rather than phasing in full credit for VAT on capital and intermediate goods.
- A few essential food items should be zero-rated with maize meal and brown bread obvious choices. However to offset the rise in food prices that VAT would bring in its wake, measures must be taken to offer food relief programmes to the poorer communities.

Mr Alant said the IMF would be advising the government on these targeted food programmes, "which will enjoy strong financial support from future budgets".

- The introduction of VAT at 13 percent on all goods and at 13,3 percent if brown bread and maize were zero-rated, in order to ensure that revenue does not decline as a result of the new tax.

The SA government has stuck with the first two recommendations, but will introduce VAT at 12 percent despite a firm recommendation by the IMF to resist a major reduction below the revenue-neutral 13 percent.

At the same press conference the chairman of the Tax Advisory Committee (TAC), Professor Michael Katz, said that the TAC would continue its assault on wage compensation, in the form of fringe benefits.

The recently announced changes to the tax on fringe benefits were fully in line with recommendations of the Margo Commission, he said.

"A fringe benefit is inequitable as it favours the wealthy against the average income earner, is prejudicial to small businesses and leads to economic distortions," Professor Katz said.

Turning to the controversy surrounding the taxation of company bursary schemes Dr Alant said the rules were being tightened, not because Government wished to tax all bursaries, but to avoid the exemption being exploited to provide privileged employees with a tax-free income.

VAT won't push up inflation, says govt

(320) (BD)

B/Day 5/7/91.

GILLIAN HAYNE

GOVERNMENT yesterday tried to quash fears that VAT will raise inflation, saying it should have absolutely no effect on the rate.

This followed economists' predictions that the implementation of VAT would add 2,5 percentage points to inflation.

The controversy has prompted the Central Statistical Service (CSS) to introduce two sets of inflation figures — one with and the other without VAT.

Government's tax chiefs called a news conference yesterday to address confusion surrounding VAT and the recent move to tighten taxes on fringe benefits.

Deputy Finance Minister Theo Alant said that VAT Watch — a committee aimed at creating consumer awareness about VAT and prices — would be launched on July 17. The committee hopes to encourage the public not to blame any excessive price increases on VAT.

Alant said both competition and government's efforts to lower inflation would ensure prices came down.

Finance Minister Barend du Plessis yesterday issued a statement saying the IMF had found VAT should cause "little or no change" in SA's inflation.

Du Plessis said the impact of VAT on inflation had been one of the focal points of an IMF mission to SA.

The IMF found that the removal of GST-on-GST once VAT was introduced would bring down inflation but that the expanding consumption base of VAT might exert upward pressure on inflation. "The likely outcome: little to no change on the rate of inflation," Du Plesss said.

Further recommendations by the IMF included the immediate inclusion of full credits for VAT on capital and intermediate goods and the zero-rating of a few essential food items, with maize meal and brown bread as "obvious candidates".

On the fringe benefits issue, Alant said government was not curtailing its support for education by taxing company bursaries.

"The tax system should never be the primary channel to finance and stimulate education and as such the withdrawing of the exemption should rather be seen as levelling the playing fields," he said.

He said the rules had been tightened to avoid the exemption being exploited "to provide certain privileged employees with a tax-free income."

"If a bursary scheme is open to any member of the public and granted impartially on grounds of merit or need, and as long as it is not intended as a substitute for part of an employee's taxable income, the scheme will not be subject to tax."

Alant said that from March 1 1992 bursaries would attract tax if the recipient was obliged to work for the company for a certain period, or if he or she accepted a lower salary in lieu of the bursary.

IMF waters down fear VAT will up inflation

320 ~~156~~ ARGUS 5/7/91

From SVEN LUNSCHE

JOHANNESBURG. — The change-over from GST to VAT in October should have little impact on the inflation rate, according to a report by the International Monetary Fund (IMF).

The Deputy Minister of Finance, Dr Theo Alant, yesterday released a summary of the report on behalf of Finance Minister Barend du Plessis, saying South Africa "had followed very closely the recommendations of the IMF".

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So the likely outcome was that VAT on its own would have little impact on the rate.

The other main recommendations by the IMF were:

- A consumption-type VAT from the outset rather than phasing in full credit for VAT on capital and intermediate goods;
- A few essential food items should be zero-rated with maize meal and brown bread obvious choices; and,
- Food relief programmes for poorer communities should be introduced.

Mr Alant said the IMF would be advising the government.

Cape Times, Saturday, July 6 1991 3

Barend to meet trade union body on VAT

JOHANNESBURG. — VAT and its implications for workers and trade unions is to be discussed at a meeting between Finance Minister Mr Barend du Plessis and the Congress of South African Trade Unions (Cosatu) on July 23, the union announced yesterday.

In particular, burdens placed on workers by levying VAT on foodstuffs, medicines, medical services and trade union subscriptions would be discussed, Cosatu said.

In the light of the current economic climate, Cosatu expected the government to take workers' and trade unions' views on VAT seriously.

Invitations to attend the meeting had been sent to a number of other federations and unions, Cosatu added. — Sapa

320 CT 6/7/91

(320) Star 8/7/91 (289)

VAT on health care slated

By Jacqueline Myburgh

If enough people make representations to the Department of Finance on the subject of VAT on medical services, they may be forced to reconsider, the Consumer Council has said.

"It happened with municipal rates: there was such an outcry that, though it formed part of the draft Bill, it was scrapped," the council's Daan Kruger said.

The council was shocked when it was revealed that medical costs would be subject to VAT, as the Margo Commission report and the White Paper had suggested they should be excluded. Health care is currently not subject to GST, and the impression had been created that it would be exempt from VAT.

"If they impose VAT on health care it will become a hazard to fall ill, and people will be afraid to use medical services," Mr Kruger said.

Consumer Council director Jan Cronje said the possible advantages of VAT could be compared with the disadvantages

In its submission to the VAT Committee, the council supported its introduction on condition that the rate be set at 7 percent.

In the current economic situation and with continually rising costs on a broad front, VAT would take health care beyond the reach of most consumers, Mr Cronje said.

Revenue dismisses calls to drop VAT on Krugerrands

BDay 8/7/91 (320)

GILLIAN HAYNE

GOVERNMENT's argument that it could not justify taxing white bread while allowing an exemption for Krugerrands is treated with sympathy but disbelief by gold dealers.

SA Gold Coin Exchange chairman Eli Levine said since the first mention of VAT on Krugerrands, sales of the coins from the Rand Refinery — one of the two outlets of new Krugerrands — had dropped 95%.

SA Association of Numismatic Dealers vice-president Eddy Absil said by placing VAT on Krugerrands, Revenue would be "demonetising" the unit. Demand would drop, leading to a general decrease in the demand for gold. This would jeopardise the struggling industry, and harm workers.

He added that if South Africans did not support their own gold market they could not expect the world market to buy gold.

Inland Revenue chief Trevor van Heerden said it was an overreaction to say VAT on Krugerrands would jeopardise the gold industry as sales of gold coins formed a very small part of the industry.

He added that sales of gold coins had dropped dramatically over the past five years, and not only since the announcement of VAT on Krugerrands.

The argument that VAT would affect the export market was also inaccurate as exported Krugerrands would be zero-rated.

He said there was no chance of the treatment of Krugerrands changing before the introduction of VAT on September 30.

But a Reserve Bank spokesman said it was still waiting for a directive from Revenue on the treatment of new Krugerrands.

"Second-hand" Krugerrands — those bought anywhere except from Rand Refineries or the SA Mint — will be subject to VAT. But, as Levine pointed out, with gold coins defined as "second-hand goods", dealers buying coins from individuals would be able to claim a notional input tax credit on the price paid.

Thus, although Krugerrands sold by the Rand Refinery or SA Mint would have to carry the full 12% VAT charge, the values of second-hand coins would not be affected by VAT.

Assuming a coin was worth R1 000, the dealer would be able to claim an input tax credit of R107,14. He could sell the coin on for R892,86 plus 12% VAT (R107,14) thus maintaining its price of R1 000.

Absil said Krugerrands, like shares, were traded on the JSE. As shares were exempt from VAT it would be inequitable to tax what was in effect just another investment vehicle.

By law Krugerrands were legal tender. The fact that VAT legislation specifically excluded Krugerrands from the definition of money was totally wrong, he said.

THE MONEY MARKETS by Andrew Gill

Some red faces over unexpected shortage

BDay 8/7/91

THERE were a few red faces in the corridors of the Reserve Bank early last week after an oversight resulted in an excessive shortage appearing out of the blue.

The problem, you see, is that they had forgotten platinum mines paid tax in June. This apparently accounted for a large amount of the money drained through tax cheques.

As a result the shortage clambered to over R3,5bn — its highest level since last October — and left a few people wondering whether Reserve Bank Governor Chris Stals had decided to exterminate the inflation bug in one fell swoop.

The week is probably best relegated to memory as an enormous booboo by the protector of the internal and external value of the currency.

To cap it all, they managed to roll over R600m in special TBs in the two days that the tax cheques came through — better luck next time! The mess is expected to result in a slowing of the Bank's recent activity in issuing special TBs and undertaking dollar swaps.

If the Bank is looking at a shortage of about R2bn, a fair amount of maturities have to filter through before more issues are made.

Gold and foreign reserve figures could have suffered from the Reserve Bank's consistent use of dollar swaps. Friday's figures showed a sizeable 10% decline in forex reserves, part of which analysts said was due to the swapping.

The Bank's balance sheet shows another significant movement. In June, deposit-taking institutions deposits at the Reserve Bank fell 22% (R346m) to R1,2bn. The falls are likely to have occurred as a result of the lower reserve requirements that have been phased in since March which are due to be completed towards the end of the month.

This was, however, largely ~~countered~~ by the amount of discounted bills at the end of June, up by a fairly large R281m (12%) during the month.

Another liquidity boon mentioned in the Bank's Quarterly Bulletin was forward cover losses. In the balance sheet, other assets (largely forward cover losses) grew by R328m in one month to top R13bn.

Other than the oversight, another deadly quiet week was had by all, with dealers looking enviously at their capital market colleagues who managed to move rates down on whispers of Japan dropping sanctions.

Some market players are wondering whether Bank officials are having a general bout of amnesia because of the still-elusive circular 11. Two weeks after being told that circulars 9 & 10 were to be scrapped, treasurers are still waiting.

Thousands face tax penalties

B/Day 320

GERALD REILLY

PRETORIA — Fewer than one-third of the 850 000 income tax returns posted this year were returned in time for the end-of-June deadline, Receiver of Revenue figures show.

Inland Revenue chief director Chris Dempers said yesterday the original deadline of June 4 was extended to the end of June because of difficulties some taxpayers had getting their IRP5 forms from employers.

Dempers said the situation was more serious than last year.

Economists said at the weekend the low rate of returns was a symptom of SA's stagnant economy.

Econometric economist Tony Twine said the situation could be a manifestation of a tax revolt against high levels of taxation.

Three years ago, about the time of the submission of the Margo Commission report on tax reform, then Deputy Finance Minister Kent Durr warned that goverment faced a tax revolt unless the system was overhauled drastically.

A breakdown of the estimated 4-million taxpayers — excluding businessmen and farmers — shows about one-million are on the tax register and have to submit returns, and nearly three-million are SITE payers. B/Day 8/7/91

The number of SITE payers increased sharply in the 1991 tax year after the raising of the threshold to R40 000.

Dempers warned defaulters they exposed themselves to penalties for late submissions.

The largest percentage of defaulters were in the major urban areas: in Johannesburg only 28% of 114 000 taxpayers had made returns, in Pretoria 27% of 97 000, in Cape Town 28% of 78 000 and in Durban 32% of 106 000.

VAT set to push up building costs by 5%

~~123~~ 32 320 Ct 9/7/91

Business Editor

VALUE ADDED TAX (VAT) will push up the cost of new homes by at least 5%, say Stellenbosch building economists W F Kilian and G J J Snyman.

In a report issued by Medium-term Forecasting Associates (Cc), they say that although tender rates are likely to be lower after September 30 the addition of VAT will raise the price paid by the customer above present levels.

Warning that "the introduction of VAT will have far-reaching effects on the building industry," they say they have quantified its effect on the Haylett Formula — the provision for builders to adjust contract prices — and tender prices.

"It is known that because of certain VAT tax credits granted to contractors and the elimination of general sales tax (GST) on building materials and plant and equipment items, tendered rates can be adjusted downwards after September 30, 1991.

"It is also known that the degree of competition in tendering is assuming cut-throat proportions and that the non-residential building market is still firmly in the contractionary phase of the building cycle.

"By the time that VAT is introduced competition in tendering will be even more stringent than at present — this will ensure that savings on input costs will be reflected in relatively lower tender prices."

But, they warn, "VAT will then be added on to contract prices as a separately identifiable sum.

"Therefore, notwithstanding the fact that contractors' input costs will decrease at the point that VAT is introduced, building costs to the employer/ client/homeowner will rise by a minimum of 5%.

"If professional fees are taken into account the rise will be roughly 6%."

This, they explain, is because "VAT is payable on all materials, plant, labour, overheads, contractors' profits and even on consultants' fees."

Applying these percentages to home-building, they say, "one can calculate that the cost of a new R100 000 house will rise to about R105 000 after VAT is introduced.

"The cost of a R150 000 house will rise to at least R157 000."

In view of this, they advise, "build now while labour and materials are in abundant supply and before the additional VAT increases become effective."

VAT 'will bring relief to industry'

GILLIAN HAYNE 320

INDUSTRIAL insurance costs could fall by 11,5% after the introduction of VAT, says machinery valuators Dunlop Heywood director David Read.

This could rise to 16% if the 5% cut in the import surcharge announced earlier in the year were taken into consideration.

Read said that as a result of the lower cost of replacing factory equipment, insurance premiums should fall overnight on September 30.

Under the VAT system, companies will be allowed to claim full input tax credits — refunds from government on VAT paid on their inputs — on capital and intermediate goods.

Although costs of plant replacement had increased between 2% and 18%, the overall balance by the end of the 1991/1992 financial year would see a reduction in real costs.

Read warned, however, that the 11,5% saving could diminish with fluctuations in the value of the rand, and overseas and local inflation.

"Assuming no other economic and political factors bedevil the situation, industrialists will obtain cost relief," he said.

B/Day 10/7/91

VAT likely to add 6% to building costs

Bibau 10/7/91

320

THE introduction of VAT on September 30 will have far-reaching effects for the building industry, say Stellenbosch building economists Medium-Term Forecasting Associates (MFA).

"Because certain tax credits are granted to contractors and GST will be eliminated on building materials and plant and equipment items, tendered rates can be adjusted downwards after September 30.

"The degree of competition in tendering is assuming cut-throat proportions, with the non-residential building market still firmly in the contractionary phase of the building cycle."

By the time VAT is introduced, tendering competition will be even more stringent, which will ensure that input cost savings will be reflected in relatively lower tender prices, it says.

VAT will then be added to contract prices.

Despite the fact that contractors' input costs will drop when VAT is introduced, building costs to the employer, client and homeowner will rise at least 5%, MFA predicts.

Once professional fees are taken into account, the increase will be about 6%.

MFA specialises in forecasting indices of the builders' contract price adjustment provisions (the Haylett Formula) and tender prices. 10/7/91

MFA quantified the effects of VAT on the Haylett Formula and tender prices after a series of VAT seminars arranged by Bifsa and other professional bodies.

TEMPTING TAX TREATIES

FM: 12/7/91 (320)

Ray Eskinazi is international tax partner at Ernst & Young.

A recent OECD symposium entitled "Taxation and International Capital Flows," concluded that tax incentives are inefficient, ineffective and unimportant in attracting inward investment and are generally undesirable because they add to the overall complexity of the tax system.

On the other hand, it was recognised that bilateral double tax treaties encourage international investment flows by creating certainty for investors and reducing the double taxation of profits.

So one of the factors a potential foreign investor is likely to take into account is whether his home country has a double taxation treaty with SA. South Africa has concluded only 22 treaties — those with Canada and the US are abrogated — and most of them are based on the model convention of the OECD. SA should, therefore, extend its treaty network without delay, especially as negotiations are often protracted.

The OECD model is based on the assumption that there is a reciprocal flow of investments between two countries and that they are at the same stage of economic development. However, where the partners are a developed and a developing country, the flow of income is predominantly from the latter to the former.

Some different international institutions and organisations suggest a new framework is needed for this situation both to stimulate inward investment and protect the legitimate fiscal interests of developing countries.

The OECD model generally grants to the investor's country of residence the right to tax the most significant forms of income, while granting the country of source the right to tax only certain types of trade income. In certain instances treaties provide for a shared right to tax which is, however, limited for the country of source. Double taxation is generally prevented by means of a unilateral tax credit in the investor country.

It must be remembered that many developing countries, including SA, tax on the basis of territoriality, not on the principle of worldwide income and, consequently, do not tax income from foreign sources.

Recommendations made to address the imbalances between developed and developing countries in a treaty include the method of total tax exemption by the country of the investor or the allocation of exclusive and unlimited taxing rights to the country where the source of income is located.

In negotiating tax treaties, a developing country should incorporate the advantage of tax sparing, especially where the country is seeking investment from countries that tax on the worldwide basis, but grant taxpayers a credit that can be offset against their own local tax to compensate for the tax paid on the foreign source income.

A treaty with tax-sparing provisions would allow the tax, which would have been levied by the developing state in the absence of special tax reliefs, to be offset against the liability of the foreign investor in its home country.

Such a provision is clearly of great benefit to both the developing state and the foreign investor, since the investor's home country is effectively subsidising the investment by surrendering its taxing right on income that is already subject to preferential tax treatment in the developing state. The conclusion is that, to be effective, investment incentives should at least be accompanied by tax-sparing provisions in a double tax treaty.

In granting a tax-sparing credit, developed countries will evaluate its effect on investment and measure this against revenue forgone. Japan, which is one of the countries with which SA does not have a double tax treaty but is potentially a large foreign investor, uses the following criteria to determine the kind of tax incentive measures for which to grant tax sparing.

They should:

- Not be too broad — they must be characterised as special development measures;
- Cover manufacturing industries which have close ties with the local economy and not financial or other industries that tend to specialise in external transactions;
- Be of limited duration, so that a certain ceiling is set on the amount of revenue forgone. Otherwise, a limitation on the period of applicability will be placed on the tax-sparing credit itself; and
- Be simple, so that the amount of the tax-sparing credit can be calculated without much difficulty. Such measures include a tax exemption or a reduction in the amount of tax at a certain percentage, while measures such as accelerated depreciation do not usually qualify for tax sparing because of their complicated calculation.

City in no rush to go for VAT

CT 12/7/91 (320)

Staff Reporter

ONLY 12% of businesses in the city have so far applied to be registered under the value-added tax (VAT) system, which comes into operation on September 30.

A spokesman for the Receiver of Revenue said the response in other centres had been equally slow, prompting fears that a last-minute rush would cause administrative backlogs.

Prospective vendors were given until July 16 — only four days' time — to return their registration forms.

Inquiries are being handled by a special VAT section on 45-7160 and 45-3411.

Cosatu to meet Barend on VAT

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W/Mail 12/7 - 18/7/91.

The Congress of South African Trade Unions is to discuss concerns over VAT with Finance Minister Barend du Plessis. A united union front on the issue is also possible.

By DREW FORREST

A HEAVYWEIGHT Congress of South African Trade Unions team is to meet Finance Minister Barend du Plessis next week to vent deeply felt union concerns over the looming introduction of Value-Added Tax.

The meeting takes place against the background of a Cosatu central executive committee decision to refuse to pay VAT on union subscriptions. Also on the cards is a Cosatu campaign, focusing both on the subscriptions issue and the levying of VAT on basic foodstuffs which are currently GST-exempt.

A Cosatu spokesman added that the new tax would be on the agenda of the federation's impending national congress and its talks on the economy with the state and employers starting next month.

There is also a possibility of a united union front on the issue. After a Cosatu approach to a range of unions, the national executive of the 200 000-member Federation of Salaried Staff Associations (Fedsal) is to discuss whether to participate in the talks with Du Plessis.

Cosatu's team will include general secretary Jay Naidoo and the National Union of Metalworkers' Bernie Fanaroff.

The federation estimates that VAT will push up members' subs by up to 12 percent if affiliates are to maintain their financial position. This is seen as particularly objectionable given the tax breaks planned for business on machinery purchases.

A sharp rise in subs because of VAT may well increase pressure for pay increases, particularly if workers know of the benefits for employers.

It is understood that Cosatu will argue for a zero-rating of subscriptions, much as if it were a welfare organisation. There is a significant similarity in that both are associations not for gain and exempt from income tax.

The union team will also point to international precedents for the exemption of unions from VAT.

PROPERTY COSTS

THE VAT RACE

FM 12/7/91 (320)

If you can't beat them, join them — and see if you can beat them that way. Value-added tax (VAT) looms within three months and a tidy cottage industry explaining all the implications has arisen in most sectors. Property is no exception.

VAT seminars have been well-subscribed and the SA Institute of Estate Agents will include a session on the new tax at its annual convention next month. And Sapoa will be holding a series of VAT workshops around the country in weeks to come.

In the majority of cases, the value of the sessions will be that they offer some reassurance that VAT is not the ogre many fear. Of course there are going to be administrative hassles in the changeover from the GST system (which had no direct impact on property) to VAT. In few cases, one-off price hikes will almost certainly result. But, in general terms, there should be no panic buying or selling of properties ahead of the September-end deadline for implementation.

VAT specialist Michael Stein recently addressed clients of brokers Baker Street Associates and had this to say: "There is still considerable confusion and misunderstanding about VAT in the property fraternity. There is often a general perception of the system, but much of the detail needs to be filled in.

"There are, of course, those who feel they can rely on computer programs to do their thinking for them. The hitch is that while computers will process the information efficiently they won't tell the businessman whether he'd be better off proceeding with a transaction now or post-VAT."

Stein found that one of the biggest concerns relates to just that issue: timing. "There are several key considerations, not least is whether either or both the buyer and sellers are registered vendors. It must always be remembered that private sellers never charge VAT."

He added that any property sale subject to VAT is automatically exempted from transfer duty. The buyer — when he and the seller are both registered vendors — will thus recoup the tax as a credit and pocket the transfer duty (5% of the value in the corporate environment and a little less, worked on a sliding scale, for individuals).

On a R100 000 property, for example, the buyer now pays R105 000 (including transfer duty). From October that will rise to R112 000, but the R12 000 will be recouped. "When dealing in multimillion rand transactions that's a significant difference," Stein commented.

"The advice in such cases would be to postpone. The imponderable is not the tax but that other property transactions and capital purchases are also being postponed — and that could temporarily skew the market."

In the case of a registered vendor buying a second-hand property from a private seller (where no VAT is applicable), a notional VAT component comes into play. On the R100 000 property the buyer will thus be entitled to a deduction of that notional VAT; so the price is actually reduced. This measure was probably introduced to assist the second-hand car market. Again, though transfer duty is still applicable, it pays to postpone.

One of the few cases where it may be inadvisable to postpone buying would be where premises (residential or non-residential) are bought by an individual from a registered vendor/developer. In this case, though VAT will be added to the price, no credit can be claimed. However, the blow will be softened for the buyer by the fact that no transfer duty will be payable.

Referring to the implications on rented properties, Stein stressed that VAT is only charged by VAT-registered landlords (obligatory where turnover exceeds R150 000) on all non-residential buildings such as shops, offices and industrial premises. "Overriding that is the fact that long-term residential accommodation is exempt, irrespective. VAT is, however, applicable to short-term accommodation — such as holiday apartments."

The result, he said, is that a VAT-registered landlord cannot charge for long-term residential accommodation and cannot claim credits for expenses incurred in the administration and maintenance of such properties.

The bottom line — when it comes to who, what, why, when and where VAT is paid — is that one should forget about peripherals such as whether property is new or second-hand. Rather concentrate on whether or not a registered vendor is behind the transaction — and whether a rented property is for business or residential purposes. ■

INCOME TAX FM 12/7/91

INTEREST UNDER FIRE

A recent unreported judgment of the Transvaal Special Income Tax Court decided that interest paid on a negotiable certificate of deposit was incurred on a day-by-day basis. As a result, the borrower was not entitled to claim a deduction for all the interest up-front (*Economy* May 31). The same approach was adopted in relation to promissory notes in the unreported "plantation case." 320

There has now been an important practical development. KPMG Aitken & Peat senior tax consultant Noel de Charmoy reports that Revenue has started issuing revised assessments on the basis that interest only becomes deductible when actually incurred over the relevant period of a debt instrument.

This follows Judge Melamet's finding in the unreported cases that an undertaking by a taxpayer — in terms of an instrument of debt — to pay interest which will accrue in future on specified dates does not imply that the interest is incurred in the tax year in which the instrument is issued.

This practice will have a serious impact on companies which use promissory notes and bankers' acceptances. It is now advisable to structure these in such a way that the interest cost is "very clearly paid up-front." ■

VAT AND INFLATION FM 12/7/91

Seeing is believing

(320)

Inflationary expectations could add to the start-up costs

Inflation has been feeding on fears about VAT — well ahead of its introduction on September 30. SA Chamber of Business chief economist Ben van Rensburg suggests that pre-emptive price rises are already taking place and have played a part in recent disappointing increases in the consumer price index.

Certainly, there has been a puzzling discrepancy between producer prices on some items — like food — and consumer prices as a whole. Despite the drop in fuel costs towards the end of last year, there has been no resumption of the falling trend in CPI, which seemed firmly in place until mid-1990.

May's 12-month increase was even higher than April's: 15,2% against 14,6%.

Because inflationary expectations tend to be self-fulfilling, the potentially inflationary factors involved in replacing GST with a more broadly based system must be seen in perspective.

It is generally estimated that the initial impact of VAT will be an additional two percentage points in the rate at which consumer prices rise over 12 months, starting in October. This is despite a lower rate — 12% compared with GST's 13%. The reason, says Sanlam chief economist Johan Louw, is that GST applies to only about 50% of the CPI while VAT will be imposed on 70%-75%.

Sacob's Van Rensburg ... *some price rises are pre-emptive*

Price increases, moreover, may be accentuated by the decision to include the tax in the final price — add-in as opposed to add-on. Businesses are at liberty to display the price before tax, what the tax is, and the final price — but are not obliged to. Some people, notably Pick 'n Pay chief Raymond Ackerman, argue that the authorities have handed business the opportunity to slip in additional price increases. Though a monitoring body has been set up to counter this tendency, the task is clearly Herculean.

Whatever the outcome in October, the sharp rise that month should be a one-off event, though its effect will be reflected for another 12 months. Businesses may use the occasion to add to margins but VAT is not a carte blanche for endless price hikes.

Decisions on pricing have always been constrained by the response in the marketplace and this will continue — unless, as researcher Alan Tait points out, "the enactment of VAT were accompanied by the repeal of the law of supply and demand."

(This view is supported by economist Lawrence Haar, who argues further that consumers will not carry the entire burden of the tax: "In a competitive market, suppliers will absorb part of the additional cost.")

Inflation, by definition, occurs when prices climb continuously. So only a further acceleration after October could be defined as inflation.

Whether this happens will depend on perceptions. Unfortunately, expectations could set in motion another round of an inflationary spiral. Old Mutual chief economist Dave Mohr comments: "The economy is informally indexed to the CPI so the higher base will feed into decisions on prices and wages."

But there will be a major antidote at work in the VAT system — all input purchases are tax-deductible. Credits are claimed at each stage of the production process, so the tax is not compounded like GST, where capital and intermediate goods are caught in the net.

An extension of this is that the new dispensation provides an incentive for business to make real fixed investment. After the huge slump in capital expenditure during the Eighties, fresh investment is essential for sustained economic growth.

When it takes place it will boost the economy in two stages: an initial impact on sectors directly involved, such as construction; and a subsequent spin-off in increased efficiency, which means lower costs. There would be no better cure for inflation than a redress in the balance between supply and demand which, in recent years, has tipped heavily in favour of the latter.

In a sense, then, the start-up cost of VAT can be described as the present discounted value of inflation that would have occurred in future were VAT not introduced.

Neither the immediate impact of taxing a wider range of goods nor the deferred effect of lower input costs along the production chain are easily measurable. It is almost impossible, says Tait, to link VAT to "the change in prices, efficiency, investment or employment. There are usually too many variables to relate one uniquely to another."

The best precedent, says Van Rensburg, is New Zealand — on whose model SA's system is based. The impact of the goods and services tax, which replaced a wholesale tax in October 1986, was estimated at a once-off 5%. The projection was higher than that for SA because the tax it replaced was not as wide-ranging as SA's — which, says Van Rensburg, is one of the broadest in the world.

Introduction in New Zealand was preceded, Tait says, "by an extensive advertising campaign to reduce public fears about price increases and contain any attempt by traders to take advantage of uncertainty to widen margins. It was estimated that about half the 10% VAT rate would be needed to replace the previous sales tax: this left about a further 5% net to be reflected in higher prices.

"As it turned out, some traders did increase margins. The actual turnout for the first quarter after the introduction was a price increase attributable to VAT of 6,5%. Government confidently expected inflation to return to the previous trend in successive quarters, as it did, so that the introduction of VAT can be seen, not as inflationary, but as a once and for all blip."

Pick 'n Pay's Ackerman ... *a loophole for mischief*

GET YOUR *FM* INDEX

The *FM* index is no longer distributed with copies of the magazine, but it will continue to be produced monthly. Readers who would like to receive it free of charge should write to: The Editor, *Financial Mail*, Box 9959, Johannesburg 2000, or telephone Lyn Hill on 497-2400/1 and it will be mailed directly to them. The index is produced as a service to readers and the *FM* wants those who find it useful to have unrestricted access to it.

Tait examined changes in CPI, credit and wages in 35 countries, for two years on either side of the introduction of VAT. He found that in 22 countries there was little or no effect. In seven countries there was a pronounced shift (a one-off change shifted to consumers) in the trend of the CPI; and, in five countries, an acceleration.

"In only one case (Norway) was a shift unambiguously combined with an acceleration in the rate of change of CPI," he says.

As a VAT start-up never takes place in isolation, it is not possible to make absolute conclusions about its role in price increases that occur simultaneously. In some countries, says Tait, it coincided with massive upheavals after sharp oil price increases in the Seventies — Austria, Bolivia, Italy, Honduras, Israel and Peru. In others it occurred when price control was in place — as in Belgium (1971) and the UK (1973).

Nor is the introduction in one country directly comparable with another. VAT may be designed to increase revenue or simply, as in most cases, to replace existing taxes. In that case the effect depends on a complex mix of increases and reductions in a variety of different types of tax.

Another factor is the anticipated outcome. Government will attempt to keep price increases within a certain target with methods that range from moral suasion to price control. Likewise, consumer resistance will stiffen when prices are felt to rise excessively.

The problem in SA is the highly inflationary environment. It is easy enough for expectations of higher inflation to take root and flourish, because the problem is deeply entrenched. Economic policy was unpredictable for too long, the monetary stance volatile, and attempts to maintain a consistent and co-ordinated policy too recent. Moreover, the switch to VAT has come at a bad time, when a number of events are adding to inflationary expectations (*Leaders* June 7.)

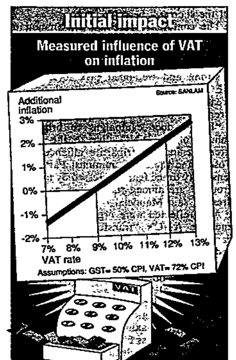
It was no doubt precisely for this reason that Finance Minister Barend du Plessis last week put out a press release designed to dampen those expectations. "The changeover," he says, "should cause little or no change in the CPI, according to the IMF." This bald statement will no doubt cause confusion, in the face of a general "about 2%" consensus on the initial impact — which includes an estimate by Central Statistical Services.

Old Mutual's Mohr ... *fears of a vicious wage-price circle*

Du Plessis could be right — but only if VAT is not passed on to the consumer. If money supply is not increased to accommodate the increase in prices, says Tait, aggregate demand should fall "because of other exogenous factors." Traders would then be forced "to absorb the VAT, passing back its burden in lower factor rewards."

Another description of this situation is that the reduction in the distortionary waste generated by the tax system behaves like a rise in aggregate output. The demand for money should therefore rise and, as long as this is the only effect upon the demand for money, and the supply of money is unchanged, the overall price level should fall. Clearly, this can't happen unless wages are downwardly flexible — which is not the case.

A more likely outcome is that, once unions realise the redistributive effect of this regressive tax, they will push for further wage increases. By taxing at a flat rate, sales taxes take from the poor a greater proportion of their income than from the rich. The only way to counter this would be to press for wage increases higher than inflation.



Tait cites two preconditions for VAT to be inflationary: an accommodating credit policy and a determination by labour to maintain existing standards. In the case of SA's labour force there is more: a determination to *improve* standards — with good reason, given the history of black workers. This drive could make an important contribution to the dynamism of the economy.

But if VAT is used to justify accelerating wage increases with no matching increase in productivity, it may well have a more enduring effect on the price level than simply a start-up cost.

VAT, with luck, will stiffen employers' resistance to inappropriate wage demands. It doesn't penalise capital investment. Though this may disadvantage workers in wage bargaining, it will benefit them eventually, along with everyone dependent on the vitality of the economy.

Unfortunately, the benefit will work its way through gradually so will not be easily identifiable, while the adverse consequences will be immediately obvious. This strategic problem faces any government intent on renovating a tax system. It will be solved by time as long as a firm monetary stance is maintained and there is no breakdown in the co-ordination of economic policy.

One final point must be made on the inflationary potential of the new tax. Says Ben Terra, professor of law at the University of Amsterdam: "The rather high yield of a VAT can be reached in a fairly painless or at least an almost unnoticed way. VAT is hidden in the price, based on a tradition of concealing (sales) taxes." This minimises popular resistance to tax increases.

Government's propensity to consume an ever-increasing portion of GDP is well known. The fiscus should not be allowed to exploit the new system to this end or the fight against inflation will surely be lost. ■

VAT and Your Business

THE NINTH in a series of articles on VAT deals with some problems experienced by members of the public.

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 price of the expanded manual is R69,95 (excluding GST) plus R5 postage and handling fee. It is available from: VAT: Levenstein & Partners, Box 18600, Hillbrow 2038.

Only a few escape net

S/Times (Buss Times) (320)

14/7/91

IN SPITE of much information being provided about VAT, correspondence from the public shows the average consumer is ignorant of its effect on his or her everyday transactions.

The main causes of concern are:

- All medical expenses, such as doctors' fees and hospital accommodation will carry 12% VAT. The Medical Association of South Africa has approached the Government for exemption, but there has been no final decision.
- All domestic rentals of residential properties, such as flats, will be exempt from VAT.
- Telephones, postage stamps, water, lights and sewerage charges will be vattable. This is unlikely to be inflationary because business is the largest user of the services. If businesses are registered vendors they will get this back as input credits.
- Entertainment expenses, such as cinema and theatre tickets, will carry VAT.

But entertainment provided by non-registered vendors, such as school plays, will not be taxed. Businessmen will not be allowed input credits on entertainment unless incurred while away from home overnight.

- Domestic air fares will carry VAT, even if a flight for after September 30 is booked and fully paid before that date. International fares are zero rated and services provided by travel agents, such as obtaining visas, should also be zero rated.
- VAT will be payable if a timeshare unit or shareblock is bought from a registered vendor, but will not be if it is bought from a non-vendor.

No VAT will be payable if the agreement is concluded before September 30 and the transfer only goes through afterwards.

- Krugerrands will be liable for VAT if bought from a registered vendor, such as a bank or the gold coin exchange. The Act provides for coins made mainly from a precious metal, other than silver, to be excluded from the definition of money, and so they are taxable.
- Attorneys and advocates registered as vendors will have to charge VAT. It can be claimed as an input credit by businesses. However, money lodged with them in a trust account is not taxed until it is withdrawn and used to pay for services.

Gambling

- Short-term insurance premiums, such as household and all risk, will be liable to VAT. But long-term insurance, such as life policies, retirement annuities and endowment policies, are exempt.
- Betting on horseracing will be taxed, but winnings are VAT-free. Winnings on other forms of gambling fall within the definition of supply. Because gambling is illegal in SA, it is unlikely a gambling den would register as a vendor. So gambling will be VAT free.
- Gratuities for services rendered, such as a tip to a waiter, will not be subject to VAT.

TBVC states in line for Vat handouts

S|Times (Buss Times) 14/7/91

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By TERRY BETTY

VAT HAS opened another channel for disguised handouts to the TBVC states.

SA will administer the Vat systems for Transkei, Venda and Ciskei for free. Bophuthatswana has hired experts from Britain to implement its system.

All four will have access to SA legislation, forms and explanatory literature and their public servants are being trained by SA officials.

Under Vat there will be a net outflow of funds from SA to the TBVC states in the form of input credits because they buy more from SA than they sell to it.

A central clearing house will be established to facilitate these transfers.

Because it would be prohibitively expensive to calculate the exact amounts involved, the credits will be a function of gross domestic product, imports and exports of each state, says Central Statistical Service deputy director Hilda Botha. The amounts involved are not known because the formula has not been agreed on.

All the TBVC states will introduce Vat on the same date and at the same rate as SA. Inland Revenue chief director Trevor van Heerden says that because the TBVC states have no border controls with SA, they are the only ones to which SA exports are not zero rated.

The nominally independent TBVC states had little option but to follow SA and charge the same Vat rate.

"Had they not done so they would have received no input credits from SA," says Mr Van Heerden. "They would still have had to charge their own GST. This would have had disastrous inflationary effects and would have made their goods less competitive.

"They are similarly prevented from reducing the Vat rate below that of SA because they would then receive proportionately less credit from us."

The advantage for the SA receiver of having the same system in all the TBVC states is that it is more easy to police.

VAT on the legal mat

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Star 15/7/91

RETAILERS, from giant supermarkets to corner cafes, have underscored September 29 in their business diaries in readiness for their most hectic Sunday on record.

While most families bask in their gardens at the start of a new spring season, store-owners and shopkeepers will be calling all hands on deck to tackle a massive exercise that will make the annual Christmas shopping pandemonium look like a picnic.

All staffers will be assembled for a D-Day pep talk.

The assignment to everyone from manager to counter assistant: alter the price label on every single item on the shelves and in the sales rooms — from toothpaste to fridges and bedroom suites.

Electronic tills will need to be reset. Computers will have to be reprogrammed.

Every move will be scrutinised through the binoculars of the Vatwatch Committee to ensure that by dawn all trace of GST has disappeared.

Behind the binoculars will be Professor Louise Tager, who has been named chairman of the special Vatwatch Committee created to act as ombudsman in ensuring that everyone follows the rules, and consumers are guaranteed a square deal.

When customers flow back in on the Monday to shop, the new prices on the labels will raise eyebrows.

Shopping, from September 30, will never be the same again. Consumers will have to start learning a new set of shopping guidelines: the price they see on the label is the price they will pay.

No more 13 percent GST additions on most bills at the pay tills. Instead, almost every item will already have had the 12 percent VAT tax built in.

VAT will not only cover food baskets. It will be on everything from cars to electricity bills.

Once the big switchover has been completed, shopping will never have been easier, say Government tax mandarins.

Perhaps. But the average consumer may well have good reason to be fretful about the risk of skulduggery by profiteers snatching the chance to make a fast buck out of all the confusion.

On alert . . . Tager.

As the September 30 GST-to-VAT switchover approaches, a prominent legal eagle readies to keep a close watch on the rules of fair play and see that there is no skulduggery when price labels are all changed. By MICHAEL CHESTER.

How many housewives will have taken note of pre-VAT prices and cross-check against the new ones. And how many more times will they be baffled by gobbledygook about sudden surges in inflation?

What's to stop a wave of exploitation by salesmen who know full well that most consumers will never be able to work out what's what? Who won't end in utter confusion if they dare pose questions about subtle shifts in tax percentages?

Fortunately, Vatwatch will still be watching.

Woe betide any retailers who have tried to sneak in a couple of fast moves to rig the changeover in the commotion.

There may be a few *skelms* in the retail world who will be tempted to snort at the chances of being caught redhanded if they throw in a trick or two with price manipulations.

There may be a chuckle or two when they learn that the surveillance is in the hands of a fashion pin-up whose elegance earned her a place among South Africa's 10 best-dressed women a few years ago.

They will snicker at their peril. Behind the petticoats and glamour is a determination that has staggered even the most hard-bitten opponents that Professor Tager has encountered in a career as a legal eagle and champion of fair play.

Rather than concentrate on triumphs in suburban gardens and in the world of high fashion, a better profile of the Vatwatch supremo begins with her feats at university.

There was a pause after collecting a Bachelor of Arts degree at the University of the Witwatersrand in 1965 while she married and started a family.

She returned and not only collected a Bachelor of Laws degree but was also selected by the Society of Advocates as the most outstanding graduate of 1970.

By 1978, now with a Master of Laws degree from Harvard Law School to add to her gongs, she was Professor of Law at the Wits School of Law — and by 1981 had become the first woman on record to be made Dean of the Faculty of Law at any South African university.

Professor Tager entered the public arena in earnest when she was appointed executive officer of the the Law Review Project launched by the private sector in 1985, and declared war on apartheid.

The brief was to tackle the legislative and administrative structures at work in South Africa and advocate changes that would establish a fairer base for a just and progressive society.

Smirks about Houghton petticoats vanished when Professor Tager climbed aboard the bulldozer that was set in motion to demolish the entanglement of bureaucratic red-tape that apartheid used to stifle black business initiative.

She would never seek credit, but she gained a reputation as one of the main driving forces behind the pressures that cleared the way for the creation of the vast informal sector that allowed black entrepreneurs to join the economic mainstream.

She was also involved in Small Claims Court concept. □

Using VAT as a marketing tool

(320)

BDay 15/7/91

GILLIAN HAYNE

VAT is not just an accounting and administrative problem, it is a strategic issue which companies should use to gain a competitive advantage, says Coopers Theron du Toit's Kevin Fagan.

Most companies would see profit margins increasing after the introduction of VAT on September 30 because of the refunds claimable on their inputs, he said. Therefore companies should negotiate with their suppliers and customers to pass on rather than pocket the benefits.

"VAT must be used as a marketing tool. Companies must make it their business to understand how VAT affects their suppliers, and force them to pass on those advantages."

IMM executive director James McLuckie said many companies had fallen into the "VAT vacuum" believing VAT would add 12% to their costs.

But with the 1% decrease in the tax rate from GST to VAT and the introduction of input tax credits, most companies would see costs decrease, despite the wider tax base and greater administrative costs.

Enterprises involved in taxable supplies would obviously benefit more than those selling exempt supplies. But even with exempt companies, cost should not rise 12%, McLuckie stressed.

In an example involving a typical exempt enterprise, McLuckie concluded that costs would increase by 1,25% on the introduction of VAT.

"The extent of VAT's impact on any business is directly related to the input tax credits that company can claim. In very few cases could a 12% increase be justified."

Capital intensive companies would gain a greater advantage from VAT than labour intensive companies.

"But even if you cannot benefit yourself, your supplier might. It is your duty to negotiate advantageous pricing agreements created by VAT," he said.

The approach of using VAT as a marketing tool and insisting that the benefits are passed on down the production chain are in line with the aims of VAT Watch.

VAT Watch, headed by Professor Louise Tager, is the committee set up to ensure a "fair implementation of VAT". Its purpose is to create consumer awareness of VAT to put pressure on businesses to pass on benefits.

VAT Watch will be officially launched on Wednesday.

VAT — Top legal ombudswoman to ensure fair play

ARG 16/7/91

In the countdown to the September 30 deadline for the big switchover from GST to VAT, a prominent legal observer has already started to polish the spectacles that will be used to keep close watch on the rules of fair play and see that there ire no underhanded activities when price labels are all changed.

MICHAEL CHESTER of the Financial Staff reports from Johannesburg.

RETAILERS from giant supermarkets to corner cafes have underscored September 29 in their business diaries in readiness for their most hectic Sunday on record.

While most families bask in their gardens at the start of a new spring season, store-owners and shopkeepers will be calling all hands on deck to tackle a massive exercise that will make the annual Christmas shopping pandemonium look like a picnic.

All staffers will be assembled for a D-Day pep talk.

The assignment to everyone from manager to counter assistant: alter the price label on every single item on the shelves and in the sales rooms — from milk bottles and toothpaste to fridges and bedroom suites.

Electronic tills will need to be reset. Computers will have to be reprogrammed.

Every move will be scrutinised through the binoculars of the Vatwatch Committee to ensure that by dawn all trace of General Sales Tax has disappeared.

Behind the binoculars will be Professor Louise Tager, who has been named chairman of the special Vatwatch Committee created to act as ombudsman in ensuring everyone follows the rules and consumers are guaranteed a square deal.

When customers flow back in on Monday morning to start a new week of shopping rounds, the new prices on the labels will inevitably raise eyebrows.

Shopping, from September 30, will never be the same again.

Consumers will have to start learning a new set of shopping guidelines: first and foremost, the price they see on the label is the price they will pay at the check-out counter.

No more 13 percent GST additions on most bills at the pay tills. Instead, almost every single item will already have had the new 12 percent VAT tax built into the final price.

VAT will not only cover food-baskets, of course. The new tax will operate on everything from motor cars to electricity bills.

Once the big switchover from GST to the Value Added Tax system has been completed, shopping will never have been easier, according to the government tax mandarins.

Perhaps. But the average South African consumer may well have good reason to be fretful about the risk of skulduggery by profiteers snatching the chance to make a fast buck out of all the confusion.

How many housewives will have taken note of pre-VAT prices, jotted down allowance for 13 percent GST, and crosscheck their tallies with the new price labels? And how many more times will they be baffled by gobbledygook about sudden surges in inflation?

Professor Louise Tager .. chairman of the special Vatwatch Committee to ensure that consumers get a square deal.

What's to stop a wave of exploitation by salesmen who know full well that most consumers will never be able to work out what's what? Who won't end in utter confusion if they dare pose questions about subtle shifts in tax percentages?

Fortunately, Vatwatch will still be watching when the shopping tills start ringing again on September 30.

Woe betide any retailers who have tried to sneak in a couple of fast moves to rig the changeover in price labels in all the commotion.

There may be a few "skelms" in the retail world who will be tempted to snort at the chances of being caught redhanded if they throw in a trick or two with price manipulations — especially when they hear the rustle of petticoats.

They may exchange a wink about the size of clout carried by a northern suburb mum whose pottering around the garden has won her a string of trophies from annual garden competitions run by the Transvaal Horticultural Society.

And there may be a chuckle or two when they learn the surveillance is in the hands of a fashion pin-up whose elegance earned her a place among South Africa's 10 Best Dressed Women a couple of years ago.

They will snicker at their peril. Behind the petticoats and glamour is a determination that has staggered even the most hardbitten opponents that Louise Tager has encountered in a career as a legal eagle and champion of fair play.

Rather than concentrate on triumphs in suburban gardens and in the world of high fashion, a better profile of the Vatwatch supremo begins with her feats at university.

There was a pause after collecting a Bachelor of Arts degree at Wits University in 1965 while the young graduate married and started a family. The legal eagle was hatched when she returned and not only collected a Bachelor of Laws degree (Cum Laude) but was also selected by the Society of Advocates as the Most Outstanding Graduate of 1970.

By 1978, now with a Master of Laws degree from Harvard Law School to add to her gongs, she was Professor of Law at the Wits School of Law — and by 1981 had become the first woman on record to be made Dean of the Faculty of Law at any South African university.

Professor Tager entered the public arena in earnest when she was apLpointed executive officer the the Law Review Project that was launched by the private sector in 1985 and declared war on apartheid.

The brief was to tackle the legislative and administrative structures at work in South Africa and advocate changes that would establish a fairer base for a just and progressive society.

Smirks about Houghton petticoats vanished when Professor Tager climbed aboard the bulldozer that was set in motion to demolish the entanglement of bureaucratic red-tape that apartheid used to stifle black business initiative.

She would never seek credit, but she gained a reputation as as one of the main driving forces behind the pressures that cleared the way for the creation of the vast informal sector that allowed black entrepreneurs to join the main economic mainstream.

Acknowledgment of the muscle she could exercise was also seen in her Lelection as a member of the special standing committee that gave birth to the concept of the Small Claims Court that set out to promise a fair deal to all levels of society in legal tussles.

And more confirmation of the muscle came in 1988 when the Minister of Trade and Industry called her in to act as chairman of the Harmful Business Practice Committee that serves as watchdog on business ethics.

There are dozens of companies who have been rapped across the knuckles and can testify to the no-nonsense approach when the issue of square deals comes on the agenda.

In the countdown to the introduction of VAT, consumers can at least feel the assurance that a legal gladiator is all set to begin battle if anyone crosses the thin red line of fair play.

RB request sparks tax fears for non-residents

322 CT 16/7/91

From ROBERT GENTLE

JOHANNESBURG. — Nedbank has been asked by the authorities for information on the earned interest of certain overseas clients, prompting speculation in the market that the government is seeking to tax non-resident accounts.

Should this happen, tax might also be levied on interest earned by non-residents on securities like government or Eskom stock, said market sources yesterday.

This would be a coup for the taxman, who could reap millions in revenue from overseas holders of such securities.

In Eskom stock alone, an estimated 44% (or R10bn) is held by non-residents.

A Nedbank spokesman said: "Some of our overseas clients have been asked by the authorities to provide information on their earned interest, which would seem to indicate the Receiver may be seeking to tax interest."

However, Nedbank was not having dicussions with the Receiver "at this stage" and had no knowledge of any intention to reinstate interest tax.

First National and Absa said they were not aware of any such moves either. Standard said it had heard rumours.

Ian Meiklejohn, director legal drafting at Inland Revenue in Pretoria, said that he had no knowledge of any move to reintroduce the tax on non-resident accounts, which was scrapped in 1988.

He ventured that the speculation in the market might relate to the fact that Section 10 (1) (h) of the Income Tax Act, which exempts foreigners from tax on their holdings in parastatals, is scheduled to be amended.

The amendment, which could result on interest from such holdings being taxed up to the maximum rate of 43%, is scheduled to come into effect on a date still to be decided by the Minister of Finance.

Meiklejohn said it would apply to stock or securities issued by government, local authorities, Eskom, SABC and Transnet.

Star 16/7/91.

Fight over VAT on essentials grows

By Paula Fray (320) and Jacqueline Myburgh

Public resistance to the levying of value-added tax on essentials such as medical services and foodstuffs is growing as the vast scope of the VAT net becomes clearer.

Recent revelations that the switch-over from general sales tax to VAT would more than double the tax burden of low-income families have sparked off grassroots resistance.

VAT will replace GST on September 30.

The Congress of South African Trade Unions has joined concerned consumer bodies in pointing out the heavy toll of VAT on certain services.

Cosatu is set to meet the Minister of Finance on July 23 to discuss the implications of levying the new tax on foodstuffs, medicines and medical services.

The meeting with the Minister precedes Cosatu's national congress on July 24, where the issue will be high on the agenda.

Cosatu spokesman Neil Coleman said: "I don't want to make threats, but at the end of the day, if the workers have to take action they will do so."

Labour Research Services, in a recent study for Cosatu, calculated that with 12 percent VAT, a low-income family would pay between R26 and R38 more sales tax than under GST.

"This, when workers are already living on the breadline," Mr Coleman said.

The Housewives League has come out in support of a Consumer Council call for the public to resist VAT on medical services.

League president Lyn Morris called on consumers

● To Page 3

Star. 16/7/91

Fight against VAT gathers pace

● From Page 1

to write to their local representatives, newspapers and MPs.

The Consumer Council has said it was shocked to find that medical costs would be subject to VAT, because the report of the Margo Commission on Taxation and the White Paper had suggested they should be excluded.

Consumer Council director Jan Cronje said taxed health services could not be defended.

"In the current economic situation and with continually rising costs, VAT will take health care beyond the reach of most consumers," he said.

Mrs Morris said the crux of the matter was that the VAT rate was too high.

Already the Medical Association of South Africa (Masa) and the Dental Association of South Africa have been in continuous consultation with the Minister and his representatives.

The decision on whether medical services will be excluded from the VAT Bill has not yet been finalised. Meetings have been scheduled for early next month.

Masa director for health policy Reg Magennis said he would not comment on the consultations as the ball was now firmly in the Government's court. (320)

In an open letter to the profession, Dental Association president Wynand Dreyer said the association was opposed to the inclusion of health services in the VAT system as "it is morally indefensible and not in the best interest of the broad population".

Retailers may benefit from VAT on wholesalers

320

B/Day 16/7/91

BRENT VON MELVILLE

THE R13bn consumer wholesaling market will suffer far more from the new VAT system of taxation than retailers — which might even serve to shift a portion of the wholesale market to the retail sector.

Industry observers have suggested that wholesalers such as Makro and Metro will be hard hit because the majority of their customers — small independent retailers — had been exempted from paying GST.

"These smaller concerns will have to face up to paying tax and that could put a lot of them under," said one source.

A spokesman for a Natal-based food producer and distributor said VAT could conceivably push some of the traditional wholesale buying to larger retailers such as Pick 'n Pay, where the prices would be largely the same. Wholesalers generally disagreed, saying retailers would still be unable to compete with wholesale pricing.

One smaller Durban-based wholesaler said VAT would almost certainly hit his bottom line because the bulk of his sales were to the informal sector which would be forced to pass costs along to the end-consumer. He said many of the smaller informal merchants in Durban would simply close their doors.

Makro acting MD Michael Rubin said yesterday that VAT would put Makro at a cash-flow disadvantage because of the delay on claiming back input tax.

He admitted it could have a bad effect on sales but said it was largely an educational problem which would be addressed.

A spokesman for Metro said the group was hopeful that there would be a minimal impact on wholesale trade from VAT.

"The end-consumer dictated the volume of the market. "With a reduced number of smaller, informal businesses, other larger retailers may find their turnover up and therefore increase their business with wholesalers."

Request to Nedbank sparks tax fears

B/Day 16/7/91 (320)

ROBERT GENTLE

NEDBANK has been asked by the authorities for information on the earned interest of certain overseas clients, prompting speculation in the market that government is seeking to tax non-resident accounts.

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The amendment, which could result on interest from such holdings being taxed up to the maximum rate of 43%, is scheduled to come into effect on a date still to be decided by the Minister of Finance.

Meiklejohn said it would apply to stock or securities issued by government, local authorities, Eskom, SABC and Transnet.

On the Nedbank inquiry, he speculated that it might relate to inquiries by overseas banks on the 0,75% tax SA banks will soon have to pay on interest income.

Marilyn Visser, gilts trader at stockbroking firm Simpson McKie, said it was important that stability be maintained in the gilts market to ensure that foreign money already in such stock stayed there. Talk about taxation could "upset" that stability.

Bigger pay rises needed to combat VAT effects

320

Argus 17/7/91.

SHARON SOROUR
Labour Reporter

TRADE unions will have to demand five percent more at wage negotiations to combat the effect of Value Added Tax on workers' wages, according to the Labour Bulletin.

The labour affairs journal said the replacement of GST by VAT on September 30 would hit the poor the hardest with employers reaping huge benefits.

"Calculations by the Labour Research Service show that VAT at 12 percent will more than double the sales tax paid by low-income households, which will pay on average between R26 and R38 more.

"This will reduce the money each household can spare for essential goods and services by five percent," the report said.

Unions would therefore have to demand an extra five percent increase at wage negotiations to maintain workers' living standards.

"This is a once-off demand directly as a result of VAT. Unions should be demanding 14 percent for inflation plus another five percent — a total of 19 percent just to maintain the buying power of workers' wages."

While the government was aware that VAT would be a heavy burden on the poor and had set aside R220 million for poverty relief, it had also announced a R45-million cut in spending on job creation and training for the unemployed.

"Manufacturers will get a massive R3,75 billion tax break from VAT as sales tax will not have to be paid on machinery from September 30.

"The government says this will reduce manufacturing and investment costs, consumers will hopefully benefit and more jobs will be created — but this is wishful thinking."

In spite of VAT being introduced at one percent less than GST, the wider coverage of the new taxation system was to blame for workers being economically worse off by five percent.

VAT should be set at a rate of six percent to make it fair on workers

Revenue lost through the lower rate could be raised by special taxes on luxury goods, higher estate taxes, re-introducing tax on dividends and a captial gains tax.

● More labour reports, page 5.

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Married women not much better off in tax stakes

320

CT 17/7/91

JOHANNESBURG. — Married women are not much better off as separate taxpayers, tax experts say.

BDO Spencer Steward tax director Matthew Lester said yesterday married women earning up to R120 000 were paying more tax than married men on the same level.

"The separate assessment system is a tax rape on married women. SA still has the most blatant tax discrimination against marriage," Lester said.

Although the maximum tax rate for married women is 38%, compared with 43% for men, their rebate of R800 a year is far less than the R2 000 for men.

In addition, a married woman earning only R40 00 a year has to pay the top marginal rate of 38% while married men can earn R80 000 before reaching their top marginal tax rate.

In the 1991 Budget speech the separate taxation of married women was completed with the separate taxation of a married woman's investment income.

"The major criticism of the joint assessment system was that married women had no incentive to work. Now we have separate assessment and nothing has changed," Lester said.

In fact, married women are even worse off as they comprise the majority of Standard Income Tax on Employees (SITE) payers. "SITE is a non-refundable withholding tax."

Arthur Andersen manager Peter Todd said that under joint assessment, only 77% of a married woman's income was taxed at her husband's top marginal rate. It gave her a lower marginal rate than the current top rate or 38%.

"High-earning women have been penalised by separate taxation," he said.

Married women 'raped by taxes'

B/Day 17/7/91 (320)

GILLIAN HAYNE

MARRIED women are not much better off as separate taxpayers, tax experts say.

BDO Spencer Steward tax director Matthew Lester said yesterday married women earning up to R120 000 were paying more tax than married men on the same level.

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Incentive

In the 1991 Budget speech the separate taxation of married women was completed with the separate taxation of a married woman's investment income.

"The major criticism of the joint assessment system was that married women had no incentive to work. Now we have separate assessment and nothing has changed," Lester said.

In fact, married women are even worse off as they comprise the majority of Standard Income Tax on Employees (SITE) payers. "SITE is a non-refundable withholding tax. Married women who are SITE payers have lost the option of being assessed — either jointly or singly," he said.

Arthur Andersen manager Peter Todd said that under joint assessment, only 77% of a married woman's income was taxed at her husband's top marginal rate. It gave her a lower marginal rate than the current top rate or 38%.

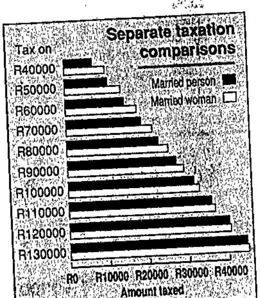
"High-earning women have been penalised by separate taxation."

The separate taxation of married couples opened up the possibility of switching income between spouses to minimise their tax exposure. But an amendment to Section 7(2) of the Income Tax Act closed the loophole.

Should a husband donate funds to his wife, the interest earned from any investment bought with that donation would continue to be taxable in the husband's hands. In addition, if he paid his wife an excessive salary in a partnership, the excess would still be taxable in his hands.

Lester said many people believed they would be able to get around the provisions as the chances of detection by Inland Revenue were slight.

He warned, however, that the onus of declaring the excessive income rested with the husband and had to be declared in his tax return.



Graphic: FIONA KRISCH Source: BDO SPENCER STEWARD

Barend spurns VAT criticisms

Star 17/7/91

Political Staff 320

Minister of Finance Barend du Plessis hit back yesterday at growing criticism over VAT on basic foodstuffs — signalling that it would stay.

He rejected estimates of the effect of VAT on the poor, and repeated that certain foodstuffs should not be exempted from the new tax.

VAT should remain on all foods, he said, and the underprivileged should be identified for direct assistance.

"We have budgeted for this, and an investigation into the best methods to channel this assistance to the needy is nearing completion."

Reacting to mounting protests at VAT being charged on foodstuffs, medical services and medicines, Mr du Plessis said the Government had responded to pleas for relief during the period of outgoing GST by exempting 15 foodstuffs.

"In doing so, the Government clearly demonstrated its com passion for the plight of the needy. In the end, however, it proved a virtually futile exercise, and certainly a most unproductive way of trying to achieve the laudable and essential aim of assisting the needy."

Ineffective

The reason this approach failed was that the poor received only about 18 percent of the benefit from exemptions — "the rest of the benefits, trolley for trolley, went into the freezers and pantries of consumers who could not be classified as needy".

Clearly another method of assistance had to be found, he said. GST had ultimately proved an ineffective tax.

It had made exports more expensive, and large amounts of tax levied never reached the Treasury.

"VAT has been proved all over the world to adequately address this shortcoming, and it has also been proven beyond any doubt that if you want to assist the needy, the best way to do so is to identify them and target assistance in a variety of ways."

Mr du Plessis said it become clear that many commentators, some of them vociferous, had made statements on the effects of VAT, ranging from "completely and factually incorrect to highly speculative and an unnecessary stirring of emotions".

Mr du Plessis said he had seen a large number of calculations aimed at estimating the effects of VAT on Mr Average and Mr Poor.

"We have not found a single one to be correct.

"Our experience has been that these calculations tend to take increases into account, but fail to adequately take cognisance, or fail to take note at all, of reductions."

Mr du Plessis said VAT had certain inherent longer-term advantages which simply could not be quantified at this stage. Comparisons now with the GST system were therefore odious.

He disclosed that a public awareness campaign would intensify soon.

Awareness

"I am aware of the degree of ignorance and even confusion that unfortunately exists among the public," he said. The campaign would address that.

Vatwatch, a committee created to promote consumer and business awareness of the new tax, and probe complaints about its application, is to be launched in Johannesburg today.

SOWETAN B

Come September, VAT a big tax up

Sowetan 18/7/91 (320)

WITH less than three months to go before the introduction of Value-Added-Tax, indications are that the black businessman will be as much in the dark as the man in the street come September 30.

By ALI MPHAKI

Spokesmen for South Africa's major black chambers of commerce, the National African Federated Chamber of Commerce and the Foundation of African Business and Consumer Services, this week responded with a curt "we are not ready yet" when asked about the preparedness of their members for the new tax.

Nafcoc's education officer Mr Sheiks Makhado went on to say: "It took Britain six to seven years to come to grips with VAT. The same can be expected here."

Ready or not, VAT will be a fact of life come September 30 - to be known as V-day.

Last October the Deputy Minister of Finance, Dr Org Marais, was reported to have said a six months lead-in period between promulgation and implementation would be allowed, which should be enough for companies to get ready for the new tax.

It would appear that the six month lead in period has not been enough or not fully utilised if a list of Nafcoc's VAT seminars is anything to go by.

The last seminar out of the 23 held countrywide will be at Turfloop University on October 17 - 18 days after the implementation of the new tax.

Makhado was quite frank when he said: "For our members to be prepared on September 30, we need an additional programme on VAT."

Mr Jeff Rapoo, financial director of Fabcos, registered reservation about the new tax.

"Even for most professional people, VAT is a grey area. I suspect when it comes into effect it will find most of our members as ill-prepared as the general public," he said.

"We have always been anti-indirect taxation and our view is that VAT is going to bring an additional burden on the small operator or businessman," Rapoo said.

Problem

Under the present 13-year-old GST, a small business whose annual turnover is under R50 000 a year does not have to register for sales tax purposes.

Such a businessman pays 13 percent on all his purchases of goods for resale. The problem at present is that the small businessman invariably adds his markup to cost plus sales tax (113 percent) instead of to just cost (100 percent).

Mr Anthony Chait, a tax adviser, contends that all businessmen should give some serious thought as to how VAT is likely to affect their businesses.

"Particularly, the accounting system currently in operation should be reviewed to ensure that it can accommodate VAT insofar as the recording of all input tax aid on supplies is concerned.

"In our view, the turnover limit which will determine whether a business will be liable to register for VAT should be sufficiently high, say R200 000 a year in order not to impose unnecessary administrative requirements for the fast developing black business community," Chait said.

But with so much uncertainty and lack of preparation come September 30 we could be all in for a comedy of errors.

Gloomy impact of VAT to extend beyond the grave

320

Consumer Reporter Star 18/7/91

It will cost more to live — and more to die — when VAT comes into effect.

And yesterday the Johannesburg City Council confirmed that the cost of cremations and burial sites had been increased by about 15 percent from July 1.

The Housewives League last month warned: "With VAT looming, it is as well to remember that funeral charges will be subject to tax: coffins, wreaths, undertakers' services, even a cemetery burial site; all fall into the net of 12 percent."

Undertaker Thom Kight said the effects of VAT on funeral services would be "pretty drastic".

At present only coffins, press notices and flowers were subject to GST.

"From what I understand, VAT will be on everything," Mr Kight said.

"Everything" includes the services of a doctor, embalmer, the lawyer and the funeral service, cremation or burial.

Another undertaker said an average funeral could cost R350 more after VAT.

Half a million VAT forms outstanding

Bus Day 18/7/91 (320)

GERALD REILLY

PRETORIA — Only 10% of the more than 600 000 VAT registration application forms posted to individuals and enterprises had been returned by Monday's deadline, Inland Revenue chief director Chris Dempers said yesterday.

He stressed a flood of application forms at the 11th hour could cause costly complications and inconvenience. There were penalties for non-registration.

More than 800 officials throughout the country had been specially trained tpo process the registration applications.

Dempers reminded vendors whose total taxable annual sales were less than R150 000 they need not register for VAT.

He said delays could be accounted for in some instances by vendors being unaware of the deadline and the urgency for return of forms.

It was also possible that accountants were battling to cope with forms referred to them by clients.

VAT threat to small business

By Paula Fray Star 18/7/91 (320)

South Africa's burgeoning small business industry could be adversely affected by the introduction of value added tax (VAT) and industry sources fear that many will "go under".

Small businessmen, presently exempted from paying general sales tax to wholesalers, will need extra cash for buying stock. Hawkers and spaza owners will be particularly hard hit as most earn their living by selling tax-exempted goods.

Earlier, Deputy Minister Dr Theo Alant emphasised that only entrepreneurs with annual turnovers exceeding R150 000 would have to register for VAT purposes.

"The Government is doing its utmost to stimulate the small business sector," he said.

Small Business Development Corporation (SBDC) economist Dr Edwin Basson said it was difficult to predict what would happen to the small retailers when VAT was introduced.

"The bottom line is that they are going to pay more expensive prices for their stock," he said.

However, although their costs would increase, their income would increase as well.

Small retailers registered as vendors would, after a while, be able to get back their input tax. There would also be a delay of two months for small retailers to do their VAT paperwork.

Dr Basson said some retailers could come under pressure when VAT increased their input costs.

It was very difficult to predict with any certainty what would happen to small retailers. This depended on how consumers reacted and if they preferred to buy from larger retailers who could absorb some of the increased costs.

If consumers did, "smaller retailers are going to come under pressure," Dr Basson said.

"Naturally we are concerned," he said.

"We have made representations to Vatcom about increasing the level of registration for vendors to R500 000. But even if that had happened, it would not solve the problem of the small retailer having to use a bigger proportion of his income to pay for stock," Dr Basson added.

Keeping a watch over VAT

320

By Paula Fray
Consumer Reporter

Star 18/7/91

THE STAR VAT WATCH

12% VAT

Vatwatch — a body to monitor retail prices before and after the introduction of value added tax — was launched yesterday.

VAT comes into effect on September 30.

Consumers, called on to play an active role in ensuring they receive the benefits of VAT, were asked to keep track of the price of at least three items during the next few months.

Speaking at the launch in Johannesburg, Vatwatch chairman Professor Louise Tager said the body would keep a watchful eye on whether VAT savings were passed on to the public.

"It has been said this change in the system of taxation is likely to result in savings of about R6 billion.

"In what way and to what extent will business pass this R6 billion saving on to the consumer? Here lies the crux of the matter with which Vatwatch will concern itself," Professor Tager said.

Its essential objective was to heighten consumer awareness of trends and movements in retail prices in the months just before and after the introduction of VAT.

"Ultimately, the aim is to lessen the pressure on the consumer price index and, therefore, on the rate of inflation," she said.

Black Housewives League president and Vatwatch committee member Sally Motlana said the launch of Vatwatch gave consumers a chance to start playing a more meaningful role.

Also represented on Vatwatch are the: Consumer Union, Housewives League, Civic Associations of Southern Transvaal, National Black Consumers Union, National Council of Trade Unions (Nactu), National Council for the Care of the Aged and Consumer Council.

Yesterday it was announced that talks on VAT had taken place on Tuesday between the Minister of Finance and 13 trade unionists.

The union delegation was led by Congress of South African Trade Unions general secretary Jay Naidoo and Nactu general secretary Cunningham Ngakula.

Cosatu said the issue of VAT on trade union subscriptions and on basic foodstuffs, medical supplies and services had been raised.

"We exchanged perspectives and information, as a result of which Cosatu will be urgently submitting further representations."

● More reports — Pages 2 and 13

Hell of a drive . . .

SYDNEY — Australian sailor Gordon Burns accidentally drove his golfing buggy over a cliff after searching for a ball on the 17th hole at a Sydney golf course, police said today. He fractured his skull. — Sapa-Reuter.

Policemen follow the telling trail . . .

MELBOURNE — Two Australian policemen on an early morning patrol today followed a trail of bread which led straight to a thief.

The officers, alerted that a bread van had been stolen, spotted a trail of loaves. It led them to the van where they arrested the thief.

"The loaves of bread fell out of the back of the van," said a policeman. — Sapa-Reuter.

(9) The recipient shall report the loss of a certificate to the Administrator in writing.

(10) If, in the opinion of a person designated for the purpose by the Administrator, the loss of a certificate was not due to the negligence or default of the recipient, he may authorise replacement thereof at Government expense.

ANNEXURE A

DESCRIPTION OF THE "CIVIL PROTECTION CERTIFICATE FOR MERITORIOUS SERVICE"

The certificate referred to in the Warrant shall be materially in the following form:

On white A3-sized paper, a serial number printed on the reverse side, on the face framed in gold, the coat of arms of the provincial administration concerned in proper colour at the top, with the name of the provincial administration concerned in the official languages on either side of the coat of arms, with the following wording thereunder in black:

"Certificate for Meritorious Service
Sertifikaat vir Voortreflike Diens

Awarded to • Toegeken aan

....

for meritorious service rendered and dedication to the promotion of Civil Protection	vir voortreflike diens gelewer en toewyding aan die bevordering van Burgerlike Beskerming

Signed at on
Geteken te .... op ....

....
Administrator
Administrateur"

PRESS RELEASE

320

by the

Commissioner for Inland Revenue

INCOME TAX AND PROVISIONAL TAX IN RESPECT OF MARRIED WOMEN—1991/1992 TAX YEAR

1. In respect of the 1990/1991 tax year a married woman's investment income (interest and building society dividends) was taxable in her husband's hands. For the 1991/1992 tax year, however, the position has changed and such income is now taxable in the wife's hands, unless it is derived by her as a result of—

1.1 a donation, settlement or other disposition made on or after 20 March 1991; or

(9) Die ontvanger rapporteer die verlies van 'n sertifikaat skriftelik aan die Administrateur.

(10) Indien die verlies van 'n sertifikaat volgens die oordeel van 'n persoon wat die Administrateur vir die doel aangewys het, nie aan die ontvanger se nalatigheid of versuim te wyte is nie, kan hy magtiging vir die vervanging daarvan teen Staatskoste verleen.

AANHANGSEL A

BESKRYWING VAN DIE "BURGERLIKE BESKERMING-SERTIFIKAAT VIR VOORTREFLIKE DIENS"

Die sertifikaat bedoel in die Bevelskrif is wesenlik in die volgende vorm:

Op wit A3-grootte papier, 'n reeksnommer op die rugkant gedruk, aan die voorkant met goud omraam, die wapen van die betrokke provinsiale administrasie in volkleur bo, met die naam van die betrokke provinsiale administrasie in die amptelike tale weerskante van die provinsiale wapen, met die volgende bewoording daaronder in swart:

"Sertifikaat vir Voortreflike Diens
Certificate for Meritorious Service

Toegeken aan • Awarded to

....

vir voortreflike diens gelewer en toewyding aan die bevordering van Burgerlike Beskerming	for meritorious service rendered and dedication to the promotion of Civil Protection

Geteken te op
Signed at .... on ....

....
Administrateur
Administrator"

PERSVERKLARING

deur die

Kommissaris van Binnelandse Inkomste

INKOMSTEBELASTING EN VOORLOPIGE BELASTING MET BETREKKING TOT GETROUDE VROUE—1991/1992-BELASTINGJAAR

1. Met betrekking tot die 1990/1991-belastingjaar was die beleggingsinkomste (rente en bouverenigingdividende) van 'n getroude vrou belasbaar in die hande van haar gade. Vir die 1991/1992-belastingjaar het die posisie verander en sodanige inkomste is nou belasbaar in die vrou se hande, tensy dit haar toeval as gevolg van—

1.1 'n skenking, oormaking of ander beskikking gemaak op of na 20 Maart 1991, of

1.2 a transaction, operation or scheme entered into or carried out by her husbands on or after 20 March 1991 with the purposes of reducing, postponing or avoiding his tax liability,

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in which case the income will continue to be taxed in the husband's hands.

2. A married woman who receives only investment income in the 1991/1992 tax year which is taxable in her and not her husband's hands and who is **not yet registered as a taxpayer** must apply to her local Receiver of Revenue for registration as a taxpayer if her investment income for the year will exceed R2 000.

3. Normally such a married woman would be required to make a first provisional tax payment on or before 31 August 1991 and a second payment on or before 28 February 1992. It has been decided, however, that married women who are not yet registered as provisional taxpayers but who now qualify for registration by virtue of their investment income which was previously taxed in their husband's hands need not make provisional tax payments for the 1991/1992 tax year. They must, however, apply to their local Receiver of Revenue for registration as a taxpayer so that a tax return (IT 12) can be sent to them in 1992. Such married women will, therefor, make provisional tax payments for the first time in the 1992/1993 tax year, but should an IRP 6 (i) return for the 1991/1992 tax year be received by them, the return must be returned to the Receiver of Revenue as a "NIL" return.

4. Where the husband was taxed in the 1990/1991 tax year on his wife's investment income he may base his estimated taxable income for provisional tax purposes for the 1991/1992 tax year on his taxable income as previously assessed **ecxluding** his wife's taxable investment income.

5. If the husband was a provisional taxpayer in 1990/1991 solely because his wife derived investment income, he is no longer a provisional taxpayer and may submit a "nil" provisional tax return on 31 August 1991, and may apply to the Receiver of Revenue to have his name removed from the provisional tax register.

6. Any enquiries concerning this notice must be addressed to the nearest Departmental Receiver of Revenue and not to a Magisterial Receiver of Revenue.

Issued by: The Commissioner for Inland Revenue
P.O. Box 402
PRETORIA
0001

Enquiries: Mr J. Hanssen.
Telephone (012) 315-5324 (Pretoria).

Date: 12 July 1991.

1.2 'n transaksie, handeling of skema aangegaan of uitgevoer deur haar gade op of na 20 Maart 1991 met die uitsluitlike doel om sy belastingaanspreeklikheid te verminder, uit te stel of te vermy,

in welke geval die inkomste steeds belasbaar sal wees in die man se hande.

2. 'n Getroude vrou wat slegs beleggingsinkomste ontvang in die 1991/1992-belastingjaar wat belasbaar is in haar eie en nie haar man se hande nie, en wat **nog nie geregistreer is as belastingbetaler nie,** moet by haar plaaslike Ontvanger van inkomste aansoek doen om registrasie as belastingbetaler indien haar beleggingsinkomste vir die jaar R2 000 sal oorskry.

3. Normaalweg sal van sodanige getroude vrou vereis word om 'n eerste voorlopige belastingbetaling te maak op of voor 31 Augustus 1991 en 'n tweede betaling op of voor 28 Februarie 1992. Daar is egter besluit dat getroude vroue wat nog nie geregistreer is as voorlopige belastingbetalers nie, maar wat nou kwalifiseer vir registrasie op grond van hulle beleggingsinkomste wat voorheen in hulle gades se hande belas was, nie voorlopige belastingbetalings hoef te maak vir die 1991/1992-belastingjaar nie. Hulle moet egter by hulle plaaslike Ontvanger van Inkomste aansoek doen om registrasie as belastingbetaler sodat 'n belastingopgawe (IB 12) aan hulle gestuur kan word in 1992. Sodanige getroude vroue sal gevolglik eers voorlopige belastingbetalings in die 1992/1993-belastingjaar maak, maar indien 'n IRP 6 (i) vir die 1991/1992-belastingjaar deur hulle ontvang word, moet die opgawe as n "NUL"-opgawe aan die Ontvanger van Inkomste teruggestuur word.

4. Waar die gade in die 1990/1991-belastingjaar belas was op sy vrou se beleggingsinkomste mag hy vir voorlopige belastingdoeleindes sy geskatte belasbare inkomste vir die 1991/1992-belastingjaar baseer op sy belasbare inkomste soos voorheen aangeslaan **uitsluitend** sy vrou se belasbare beleggingsinkomste.

5. Indien die man in 1990/1991 'n voorlopige belastingbetaler was uitsluitlik omrede sy vrou beleggingsinkomste ontvang het, is hy nie meer 'n voorlopige belastingbetaler nie, en mag hy 'n "nul" voorlopige belastingopgawe indien op 31 Augustus 1991, en by die Ontvanger van Inkomste aansoek doen om van die voorlopige belastingregister verwyder te word.

6. Enige navrae in verband met hierdie kennisgewing moet aan die naaste Departementele Ontvanger van Inkomste gerig word en nie aan 'n Landdros Ontvanger van Inkomste nie.

Uitgereik deur: Die Kommissaris van Binnelandse Inkomste
Posbus 402
PRETORIA
0001.

Navrae: Mnr. J. Hanssen.
Telefoon (012) 315-5324 (Pretoria).

Datum: 12 Julie 1991.

VAT a grave problem (320)

Sowetan
19/7/91

IT will cost more to live ... and more to die once the Value Added Tax comes into effect on September 30.

A warning on the increases in funeral costs first appeared in last month's edition of the Housewives' League's *Rands and Sense* booklet.

"With VAT looming on the horizon, it is as well to remember that funeral charges will be subject to tax: coffins, wreaths, undertakers' services, even a cemetery burial site all fall into the 'net' of 12 percent," the league warned.

Undertaker Thom Kight of Thom Kight and Company said the effects of VAT on funeral services would be "pretty drastic".

At present only coffins, Press notices and flowers are subject to General Sales Tax.

"From what I understand, VAT will be on everything," Kight said.

VAT: Group to monitor businesses

Sowetan 19/7/91 320

VATWATCH - a body which will monitor retail prices before and after the introduction of Value Added Tax - was launched in Johannesburg this week with the promise of keeping a watchful eye on whether savings are passed onto consumers.

VAT comes into effect on September 30.

Vatwatch chairman Professor Louise Tager pointed out that the Government had said VAT was introducing a tax system which would eliminate the cost built into the cost of production.

"It has been said that this change in the system of taxation is likely to result in savings of approximately R6 billion.

"In what way and to what extent will business pass this R6 billion saving to the consumer? Here lies the crux of the matter with which Vatwatch will concern itself," Tager said.

Awareness

She said the essential objective of Vatwatch was to heighten consumer awareness of trends and movements in retail prices in the months immediately before and after the introduction of VAT.

"The second objective, but equally important, is to channel the forces that result from our public awareness campaign into a direction that will compel retailers and, therefore, suppliers to pass to consumers the cost benefits that VAT should generate," Tager said.

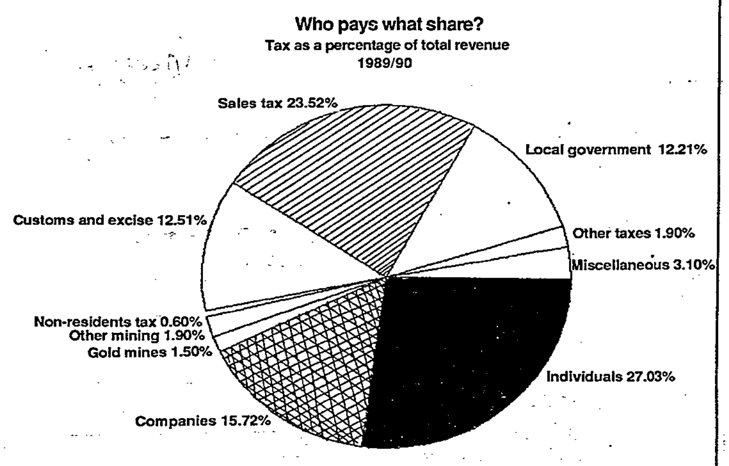
"Ultimately, the aim is to lessen the pressure on the Consumer Price Index and, therefore, on the rate of inflation."

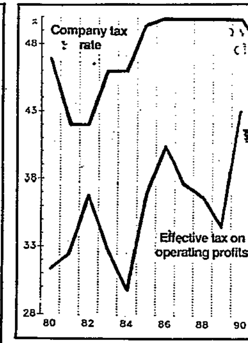
BUSINESS

Higher company tax is not the answer

(320) WMail 19/7 - 25/7/91

Business says companies are taxed too highly. The ANC says company tax is too low and individuals are taxed too highly. It all depends on how you calculate the tax that companies actually pay. **REG RUMNEY** reports





TAX BURDEN ... How the South African tax cake is split up (left). Individuals make the largest contribution to the exchequer. The effective South African company tax rate (above), at 43 percent in 1990, is higher than the nominal company tax rate in almost all other countries, except Germany, Sweden, Japan and Canada

ANGLO American chairman Julian Ogilvie Thompson in his chairman's report this week went on the offensive against higher company taxes, with dire warnings that they could put South Africa out of business.

Ogilvie Thompson was probably responding to thinking in African National Congress circles that individuals pay too much tax and companies too little.

The ANC discussion document produced for the recent congress (and still to be debated) says: "The incidence of the present tax burden rests disproportionately on both personal taxes and indirect taxes. The ANC supports shifting more of the tax burden towards corporations and applying principles of progressive taxation."

Far from being too low, Ogilvie Thompson said, Reserve Bank figures show that direct taxes as a percentage of a company's operating surplus, have risen to just over 43 percent in 1990.

Indirect taxes made the overall tax burden higher still — when company tax in the rest of the world fell appreciably.

This was despite the reduction of the nominal company tax rate to 48 percent, the phasing out of import surcharges, VAT being reclaimable on capital and intermediate goods, and higher depreciation allowances for companies involved in beneficiation.

JOT's remarks on the corporate tax rate are backed up by Rand Merchant Bank economist Rudolf Gouws who notes that our effective tax rate — measured in terms of direct tax as a percentage of operating surplus — at 43 percent is higher than the nominal tax rate in almost all countries except Germany, Sweden, Japan and Canada.

"All the countries we consider as competitors for trade and foreign investment have lower nominal rates than that." He includes most European countries.

SA Fiscal Association's Marius van Blerck comments that eight or nine years ago the effective corporate tax rate was probably on the low side, though big foreign exchange losses at the time would have accounted for this.

The pendulum has, he believes, swung too far the other way.

While policing of tax has been increased, various allowances have been progressively reduced, and this will continue. More usual types of allowances have been ditched with allowances which may have been abused. The promised decline in the nominal corporate tax rate, which should accompany the scrapping of tax allowances, is taking a long time.

University of the Western Cape economist Lieb Loots disputes that corporate tax is too high though he doesn't think it should be increased.

"I do agree personal income tax is too high." The Budget cut of one percentage point in the top marginal rate from 44 percent to 43 percent did little to counter the effect of fiscal drag, ie getting salary increases to cope with inflation only to be bumped into a higher tax bracket at the same time and pay more tax. Also, the tax benefit of having a housing subsidy was phased out, so many who benefited before from subsidies are now paying more tax without their income necessarily having increased.

Loots believes some form of indexation should be introduced to escape fiscal drag. He also thinks the personal tax income gradient should be rationalised. Now middle-income earners bear the brunt of tax.

The matter of whether corporate tax is too high is rather speculative, he says, because it depends on how the effective tax rate is calculated.

Calculated as a net flow between government and the private sector of funds the effective rate looks rather different. This takes into account not only tax breaks such as depreciation allowances, but also direct cash injections to companies, such as are available via the government's General Export Incentive Scheme. This kind of tax alleviation is not available to individuals.

Loots says he's seen it estimated as high as 16 percent of companies' gross income, and as low as 10 percent.

Loots reckons that what is arguably more important to foreign investors than the actual tax rate is certainty to help their tax management. (Indeed, this was the subject of a few of the papers at an international tax conference organised by the *Financial Mail* and Ernst & Young.) Payment of an effective tax rate of say 16 percent in South Africa can be offset against taxes in other countries to bring down tax overall.

For companies, Loots advocates a minimum business tax to penalise inefficient companies (or companies which are efficient at minimising tax) to favour efficient companies and bring down the amount of tax they pay.

LABOUR BRIEFS

Warning on pay rise demands to offset VAT

(320)

The Congress of South African Trade Unions has warned government that its affiliates may press employers for an across-the board five percent pay rise to offset the effects of Value-Added Tax. WMail 19/7-25/7/91

The warning was sounded at talks this week between a high-powered Cosatu and National Council of Trade Unions team and Finance Minister Barend du Plessis on the new tax system. Leading the union delegation were the respective Cosatu and Nactu general secretaries, Jay Naidoo and Cunningham Ngcukana.

"We told the minister we believe the levying of VAT on essential foodstuffs and medical supplies and services will raise our members' cost of living by five percent," Naidoo said. "Our national congress will consider whether to press for general pay rises in compensation."

Naidoo said the minister had undertaken to respond on the issue of VAT on union subscriptions before Cosatu's congress.

VAT — a simple tax with many complex elements

Bday 19/7/91. (320)

WILLEM CRONJE

WILL VAT add value to SA? Yes it will. It requires more attention to detail than GST but it is not, despite the commonly stated view, more complex than the tax it will replace on September 30.

Quite the opposite: VAT in general, and the SA system in particular, proceeds according to basically simple, logical rules.

While the elements of VAT can be complicated — there are many special situations — the fundamentals are simple. Here GST compares unfavourably, as there is still a fundamental lack of clarity in many areas. Many of the benefits of VAT are well known: a clear audit trail, less opportunity for "easy" evasion, an interlocking system, a broad base, and so on.

These advantages are quite valid, but perhaps the greatest advantage of all is often overlooked: VAT is effectively a bilateral system. Vendors interact directly with the tax authorities insofar as liability is concerned. GST is far inferior in this regard, as it is a potentially unstable trilateral system: vendors effectively assess each other, for example, where there is no registration certificate. This creates wasteful conflict of interest between suppliers and their customers.

used, the point remains that vendors must look forward as well as backwards.

As many as nine or 10 different accounts may need to be opened to cater for VAT — can the existing accounting system cope? The larger the business, the bigger the problem could become. Can the system be

sold by the company will escape tax after 29 September. These are intended as provisions to avoid double tax.

Are vendors aware that only one original tax invoice may be issued? This also excludes the distribution of photocopies of the original, unless stamped "copy".

ance on costing systems or estimates is not acceptable.

Businesses which did not send in the VAT registration forms by the July 15 deadline should return them as quickly as possible. Stationery may not be printed until the vendor has his VAT number — for latecomers, welcome to the rubber

exempt. Inputs allocable to exemp supplies are not creditable. This creates system and cash flow problems

Where inter-branch transaction generate exempt supplies (for example, inter-branch finance) it may be preferable to register at a highe level, and so avoid the problem by effectively ignoring the inter-branc supply. It is important to note tha interest is an exempt supply.

The agent/principal issue create one of the biggest headaches. Agent are not permitted to claim VAT input credits, but must pass these on t their principals. Where the agent operates independently of his principal this can create practical difficulties

On the other hand, for RSC an other reasons, agents frequently d not want to amend their agency t that of principal.

Contrary to common belief, VA generally applies to land and buildings — no matter how old. There is silver lining in that, where VAT i paid, there is no transfer duty. This i clearly advantageous where bot parties are vendors, as the 5% transfer duty is avoided, and there i effectively nothing in its place.

Certain land sales should, there fore, be deferred (and others accelerated). This is a complex area wit special rules.

The simplicity of the VAT syster is breached where food and drink ar

Another great plus for VAT is that there is vast international precedent — more than 45 countries now have a VAT system. GST is an outmoded system, and the number of countries still clinging to it is dwindling.

This is not to say that VAT is free of problem areas. The basic principles may be simple, but the actual application can be very complex, particularly while the system is being installed. Opportunities for savings also abound, as there are generous phasing-in benefits.

The following is a sample of what vendors may be facing as we move towards V-Day on September 30.

Vendors with past sales of R150 000 per annum or more must register. However, this also applies to vendors who expect to exceed this level in the future. Technically, the fiscus can use hindsight and penalise a vendor for not registering and paying output tax where there are reasonable grounds for expecting the annual registration barrier to be exceeded. Although this power can be suspended and will be sparingly ... as the ... creator ... the system still available? Should the system be adjusted to cope with VAT invoices, whether or not VAT appears as a separate line item?

Vendors who have not given thought to the accounting system implications have much midnight oil ahead.

What goes up must come down. Eventually most businesses come to the end of their life-cycle. Are vendors aware of the drastic VAT repercussions that will arise when trade ceases? In brief, output VAT must be accounted for on all assets held, unless the business is transferred to another vendor as a going concern.

Assets transferred as a going concern to another vendor are zero-rated. There are planning opportunities. If the "new" vendor foresees taxable supplies exceeding R150 000 in the year ahead, he can register, and so permit the transfer to be zero-rated. A vendor may also register if he carries on a business with tax supplies below R150 000.

Think twice before buying second-hand cars before September 30. Cars bought from private individuals on or after 30 September will escape GST and VAT. Even company cars ... vendors are aware that the fiscus will refund the GST content of consumable materials and maintenance spares held at 30 September 1991, but are they also aware that such consumables and/or spares must be physically counted? Reli... stamp.

VAT is an interlocking system. Vendors will need tax invoices from their suppliers, in order to claim the input credit. It would be advisable to write to vendors, and to emphasise the need for timeous provision of tax invoices.

Any issue of "ordinary" invoices before and in addition to tax invoices should be avoided where possible, as this will prejudice the buyer, and create additional administration.

Cash flow impacts can be severe — or beneficial. This should be tested now, and the necessary credit line arranged if necessary. Simple computer models are available for estimating cash flow impacts.

VAT is inclusive; vendors are well advised to shake off the GST "exclusive" mindset. Beware of quoting exclusive after 29 September: if you do, you will have to bear the output tax.

Insurance proceeds for theft and so on, are deemed supply. This means that 12/112ths of the proceeds belong to government. Insurance cover should be reviewed in this light.

The zero-rating of a supply is ideal. However, it is not generally beneficial for the supply to be concerned. Firstly, the supply ... brown bread and maize meal is zero-rated. Secondly, no input credit may be claimed on food and drink purchased for company purposes — unless it is sold to the employee at break-even or above. Subsidised ... free supplies of this nature are regarded as "entertainment", even where staff canteens and office tea are concerned.

Last but not least, there is a 0,75% non tax-deductible levy on finance charges received by deposit-taking and "similar" institutions. This is in lieu of VAT, as finance charges are exempt and government believed a charge should be imposed to redress the balance. The ambit of this tax is not yet entirely clear.

However well businesses have prepared themselves for the introduction of VAT there are going to be shocks and surprises as the implication of this new tax, and its implications, become clear in the months ahead.

☐ Cronje is a partner at Deloitte Pim Goldby.

THE questions about VAT have not all been asked or answered. There are areas in which it could make things easier, or more difficult, for any business.

Business Day will publish a regular column in which readers' queries will be answered by the VAT team at Deloitte Pim Goldby.

Send in your problem, idea, question or comment. We cannot respond individually, but will concentrate on areas of general concern as raised by readers.

Write to VAT QUERIES, at P O Box 1138, Johannesburg 2 000, or fax (011) 836-0805 or 497-2224.

INTERNATIONAL TAX

REVERSING RANGEL

Termination of the US Comprehensive Anti-Apartheid Act (CAAA) has reversed the effects of the Rangel amendment on a US corporation's, resident's or citizen's domestic tax credit for taxes paid in SA. But the Double Tax Treaty between the US and SA is not automatically reinstated and will probably have to be renegotiated.

The Rangel amendment, which took effect on January 1 1988, ended US tax credits for SA taxes paid. Though a deduction was still permitted, the result was widely different, since the repealed credit relief allowed the SA tax to be directly offset against US tax on that income, while the deduction merely allowed SA taxes to reduce the amount of income subject to US tax.

The amendment raised the effective combined US and SA tax rate on corporate profits derived from SA and distributed to US shareholders from 57,5% to 71,95%. Further, a US corporation became subject to current US tax even on undistributed profits of an SA subsidiary.

X

continue →

FM 19/7/91 (320)

In terms of Section 901(j) of the US Internal Revenue Code, denial of the foreign tax credit had to end "on the date the US Secretary of State certifies to the Secretary of the Treasury that SA meets the requirements of . . . CAAA."

So — as soon as the Secretary of State formally notifies the Secretary of the Treasury — US taxpayers will again be entitled to a credit for SA taxes paid.

The effective combined US-SA tax rate on distributed profits from SA will fall to about 56%. And any US tax on income earned here by a US subsidiary will again be deferred until remitted to the US.

Terminating the Double Tax Treaty did not have a major impact on SA taxpayers because of the restricted benefits it had afforded them. US taxpayers suffered only to a limited degree: mainly, a 10% withholding tax on interest received from SA, which was in any event abolished from March 16 1988.

Termination of the treaty also brought a 15% withholding tax on certain royalties received from SA in respect of know-how. (From March 1 1991, the reduction in the SA company tax rate from 50% to 48% has cut this rate to 14,4%.)

The reciprocal ability of Revenue authorities to exchange information also ended.

The question now arises: has termination of the CAAA automatically reinstated the treaty, or must a new one be negotiated? SA Revenue appears to take the view that it will require a bilateral Act to do either. In the light of the unfavourable provisions of the repealed treaty for SA taxpayers, a new one is the preferred route, says Ernst & Young tax partner Ray Eskinazi.

An international tax counsel at the US Treasury in Washington indicates that it is premature to discuss the position, but concedes that automatic reinstatement of the treaty seems highly unlikely. ■

INCOME TAX FM 19/7/91

TWICE BITTEN

(320)

The three advocates who, under a Pretoria Bar Council ruling, repaid part of their fees for appearing in a case concerning the Civil Co-operation Bureau may get an even greater shock when their tax is assessed, says Coopers Theron tax partner Eric Louw.

Together they received R289 230. At the

FM 19/7/91 (320)

maximum marginal rate, and assuming no expenses were incurred (other than their time), the collective tax would be R124 408 at 1991-1992 rates. On this basis the net cost to the State would be R164 912.

What effect will a partial refund have?

The Income Tax Act says the total amount received (unconditionally for a person's own account) during a year of assessment forms gross income, provided it is not of a capital nature and is from an SA source. The fees no doubt comply with these criteria.

The rub is, it has been held that, once a taxpayer receives an amount unconditionally as his own, forced repayment later does not disturb the tax liability.

These principles were applied in the 1981 special Income Tax Case No 1346. A university lecturer on sabbatical resigned at the end of his leave. In terms of his contract he had to refund six months' leave pay. He claimed that only the net amount was received for tax purposes but the court held that the gross amount fell within the definition of gross income and was subject to tax.

If the Receiver follows this, the advocates will collectively be R25 708 out of pocket (fees of R289 320 less tax of R124 408 and refunds of R190 620). Louw argues that this unfair result should not be allowed. The Act should be amended to exclude from the tax net amounts which — after accrual — are refunded, compulsorily or otherwise. ■

BUSINESS DAY, Friday, July 19 1991

Provisional tax exemption granted to married women

(320) B/Day 19/7/91

GILLIAN HAYNE

INLAND Revenue has exempted married women newly registered as tax-payers from paying provisional tax in the current tax year.

Under a dispensation announced in the latest Budget, married women whose only source of income is from their investments will be taxed separately from their husbands at the end of the 1991/1992 tax year.

But Commissioner for Inland Revenue Hannes Hattingh says married women receiving only investment income will not have to make the compulsory provisional tax payments for this financial year, normally due on August 31 and February 28.

Hattingh says married women must apply for registration so that the relevant IT 12 tax return can be sent to them in 1992.

"Such married women will, therefore, make provisional payments for the first time in the 1992/1993 tax year. Should an IRP 6(i) return for the 1991/1992 tax year be received by them, the return must be sent to the Receiver as a nil return."

A husband who was taxed in his 1990/1991 tax year on his wife's investment income should base his provisional tax payment on his previous assessment's taxable income excluding his wife's taxable investment income.

If the husband was a provisional taxpayer in 1990/1991 solely because his wife derived investment income, he is no longer a provisional taxpayer and may submit a nil provisional tax return on August 31, Hattingh said.

He can also apply to have his name removed from the provisional tax register.

Investment income is income received in the form of interest and building society dividends.

Hattingh warns however, that if the wife's income is derived from money received from her husband as a donation, settlement or scheme made after March 20 1991 "with the purpose of reducing, postponing or avoiding" the husband's tax liability, it will continue to be taxed in the husband's hands.

Predictable taxes essential (320) Barend

SHARON WOOD

PREDICTABLE taxes and commitment to restraining the money supply were essential prerequisites for a successful SA, Finance Minister Barend du Plessis said last night at the official opening of Hoechst's new head office in Midrand.

"If a stable fiscal and monetary environment is established firmly and maintained it will make a real difference to each and every family," he said.

SA was facing prospects for economic revival that it had not been able to achieve up to now.

SA had managed to survive the hard times since 1985 despite great discomfort and sacrifice and had continued with structural reform, Du Plessis said.

"We are now poised to make use of a different environment internationally.

"But the real difference will come from inside SA because business will not come across the borders on a silver plate," he said.

It was up to government, business and labour to enhance the level of skills in the

☐ To Page 2

19/7/91 BDay

Barend

B/Day 19/7/91

(320)

☐ From Page 1

economy because there could not be lasting economic growth without it.

The stability of a skilled labour force would also be very important, he said.

Hoechst AG executive board member K G Seifert, who is visiting SA, said the German parent company had confidence in SA, which was shown through its investments, manufactures and strategic investments.

He said that with the greater opening up of the country and the ending of international boycotts, "investment in this country justified this confidence."

The parent company has earmarked R100m medium-term investment this year for Hoechst SA.

● Picture: Page 3

Unions object to VAT taxation

C/Press 21/7/91

LABOUR leaders have lodged a protest against the taxation of trade union subscriptions in terms of value-added tax (VAT). 320

Leaders of Cosatu and Nactu this week handed a memorandum to Finance Minister Barend du Plessis that highlighted the possible effects of VAT on trade union members.

If subscriptions of an organisation exceed R150 000 a year it will be obliged to register as a vendor and pay VAT.

Even if organisations do not register they would remain liable if their taxable supplies exceeded R150 000.

The delegation of 13 that handed over the memorandum was led by Cosatu general secretary Jay Naidoo and Nactu general secretary Cunningham Ngcukana. – CP Correspondent

POWER TO THE CONSUMER ... Vatwatch committee member Sally Motlana says abuse of the Vat system must be reported.

Team of 10 to beat VAT panic

C/Press 21/7/91 (320)

By LULAMA LUTI

HELP is at hand for consumers worried about the introduction of Value Added Tax (VAT) in September.

It comes in the form of 10 tax experts who have set up the independent Vatwatch committee to keep the public informed.

Top trouble-buster is former dean of the Wits Law Faculty, Professor Louise Tager.

Professor Louise Tager heads the new tax committee.

She explained that under the VAT system businesses would no longer pay sales tax on capital purchases and certain other purchases. This is expected to save businesses some R6-billion a year.

"Vatwatch will concern itself with how businesses redirect this to consumers."

She added that Vatwatch aims to build bridges between consumers and business.

Members of the committee are Black Housewives' League president Sally Motlana; the South African Consumer Union's Anna Boshoff; Sheila Lord of the Housewives' League of South Africa; president of the National Black Consumer Union Nonia Ramphomane; Cast executive member Sam Ntuli; Nactu's Mahlomola Skhosana; South African Consumer Council's Ina Wilken; Andrew Ball of the Labour Research Council, and Leon Ghavalas of the National Council for the Care of the Aged.

Tager said Vatwatch would not defend VAT or give long explanations about how it works.

"The objective of Vatwatch is to heighten consumer awareness of movements in retail prices."

She added that top on the list of the Vatwatch programme would be a major consumer awareness drive to ensure retailers and suppliers passed on cost benefits to consumers.

Committee member Sally Motlana said the group would ensure that consumers played an important role in how VAT was implemented.

Motlana appealed to housewives to make sure they understood VAT and to speak out against exploitation.

"Consumers will be asked to select any three items which they buy regularly in the same store and to watch the prices from now until the switch."

Consumers will also be able to report exploitation to Vatwatch and these cases will be dealt with by a full-time secretariat.

A group of retired executives will help Vatwatch do this.

Vatwatch will monitor prices on a scientific basis, and regular feedback will be given to the media – but Tager said there will be no witchhunts.

A burden for professionals

ST Times 21/7/91

(320) (Bus Times)

VAT WILL be payable on professional services after September 30, providing the professional has an annual turnover of more than R150 000, or registers voluntarily.

Professionals often wait months before receiving payment from clients, but they will have to pay output taxes to the Receiver within their tax period, regardless of whether the money has been collected.

For example, pre-Vat receivables of R500 000 will rise to R560 000 without any real increase in billing revenue. The professional will have the burden of financing this extra R60 000 in his tax period.

To ease this squeeze the Receiver has allowed professionals to change from an accrual to cash accounting where their taxable supplies cost less than R1-million a year. This means they will only be liable to the Receiver for the net difference between Vat actually received and paid.

The negative cash flow will also be partly offset by the refund of input taxes on goods and services on which the professional previously paid GST. Examples are computers, furniture and other assets.

So a professional registering as a vendor could in fact reduce the overhead cost structure of the practice.

The introduction of Vat on previously exempt services, such as rent and telephones, will have little cash impact, and no effect on overhead expenses to registered vendors. This is because they will receive input tax refunds.

As most of their services are not subject to GST, professionals will have to calculate their work in progress on September 30. Billings for services rendered after this date will be liable to Vat. But work completed before this date and only billed afterwards will still be liable.

Enterprise

Professionals will also have to maintain accurate accounts. It will be necessary to take stock of consumables on hand at September 30 on which GST was paid to calculate input credits to be claimed.

Accounting backup will also be needed for timeous claims of input credits incurred after this date.

Vat legislation distinguishes between a partnership and the partners. For Vat purposes the partnership carries on the enterprise separate from the members, so only one registration number will be needed.

When a partnership dissolves, it will not have to re-register for Vat.

In spite of this separate identity, each member of the partnership will be responsible for Vat liability. An exception is the limited liability (en commandite) partnership.

Vague legislation has caused confusion among attorneys about whether they are an agent or principal in their dealings with counsel. Counsel will charge the attorney Vat on his services. If the attorney is acting as an agent on behalf of the client he will not be able to claim this from the Receiver.

If the attorney is acting as principal he can claim input credit on the Vat paid, and charge it regarded as output tax when invoicing the client.

Minerals upgraders in line for big tax bonanza

S/Times 21/7/91 (Buss Times)

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By CURT VON KEYSERLINGK

HANNES HATTINGH: The loser

THE Cabinet is expected to approve a scheme that gives a committee of bureaucrats the power to dish out generous tax concessions to selected new minerals beneficiation projects.

Deputy Minister of Finance Theo Alant has indicated that it is a temporary measure to promote large-scale investment in export-oriented manufacturing. It may be replaced by measures being formulated by an inter-departmental committee.

Because of the matter's urgency, it was rushed through Parliament as part of the Taxation Laws Amendment Bill.

Free

It allows the ministers of finance and trade and industry to appoint a committee that will probably include the Commissioner for Inland Revenue and representatives of Mintek and the departments of mineral and energy affairs and trade and industry.

The committee may grant companies write-offs on their plant and equipment in excess of their actual cost over five years. This means that some companies could, in effect, get their plant and equipment for free, courtesy of the taxman.

The current depreciation scheme allows a 20% straight-line write-off over five years.

Commissioner for Inland Revenue Hannes Hattingh says the committee will determine the size of the write-offs allowed to each company.

"The scheme is without precedent," he says.

It also flies in the face of the stated intention of the authorities to devise a tax system that eliminates the many areas where bureaucratic discretion and not the law determines a company's tax liability.

The regulations say qualifying companies must beneficiate SA-sourced minerals, substantially add value, be on a scale that is competitive and export at least 60% of their output.

But the committee has the power to grant benefits to companies that do not satisfy all the requirements.

Unlike the current scheme which gives companies benefits in the form of tax credits only after they start operating, the new one puts money in the hands of qualifying companies while their factories are being built.

It will come in the form of negotiable tax certificates that may be sold to banks or other companies for use in part payment of their tax.

This could be an added incentive to new investors and foreigners who do not already have a tax base in SA.

In recent years the Government has favoured giving industrial incentives in cash or negotiable instruments rather than tax concessions.

It has apparently chosen the tax mechanism for this scheme because it is less likely to be defined as an export subsidy, thereby attracting retaliatory measures, under the General Agreement on Tariffs and Trade.

A corporate tax consultant says the scheme could make the Columbus stainless-steel joint venture of Amic and Samancor an attractive proposition. Another venture that might benefit is the Alusaf expansion project.

Handicap

Strictly speaking it should not qualify because the regulations say that the mineral being beneficiated should be SA-sourced. But as the tax consultant points out, the committee's discretionary powers enable it to override such provisions.

He says industry is handicapped by high tax rates and the scheme merely goes some of the way to putting it on a more equal footing with foreign competitors.

Soviet Chamber of Commerce president VLADISLAV MALKEVICH and Safto chief executive WIM HOLTES talking trade turkey
Picture: SUE KRAMER

Soviets looking for joint mine ventures

S/Times (Buss Times) 21/7/91

By IAN ROBINSON

THE SOVIET Chamber of Commerce and Industry wants co-operation with the South African mining industry to lead to joint ventures in the USSR. Ildar Younoussov, head of the internal department of the USSR Chamber of Commerce and Industry, told Business Times that

tract with Russia and another is being negotiated".

Retired executives on watch

GILLIAN HAYNE

VATWATCH has clinched the help of retired executives to deal with businesses on the issue of passing on to consumers any benefits gained from VAT.

In an effort to promote Vatwatch away from the "over-zealous housewife mould", the committee has enrolled the assistance of the International Executive Services Corporation.

One source said the executives would strengthen Vatwatch's link with business, helping to soothe fears that the committee would institute a witchhunt against business.

Vatwatch was created on the suggestion of the IMF and will be funded by Inland Revenue.

Vatwatch chairman Louise Tager said: "The real role of Vatwatch is to build bridges between consumers and business, rather than create a divide."

She said the committee, which also comprises representatives of consumer groups and housewives leagues, had already begun talking to businesses.

A spokesman for the National Association of Automobile Manufacturers of SA (Naamsa) said the motor industry would probably save about R80m a year after the introduction of VAT. This is because of the large capital and advertising expenditure of the industry. VAT paid on those expenses could be reclaimed.

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BD 22/7/91

A spokesman for Volkswagen agreed that VAT would benefit the consumer. "It will take some of the pressure off costs and price increases caused by the higher prices of components and wages."

South African Airways has also reported that travel fares would increase by "only 4%" after VAT's implementation. Airfares do not include tax at present, but because of the input tax credits claimable on expenses, the 12% added cost of VAT would translate to an overall 4% increase.

One source said because businesses could claim the 12% VAT back from Revenue, airfares would actually become 8% cheaper.

Tager stressed that Vatwatch had no legislative "teeth" but said the power of consumer pressure and exposure was more effective.

The extent of the committee's influence was put to the test when its objections led to the cancellation of a radio advert by a car dealer. The ad had exorted customers to "buy now before VAT".

"The obvious implication is that VAT will raise car prices, which is quite untrue and completely misleading. The public has to be cautioned against panic buying," Tager said.

Traders fear VAT loose ends will cost them dear

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Star 22/7/91

Consumer Reporter

Some small supermarket and cafe owners are still unsure how the value added tax (VAT) system will affect perishable goods and small items, and fear they could end up with huge losses.

Most have received explanatory booklets on how VAT, which comes into effect on September 30, will be administered — but some questions remain.

"What happens with VAT on fruit if half of the box is rotten?" asked shopkeeper A Kamenos.

"If buns are forgotten in the oven and need to be thrown away, what happens?"

VAT repayments on small items such as a broken bottle of milk, or broken empty soft-drink bottles on which VAT is payable, still need to be explained, he added.

However, Mr Kamenos was sure he would be ready when VAT came into effect, despite a few expected hiccups: "We might find a bit of a problem here and there," he said.

One Johannesburg cafe owner believed it "will be business as usual".

"Nothing much will change," he added.

Gregory Tsantallis, of Mayfair, believed the new system would be beneficial — the price people saw would be the price they paid. There would be no unexpected extra costs at the checkout point.

"It will be all right ... we will get used to it," Mr Tsantallis said.

Having read much about the new tax system, he said he was confident the shop would cope with the changeover.

A Crosby cafe owner said: "It doesn't make any difference to us ... you take the tax from the customer, you give it to the Government."

Car industry in line for tax bonus

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By Paula Fray
Consumer Reporter

Star 22/7/91

THE STAR
VAT
WATCH

12% VAT

The issue on how VAT will affect the car industry has come under the spotlight after news that Vatwatch had stopped an advertisement implying that the new tax system would push up vehicle prices.

In fact, second-hand cars should cost less under VAT than under the present GST system, according to examples given by the Department of Finance.

A spokesman said VAT would not be payable when a private person sold a second-hand vehicle to another.

"On the other hand, where a motor dealer — a registered vendor — buys a second-hand vehicle, he is allowed a credit for input tax equal to the fraction of the purchase price, and charges VAT on the full selling price."

If a dealer sold a car without making a profit, no additional tax would be payable. However, if a dealer bought a car for R11 200 and wished to make a 20 percent profit on the sale, it was only the value added or profit which would bear VAT.

If the purchase price was R11 200, the actual cost minus VAT would be R10 000. The mark-up was R2 000 and the VAT on the R12 000 was R1 440. The selling price would be R13 440.

As the dealer's output VAT was R1 440 and his notional input VAT was R1 200, the remaining R240 was payable to the Receiver of Revenue.

"This route of allowing a notional input credit and then charging VAT on the selling price has to be followed, otherwise the buyer would be able to calculate the dealer's mark-up," the spokesman said.

"Under the GST system, the dealer would have charged R13 200 (that is, R11 200 cost and R2 000 profit) for the car and that amount would have borne 13 percent sales tax, which amounts to R1 716 — a total cost to the consumer of R14 976.

"Even the private sale at R11 200 would have carried R1 456 sales tax."

At the launch of Vatwatch last week, chairman Professor Louise Tager said a spokesman for the National Automobile Manufacturers Association had been quoted as saying the motor industry would probably save about R80 million a year because of VAT.

Enticement

"This is entirely possible, because the motor industry spends large amounts on capital, equipment and advertising," she said.

"And if it does its sums carefully, it is ideally placed eventually to pass meaningful savings on to motorists."

On the other hand, she was deeply concerned that consumers might be unfairly enticed into buying goods in anticipation of the change to VAT, in the belief that the new system would increase prices.

"The public has to be cautioned against panic buying of goods before the introduction of VAT.

"I have already come across a distressing example. A car dealer was exhorting customers in a radio advertisement to buy before VAT. The obvious implication is that VAT will raise car prices, which is untrue and misleading. This advert was stopped at the request of Vatwatch, but this is the kind of devious practice which Vatwatch would expose.

"The public has to be cautioned against panic buying before VAT," Professor Tager said.

Covert projects cost taxpayers over R1,5bn

B Day 23/7/91 (320)

PATRICK BULGER

GOVERNMENT has spent more than R1,5bn in taxpayers' money on covert projects in the past five years.

The allocation has shown a steady year-on-year increase. It rose from R198,2m in 1987/88 to R220,8m in 1988/89, R275,2m in 1989/90, R327,2m in 1990/91 and R380m in the current financial year.

The money is allocated to the Secret Services Account, attached to the Finance Department which provides at least four other government departments with money to be spent in the "national interest".

The fund was established in 1978 to remove the funding of covert projects from a then-secret special defence account to a fund under control of the Finance Minister.

The fund is administered by the secretary to the Treasury.

In its first year of operation, the fund was allocated R29,5m for "services of a secret nature determined from time to time by the Finance Minister and such other Minister as being in the national interest and for expenses incidental to such services".

The Secret Services Account Act provides for payments to be made to special accounts of several government departments, among them Defence, Law and Order and Foreign Affairs.

In terms of the SA Police Special Account Act, established in mid-1985, the money in the account is to be used for services "of a confidential nature" approved by the Minister of Law and Order.

A Foreign Affairs Special Account — which dates back to 1967 — is for spending on "services of a confidential nature...in the national interest".

Although the general account and its subsidiary accounts are audited, there is no breakdown of what each account gets.

Allocations from the fund have to be agreed by the Minister of Finance and the Minister of the department concerned.

VAT is bad news for the informal sector

Sowetan 24/7/91 (320)

By JOSHUA RABOROKO

THE informal sector could be seriously affected by the introduction of Value Added Tax in September.

Small business, presently exempted from paying General Sales Tax to wholesalers, will need extra cash for buying stock.

Hawkers and spaza shop owners will be particularly affected as most earn their living by selling tax-exempted products.

The Deputy Minister of Finance, Dr Theo Alant, stressed that only businesses with an annual turnover of more than R150 000 would have to register for VAT.

Vendors

Small Business Development Corporation economist Dr Edwin Basson said hawkers and spaza shop owners would at the end of the day pay more for their stock.

He said, however, that although their costs would increase, their income would increase as well.

Those who have registered as vendors would, after a while, be able to get back their input tax.

Taxman axes R30 000 retirement exemption

BDay 24/7/91 (320)

GILLIAN HAYNE

EMPLOYEES who receive in-service gratuities from their employers will, from August 1, no longer get R30 000 tax free for impending retirement in five years.

Momentum Life assistant GM Martin Kourie says the amendment to the Income Tax Act which removes the tax concession known as the "three-year spread" also curtails the R30 000 exemption.

To date the R30 000 tax exemption has been claimable when an employee retires, or is within five years of his impending retirement, or when his position in the company changes. It can no longer be claimed by employees over 55 who are planning to retire in a few years' time.

"It is thus no longer possible for employees over the qualifying ages to receive the tax exemption while in service unless a variation of the employee's position or a change in his appointment can be shown," Kourie says.

The three-year spread concession has been granted to those receiving golden handshake payments, deferred compensation payments, retrenchment payments, payments received because of ill health, or payments made to women leaving employment to get married.

However, BDO Spencer Steward tax director Matthew Lester says the averaging concession granted in terms of section 7A (4)A is still available, which is more important than the three-year spread.

"Tremendous benefits can still be obtained by structuring retirement dates correctly in order to establish the lowest possible average rate of tax," Lester says.

By arranging an employee's retirement for the beginning of the tax year, not only will he receive the R30 000 tax exemption but his average taxable income will also be vastly reduced.

Stores showing VAT prices

Star 24/7/91

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By Paula Fray
Consumer Reporter

THE STAR VAT WATCH

Major retailers have begun using a dual price marking system to facilitate the huge changeover to VAT on September 30.

Consumers concerned about unwarranted increases in costs during the switch in tax systems can now compare the new VAT prices to the present cost of goods with GST added.

Stores which are using the double marking system include Woolworths and Edgars.

Woolworths executive Clive Glasston said that if the company waited until September 30 to change its prices the work would be "an absolute nightmare".

More than 12 million items would have to be repriced in all Woolworths stores.

"We decided, starting from July, to dual price all merchandise," Mr Glasston said. This dual-pricing system will continue until January next year.

The dual price tags show the cost of items under VAT and what the inclusive GST price will be. While the cost of some items will decrease with VAT, the cost of others, such as GST-exempt fruit, will increase.

"It will show the customer what the price is under Value Added Tax and make it clear that we are not going to take them for a ride," said Mr Glasston.

Closer to September 30, it would also mean stores would be left with a limited amount of merchandise with only GST pricing.

"Our attitude is that we want to be honest and fair to suppliers and customers," Mr Glasston said. The cost of VAT has also been rounded down, rather than up, when adding it to the cost of the goods, he added.

"Once we have recovered the cost of implementing VAT, any savings will be passed on to the consumer," said Mr Glasston.

All Checkers products will be double priced from the middle of August, a spokesman said.

The dual system would ensure a smooth changeover while making clear to customers "exactly how the prices of products will be influenced by VAT".

"It will also be done to assure customers that Checkers will not use the changeover to the VAT system as an opportunity to slip through unreasonable price increases," she said.

Products will bear the dual price until two weeks after the implementation of VAT. There will also be a poster campaign to explain the dual pricing system.

A computer package to explain VAT

(320)

MANAGEMENT is beginning to realise the enormity of the training task it faces in order to be ready for the introduction of VAT on September 30, says Deloitte Pim Goldby partner Larry Kritzinger.

Every facet of business is affected and staff in the administration, data processing, personnel, production and finance sectors have to be educated about VAT's effect on their working routines.

This task would have to go outside normal in-house training and that is where Pim Goldby's package computer-based VAT Tutor comes in.

VAT Tutor's 10 disks embrace a variety of specific business activities aimed personnel involved in salaries, tax, data processing, import/export and financial management.

The training package sells for R949 and includes subjects such as mechanics of VAT, incorporating input and output tax, rates, liability for VAT, effect on imports, self-supplies and fringe benefits, documentation and the effect of VAT on cash flow.

"In addition, the programme deals with the mechanics of VAT which will have uniform application regardless of the nature of the business."

LARRY KRITZINGER

B/Day 24/7/91

Kritzinger says more than 1 500 packages have been sold so far.

"The idea was conceived in 1988 when VAT was first announced and we have been working on it since the beginning of 1990," he says.

The package was originally based on draft legislation with a proviso that it would be updated as time went on.

Records have been kept of buyers and updated packages have been sent to them.

He says computer-based training is invaluable.

"It should ideally be interactive so participants can test their understanding and retention of each step before continuing.

"Our VAT Tutor programme is supplied with a workbook so actual examples can be practised.

"This multi-media approach is a proven success in terms of speed of learning and retention of information."

He says mass participation in seminars cannot achieve this nor can these be function-specific to all parties.

Computer based training aims to provide digestible components that build up to form a total picture rather than confronting the trainee with a mass of data, he says.

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Early lump sum 'still tax exempt'

GILLIAN HAYNE

TAXPAYERS receiving lump sum payments because of impending retirement will still be able to claim an exemption on R30 000, Inland Revenue's director for legal drafting Ian Meiklejohn says.

Loosely worded legislation had led some tax experts to say that the use of the R30 000 exemption had been limited by an amendment to another section in the Income Tax Act.

Momentum Life assistant GM Martin Kourie brought the unforeseen implications to light and as a result Meiklejohn said he would amend the legislation next year, retroactively from 1 August 1991, to remove the confusion.

Meiklejohn said the confusion surrounding the R30 000 exemption was unintentional. The amendment to the "three-year spread" had inadvertently made the R30 000 exemption legislation misleading. The treatment of the exemption had not changed.

LINDA ENSOR reports that Old Mutual tax manager Abri Meiring, who is also the convenor of the Life Office's Association taxation committee, said taxpayers who planned to receive qualifying lump sums as from next month because of impending retirement within five years from the date of receipt should not be alarmed by the oversight.

The unforeseen implications were that employees over the age of 55, receiving in-service gratuities from their employers would not get the R30 000 tax exemption in circumstances of termination of services in five years.

Momentum Life's Martin Kourie maintained that the oversight was sufficiently material to warrant a retroactive amendment to protect the taxpayer.

(320) ARGUS 26/7/91

Value Added Tax puzzles voiced at seminars throughout country

Business Staff

MISCONCEPTIONS about value-added tax are arising repeatedly at many of the VAT seminars being held around the country by several organisations.

Some of these misconceptions — and the answers — have been collected by accountants BDO Spencer Steward:

The Misconception: The implementation of Value Added Tax will be delayed.

True Position: There is no question that various problems were experienced in passing the legislation through Parliament. The VAT legislation was finally passed by Parliament on May 17, 1991, and will not be forwarded to the State President's advisory committee as some pundits thought. Consequently there is little chance that VAT will be postponed.

BDO Spencer Steward notes with concern that many clients are delaying their VAT planning until August or even September. VAT will have a major impact on most businesses and consequently due consideration should be given to the matter sooner rather than later.

The Misconception: A tax invoice and a normal invoice must be issued in respect of every transaction.

True Position: It is not a requirement of the legislation that a tax invoice and a normal invoice must both be issued in respect of all transactions. Many vendors will simply be issued a tax invocie in respect of each transaction, which will double up as a normal invoice as well. Remember that in most casaes a tax invoice is exactly the same as a normal invoice with the only difference being the invoice is called a "Tax Invoice" and that VAT is charged instead of sales tax.

The Misconception: An invoicing system must be completely redesigned to cope with VAT.

True position: In most cases only slight systems modifications will be necessary to cope with VAT. A rubber stamp "Tax Invoice" and quoting a VAT registration number will usually be sufficient to change current invoices to tax invoices. It should not be necessary to throw away existing stocks of stationery to cope with VAT.

The Misconception: Tax invoices must be issued in respect of all transactions.

True position: Tax invoices must be issued in respect of all transactions concluded between two registered vendors. It is not obligatory to issue a tax invoice to an exempt vendor or to a member of the general public.

The Misconception: Employees earning more than R150 000 a year will have to register for VAT purposes and charge VAT on their services to their employers.

True position: All employees as defined in the Income Tax Act will be exempted from charging VAT on their salaries, regardless of the amount.

The independent consultant or person providing services through the medium of a private company or close corporation will be obliged to register for VAT purposes if turnover exceeds R150 000 a year.

The Misconception: Input credits are claimed only when stock is sold.

True position: An input credit can be claimed at the end of the tax period in which the expendituire is incurred. The only proviso to this rule is that the vendor claiming the input credit is in possession of a tax invoice.

The Misconception: Input tax credits in respect of capital equipment are claimed over the useful life of the asset.

True Position: The VAT paid on the acquistion of a capital asset is reclaimed at the end of a period in which expenditure is incurred. Again the only proviso to this rule is that the vendor is in posession of a tax invoice. There is absolutely no comparison between the deduction of input tax credits and the claiming of wear and tear for income tax purposes.

The Misconception: VAT has an adverse effect on profit.

True Position: Quite the contrary. VAT should be good news when it comes to profit as input tax credits are granted on all expenditure incurred in the furtherance of the enterprise with the exception of entertainment expenditure and VAT paid on motor vehicles used for the carriage of passengers.

Although VAT is essentially good news for the bottom line one must consider what the VAT system will do to cash flow. Perhaps the costs of raising additional working capital to finance VAT will be greater than the savings inherent in the system.

The Misconception: A VAT credit can be claimed in respect of entertainment genuinely incurred in the course of business.

True Position: No input tax credit can be claimed on VAT paid on entertainment regardless of whether the expenditure is bona fide. The sole exceptiin to this rule is where entertainment or subsistance expenditure is incurred while an employee is out of town overnight for purposes of business.

The Misconception: The sale of second hand goods is not subject to Value Added Tax.

True Position: Second hand goods purchased from a registered vendor will be subject to VAT. Only second hand goods purchased from a non-registered vendor will not attract VAT. Consequently when a second hand house is purchased from a dealer in second hand houses, VAT will be levied on the transaction in spite of the fact that the house is second hand.

The Misconception: By entering into a contract prior to the implementation of Value Added Tax the individual can successfully avoid the imposition of VAT.

True Position: The legislation provides that where a service is rendered after the implementation of VAT it will be subject to VAT in spite of the fact that it might have been contracted for prior to implementation date. An exception to this rule is made where payment is customarily made on a regular basis, e.g. an insruance policy. In such event VAT is not charged on the portion of the service is supplied during the VAT era.

The Misconception: All charges for services supplied by municipalities are now exempt from VAT.

True Position: Only charges in respect of rates and taxes on property are exempt from VAT. Service charges such as refuse removal, sewage, and water will attract VAT.

The Misconception: It will be necessary for the registered vendor to take stock of all items prior to the implementation of VAT.

True position: It is only necessary for the registered vendor to take stock of all items on which sales tax has been paid. Stock on hand which bought exempt of sales tax does not have to be quantitfied as no input tax credit will be granted in respect thereof. If a vendor has stocks of materials on which sales tax has been paid that will be consumed during the VAT era, it is necessary to quantify the sales tax paid so that it can be reclaimed as and when the stock is consumed.

The Misconception: VAT is not charged on rentals.

True Position: VAT is chargeable on all rentals with the sole exception of rentals charged in respect of a dwelling. Consequently the enterprise that pays rental in respect of commercial premises will have to pay VAT and reclaim it as an input credit.

The Misconception: VAT is remittable to Inland Revenue on a cash basis.

True Position: In most circumstances a vendor will account for VAT on a basis of invoices issued and received rather than payments received and made. Only the vendor effecting taxable supplies excluding VAT of less than R1 million a year may elect the cash accounting basis for VAT remission. This scheme allows the vendor to account for VAT on the basis of payments received and made, rather than invoices issued and received.

The Misconception: Farmers can purchase all goods and services on a zero-rated basis.

True Position: The farmer can purchase on a zero-rated basis only: Fodder, fertilisers, herbicide, insecticide, fungicide, dosage agents, dips, veterinary vaccines, seeds and plant material.

Before a farmer can purchase these items on a zero-rated basis the transaction must be greater than R500 in value.

Capital equipment, livestock and any other goods and services acquired by a farmer are subject to VAT. The VAT paid must be reclaimed as an input credit.

The Misconception: Only company cars do not qualify for input tax credits.

True Position: Motor cars are defined in the legislation so as to include any kind of motor vehicle normally used on public roads that has three or more wheels and is constructed or adapted wholly or mainly for the carriage of passengers. Thus a pool car or sales representative's car will not qualify for input tax credit as the vehicle is adapted for the carriage of passengers.

The Misconception: Transfer duty will be repealed when VAT is implemented.

True Position: Only land transactions that are VAT leviable will not be subject to transfer duty. Where land is sold by a non-registered vendor VAT will not be charged, but transfer duty will be levied in full.

INCOME TAX FM 26/7/91 (320)

WINDING UP RANGEL

It has been confirmed that formal notification to terminate the Rangel Amendment and reinstate the foreign tax credit for US taxpayers in SA (*Economy* July 19) was given on July 10 by Secretary of State James Baker to Treasury Secretary Nicolas Brady.

Ernst & Young tax partner Ray Eskinazi says the US Treasury is preparing a Revenue Ruling to deal with the issues that follow. It will provide that direct SA taxes incurred on or after July 10 will be creditable in the US.

FM 26/7/91 (320)

As the repeal occurs mid-year and a US corporation will no longer pay current US tax on undistributed income of an SA subsidiary earned after July 10, the ruling will also clarify how such income is to be split between pre- and post-July 10. ■

Concern over tax breaks

(320)

BDay 26/7/91

GRETA STEYN

GOVERNMENT was paying serious attention to concerns that tax breaks for exports would create distortions in the local market, Finance director-general Gerhard Croeser said yesterday.

He said in an interview there was concern that tax breaks for capital investment could help companies increase domestic market share and locally based profits.

Anglo American expects tax incentives to be announced before the end of the month for Columbus — its R3bn stainless steel joint venture with Gencor. Alusaf has also said it wants help from government to start up a R3bn aluminium smelter.

"Companies that increase their output capacity with the help of tax incentives could be at an unfair advantage in the local market. Their competitors' complaints might be justified," said Croeser.

But the potential export earnings and job creation outweighed the negative aspects of the concessions. Policy action was needed to generate export-led growth. Government had no intention of limiting the incentives to companies that were solely exporters.

In terms of the scheme, companies must export at least 60% of their output. But recent amendments to the Income Tax Act paved the way for the appointment of a committee with the power to waive some of the conditions. The conditions include

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Tax breaks

BDay 26/7/91

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☐ From Page 1

the beneficiation of SA-sourced minerals and a competitive scale.

"The committee will approach the issue on a case-by-case basis. The effects on local competition will be taken into consideration," he said.

Croeser said the committee would include representatives from the Board of Trade and Industry, the Finance Department and Mintek.

He said the tax breaks would not hamper efforts to bring down the overall company tax rate. Most of these large-scale projects would not have been undertaken without incentives.

VAT FM 26/7/91 (320)

WATCHING FOR ABUSES

Are retailers and their suppliers preparing to fleece consumers by hiding behind the introduction of VAT on September 30?

SA's top retailer, Raymond Ackerman, believes they are. He says the tax relief on capital and intermediate goods and services that the VAT system will usher in (an effective saving of around R6bn for business) will be most welcome, "but experience thus far has been that businesses are not intending to pass on the savings. On the contrary, the added administration and conversion costs are resulting in unprecedented price increase demands from suppliers."

Ackerman's most serious contention is that the system paves the way for intentional abuse. "Suppliers and retailers will now be in a position to pocket the huge savings on capital and intermediate inputs, while simultaneously hiking their prices on V-Day — and blaming the new tax system and government for the increases and resulting higher inflation," he says.

Government's biggest miscalculation, in Ackerman's view, was the decision to make VAT add-in — the price you see is the price you pay. While he concedes the system is easily understood by both the customer and the less sophisticated retailer, he stresses that there are a host of disadvantages.

As he explains it, as of September 30 the marked prices of all goods — with the exceptions of brown bread and maize meal — will be increased. Besides creating a costly administrative nightmare (systems changes have to be made and staff have to be trained, which is inflationary), the consumer's general impression will undoubtedly be that prices are going up — a perception which is bound to have an impact on a chain's marketing efforts in the current economic climate.

However, Ackerman contends that the effective tax increase on each item will be "hidden" from the consumer, and retailers will be saddled with the negative public relations that will flow from the substantially higher price tags attached to goods on the store's shelves.

Of course, if VAT really is to be a better tax for a better SA, one option retailers have is dual marking — they can mark goods with two prices, one showing VAT's actual contribution to the total cost. But just how many retailers will be prepared go to these lengths to prove their bona fides remains to be seen.

It's not that he believes that retailers or their suppliers will act as paragons of virtue on V-Day, but Checkers MD Sergio Martinengo is quick to point out that suppliers can be unscrupulous at any time if they choose to be — with an add-in or add-on tax system.

"We must do our job as best we can to ensure that suppliers pass on the benefits to the consumer," he says.

Government's response to possible VAT abuses is the creation of Vatwatch, an independent consumer body headed by Louise Tager. While it will be funded by government, Tager insists its purpose will not be to defend VAT.

"Vatwatch will seek to heighten consumer awareness of trends and movements in retail prices in the months immediately before and immediately after the introduction of VAT."

She says this will be done largely by price monitoring, research and a national advertising campaign. She promises there will be "regular feedback to the media" on any anomalies.

But the great weakness of her committee is that it has no legislative teeth to deal with offenders. Tager merely says: "We will seek to channel forces that result from our public awareness campaign into a direction that will compel retailers and suppliers to pass to consumers the cost benefits that VAT should generate.

"I believe exposure can be more effective than legislation."

Her committee comprises a wide range of interest groups — consumer bodies, trade unions and civic organisations. Complaints will be monitored by a group of retired executives who are likely to bring gentle persuasion to bear on offending parties to change their ways.

Failing this, contraventions are likely to be made public in the press. However, Tager admits her committee "has no ultimate sanction like, for example, closure," to enforce its decisions.

Welcoming the creation of Vatwatch is Sacob chief economist Ben van Rensburg, who argues that "a necessary condition for effective competition is that both sides of the supply and demand market should have adequate knowledge."

He says effective competition should preclude retailers from using the add-in system to increase prices at will. ■

FM 26/7/91 (320)

TRADE UNIONS

TAXING THE WORKERS

Finance Minister Barend du Plessis has been told by union leaders to expect "stern resistance" by workers "if there is an inadequate process of consultation and the implementation of VAT goes ahead" in October.

This emerged from the Minister's meeting last week with a high-powered union delegation to discuss the issue of VAT on union subscriptions, basic foodstuffs and medical supplies and services.

The delegation of 13 was jointly led by Cosatu general secretary Jay Naidoo and his Nactu counterpart, Cunningham Ngakula. It included NUM deputy chief Marcel Golding, textile union leader Johnny Copelyn, Numsa's Bernie Fanaroff and Cosatu treasurer Ronald Mofokeng.

While the unionists reiterated their long-standing opposition to "taxation without representation", they welcomed the meeting with Du Plessis and told him that their

Du Plessis ... *demand for VAT relief by unions*

present concern was the effect of VAT on their members, low-income groups and economic development in SA.

Du Plessis was also informed that a resolution before Cosatu's congress this week calls for unions to demand a 5% wage increase to offset the expected inflationary effects of VAT. The unions have already threatened not to pay the new tax on dues.

The following demands were presented to Du Plessis:

- ☐ All the food items now exempt from GST should be zero-rated under VAT;
- ☐ Prescribed medicines, medical services, medical aid schemes and sick pay benefits should also be exempt;
- ☐ Any relief programmes that are introduced need to be expanded and negotiated with the union movement and community organisations; and
- ☐ Union subscriptions and federation affiliation fees should be zero-rated.

According to the unions, low-income households can expect to pay between R26 and R36 extra a month in tax on purchases if VAT is set at 12%, with only brown bread and mielie meal exempted. Only at a rate of 6% would these households be paying the same in VAT as they now pay on GST. Without exemptions for food and medical services they will be spending 5% more of their income on tax.

Such an income drop for poorer households excludes the possible effect of other VAT-induced price increases, say the unions: "It is widely accepted that the introduction of VAT will have a negative impact on inflation, say 2%, as the tax is applied to services, administration and so on, and the costs are passed on to consumers."

Imposition of VAT on exempted food would defeat the object of the 1984 concession which, it is argued, was mainly to compensate for the increase in GST from 7% to 10%. Such a sudden jump in household inflation for their members and poor families, said the delegation, "will leave the trade union movement with no choice but to demand an interim increase of 5% on current wage rates to sustain the real income of our members."

They suggest "it is not a major problem to have certain food items, medicines and medical services taxed at a zero or low rate." Businesses in SA have been able to cope with the existing exemption of foods, they add, and most European countries that apply VAT tax foods at a zero or low rate.

The unions note government's acknowledgment that taxing previously exempted items will mean poor people paying more and that government has promised R220m for targeted poverty relief this year. But it has not spelled out how the money will be spent, nor is it clear that this programme will be in operation by October 1.

The allocation is too low anyway, the unions feel. With 16,3m people estimated to be living below the minimum living level, according to the report of the VAT Committee last February, the R220m budgeted for poverty relief amounts to R13,50 per person. The unions say this should be compared with the R546m that the Labour Research Service has estimated low-income households will be paying in tax in the first six months of VAT.

Cosatu, therefore, told Du Plessis it believes these households will be paying for any poor-relief programme government introduces, plus a "bonus" with which to subsidise business purchases. Further, the 1991-1992 Budget allocates R25m less on job creation and R20m less on training for the unemployed than last year.

Since SA has no well-developed social security system, zero-rating of basic foodstuffs would be a means of assistance able to reach even those in remote areas, says Cosatu — adding that an expanded relief programme is called for in any case. These should be negotiated with the trade unions and community bodies with a long-term government commitment to sufficient funding.

Cosatu will be "urgently" submitting further representations to Du Plessis, who it says has agreed to further talks on these and macro-economic issues. ■

PROPERTY TAXATION

SOFTLY, SOFTLY

FM 26/7/91

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Talk that an ANC government might target, among other assets, fixed property — especially second homes, in its proposals to tax wealth — has set the cat among the pigeons.

It could explain why there has been a sudden flurry of interest among property owners in rationalising their holdings, which is one way of the wealthy avoiding becoming milch cows for any socialist-inclined government.

Estate agents caution, however, that the time is not yet ripe for them to rush out and sell the family holiday cottage or second home at Hermanus or Plettenberg Bay. Any attempt to introduce a capital gains tax, they point out, is likely to be severely constrained by the need to maintain a high level of stability and growth for the economy in the years ahead.

More particularly, introducing a capital gains tax is one surefire way of killing confidence and new investment in any economy. Certainly, people like property economist Erwin Rode and the UBS's Hans Falkena seem satisfied that there is no reason to panic — at least for now.

Even ANC tax adviser Lieb Loots, whose comments on the need for some form of wealth tax may have prompted the scare, sees problems with implementing an effective tax on fixed property. He readily admits that targeting second homes for special tax treatment (as distinct from municipal taxes which are already payable on most of them) would be difficult to implement and almost certainly encourage owners to indulge in tax-avoidance schemes.

"People would do all in their power to bypass such taxes by, for example, transferring a property into the name of a spouse. The result is that it would simply create the need for a large and costly administrative infrastructure. This would nullify any advantages derived."

But that doesn't, he says, mean property should be exempt from some sort of additional taxation. "Some would argue that the whole tax system needs reforming so that ordinary salary earners aren't, as they are now, excessively burdened by taxation. And the collection of property tariffs would be part of any overhaul."

Tax reform, he argues, should have two objectives: to establish a system which is perceived to be fair by both wealthier people, who bear the brunt of taxation, and poorer people who do not, and to establish efficient methods of generating State revenues which are also conducive to economic growth.

"The problem would be how to compensate for the loss of revenue in a tax regime which, for example, lowered the top marginal rate and reformed company tax. The principle is to have a more-or-less balanced tax net spread over many areas, rather than a few taxes bearing the brunt of revenue needs.

"In the context of perceived fairness and the efficient generation of revenue I would probably suggest reforms which replace the present flat rate tax with a compensatory mechanism such as a progressive property tax."

Fixed property could be valued on the same basis as now but perhaps at more regular intervals. A moderately progressive tax would then define, for example, three brackets — up to R100 000; R100 000-R500 000; and R500 000-plus. The owner would, on a graduated scale, pay a percentage in the rand on that value in tax.

"This should meet ANC concerns about wealth redistribution. At the same time it need not be implemented in a way which would either act as a disincentive to property owners or lead to an inefficient bureaucracy. In fact, no additional bureaucracy will be needed. Theoretical literature and research on tax systems suggest that this kind of tax, if correctly structured, is fairly efficient and desirable because it doesn't, for instance, influence decisions on where or how one saves and invests.

"The present dispensation, in contrast, encourages institutional rather than other savings, with the result that insufficient capital is channelled into areas like venture capital. A progressive property tax would not have this effect," Loots asserts.

Predictably, there are many who take the contrary view. Econometrix's Azar Jammine says the ANC has talked about targeting second homes — particularly those not lived in — for special taxation. But he insists such a policy is "totally anti-capitalist" and would undoubtedly lead to a stagnation in the residential property market. "Fortunately, the ANC seems to have backtracked on the issue," he adds.

He has some sympathy for the concept of a broader capital gains tax as a means of reducing the burden of taxation on income. Like Loots, he argues that the net effect of the current taxation system has been to create a "paper chase of financial assets on the stock exchange and, to a certain extent, to facilitate excessive commercial property development to the exclusion of housing."

Sapoa president Derek Stuart-Findlay stresses that Sapoa must "emphasise the importance of the free-market system and freehold ownership of property in the wealth creation process, and anything which impedes that process will affect investment generally as well as investment sentiment."

Adding his support, property economist Neville Berkowitz notes that "any taxation of property is negative for property. An

continue

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ANC government implies a socialist economy and within that ambit property becomes a lot less desirable from many points of view because that, in essence, means taking from the rich to give to the poor as a process of wealth redistribution.

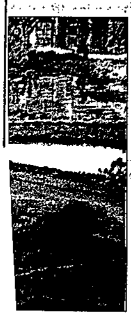
"In that scenario one perceives a lower economic growth rate and property tends to be in less demand in low-growth economies. So property would lose its lustre as an investment haven. Any taxation of property on top of that will only exacerbate the situation." ■

OLD BLOCK

s include IGI, First National Bank, rinaker, Genrec and Blue Circle.

Phase two comprises another 18 units ith selling prices starting at R450 000. onstruction has started on six of the omes, designed by architect John Halrd of MLH. According to Grinaker, ur are already under negotiation.

Buyers apparently have considerable say in the interior layout and finishes of their homes, while overall architectural and aesthetic standards are ensured by maintaining a generic design theme for development.



The project was conceived by sugar and cattle baron Denis Barker after he visited classic golfing estates in the US.

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Police probe GST exposé

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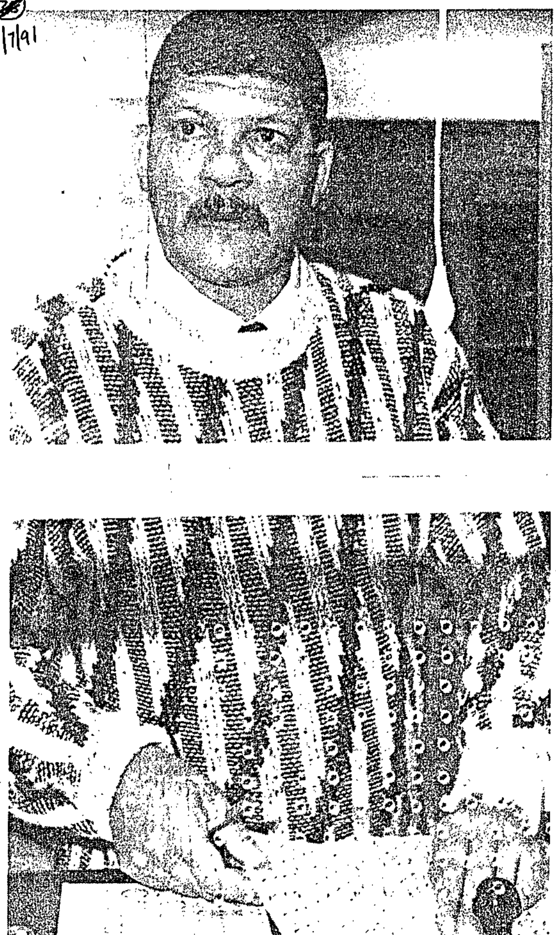
City tax scam



PAYMENT ... Receiver of Revenue clerk Mr Anthony Hartogh after he accepted R300 GST payment on a car he had earlier been told cost R10 000. Mr Hartogh gave a Cape Times reporter a receipt of R130 stating the car's cost as R1 000. Pictures: ALAN TAYLOR

By GUY OLIVER and COLIN HOWELL

POLICE are investigating what could be a massive GST tax scam in the office of the Receiver of Revenue uncovered by the Cape Times.

It involves the payments of sales tax on motor vehicles and could mean the loss of thousands of rand in revenue to the government.

In a dramatic development yesterday a Cape Times photographer was apprehended by Revenue security personnel during the newspaper's investigation and only released after a discussion with the deputy Receiver of Revenue.

The facts brought to light by the Cape Times might mean that thousands of people who have sold cars on which they have paid GST are affected.

The Receiver of Revenue, Mr Ernst Conradie, said yesterday that his department was taking the Cape Times allegations seriously and that he was informing the police immediately.

Mr Conradie also revealed that an official of his department had recently been arrested for a GST-related fraud and would appear in court again soon.

Police last night confirmed that the Cape Times information has been passed on to the fraud squad and that an investigation has started.

The general sales tax on vehicles will be phased out in October when the new VAT system is introduced.

During the tape-recorded investigation by the Cape Times reporter:

- He was told by a Revenue official that he need not pay the full GST tax on a motor vehicle.
- That he should call the official at home to arrange official documentation.
- That the official concerned would require a cash sum of R300 paid to him at counter number 14 in the Revenue offices.

The Cape Times reporter, using the name Peter Fields, complied with these suggestions and was duly issued with an official receipt which registered a R10 000 car as one bought for R1 000 and which credited him with paying R130 GST instead of the required R1 300.

The remaining R170 was accepted by the official and not receipted.

The Cape Times started an investigation last week when a newspaper employee, Ms Lynne Clement, was approached by an official at the Receiver of Revenue's offices when she

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PAY-BACK ... Mr Hendrik Combrink, Receiver of Revenue assistant director of the cash department, holds an envelope full of R20 notes after he was informed of irregular dealings in his department by the Cape Times yesterday. He then (right) reaches for the phone to consult his superiors.

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went to pay the GST on a R15 000 bakkie.

The Receiver of Revenue employee said he could help her reduce the required R1 950 sales tax. He gave his name as Mr Anthony Hartogh.

He asked Ms Clement: "Why should you pay so much — it will all be done away with in a few months anyway."

Mr Hartogh told her: "You bring me R600 cash and I'll help you." She declined the offer and a bank guaranteed check of R1 950 was paid and receipt given for the same amount.

When she paid on July 18, she says she witnessed three men paying "large amounts of cash" at a counter in the Receiver's offices.

One of the men said she "was mad" to bring a cheque and advised her to pay cash. These men appeared to be ordinary members of the public, making GST payments at the offices.

This week, reporter Guy Oliver posed as Mr Peter Fields, a recently arrived, spendthrift British traveller who had no idea of how GST tax regulations worked in South Africa.

Oliver went to the Receiver of Revenue offices and asked an official there to point out Mr Hartogh. He was shown to Counter 14. Mr Hartogh was about to close up for the day.

Oliver told Mr Hartogh he was about to buy a car for R10 000 and that he believed this would mean having to pay R1 300 in GST.

He asked Mr Hartogh if there was a way to avoid the R1 300 tax surplus on the car.

Mr Hartogh asked if he knew a Mark Bester and the reporter replied he didn't but that he had heard from a friend called Peter Collins (a fictitious name) that he (Mr Hartogh) could "arrange discount deals".

Mr Hartogh asked "for details" — and said he would issue a GST certificate "if you can bring me R500" — R800 less than the required legal sales tax of a car costing R10 000.

However, as the reporter and Mr Hartogh walked out of the office into Plein Street, the clerk dropped his price to R300, saying R500 was "too much for you".

"It must be cash," he emphasised.

Mr Hartogh gave the reporter his home telephone number and asked him to phone at a specified time, which was done.

Reassurance was again given by Mr Hartogh that the deal was water-tight and he said: "I'm not going to worry about it. I'm going to put it through for you, I told three hundred, hey."

The planned payoff was arranged for 11.30am yesterday.

A final telephone call was made to Mr Hartogh at his work place approximately three hours before the Cape Times went to pay the money yesterday.

The details of a registered Renault car and its registration number were phoned through to Mr Hartogh and an address of a Observatory commune supplied.

Mr Hartogh said he would fill out the form and that "Peter Fields" should come to Counter 14 at the Receiver's offices to pick up his bona fide GST certificate.

A Cape Times team went to the building.

There were three people waiting to be served at Counter 14, but Mr Hartogh acknowledged the reporter's presence when he came into view with a nod of the head.

Mr Hartogh accepted R300, which he counted when asked to do so. He then left the cubicle.

The amount he accepted equals just three percent GST. And, even after that massive illegal discount, only a portion of the R300 was paid to the Receiver.

He returned about two minutes later and gave Oliver a receipt which stated that the vehicle had been bought for R1 000 — and stating GST payment of R130.

As soon as the reporter had the document a photograph of the bewildered teller was taken.

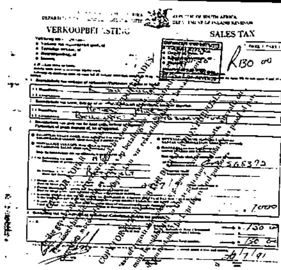
Members of the public waiting in line behind the reporter watched in surprise as Mr Hartogh was confronted and asked if he had any explanation for what had happened. He remained silent in his booth.

The team then went in search of the assistant director of the cash office, Mr Hendrik Combrink.

During the commotion another employee approached the Cape Times team and tried to give them money contained in a sealed department envelope, saying it had been "left under some stamps" on Mr Hartogh's desk.

The Cape Times refused to take the money.

In an interview later, the Receiver of Revenue, Mr Conradie, said that the cashiers in the office where the drama unfolded dealt with "between 100 and 200 GST payments every day".



RECEIPT . . . The receipt which an official of the Receiver of Revenue yesterday gave to Cape Times reporter Guy Oliver, who was posing as Peter Fields. The document gave the purchasing price of a 1986 Renault car as R1 000.

Reacting to news of the latest scam, Mr Conradie said: "We don't tolerate things like this in the Inland Revenue. Quite honestly, this is not the way we do business and I can assure you there will be an immediate investigation."

He said his officials worked under various systems of checks and balances. He was not prepared to elaborate but added: "No system is foolproof — everything will be investigated.

"The possibility that an official may have had accomplices — that there was collusion here — will be investigated, definitely."

Mr Conradie, referring to the official who has alrteady been arrested, said: "This matter is a different kind of case — involving a GST refund to which the official concerned was not entitled." He would not elaborate because court proceedings against the official had started.

Mr Conradie said he was not aware of any other similar irregularities in his offices.

Asked if he would suspend any officials, Mr Conradie said: "Yes — the moment police have a prima facie case against an official, I will.

"This matter will be properly investigated — I will bring police detectives across immediately — and I will personally head up the departmental investigation."

Referring to the information about Mr Hartogh placed before him, Mr Conradie said: "If this is true, I don't know how his system works — it is worrying that he has been able to do this.

"But, there are ways we can check (the system). I would prefer to not disclose how we do it.

"In the normal course, he may get away with it for a while, but someone was bound to pick it up sometime."

A comprehensive "witch hunt" is now expected within the Receiver of Revenue offices — and there are indications that records of thousands of recent GST transactions will be scrutinised by investigators.

Police spokesman Captain Attie Laubscher last night said: "I can confirm that information has been passed on to police and that Fraud Squad detetives have started an investigation."

In Plein Street, the building's chief of security, Mr D Bester, approached two Cape Times men and ordered them back into the building. The Cape Times men refused but Mr Bester said that photographs had been taken illegally in the building and that the photographer would be arrested if he did not accompany him back into the building — and he had to take his camera with him.

Later, after a telephone call from the Cape Times to the Deputy Receiver, the photographer was allowed to leave the building, even though he had refused to hand over the film in his camera.

No escape — VAT's rolling now

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Own Correspondents

JOHANNESBURG. — Two months before its official introduction, VAT is already being levied on various services to prevent attempts to evade the tax through early payments.

Inland Revenue's tax policy chief director Trevor van Heerden confirmed at the weekend that vendors of most services which would attract 12% VAT had been instructed to start levying the tax on payments for services to be used after September 30.

Government had instructed them to start collecting the tax from June 12 when VAT legislation was promulgated.

Airline and other transport and railage reservations paid for now for travel dates after September 30 are affected.

But members of sports and entertainment clubs whose annual subscription fees are due before September 30 will not be taxed this year.

He said the action had been prompted by concern in the tax department that people would try to avoid the tax on major services, such as construction, by paying now for work to be done after September 30.

However, he emphasised that provision had been made in the VAT Act for bone fide residential property purchases, agreed on before September 30, to be exempted from the tax.

SAA announced recently that air fares would increase by 4% after the introduction of VAT.

SAA spokesman Leon Els confirmed that this amount was already being levied on tickets for travel dates after September 30 paid for now.

"The tickets are only subject to VAT from September 30, but because of the administrative problems of charging the ticket price now and the VAT portion later, we are charging for VAT at the same time the ticket is purchased," he explained.

However, only a "few dozen" tickets had been affected to date, and SAA was not receiving the benefit of extra interest on large amounts of money, Els said.

The VAT portion was being indicated separately on all tickets to allow passengers registering as vendors for VAT purposes to easily identify the portion they could claim as an input tax credit in their first VAT return. The input tax credit system reduced the 12% VAT to an effective 4% increase in costs.

"For registered vendors this translates to an 8% decrease in the cost of domestic travel as they too will be able to claim a credit on the VAT paid," Els said.

Tax experts said because SAA was operating under a government instruction there was little individuals could do: "It is one of the unfortunate transitional burdens we have to face when moving from one tax system to another".

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Revolt on tax

Cosatu call as FW prepares reply

THE Congress of South African Trade Unions (Cosatu) is to mobilise for a nationwide general strike over the Inkatha-funding scandal.

Yesterday Cosatu general-secretary Mr Jay Naidoo said employers would also be approached to stop paying PAYE tax on behalf of workers, while a mass campaign to boycott all taxes, including VAT, was also on the cards.

A separate Cosatu statement said this strategy would continue until "we are satisfied that our money is no longer being used to kill workers and their families".

The move by Cosatu was announced after the union's fourth congress in Johannesburg, as the focus shifts to tommorrow's official response by the government on the secret funding controversy.

President F W de Klerk is expected to announce changes in the control and supervision of secret funding, but no cabinet heads are expected to roll.

The Ministers of Law and Order and Defence, Mr Adriaan Vlok and General Magnus Malan, both said over the weekend that they would not resign because of the controversy.

Mr De Klerk is also unlikely to fire them.

Instead, he is expected to reiterate that both ministers and the government officials not only operated within the law, as approved by Parliament, but also in terms of government policy at the time.

He is also likely to emphasise that the secret funds were established in the pre-February 2, 1990 era and were necessary to fight sanctions.

But he is expected to announce an end to secret funding of organisations like the Inkatha Freedom Party and the United Workers Union of South Africa (Uwusa).

Addressing a news briefing at the end of the three-day Cosatu congress, Mr Naidoo said detailed plans for the general strike will be drawn up by Cosatu's central executive committee.

ANC pressure

He said negotiations on a new constitution had to be reviewed urgently in the light of the latest Inkathagate revelations.

In further developments yesterday:

- The ANC turned up the pressure, warning that negotiations have been seriously endangered.

In a statement the ANC, SACP and Cosatu said senior government officials' reaction to the situation had been "evasive" and they seemed not to understand the extent to which they had endangered a peaceful resolution to South Africa's problems.

"Our people will be watching De Klerk's performance very carefully. De Klerk will be judged in terms of his response to the demands which have been made by a wide range of forces," the alliance statement said.

The demands include the dismissal of Mr Vlok and General Malan, a multi-party commission to investigate government involvement in violence and the secret funding of political activity, and the public dismantling of all SAP and SADF special counter-insurgency forces.

- Dr Andries Treurnicht announced yesterday that his Conservative Party is to ask the advocate-general to investigate the government's slush fund activities.

"We will also be requesting the advocate-general to investigate all other covert projects funded with public monies since 1986," he said. — Sapa, Own Correspondents and Political Staff

Cosatu plans tax revolt and strike

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The Congress of South African Trade Unions has reaffirmed its independence, while calling for an intensification of the drive to unseat the Government in alliance with the ANC and the SA Communist Party.

The country's largest labour federation also plans to mobilise towards a general strike and a withholding of tax payments in the wake of the "Inkathagate" scandal.

The congress, held at Nasrec outside Johannesburg, resolved that it supported the independence of mass organisations and trade unions from the Government and political parties.

Committed

However, the congress, which is Cosatu's highest policy-making body, committed the organisation to the tripartite alliance with the SACP and ANC.

It gave all but paid, full-time Cosatu office-bearers the go-ahead to join and take leadership positions in political organisations.

Delegates also resolved to call for a summit of anti-apartheid organisations to press for the Government's resignation in the wake of Inkathagate.

The federation planned to hold a summit of anti-apartheid organisations in the first week of September to discuss a programme of action for the Government's resignation, general-secretary Jay Naidoo told a press conference.

Delegates decided that Cosatu would urge employers not to pay PAYE tax, to pressure the Government into ending covert funding and complicity in violence. Affiliate unions could launch an anti-VAT campaign.

Delegates identified violence as the main obstacle to negotiations and resolved that Cosatu had to play a leading role in the peace process.

Other resolutions included:

- The development of a programme of economic restructuring leading to an interim high-wage/low-cost economy and, eventually, socialism.
- Sanctions should stay until democratic transition was certain, but Cosatu called for a conference to review economic tactics and their replacement with an investment code.
- A bill of workers' rights should be included in the ANC constitution.
- Affiliation to the Organisation of African Trade Union Unity.
- The strengthening of ties with other union federations in southern Africa and the southern hemisphere.
- Cosatu's executive committee was instructed to draft a programme for a union of farm workers.

Second vice-president John Gomomo was elected Cosatu president and first vice-president Chris Dlamini retained his position. Godfrey Oliphant took over as second vice-president.

Jay Naidoo was voted for a fourth consecutive term as general-secretary, with Sam Shilowa as his assistant. Ronald Mofokeng was elected national treasurer. — Sapa.

VAT levy for holidays booked now

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THE STAR VAT WATCH

12% VAT

By John Miller

The cash-strapped, would-be holidaymaker who was unable to book his Christmas getaway before June 12 will have to pay VAT, even though the system only comes into operation at the end of September.

Trevor van Heerden, chief director of tax policy developement for the Department of Inland Revenue, said any contract entered into after June 12 which involved the rendering of services was subject to VAT even if it was booked and paid for.

Les Smith, director of Finance Southern Suns and Holiday Inns, said people booking holiday packages and accommodation will have to pay VAT though the group's new rates had not been decided.

"Because of the state of the hotel industry and occupancy levels down to about 50 percent, 5 percent lower than this time last year, we will be forced to pass on the full 12 percent".

He said the group did not believe in discounting as this caused problems and resistance when it resumed normal price levels.

Arthur Gillis, MD of Protea Hotels, said there would be a saving on all rates after September 30, depending on the package.

A spokesman for the National Parks Board told The Star that the financial committee will meet next week to decide on VAT tariffs and any input credits that can be passed on to the consumer.

The spokesman said the board was not there to make money or a profit out of VAT. However, all bookings were subject to price increases.

South African Airways has been one of the few companies not to pass on the full 12 percent when it announced on June 27 a domestic fare increase of 3,9 percent, effective at the end of September.

Early payments to fall under VAT net

B/Day 29/7/91 (320)

GILLIAN HAYNE
and LESLEY LAMBERT

TWO months before its official introduction, VAT is already being levied on various services to prevent attempts to evade the tax through early payments.

Inland Revenue's tax policy chief director Trevor van Heerden confirmed on Friday that vendors of most services which would attract 12% VAT had been instructed to start levying the tax on payments for services to be used after September 30.

Government had instructed them to start collecting the tax from June 12 when VAT legislation was promulgated.

Airline and other transport and railage reservations paid for now for travel dates after September 30 are obvious examples of the types of services affected.

But members of sports and entertainment clubs whose annual subscription fees are due before September 30 will not be taxed this year.

He said the action had been prompted by concern in the tax department that people would try to avoid the tax on major services, such as construction, by paying now for work to be done after September 30.

However, he emphasised that provision had been made in the VAT Act for bone fide residential property purchases, agreed on before September 30, to be exempted fro[illegible] the tax.

SAA announced recently that air fares would increase by 4% after the introduction of VAT.

SAA spokesman Leon Els confirmed that this amount was already being levied on tickets for travel dates after September 30 which were paid for now.

"The tickets are only subject to VAT from September 30, but because of the administrative problems of charging the ticket price now and the VAT portion later, we are charging for VAT at the same time the ticket is purchased," he explained.

However, only a "few dozen" tickets had been affected to date, and SAA was not receiving the benefit of extra interest on large amounts of money, Els said.

The VAT portion was being indicated separately on all tickets to allow passengers registering as vendors for VAT purposes to easily identify the portion they could claim as an input tax credit in their first VAT return. The input tax credit system reduced the 12% VAT to an effective 4% increase in costs.

Tax experts said because SAA was operating under a government instruction there was little individuals could do.

Rates to drop before VAT?

(320) CT 30/7/91.

From SHARON WOOD

JOHANNESBURG. — The long-awaited cut in interest rates might occur before VAT was implemented in September, bank economists said yesterday.

Those who disagreed were confident bank rate would drop before the year's end.

The introduction of the turnover tax on bank interest with VAT in September was pinpointed by bankers as a key to persuading Reserve Bank governor Chris Stals to cut the bank rate before September 30.

If he did not lending rates would probably rise, which would send out the wrong signals to an economy already suffering under recessionary conditions, they said.

They believed Stals would not be swayed by political pressure to ease lending rates, but the appropriate market conditions, slower money supply and bank credit growth justified a reduction.

An increase in bank lending rates as a result of the turnover tax would "send shudders through the economy", said Standard's chief economist Nico Czypionka.

"The reasons for a bank rate cut from a policy point of view are quite sound," he said. Liquidity was rising, credit demand had slowed and the balance of payments position was reasonable.

The introduction of the turnover tax, which would increase interest rates, would be negated by a 1% reduction in bank rate, said Nedbank chief economist Edward Osborn.

"Monetary policy has outplayed its purpose because of the damage it is doing to the country's financial fabric," he said.

But any reduction in interest rates would have to be limited because of the tight balance of payments situation.

Bankorp economist Emile van Zyl disagreed with the view that bank rate might be cut before the implementation of VAT.

"Stals will carefully look at how businesses handle VAT to see that they don't use it as an excuse to raise prices."

As a result, interest rates would come down only at the end of the year, he said.

Sacob senior economist Bill Lacey said interest rates were unlikely to fall before VAT. Inflation would have to fall at least once more before Stals reduced rates.

VAT 'will help advertisers beat the inflation spiral'

B'Day 30/7/91

320

VAT is good for advertisers, agencies and media owners as far as budgets are concerned, says The Media Directors' Circle treasurer John Barham.

The benefits to the industry were clear, despite the fact that the full implications would not be known until VAT's implementation on September 30.

Unlike GST, he said, VAT should not be included in advertising budgets as it was an input tax, and therefore recoverable.

The effects of VAT would be to increase the effective "spend" in media by 13%, which would mean a bonus for:

- The advertiser, who would get more for his money;
- The agency, which would get commission on the increased spend; and
- The media owner, who would benefit from increased revenues.

The introduction of VAT would give advertisers the opportunity, for once, to get ahead of media inflation, he said.

With the introduction of GST, budgets were not increased in line with the GST percentage, so adspend did not keep pace with inflation.

Barham said that if advertisers increased budgets in 1992 in line with inflation and put the 13% savings on VAT back into media, the industry could be looking at a minimum 25% increase in media spend in 1992.

This compared with a 19,1% increase in total adspend for 1990, reflecting no real growth as the average inflation rate for all media over the period was 19% to 20%.

Budget

Adspend for the first quarter of 1991 was 21,8% up on the same quarter in 1990.

Barham gave the example of an advertiser with R100 000 to spend. Currently, the budget was split into roughly R88 500 media spend and R11 500 GST which was non-recoverable.

However, from October 1, 100% of the R100 000 budget would be media spend and the additional R12 000 VAT would be recoverable, resulting in an effective 13% increase in media spend.

AWB: reporter called to testify

Star 30/7/91 (327)

Own Correspondent

DURBAN — Nicola Cunningham-Brown, political reporter of The Daily News, has been subpoenaed to appear in the Pietermaritzburg Magistrate's Court on Thursday to give information about alleged Afrikaner Weerstandsbeweging military operations in the troubled Richmond area of Natal.

The subpoena was issued under section 205 of the Criminal Procedure Act, which the State sometimes uses to try to compel journalists to disclose their sources.

The subpoena arises out of a front-page item in The Daily News of Friday last week in which Ms Cunningham-Brown reported that AWB training camps had been set up on farms around Richmond.

People attending the camps were trained to use firearms and explosives and allegedly practised their military training on people living in the black townships of Indaleni, N'kobeni and Magoda.

This allegedly led to the death of at least two people, the report said.

AWB people on these raids allegedly wore riot police camouflage uniforms to try to mislead township residents into thinking they were members of the SAP.

The Attorney-General of Natal, Mike Imber SC, requested the magistrate to summons Ms Cunningham-Brown.

Mr Imber said she "is likely to give material evidence in regard to offences alleged to have been committed by AWB members".

Interest rate cut might come before VAT

SHARON WOOD (320)

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The value-added system of taxation is out of place and out of time, says Henry Vorster

VAT – punitive and pointless

320

Star 30/7/91.

WITH September 30 1991 approaching, an increasing number of people are questioning the wisdom of switching from the current retail sales tax to the value-added system of indirect taxation. Some commentators question whether the timing for such a fundamental change in the tax system is propitious, given the current and anticipated process of constitutional reform, while others have raised questions about the principles underlying the supposed appeal of the VAT system.

The debate, no doubt, will continue long after September 30. The real concern is that Government will ignore the increasing consumer antagonism to VAT in the belief that it is now too late to reassess the situation. There are practical difficulties, of course, but it is not too late if circumstances warrant reconsideration. A strong case can be made for suspending or postponing the VAT implementation date.

The announcement by the former State President, P W Botha, on February 5 1988, was to the effect that Government had accepted the recommendation of the Margo Commission that general sales tax should be replaced with a value-added tax. To be fair to the Commission, it is difficult to find an unequivocal recommendation in its report in favour of a VAT at 12 percent. This is not to say that VAT as presently contemplated is not a fairer or more appropriate basis for South Africa but it does tend to indicate that the decision was taken at a time when it was not the fashion, as it now appears to be, for the Government to consult the representative organisations whose members or supporters are most likely to be effected by its decisions.

In any event, the Margo Report must now be seen as a product of a bygone era when tax reform to those who had a say in Government meant a broadening of the tax base, a recognition of the importance of indirect taxes as an instrument of fiscal policy, a reduction in personal income tax burdens and an absence of taxes on wealth. It was an era which saw a reduction in rates of personal income tax, an abolition of taxation on dividends, a material reduction in estate duty and donations tax and a firm rejection of taxes on capital gains.

It is probable that those harbouring expectations of imminent and meaningful constitutional participation in South Africa will have doubts about the desirability of a tax reform programme which has the effect of increasing the overall tax burden of the lower income groups and alleviating the burden of the more well-to-do.

The Government apparently recognises the increased burden on the taxpayer and the need to introduce a subsidy scheme for the needy in order to alleviate hardships arising from the introduction of VAT. No details are yet available of how such a scheme would be funded and operated and the sceptical may well question whether any such scheme will be operating with any degree of efficiency by September 30.

In any event, the logic of imposing a tax on low-income recipients and then giving them a credit to offset it has been questioned.

This logic becomes even more suspect in a society such as ours in which a significantly larger portion of the population than is the case in Europe, for example, must qualify for the subsidy. The simple truth of the matter is that the South African circumstances render it costly and difficult to implement and administer a subsidy scheme which is fair and free of potential abuse.

There is a surprising lack of comment on the logic of a tax system which takes more from the taxpayer but yields less to the State. In the 1991 Budget Speech, the Minister of Finance states that the introduction of VAT will result in a loss of revenue to the State in an amount of R1 080 billion for 1991/1992, compared to GST. At the same time, all enterprises will have to incur substantial additional expenses to administer the tax. Government too, is not immune from the enhanced administrative burden which comes with VAT.

On what basis can Mr Everyman be persuaded that there is nevertheless a benefit in a system which is substantially regressive, costly to administer and administratively burdensome?

The Margo Commission felt that some would be mollified by the perception that VAT is less prone to evasion. However, even accepting that VAT has a better recovery rate than GST, it would be counterproductive to opt for a system which nonetheless yields less revenue. One must also not ignore the fact that GST collections have increased substantially during the last few years and vast amounts have been recovered from evading taxpayers.

Although there is room for even further improvement, the perception of extensive GST evasion has waned to such an extent that it can no longer seriously be advanced as a reason for preferring VAT to GST.

The other reason advanced by the Margo Commission for its tentative preference for VAT is that an entirely new tax would make it easier to remove the exemption of foodstuffs. This prediction was not accurate in that the refusal to exclude foodstuffs, medical services and other consumer essentials proved unpopular.

The result is that a large majority of the tax-paying public does not believe that it will derive any benefit from the switch to VAT.

The advantages which one might expect to flow from the exemption of capital goods and other efforts to avoid the cascading effects of double taxation are too remote and uncertain to generate enthusiasm for the new tax. The heavier tax burden is too immediate.

There are, of course, numerous cogent arguments supporting the contention that VAT is technically a better system than a retail sales tax. At issue, however, is whether it is a more appropriate system for South Africa today and whether the timing for its introduction is propitious. These are issues which have not adequately been aired and the present controversy may culminate in consumer resentment, if not outright rejection, of the new tax.

There is clearly a need for the public to respect and be supportive of its tax system and Government should not hesitate, if that respect and support are missing, to announce the suspension or postponement of the date set for the demise of GST. It would require a great deal of courage, in the face of assurances given hitherto. There are practical issues, such as the further delay in the purchase of capital goods, that have to be addressed. A great deal of time, effort and money has been spent in preparing for VAT.

Nonetheless, if it were possible by reassessment to prevent the politicisation of the VAT issue and to secure public support and enthusiasm, Government should immediately suspend or postpone the race towards 30 September. If it decides to do so, it should be supported by commerce and industry and the public at large. □

Henry Vorster is part-time Professor of Mercantile Law at Rand Afrikaans University.

Rush to get poverty net in place by VAT deadline

320

B/Day 31/7/91.

GRETA STEYN

GOVERNMENT is racing against time to get its R220m poverty safety net in place before VAT starts on September 30.

The nuts and bolts of the mechanism will be finalised after meetings at the beginning of next month involving a wide range of interest groups, a spokesman for the National Health Department said yesterday.

The outcome of these meetings would be crucial in determining the criteria for the allocation of funds.

The spokesman said the allocation would be decided by a committee, which still had to be appointed. Sources said efforts would be made to appoint a committee with "grass-roots credibility".

The department confirmed non-government organisations would play a major role in fighting poverty, as government would have to rely largely on the infrastructure of private aid organisations active in the community.

Any organisation that believed it should be part of the programme could apply to the committee for funds.

"To ensure the involvement of interested parties, two days of discussions are planned for the beginning of next month. Working groups will be formed to talk about the exact way in which the special relief fund will be administered, co-ordinated and monitored," the spokesman said.

Non-government organisations and local authorities would mainly be responsible for implementing the programme, while the committee and the Department of National Health would co-ordinate and monitor. Finality had not been reached on the involvement of other state departments.

The spur for the programme was largely the charging of VAT on foodstuffs other than maize and brown bread. National Health said existing state schemes to combat protein deficiency in children younger than six years old would be expanded to involve more local and regional authorities.

"We also intend adding other foodstuffs to the current provision of milk to these children.

"The plan includes food aid to pregnant and lactating women whose weight is below normal."

National Health is finalising the programme after initial research and recommendations by a committee headed by Finance Deputy Director-General Estian Calitz.

Absa wants tax changes to benefit banks

320 BD 31/7/91

GRETA STEYN

ABSA has called for "radical changes" to tax legislation to enable banks to compete on an equal footing with life assurers.

In an economic review in Absa's first annual report, it says "traditional" legislation should also be changed to encourage private savings.

The call indicates that Absa CE Piet Badenhorst has not given up the battle to convince the authorities that banks still face an unlevel playing field.

Government has failed to take decisive action on this score. It has put on ice a proposal to introduce a withholding tax on interest.

Absa says: "It is in the interest of the country to encourage private savings by, for example, introducing a low withholding tax on deposits and exempting from tax interest on bank deposits of more than five years to maturity."

Absa believes banks face a drawback in the competition for savings because of inflation. Current legislation is based on a non-inflationary environment. Consumers, faced by double-digit inflation, want a hedge against inflation while trying to maximise debt exposure. As a result, there is a built-in tendency towards increasing contractual savings with life assurers.

Turning to the macro-economic environment, Absa says fiscal policy should not be used for socio-political aims.

"Fiscal policy should concentrate on promoting productivity and efficiency rather than pursuing socio-political goals which, in the long run, are not achievable if not supported by economic fundamentals."

Prospects of tackling SA's unemployment remain gloomy unless wage demands are moderated to well below the inflation rate.

To create enough jobs for a rapidly growing population required large fixed investments which government could help achieve by reversing its current practice of dissaving.

It says the budget deficit envisaged for 1991/92 at 3,4% of GDP is too large — implying continued dissaving via the use of borrowed funds to partly finance current spending.

It is also potentially inflationary.

BUSINESS

Banks set to hit clients with new turnover tax

(320)

ARCT 1/8/91

SVEN LUNSCHE

JOHANNESBURG. — Commercial banks are set to pass on the additional cost of the planned turnover tax to their customers through higher interest rates.

The turnover tax of 0,75 percent on gross interest received comes into effect on October 1 and will cost the commercial banks roughly R220 million in additional charges.

First National Bank managing director Mr Barry Swart said the bank would recover the turnover tax, which would add about R50 million to FNB's annual tax bill, from its customers.

Speaking at the presentation of FNB's latest *Economic Review*, he said other commercial banks were expected to follow suit.

He said the turnover tax would push up FNB's effective tax rate to 54 percent, "which goes against the Government's stated policy of bringing down company tax to the 40 percent level".

FNB's senior general manager Mr Jimmy McKenzie said there was still discussion among the banks on how to recover the additional costs, "as a uniform industry policy on the matter would be the preferable option".

He added that the Clearing Bankers' Association was attempting to formulate an industry policy on ways of recovering the additional tax.

He said various options were being examined, including a levy on all banking transactions and higher interest rates on overdrafts and other interest-bearing accounts.

An industry analyst estimated that passing on the turnover tax in full could raise the prime interest rate by 0,15 percentage points from its current level of between 20 percent and 20,15 percent.

Details on how the Government plans to implement the turnover tax were expected to be released later this month.

Mr Swart said that First National would also lose out on VAT to the tune of R12 million as the banks were exempt from the tax and thus could not claim input credit on capital and intermediate goods.

Mr Swart criticised the Reserve Bank for "its deafening silence about the rules that will govern the establishment of foreign banks in South Africa."

He said foreign banks were operating at a distinct advantage to local banks.

"These banks pulled the plug on us in 1985 and are now returning to compete with us on unequal terms — they do not pay local taxes and are not subject to South African banking regulations.

"We plan to set up a subsidiary operation in the UK in the near future, but we are obliged to comply with capital funding and other requirements needed for the opening of a bank," he said.

"Besides, foreign capital markets are not yet open to South African banks, apart from trade finance funding, which allows foreign banks to offer better long-term capital funding to potential customers," he said.

Mr Swart said demand for credit was slow at present, with the exception of housing finance.

However project finance deals running into billions of rands were being concluded because of the planned tax advantage on beneficiation projects, which augured well for future results.

VAT could prove the spring of discontent

Star 1/8/91 (3.20)

By John Miller
Star Line

While September brings the spring warmth, a cold and bleak future awaits the consumer when VAT is introduced on September 29.

Pick 'n Pay chairman Raymond Ackerman said the consumer can look forward to very little benefit accruing out of VAT.

"I have no faith in suppliers passing on any credits, they have virtually told us this. The money saved will be used to pay for their expenses of VAT and to absorb their normal increases."

Brian Borcherds, financial director for OK, said he too did not foresee any lowering of prices.

However he believed VAT would bring about a period of stable prices.

"We will not accept any price increases from suppliers for a while after VAT is introduced," he warned.

THE STAR VAT WATCH

12% VAT

A spokesman for Checkers said they too were not aware of any supplier who intended passing on any of the input credits.

Checkers would not accept unreasonable price increases from suppliers and would demand justification seeing that VAT will reduce input costs in terms of capital goods and double taxation on packaging and advertising costs.

Products which are going to be drastically affected by VAT are those which are presently exempt from GST, except for brown bread and mealie meal. These include fresh meat and fish, margarine, butter, milk, milk powder, fresh and frozen fruit, eggs, wholewheat meal, dried beans and lentils.

Dr Pieter Coetzee, senior general manager for the Meat Board, believes that the 12 percent tax on all fresh meat will have a negative effect on consumption.

He doubted if consumers would rush to fill their deepfreezes before September 29 but said they might stock up on specials during the next few months.

Edu Roux, senior general manager Dairy Board, said VAT plus inflation would push up the price of fresh milk by between 15 and 20 percent by the end of the year.

A spokesman for the Egg Board said the industry will be hard hit.

Another main consumption supplier, Tastic Rice Corporation, like all the others contacted, said they would have to pass on the 12 percent VAT to the consumer.

Blacks consume almost three quarters of the 300 000 tons of rice annually. A world shortage, especially in America and Thailand, as well as the weakening rand has caused rice prices to increase 10 percent this year.

R10-m for price awareness

Star Line Star 1/8/91 (320)

The VAT advertising campaign, which will cost the tax-payer up to R10 million, is aimed at making the consumer price-conscious and promoting the aim that big business pass savings on to the end user, according to David Venter, director of South African Communication Services.

Mr Venter said in an interview people had become too complacent in accepting price increases.

It was too easy for unscrupulous businessmen to increase prices at the time of a new tax system and to blame these increases on it, he said.

Under the VAT system there would a very large credit going through to business in the form of tax exemptions on capital and intermediary goods.

This ought to be passed on to the consumer, he said.

Mr Venter said the campaign was not intended to hoodwink the consumer, but to create a better knowledge of VAT.

"We are not attempting to make consumers fundis on VAT but rather to make people price-conscious and realise certain advantages which should flow through to them."

People had a right to know what VAT will entail and why the Government decided it necessary to change from GST to VAT.

The first phase of the advertising campaign will try to make people realise why the change was necessary and the second due in the middle of this month will attempt to make them more price-consious.

Lynn Morris of the Housewives' League said only when money was tight would people become really price-consious.

She praised the radio campaign and said that this gave information to the consumer. The TV campaign was vague and she wondered if it meant much to viewers.

Cruise liner runs into heavy tax weather

Star Line Star 1/8/91 (320)

A Greek-registered Durban/Cape Town-bound vessel is proving to be one of the many problem areas for Inland Revenue and the application of the VAT system.

Daphne Osborne, managing director of TFC Tours, said the 12 000-ton Oceanus, had been under charter for the past three years and had done 42 cruises in that time.

She said Inland Revenue was insisting the company was merely providing transport for people to get from Durban to Cape Town and therefore must charge VAT.

The company insisted this was not the case and that it happened to be incidental that the ship went in and out of Durban and Cape Town.

"We are providing an international packaged holiday," Mrs Obsborne said.

All services for passengers were provided outside South African territorial waters and, according to section 11 2K of the VAT Act, services which were physically rendered outside the Republic were not subject to VAT, she added.

Banks plan to pass on new tax to customers

Star 1/8/91.

320

By Sven Lünsche

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Barry Swart . . . foreign banks operating at a distinct advantage

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INCOME TAX FM 2/8/91

(320)

Taxing trusts

The 1991 Income Tax Amendment Act reinstates previous practice by nullifying a court decision this year that a trust is not a "person" for tax purposes. The Witwatersrand Division of the Supreme Court ruling in the case of Phillip Frame's testamentary trust would have had widespread repercussions.

Kessel Feinstein tax partner Ernest Mazansky explains that income tax is imposed

FM 2/8/91

on "persons" as defined in the Income Tax Act. To the extent that a trust's income is distributed to beneficiaries, ~~it is~~ and was taxed in their hands. (320)

Revenue practice was ~~to tax un~~distributed income in a trust's hands. After the Frame decision, this could not be done — except, says Mazansky, under specific anti-avoidance provisions. To counter this loophole, the definition of "person" was amended to include any trust fund, however created, retroactive to March 1 1986.

In addition, it was Revenue practice to tax trusts as unmarried persons, including for purposes of granting the primary rebate (now R1 625). The amended Act makes clear that only natural persons are eligible for this concession.

The new section, S25B, also provides that deductions or allowances available to a trust will be deemed to be available to beneficiaries, presumably in the ratio in which trust income is distributed.

But, says Mazansky, residual ambiguity remains about what is to be done if deductions and allowances in the hands of a trust exceed its income. Will a taxed loss be allocated to beneficiaries?

With a trust where the beneficiaries have a vested right to the income, the courts have held that the loss can flow through, but the problem remains in discretionary trusts. ■

Cosatu, Nactu refuse to pay VAT or register

SHARON SOROUR
Labour Reporter

TRADE union federations Cosatu and Nactu and their affiliates have refused to pay value-added tax from September 30 and will not register as vendors. ARG 2/8/91

In a joint statement, the organisations accused the government of "strengthening the impression" that it was ignoring the concerns of the majority of South Africans on VAT.

As a result, Cosatu and Nactu had invited trade unions, consumer, civic and medical organisations to a conference on August 22 to discuss strategies to oppose "the aspects of VAT which adversely affect the majority of our people".

The conference would focus on the results of VAT on the price of basic food, medicines and medical services.

The organisations accused Minister of Finance Mr Barend du Plessis of reneging on certain undertakings given to them.

They said the minister had reneged on responding within 48 hours of getting their representations against paying VAT on trade-union subscriptions and affiliation fees.

At a meeting between the minister and the two organisations on July 16, it was agreed they would "urgently" submit further representations and Mr Du Plessis would respond before the Cosatu congress from July 24 to July 27.

"We have heard nothing from the minister ... and, in spite of his assurance that his door was open, phone calls and letters to his office have been ignored."

Mr Du Plessis' failure to reply strengthened the impression that the government was ignoring the concerns of the majority on VAT.

The statement said: "In the meantime, Cosatu and its affiliates, as well as Nactu, have refused to register as VAT vendors and do not intend to pay this double tax."

Unions refuse to pay VAT

(320) **Political Staff** CT 2/8/91

THE trade union federations Cosatu and Nactu said yesterday that they and their affiliates would refuse to pay VAT on union subscriptions and affiliation fees.

They also accused the Minister of Finance, Mr Barend du Plessis, of reneging on an agreement reached between them on July 16. The agreement was that Mr Du Plessis respond within 48 hours to their representations against paying VAT on trade union subscriptions and affiliations.

At its congress, Cosatu decided to spearhead a coalition of organisations to oppose aspects of VAT which had adverse effects.

Minister is warned on new tax

(320)

Sowetan

2/8/91

STRATEGIES to oppose certain aspects of Value Added Tax will be discussed at a consultative conference led by two of the country's major union federations later this month.

The Congress of South African Trade Unions and the National Council of Trade Unions in a joint statement yesterday charged that Finance Minister Barend du Plessis had reneged on certain undertakings to them.

"The Minister has reneged to respond to our representations against paying VAT on trade union subscriptions and affiliation fees within 48 hours of receiving our representations," the federations said.

They said it was agreed between Cosatu and Nactu on the one hand, and the Minister on the other, that the two federations would urgently submit further representations.

It was further agreed that Du Plessis would respond to these before Cosatu's congress held at Nasrec, outside Soweto, last month. They said they had heard nothing from him since.

Calls ignored

The statement said despite the Minister's assurance that "his door was open", telephone calls and further letters to his office had been ignored.

"In the meantime, Cosatu and its affiliates as well as Nactu have refused to register as VAT vendors and do not intend to pay this double tax.

"As the end of September VAT deadline approaches, the Minister's continued failure to reply to us will only strengthen the impression that the Government is ignoring the concerns of the majority about VAT," Cosatu and Nactu warned.

Cosatu's congress had taken a decision to spearhead a coalition of organisations to oppose the aspects of VAT which adversely affected the majority "of our people".

In particular, Cosatu said separately, the federation planned to focus on VAT on basic foodstuffs, medicines and medical services. Nactu supported this initiative, it said.

The statement added: "A meeting has been set up provisionally for August 22 and invitations are being extended to a wide range of trade unions, consumer, civic and medical organisations." - *Sapa.*

New blood at the top

w/Mail 2/8 - 8/8/91

New blood was elected to the Congress of South African Trade Unions' leadership last week — the only worry is that some new office bearers may be too young.

By WEEKLY MAIL REPORTERS

John Gomomo ... distinct improvement

Sam Shilowa ... articulate and ambitious

Godfrey Oliphant ...youngest official

THE Congress of South African Trade Unions' new office-bearers' team will be far more effective and dynamic than its predecessor, federation sources believe. But there are some doubts about the youth and relative inexperience of two of the new leaders, Sam Shilowa and Godfrey Olifant.

Three men were returned to office by Cosatu's national conference: Jay Naidoo as general secretary, Ronald Mofokeng as treasurer and Chris Dlamini as first vice-president.

Dlamini was narrowly defeated in the race for the presidency spot. Sources believe he may have been damaged by conflict in his union, the Food and Allied Workers' Union, centering on alleged undemocratic practices.

Insiders say the new president, National Union of Metalworkers leader John Gomomo, will be a distinct improvement on Elijah Barayi, whom one unionist described as "basically dead wood".

Elected Cosatu second vice-president at the 1989 congress, Gomomo is an African National Congress leader and a member of the South African Communist Party internal leadership group.

Although lacking the sophistication and fluency of men like Dlamini, his great strength is his organic connection to the shop-floor — he is an active shop steward at the VW plant in Uitenhage.

Unionists also believe Shilowa may be an improvement on Cosatu's outgoing assistant general secretary, Sydney Mufamadi, who stepped down after being elected to the ANC's national working committee. "Sydney's heart was not really in Cosatu," one said. "He's basically a politician."

Shilowa, a worker at a security firm, was recently elected president of the Transport and General Workers' Union — a job he will now have to relinquish. The ANC's Dobsonville information officer, he is also a regional leader of the SACP in the Transvaal.

Articulate, clever and said to be ambitious, Shilowa is a mere 33 years old. Some sources worry that he is not a tried and tested administrator.

At 32, new second vice-president Godfrey Oliphant is Cosatu's youngest office-bearer — and there are concerns in the federation about his youth.

A National Union of Mineworkers' shaft steward at De Beers' Finsch diamond mine, near Kimberley, he has honed his negotiating skills in national wage talks with De Beers and is described by a colleague as "articulate and energetic — definitely national leadership material".

An ANC regional leader in the Northern Cape, he was active in launching the Limeacre branch of the ANC — one of the first in the region. An NUM branch chairman, he has also served in Cosatu's Northern Cape and Free State regional executive, a post he will now relinquish.

Fresh impetus for women's programmes

w/Mail 2/8 - 8/8/91

By FERIAL HAFFAJEE

THE appointment of a full-time women's co-ordinator for the Congress of South African Trade Unions is likely to give new impetus to women's programmes and women's leadership in the federation.

A Cosatu representative said the resolution for a full-time co-ordinator was passed unanimously. This was surprising in the light of expected opposition from the South African Clothing and Textile Workers' Union which earlier this year set its face against separate women's structures.

The co-ordinator will be responsible for ensuring the implementation of Cosatu resolutions on women and for liaising with existing gender forums and structures in Cosatu and its affiliates.

Research work will be an important component of the co-ordinator's work — she will study local and international approaches to dealing with gender inequality and organise debates.

She will research affirmative action, job grading, childcare and equal wages as well as monitoring affirmative action programmes.

Ongoing campaigns will be parental rights, childcare rights, health, safety and environmental issues affecting women. Campaigns for safe transport for night workers will continue and so will the calls for appropriate education aimed at increasing the skills and confidence of women workers.

An important facet of the resolution on training was devoted to the specific training needs of women. Women should be paid "equal wages for skills of equal value". Women should also be trained in jobs usually reserved for men and career paths should be developed for traditional women's work.

CONGRESS BRIEFS

AMONG the resolutions passed at the Congress of South African Trade Unions' national congress was one to initiate a summit for "all progressive organisations" on the Aids epidemic.

A congress resolution notes Cosatu has not done enough to implement its 1989 Aids policy and that the spread of the disease could have "devastating effects on the future of our country".

Government had paid lip-service to the problem and apartheid structures such as single-sex hostels, which promoted the disease, remained in place.

The federation's central executive committee is to finalise an Aids policy for tabling at the summit.

- Affiliates would refuse to pay VAT on union dues and press for an interim five percent wage rise from employers to offset VAT's inflationary impact.

Delegates also agreed to "spearhead a coalition of organisations" to fight the imposition of VAT on union subscriptions, the "high" (12 percent) rate at which it will be introduced and its application to basic foods, medicines and medical services.

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A Cosatu spokesman ~~said~~ that at a recent meeting, Finance Minister Barend du Plessis had pledged to respond on the subscriptions issue within 48 hours of receiving written Cosatu representations. "Ten days have passed and we are still waiting," she said.

The congress deferred the question of broad Cosatu economic policy to a special conference, but did endorse negotiations with business and the state on an interim programme of restructuring.

Other "social" resolutions at the conference included calls for:

- A campaign to review all health, safety and environmental legislation and for changes in the Machinery and Occupational Safety Act, including tougher penalties for management.
- The creation of a Cosatu commission to probe public transport policy, including nationalisation.
- The upgrading of hostels and provision of alternative accommodation, through negotiation with hostel-dwellers, civics and unions.
- The equalisation of pensions.

BUSINESS

Tax squeeze can only get harder — experts

ARG 3/8/91

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DUMA GQUBULE

Weekend Argus Correspondent.

JOHANNESBURG. — The government's stated intention of implementing wide-ranging tax reforms will bring little or no relief for beleaguered individual and corporate taxpayers — possibly for the rest of the decade.

This is the message from a cross-section of leading economists some of whom believe the government could not afford to reduce taxes even if it wished to do so.

In the short-term Pretoria is likely to see lower tax revenues because the economy has not grown for the past two years.

And enormous pressure to spend mounts — including demands to tackle huge backlogs in education, housing and health.

Economists say that government sources indicate in private that they are fairly reconciled to spending as a percentage of gross domestic product tending towards the 35 percent level (from the present 28 percent) the ANC proposed in their "shadow budget" earlier this year.

It is quite possible the government has accepted the findings of an IMF report released earlier this year which said the government would have to go slow on tax reform if it wanted to avoid deficit financing of development expenditure.

"There is no chance of tax reductions for many, many years," says Dr Ockie Stuart, head of the University of Stellenbosch's Bureau For Economic Research, whose economic forecasts have frequently been on the mark.

"Half the population is illiterate. If we do not train and educate them the country will slide into a truly third world situation.

"Addressing the housing and education backlogs alone will make it virtually impossible for any government to reduce taxes.

"Then there is the possibiltity a new government will be more socialist. This will also result in higher taxes," he says.

Nedbank economist Edward Osborne says: "The government's motives are good, but I doubt whether the intended reforms could be implemented in view of the fact that we are approaching a new South Africa."

☐ Dr Ockie Stuart

All the economists interviewed said the government would probably take the option of increasing indirect taxes while maintaining income and corporate taxes at present levels.

"If VAT will start at 12 percent, who knows where it will end?" asks economist Carmen Maynaard.

Azar Jammine says there can be little doubt that one of the main causes for South Africa's economic decline over the past two decades has been the phenomenal growth in government spending over the same period.

"Between 1980 and 1989 government spending grew from 20 percent of GDP to 27 percent of GDP, and to pay for it taxes have been raised every year. This trend is likely to continue in the nineties."

Ms Maynaard says since 1982 there has not been a single year in which the government has met its spending targets.

"There will have to be some fiscal belt-tightening in the latter of this year if the government is to meet its spending targets."

However, Anglo American group tax consultant Marius van Blerck says there is a need to separate the questions of what individuals guess might happen and what is good for the country.

Mr Van Blerck, who is also chairman of the South African Fiscal Think Tank, says if growth and employment are our main objectives there will have to be scope for continuing tax reform.

"With the need for future social spending can we afford not to have further tax reform?

"A growing economy will generate the taxes to finance social spending far more efficiently than higher tax rates will in a stagnating economy.

"There is a broad consensus throughout the world that corporate and individual tax rates must peak at the 40 percent level," he says.

"Our top individual marginal tax rate is not significantly above world averages. There isn't a critical need for further reform in this respect."

But, he adds, there is a need for reform of individual taxes in regard to fiscal drag.

Tax revolt stares Govt in the face

Star 3/8/91 (320)

Unions refuse to pay VAT

DALE KNEEN

CAPE TOWN — Tax revolt is staring the Government in the face as a huge anti-VAT drive, spearheaded by major union and consumer bodies, gathers momentum.

Trade union federations Cosatu and Nactu and their affiliates have refused to pay Value Added Tax from September 30 and will not register as vendors.

And the Housewives' League has launched a massive campaign to force the Government to zero-rate "essential foods" and exempt medical services from VAT when it is imposed in eight weeks' time.

The League has called on consumers to send petitions to Minister of Finance Barend du Plessis, demanding the VAT zero-ratings and exemptions.

Cosatu and Nactu, in a joint statement, accused the Government of "strengthening the impression" that it was ignoring the concerns of the majority of South Africans on VAT.

As a result of this, Cosatu and Nactu has invited trade unions, consumer, civic and medical organisations to a conference on August 22 to discuss strategies to oppose "the aspects of VAT which adversely affect the majority of our people".

The conference will focus on the effects of VAT on the price of basic foodstuffs, medicines and medical services.

The Housewives' League said that according to their research more than four million people could not afford VAT on 15 food products and medical services currently exempted from General Sales Tax.

The league's vice chairman, Sheila Baillie, said the Government acknowledged that 16,3 million people lived below the minimum subsistence level of R600 a month.

The league's research showed thousands of families with three children and an annual income of R15 000 spent 63 percent of their R528 monthly food budgets on tax-free items.

"These people are unable to feed themselves and their families adequately now, let alone when 12 percent is added to all food besides brown bread and mielie meal," said Mrs Baillie.

She said many people would sink below the breadline when VAT was imposed but they would not be eligible for the R200 million the government had earmarked to aid the poor.

There were also fears that if medical services were not exempt from VAT, many people would be denied basic medical care. Medical aid scheme contributions would increase and those with no aid would experience "sharp" increases.

Mrs Baillie said people should send petitions to Mr du Plessis by writing to the Receiver of Revenue, Private Bag 402, Pretoria, 0001.

Vatwatch in action

(320)

Star 3/8/91

FINANCE STAFF

VATWATCH, which was launched a few weeks ago to monitor the effect of the introduction of VAT, has already been inundated with complaints from the public.

Professor Louise Tager, chairman of Vatwatch, said in a statement yesterday that the large number of calls coming in "indicated a marked public acceptance of the Vatwatch concept.

The complaints by the public are related in the main to alleged incidents of unwarranted VAT-related price increases and suspected cases of misleading advertising.

She said Vatwatch had already referred a number of cases of allegedly misleading advertising to the Advertising Standards Authority.

"In all cases consumers were being encouraged to 'buy now, before VAT', implying that prices would rise after September 30 — which would be unnecessary for products already carrying GST, as VAT is in fact lower than that of GST," Professor Tager said.

She added that some complaints had also been received from business people alleging that their suppliers were increaseing prices, blaming the imminent introduction of VAT.

"Through Vatwatch we hope to encourage consumers to look out for unusual trends in retail prices in the months before and after the introduction of VAT and hope to encourage commerce and industry to pass on to consumers the cost benefits that VAT will generate."

State faces major VAT revolt

(320) ARG 3/8/91

DALE KNEEN

Weekend Argus Reporter

TAX revolt is staring the government in the face as a huge anti-VAT drive — spearheaded by major union and consumer bodies — gathers momentum.

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As a result of this, Cosatu and Nactu had invited trade unions, consumer, civic and medical organisations to a conference on August 22 to discuss strategies to oppose "the aspects of VAT which adversely affect the majority of our people".

The conference would focus on the effects of VAT on the price of basic foodstuffs, medicines and medical services.

The Housewives' League said that, according to their research, more than four million people could not afford VAT on 15 food products and medical services now exempted from General Sales Tax.

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There were also fears that if medical services were not exempt from VAT many people would be denied basic medical care. Medical-aid scheme contributions would increase and those with no aid would experience "sharp" increases.

Mrs Baillie said people should send petitions to Mr Du Plessis by writing to the Receiver of Revenue, Private Bag 402, Pretoria, 0001.

The federations accused Mr Du Plessis of reneging on undertakings to respond to their representations against paying VAT on trade-union subscriptions and affiliation fees.

Mr Du Plessis' failure to reply strengthened the impression that the government was ignoring the concerns of the majority on VAT.

Meanwhile, the government-appointed Vatwatch is being flooded with calls from the public, reporting suspected cases of misleading advertising and alleged incidents of unwarranted VAT-related price increases.

The announcement was made in a statement yesterday by Professor Louise Tager, chairwoman of Vatwatch, the independent body set up recently to monitor the effect of the introduction of Vat on the consumer.

She said Vatwatch had already referred a number of cases of allegedly misleading advertising to the Advertising Standards Authority.

In all cases consumers were being encouraged to "buy now, before Vat", implying that prices would rise after September 30 — which would be unnecessary for products already carrying GST, as the Vat rate was in fact lower than that of GST.

● Meanwhile, reports of GST abuse on foodstuffs, particularly bread, prompted a brief Weekend Argus survey on basic foods at five Sea Point and Green Point stores.

The foods bought were 500g of skimmed milk powder, a loaf of white bread, two tomatoes and two green apples.

The Hyperette charged GST on skimmed milk but it was refunded on inquiry.

Prices for the total shopping basked varied between R8,12 at Checkers and R11,03 at Hyperette. The food bought was given to the Argus Food Campaign.

If 12 percent VAT were charged on these products the average cost would escalate to R10,55 — more than one rand extra for the consumer.

Barend asked: 'Leave VAT off medicine'

320 Staff Reporter CT 3/8/91

AN open letter to Minister of Finance Mr Barend du Plessis has pleaded that Value Added Tax (VAT) should not be levied on medical and dental services.

Mrs Lynn Morris, president of the Housewives' League of South Africa, sent the letter in a "last-ditch stand" for exemption from the tax which replaces sales tax in October.

Mrs Morris said VAT in principle would be "expedient and beneficial" but if introduced at such a high rate would not be in the interests of "people's medical well-being".

Medscheme chairman Mr Keith Hollis said on Thursday that many schemes were looking at increasing rates by 25% to 30%, and this was partly due to VAT.

Mrs Morris said: "If living standards must be lowered at least grant us a modicum of security in the knowledge that medical care will not be taxed beyond our means."

Mr Du Plessis could not be reached for comment.

NEWS BRIEFS

THE HEADACHE OF WAITING FOR VAT

S/Times 4/8/91. (320) (172)

By DIRK TIEMANN

VALUE ADDED TAX and the depressed economy are the biggest headaches in the trucking business at present.

Manufacturers are not selling projected volumes despite various financing schemes available until the introduction of VAT. Toyota tried the hardsell with a scheme whereby the client enters into a rental agreement until October 1, after which the agreement is cancelled and converted into a straight lease.

National fleet manager Richard Meny-Gibert says there have been some sales, but not as many as expected.

Upturn

"People are waiting to do it all at once instead of through several different agreements. There will be an upturn after VAT, but no rush. Those using the scheme are desperate for vehicles, but those who buy cash will wait for October to get an input credit."

Nissan Diesel director Dave Scott says information sessions are being held with all their dealers to inform them of the impact VAT will have on their customers. Training sessions are being run for dealers and customers and a VAT document will be produced.

Mr Scott emphasises that there are several disadvantages to delaying a purchase.

"Not replacing a vehicle that needs replacing means heavier maintenance, a factor probably not budgeted for," he says.

"Besides, a 5% increase on June 1 meant that some of the benefit of waiting until October 1991 has already been lost."

Mr Scott also warns that there may be shortages after October 1991. He says its a buyer's market at present because bargains are being offered on rates. But the poor economy means that demand is non-existent. Truck rental companies have underutilised fleets with less tonnage being moved over shorter distances.

He says: "It is the first time in four years that truck sales are down on the previous months."

This is not cutting much ice with buyers — especially those in the rental business — who are sitting with overcapacity and do not see the need to buy.

Bateleur Transport Finance director Tony Wickins says business has remained fairly static but casual rental would be the best option between now and October.

Boosted

"We have an aggressive marketing team, but rentals are staying static. Anybody who says that VAT has boosted rentals is wrong. It probably only helped maintain turnover and not lift it. Casual rentals may have picked up, but they are overshadowed by the downturn in the economy.

"Our own truck purchases are not affected by GST, but after October 1 we will be liable for VAT which will have a negative impact on our cashflow. We do, however, get an input credit.

"At the moment there is excess capacity in the rental industry. Our long-term full-maintenance lease contracts are helping to smooth things out. We are now placing more emphasis on FML."

Mr Wickins says VAT is a sophisticated tax which will require a lot more analysis.

Courses

Cargo Carriers managing director Patrick Murray says his company is taking VAT very seriously.

"Our auditors have run courses and we have set up a subcommittee which is going through training programmes. We are not buying trucks now — no transporter is," he says.

Imperial Truck Rental financial director Graeme Staniforth says: "We have continued to offer the same agreements as in the past. We have not promoted FML and other fancy deals for six months. We have encouraged casual rental and downplayed the VAT issue."

Budget Autolease director of operations Colin Jobe says he is now renting 50 trucks a year as opposed to 180 trucks a year ago.

Mr Jobe says: "We only do rental for one year or longer with an option to purchase, but I believe the short-term rental is doing better than ours.

Any rush after October 1? Mr Jobe says: "If purchases go up by more than 25%, I will be surprised."

Beware that 'misconception'

BUY your used vehicle now before the introduction of VAT. That is the advice of Willie van Wyk, marketing and sales director of Delta Motor Corporation.

"Buyers are waiting for the introduction of VAT so they can buy their vehicles free of the tax from private sellers, but there is a misconception here," he says.

VAT will provide for a rebate system of national input credit to the dealer. This means that although used vehicles sold by dealers still carry VAT, the rebate received by the dealer will result in a negligible difference to the selling price of the private seller.

"Buying from a dealer also gives the purchaser more protection if things go wrong," he says.

He adds that the delay in the purchase of used vehicles has also resulted in the current depressed state of the used market, where larger discounts are offered.

"These prices are likely to rise after September 30 with the expected increase in demand," says Mr Van Wyk.

Double tax avoidance

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ST Times (Bus Times) 4/8/91

THE VAT implementation date is only eight weeks away. It is necessary to plan for and understand its impact during the change-over period.

The underlying principle is to catch either GST or Vat in the net while avoiding double taxation.

Broadly speaking, there are four different transitional scenarios to deal with (industry specifics will be dealt with next week):

- Where a vendor has paid GST on goods on hand at 30 September, the tax can be claimed as an input credit when the goods are used to make taxable supplies. This is provided accurate stock lists are kept.

When inadequate accounting records are kept and it is impossible to determine exactly when the goods are used, the vendor will receive the actual GST borne by him spread over two years, or shorter as Revenue determines. The vendor must obtain written permission from the Receiver for this concession.

- Some vendors will have goods on hand acquired with a GST-exempt certificate. If the trader registers as a vendor, his stock will remain tax neutral because he will not have to pay over or claim input credits.

However, where the trader does not register for Vat, the goods become liable for GST at 13% because they are regarded as being used for private purposes. This must be paid to the Receiver by December 31, otherwise penalties will be incurred.

- In a rental agreement beginning before and ending on or after September 30, the contract value will not be reduced to take into account previous payments. Where there is a rental contract with monthly instalments due on the 15th of each month, GST will be levied on September 15. Vat will be charged on October 15 and no adjustment will be necessary for the time differential.

- With services previously GST exempt and now liable to Vat, such as legal, medical and accounting fees, the timing of the service is important to decide whether or not they are Vatable.

Work begun before September 30, but completed afterwards, must be apportioned into the two accounting periods. Only work done after Vat will attract tax, irrespective of whether progress payments have been made on the account.

Services which only begin after Vat will attract tax, notwithstanding a deposit or even a full payment having been made between June 11 (date of promulgation of the Act) and September 30. That is why SAA is charging Vat now for flights after Vat day.

Where progress payments include GST and the service is completed only after Vat day, then allowance for the extra 1% tax paid must be made. It is recommended that where possible service charges should be invoiced without GST for all work undertaken to September 30.

Vat and your business

THIS IS the 11th in a series of articles on VAT. 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.

Govt is undecided on tax for city services

B/Day 5/8/91

ROBERT LAING

GOVERNMENT has not yet finalised which services supplied by local authorities will be subject to VAT — with only nine weeks to go before the tax is implemented.

Inland Revenue chief director of tax policy development Trevor van Heerden says government is still examining how to apply VAT to municipal services.

It was possible that residents whose municipal accounts were under a certain figure, say R100, might be exempted from the tax.

However, this system would rely on local authorities, many of whose accounts were already chaotic, to keep complex records to gain their VAT credits.

Johannesburg deputy city treasurer Lucas Opperman said: "We still do not know if other municipal services like parking garages and caravan parks will carry VAT."

Five services were taxable under VAT so far — water, electricity, gas, sewerage and refuse removal, Opperman said.

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Property assessment rates had been exempted.

Pretoria City Council studies show that VAT should push up monthly accounts by between R25 and R30.

Opperman said VAT could be a financial boon for municipalities because they could offset VAT input on items like water pipes and electrical cable against their VAT output.

Another headache government faces is how to make the tax workable in townships where services boycotts are the order of the day.

Chartered accountants KPMG Aiken & Peat recently released a statement saying the exemption of assessment rates was a mistake.

"Local authorities are going to be stuck with a 12% burden they cannot claim."

The group said moves by certain city councils, including Johannesburg's, to increase property assessment rates while holding service tariffs steady showed "flawed logic".

"Increased property assessment rates inevitably will force landlords to raise rents for offices and flats.

"Businessmen will be able to reclaim the VAT component of higher rentals by offsetting VAT input against output in the normal course of their operation.

"However, lessees of residential property will simply be burdened by higher rents."

'Aid will defuse VAT opposition'

B/Day 5/8/91

(320)

SUSAN RUSSELL

SACOB has warned government that unless it provides a R1,2bn aid package to assist the poor with basic foodstuffs after the introduction of VAT, opposition could be such as to threaten the implementation of the new tax.

This follows growing opposition to government's handling of VAT which comes into operation in eight weeks' time. The DP has called for its implementation to be postponed.

Sacob's recommendation of a R1,2bn aid package is contained in a memorandum sent to Finance Minister Barend du Plessis and National Health Minister Rina Venter last week, just days after Cosatu announced it would use mass action to oppose the tax.

"Unless a suitable programme is announced for the alleviation of extreme poverty, the implementation of VAT stands under threat," the memorandum warns.

The business community is concerned that if government does not accept its recommendations, the VAT issue would become politicised and the whole system be derailed.

In its memorandum Sacob said it believed measures should be taken to offset the immediate short-term disadvantage of VAT.

It proposed a food assistance programme be set up, initially in rural areas where the need was greatest. School feeding and food stamp schemes also could be phased in.

The chamber emphasised that the estimated R1,2bn needed would cover an entire fiscal year.

Therefore, launching the programme in what remained of the present fiscal year should be possible with the R220m allocated as a "safety net" in the March 1991 Budget.

A reassessment of funding needs would have to be done in 1992/3.

Such a scheme "to an extent would defuse some of the opposition that is building up toward VAT", Sacob said.

Meanwhile DP leader Zach de Beer reiterated yesterday that while his party supported the introduction of VAT, it felt the rate of 12% was too high. Not enough had been done to alleviate the burden the system would place on the poor, he said.

The Vatwatch organisation is being flooded with calls from the public, reporting suspected cases of misleading advertising and alleged incidents of unwarranted VAT-related price increases, Sapa reports.

Vatwatch chairman Prof Louise Tager said on Friday Vatwatch — the independent body set up to monitor the effects of the introduction of VAT — had already referred a number of cases to the Advertising Standards Authority.

In all cases consumers were being encouraged to "buy now, before VAT", implying that prices would rise after September 30. This would be unnecessary for products already carrying GST, as the VAT rate was lower than that of GST.

Tager said some complaints had also been received from business people alleging their suppliers were increasing prices and blaming the imminent introduction of VAT.

VAT: freight forwarders 'must define their roles'

GILLIAN HAYNE (320)

THE distinction between acting as an agent or as the principal in a transaction is central to the freight forwarding industry's handling of VAT, say tax experts. B/Day 5/8/91

Freight forwarders need to define their roles carefully, as the VAT treatment of their transactions will differ depending on the agent/principal definition.

Inland Revenue chief director Trevor van Heerden says agents, in terms of VAT legislation, simply act as conduits. The VAT charges will pass on to principals.

Agents acting for principals resident in SA are not entitled to claim input tax credits on costs incurred on the principal's behalf. They will also not charge VAT on sales.

However, if the principal is a non-resident the agent will be considered the principal, says Van Heerden.

For example, clearing and forwarding agents who pay for freight, harbour duties, surcharges and other charges on behalf of clients will not be allowed to charge VAT and claim credits on inputs in most cases.

They will, however, be able to levy VAT on fees charged for the preparation of import/export shipping documents and clearing of goods through customs.

The insurance on export goods in transit and the cost of arranging transport for those exports is zero-rated, meaning no VAT is charged but the company will still be allowed to claim back the tax paid on inputs.

Foreign

A further complication may arise when the agent charges interest on credit (that is, when the agent pays to have goods cleared up front and receives payment later). It is deemed to be a financial service and will be exempt.

Agents who charge an all-inclusive fee (for standard and exempt services) will have to apportion all inputs to ascertain which credits can be claimed, Van Heerden says.

Fees charged to foreign principals will be zero-rated as will freight charges related to international transport.

However, the value for customs duty includes the freight charge which is subject to VAT.

Harbour fees, container handling charges and other related charges will be subject to VAT if they are supplied by the same individual who supplies the international transport.

Where the agent arranges for the transport of the goods from the harbour to the importer's premises, such transport will attract VAT, Van Heerden says.

Charges in respect of the loading and off-loading of goods by stevedores will also attract VAT.

"Ancillary transport services" are defined as stevedoring services, lashing and securing services, cargo inspection services, preparation of customs documentation, container handling services and storage of transported good or goods to be transported.

Deloitte Pim Goldby tax partner Doug Jolliffe says one concern is that VAT paid on imports will be based on the spot rate of exchange. If forward cover provides an exchange rate advantage for the importer, it will not be taken into account in the VAT payable calculation.

Sacob offers plan to offset VAT impact

Star 5/8/91 (320)

By Sven Lünsche

The SA Chamber of Business (Sacob) has proposed an annual R1,2 billion package to help alleviate the impact of VAT on the poor.

In a memorandum to the Minister of Finance and the Minister of Health Sacob said it was essential that a suitable poverty relief programme was in place before VAT was introduced in October.

"Unless a suitable programme is announced the implementation of VAT stands under threat."

The relief package could be accommodated in the current fiscal year within the R200 million allocated to poverty relief in the Budget. After that about R1,2 billion a year should be set aside.

The need for a safety net for the poor arose largely out of the extension of VAT to food, previously excluded under GST.

Vulnerable

"The fact that the poor spend such a large proportion of their income makes them vulnerable to any setback in their ability to obtain it."

Sacob said it opposed general food price subsidies, such as tax exemptions, as they permitted anyone to benefit from such measures and instead favoured a targeted approach to food aid.

Two specific measures deserved attention in a poverty relief package:

- A food stamp programme targeted initially at the poor in the rural areas, which could embrace some 11,4 million people. If assistance of 25c a day was given it would cost about R1 billion a year.
- A school feeding programme, targeted first at primary schools in the rural area, but then extended to schools in other needy areas. Financing food for a million black primary school children at a cost of 20c a day would entail R160 million a year.

For both programmes delivery system would have to be devised in conjunction with the communities concerned.

"The announcement of such an assistance scheme would be highly visible and to an extent would defuse some of the opposition that is building up towards VAT," Sacob said.

Use tax to help pay your RA contribution

Star 5/8/91

320

Have you asked your employer to take into account your retirement annuity contribution when he calculates your PAYE or SITE?

If not, you are foregoing a cash flow advantage, says Gavin Came, assistant general manager Legal & Technical Marketing at Liberty Life.

He says: "It is often overlooked that you can use tax to help fund your monthly RA contribution, instead of waiting until the end of the year to receive the tax benefit.

"In SA's current scenario of high interest rates it is important to improve one's cash flow and reduce one's credit. In the example below you will see that if you ask your employer to take your RA contribution into account you will receive an extra R440 in your hands at the end of each month.

"But, unless you advise your employer he won't consider your RA contributions when calculating your PAYE/SITE."

Monthly cash flow before advising your employer of your RA contribution:

Gross Salary	R10 000
Less tax	R4 400
	R5 600

CASH FLOW AFTER TAKING YOUR RA CONTRIBUTION INTO ACCOUNT

Gross Salary	R10 000
Less tax	R 3 960
	R 6 040
Less RA contribution	R 1 000
Net cash flow	R 5 040

NOTE: The above example does not take rebates and allowances into account

VAT being exploited, claim supermarkets

By John Miller Star 5/8/91
Star Line

320

THE STAR VAT WATCH

12% VAT

While consumers complain of rising food prices, supermarket chains blame manufacturers for exploiting the introduction of VAT.

A spokesman for VAT Watch said the organisation had been inundated with complaints of misleading advertising and unwarranted VAT-related price increases.

Several advertisements which told the consumer to "buy now and beat VAT" — even though prices with VAT should decrease — have been referred to the Advertising Standards Authority.

The spokesman reminded consumers to look out for unusual trends and movements in retail prices and report these to the VAT Watch hotline on (011) 484-3392.

Director of foods for Pick 'n Pay, Shaun Summers, said manufacturers were trying to exploit the situation.

"Manufacturers of certain canned fruit and fish products have hiked up their prices dramatically. They tell us they can now export their products and that if we want them we will have to pay the price."

Mr Summers expects the situation to get worse because manufacturers can claim a zero rating on VAT if they export.

He said VAT was a hidden tax and the end-user was unable to see whether any inherent benefits had been passed on.

"Retailers will be blamed for the end price while the Government and manufacturers sit back and watch. Manufacturers have told us that the rate of inflation will take care of any possible savings," Mr Summers said.

Director of foods for OK Bazaars, Mervyn Karaitzick, supported Mr Summers' contention that manufacturers were trying to exploit the situation by increasing prices.

Mr Karaitzick also blamed the near-monopoly situation that existed with regard to various products — especially canned fruit and vegetables, biscuits and detergent products.

Managing director of Checkers Serge Martinengo said the chain had been able to maintain prices on everyday items until the end of September after striking deals with various manufacturers.

He said, however, that various product increases had taken place but he did not think these were linked to VAT.

Don't rush, would-be home buyers warned

320

Star 6/8/91

By John Miller
Star Line

Inland Revenue has warned would-be home buyers not to allow themselves to be pressured into buying a house before the end of September.

Trevor van Heerden, chief director of tax policy development, said buyers should rather take their time and not pay a possible 10 percent more for a house in order to save less than 1 percent of its value.

VAT is payable only on the estate agent's fee which is normally about 6 percent of the purchase price, and this tax must be paid by the seller.

"Private sales are not taxable because the seller is not a vendor. However, VAT is applicable on the estate agent's fee.

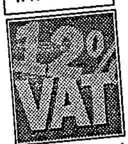
"On a house of R100 000 the estate agent's fee is normally about 6 percent which equals R6 000 and VAT on this amount works out to R720 — 0,72 percent of R100 000."

He said there was also no tax on transfer duties on houses bought on sectional title.

"Technically there could however be a slight increase in the selling price because of VAT on the estate agent's commission.

"Therefore the seller might push up his price to compensate for the tax he will have to pay the agent."

THE STAR VAT WATCH



A spokesman for the Estate Agents Board said even though it was not in favour of VAT, the public had to be aware of their rights and the Government must make the effort to advise people about the new tax.

The spokesman said that to date the board had not received any complaints of agents trying to pressure people into buying a house before VAT is introduced.

If a person has a complaint, he or she must send it in writing along with an affidavit to The Manager, Estate Agents Board, Private Bag X10, Benmore 2010.

The spokesman said one of the most common complaints from the public was that estate agents did not disclose all the facts regarding the house and whether there was a double commission claim when the buyer was forced to work through two estate agents.

(820) ARG 7/8/91

Tax axe soon to fall on employees who followed car allowance route

Motoring Reporter

EMPLOYEES enjoying car allowances will be hard hit by the government closing this route as an untaxed benefit, a motor industry consultancy group's chief executive has warned.

The company car option will become more popular, he said.

Mr David Owens, chairman of APA Network Consultants and managing director of Fleetlease Contracts, a leading full maintenance lease company, says many employees bought cars to the maximum of their allowance, forgetting about operating costs like servicing, replacing tyres and ever-increasing insurance costs.

"The advent of PAYE taxation on 25 percent of the car allowance monthly (rather than taxing the allowance at the year end on a useage base) means that many of these employees will no longer be able to afford to run their vehicles.

"Other employees bought down, using the surplus car allowance as an incremental monthly tax-free salary adjustment to enhance their standard of living — once again ignoring operating costs and eventual tax implications.

"These employees might not be able now to afford the repayments on their swimming pools or mortgage bonds as a result of a drop in their gross monthly car allowance," says Mr Owens.

He points out that growth in allowances at the expense of company-owned cars shown in recent surveys, is because:

- The need to fund company vehicles restricts the company's ability to obtain funding for its core business;
- Removing depreciating assets from the balance sheet improves the return on assets ratio;
- It removes the day-to-day transport hassles for the company;
- It pegs operating costs of company cars by giving a fixed allowance;
- Employees could drive what they liked and could pocket the difference; and,
- Selling off the fleet to the staff and giving them allowances reduced the company's fixed asset base in the event of nationalising.

"The changes to perks tax on company vehicles has the effect of reducing tax on the lower and middle-priced car (most company cars) and increasing tax on upmarket vehicles.

"With the government having closed the car allowance as a loophole for an employee to receive an untaxed benefit, the trend to allowances from company owned cars will be reversed.

Mr Owens points out that an additional penalty for the car allowance is that now the first 12 000 km (previously 10 000 km) is deemed as private useage and the following 20 000 km being deemed as business useage.

"If the driver does not keep travel records and drives more than 32 000 km, all the kilometres travelled over the 32 000 km limit will be classified as private useage; with a percentage of operating and fixed expenses that can be claimed at the end of the tax year reduced accordingly.

"Only through the onerous task of keeping a logbook detailing every kilometre travelled will business usage exceeding 20 000 km be allowed," he says.

"In these circumstances, a company that only provides an employee with a car allowance is not acting in the best interests of the employee.

"There is no doubt that full maintenance leasing (FML) satisfies all the employers' requirements (previously listed) and provides the employee with the best possible tax situation through a company car. In the light of this, FML is expected to grow by leaps and bounds," he says.

"FML in the UK represents about 28 percent of fleet vehicle purchases, whereas the figure is only nine percent in South Africa.

"If one considers factors such as the high inflation, replacement cost of cars, interest rates and shortage of management skills, and now the employee's tax efficiency, the percentage of purchases on FML will be much higher in South Africa."

Employees using car allowance schemes soon may not be able to afford to run their cars. — cartoon by JAK

Call to soften VAT impact

320

Star 7/8/91

Severe opposition to VAT would threaten implementation of the system unless a programme were introduced to relieve the effect on the poor of higher food costs, the South African Chamber of Business said yesterday.

Sacob proposed to the Government in a memorandum last Thursday that a relief project be founded to offset the abolition of GST when VAT takes effect at the end of next month.

The cost of the mooted food aid package is estimated to be R1,2 billion in a complete fiscal year. The cost for the remainder of the current financial year is estimated to be around R200 million.

Sacob said in a statement that the programme should be initiated in the rural areas, where the need was greatest, by means of school feeding and food stamps.

School authorities and health authorities, as well as welfare organisations, should handle the distribution.

"The announcement of such an assistance scheme would be highly visible, and to an extent would defuse some of the opposition that is building up towards VAT," Sacob said. — Sapa.

'Revise tax or increase wages'

Cosatu warns of strikes over VAT demand

320

B/Day 8/8/91.

ALAN FINE

COSATU is to demand an immediate 5% wage increase for all workers to compensate for the inflationary effects of VAT if the tax is introduced unchanged at the end of next month.

The campaign would be backed by strike action if necessary, Costau told employer federation Saccola at a meeting on Tuesday. Cosatu wants interim wage increases from the day after VAT is introduced on September 30.

Cosatu official Lisa Seftel yesterday said the organisation was seeking urgent negotiations with Finance Minister Barend du Plessis on proposed changes to the VAT structure. A successful conclusion to such negotiations would be required to head off widespread industrial action.

She said Cosatu was angry at Du Plessis as he had failed to meet a July 16 undertaking to respond to Cosatu submissions for union subscriptions to be zero-rated.

Cosatu unions would refuse to pay VAT on subscriptions. Cosatu has argued unions are entitled to the same treatment as political parties, benefit funds and welfare organisations, all of which are zero-rated.

Cosatu informed Saccola of its plans for a campaign for changes to VAT at the Tuesday meeting. Saccola's Bobby Godsell said the organisation would be considering what steps to take in response.

A study commissioned by Cosatu and undertaken by the Cape Town-based Labour Research Service reported in June that the introduction of VAT would add 5% to the budgets of low-income households.

Seftel said yesterday that while Cosatu has not called for the implementation of VAT to be postponed, this might be necessary. The organisation had scheduled for August 22 a meeting with consumer groups, small businesses and other affected parties to discuss opposition to VAT.

She said Cosatu envisaged a number of changes to the VAT system including the zero-rating of basic foods, medicines and medical services, and also the elimination of VAT charges that could impede housing and job-creation programmes.

Cosatu also wished to participate fully in the planning of the targeted assistance programme. Government has set aside R220m for alleviating the effects of VAT among the poor.

A study by Cosatu's auditors found that, for unions to pay VAT and keep revenue at previous levels, they would need an average 9,34% increase in subscriptions.

GRETA STEYN reports Du Plessis is expected to respond to Cosatu by increasing the poverty safety net or other forms of relief. Du Plessis said last night he would respond soon with an announcement "in a much wider context" than the representation on trade union subscriptions.

His ability to reply to Cosatu's representation would be determined by the outcome of "other discussions and investigations concerning VAT".

□ Sapa reports that the northern Transvaal region of Cosatu plans to launch a "no taxation without representation campaign" next weekend. Regional secretary Donsie Khumalo said yesterday shop stewards would demand employers stop tax deductions from employees' pay.

Car strike ends after 13 days

CT 8/8/91

PORT ELIZABETH. — The first national strike in the country's motor vehicle assembly industry ended yesterday after 13 days, said National Union of Metalworkers of South Africa spokesman Mr Les Kettledas.

The estimated 25 000 Numsa members who downed tools on July 22 are expected to go back to work today.

Wage increases were pegged at R1,15 an hour for unskilled workers. Skilled staff were awarded increases of R1,80 an hour, or 13,5%, whichever was the higher.

The agremeent between Numsa and the National Association of Automobile Manufacturers of SA was accepted by the union membership following report-backs by union negotiators on Tuesday and yesterday.

Wage increases would be backdated to the first pay week of July, Mr Kettledas said.

Key aspects of the deal, struck on Tuesday after three days of continuous mediation, included an interim moratorium on retrenchment and landmark agreement for a joint management-union industry training board.

The parties also committed themselves to the long-term growth and viabiltiy of the industry and to the protection of jobs, said Mr Kettledas.

It was accepted that employers and the state would fund community-based childcare facilities.

"It is believed that this agreement lays the foundation and heralds a new era in the collective bargaining relationship with employers in the automobile industry," Mr Kettledas said.

The strike, which embroiled most of the seven auto manufacturers party to the industry's National Bargaining Forum, tied down production for 13 days and cost the sector an estimated R800 million in losses.

Strike action was focused in plants in the Eastern Cape, Durban and Pretoria. — Sapa

VAT: Cosatu call for wage rise

320

CT 8/8/91

Own Correspondent

JOHANNESBURG. — Cosatu is to demand an immediate 5% wage increase for all workers to compensate for the inflationary effects of VAT.

The campaign would be backed by strike action if necessary, Costau told employer federation Saccola at a meeting on Tuesday. Cosatu wants interim wage increases from the day after VAT is introduced on September 30.

Cosatu official Ms Lisa Seftel said yesterday that the organisation was seeking urgent negotiations with Finance Minister Mr Barend du Plessis on proposed changes to the VAT structure.

She said Cosatu was angry at Mr Du Plessis, as he had failed to meet a July 16 undertaking to respond to Cosatu submissions for union subscriptions to be zero-rated.

Cosatu unions will refuse to pay VAT on subscriptions. Cosatu has argued that unions are entitled to the same treatment as political parties.

Small vendors will be assisted - Receiver

Sowetan 8/8/91 (320)

By JOSHUA RABOROKO

THE Receiver of Revenue will not follow a high-handed approach with small businesses people experiencing problems with registration for value-added-tax (VAT), but will rather assist them wherever possible.

This was said by chief director of Inland Revenue, Mr Trevor van Heerden, who also said: "Application forms accompanied by a guide for registration have been mailed to everybody identified as being potential 'vendors' for the purpose of VAT."

He said one of the ways in which people will be helped was through a toll free telephone service. The number is 0800-115-999. The office of the local Receiver may also be contacted.

Any vendor who has not received his application for registration by July 7, can obtain the forms from the local Receiver of Revenue.

He said vendors must note that the number on the application for registration was not the VAT registration number, but only a reference number for internal use.

The VAT registration number will be indicated on the notice of registration.

Vendors are requested to complete the application forms and return it as soon as possible to their local Receiver of Revenue. Thereafter notices of registration on which the registration number and tax periods are indicated, will be dispatched to him/her.

A comprehensive guide on VAT will be issued to all vendors after registration, he said, adding vendors with a turnover of more than R150 000 a year have to register.

Others can volunteer to register in order to obtain the benefit of input credits.

Plea over medical aid and VAT

320

Sowetan 8/8/91

MEDICAL aid funds should wait until Value Added Tax on medical services had been finalised before they increased their membership fees, the assistant director of the Consumer Council, Mrs Ina Wilken, said in Pretoria yesterday.

"It is unfair to expect consumers to pay more even before VAT comes into effect," she said in reaction to reports that some funds had increased their membership fees by 25 and 30 percent.

"According to consumers' reaction, it is obvious to the Consumer Council that there is strong opposition to the proposed legislation which will compel patients to pay medical costs directly to the suppliers.

"Very few consumers can settle a hospital or medical account in full and rely on medical aid funds to help ease this burden." - *Supa.*

First aid for VAT

320

By Heather Robertson

AS D-day approaches for the implementation of VAT, Western Cape doctors and medical workers are mounting a rearguard action to block its imposition on health care.

The Dispensing Family Practioners Association (DFPA) and advice offices in Mitchells Plain, Grassy Park and Elsies River have met in a last-minute attempt to find ways of halting the imposition of VAT on healthcare.

Members plan to hold mass rallies, marches and a signature campaign.

The National Medical and Dental Association (Namda) are also planning a national campaign in which members will refuse to register as "tax collectors". South 8/8-14/8/91

The DFPA, which has a membership of 320 doctors, has accepted that general sales tax on medicine already exists, but they argue that to add VAT to medical services is adding to the patient's burden.

"If people are not paying VAT o[n] secondhand cars and rent, why mus[t] they pay VAT on illness?", said th[e] DPFA chairperson, Dr Ronald Rapiti

The DFPA were guests at a Medica[l] Association of South Africa (Masa) federal council meeting on July 14 thi[s] year which was addressed by the Min[ister] of Finance Mr Barend Du Plessis

According to Rapiti, Du Plessis ar[gued] that if an exemption was grante[d]

● TURN TO PAGE 3

South 8/8-14/8/91.

● FROM PAGE ONE

for health costs, it would have to apply to food and clothing.

Dr Hendrik Hanekom of Masa, however, disputed that his organisation had not effectively represented the interests of doctors and patients.

"Masa's initial approach, which is still the current approach in discussion, is that zero rating would be the most preferred and best way in the interest of patients and doctors.

He indicated that Masa was still holding talks with the Minister of Finance and would issue a public statement next week.

Zero rating would enable doctors to claim input on equipment and expenses, but without charging tax ~~on~~ services rendered. 320

The spokesperson for DFPA said most of the 10 000 general practitioners in South Africa would be more than willing to choose exempt status.

With tax exemption, doctors would not be able to charge tax on services and they would not be allowed to claim back on running costs.

A Namda spokesman said the organisation would embark on a widespread campaign to oppose VAT.

According to Mr Gus Ferguson, Director of the Pharmaceutical Society in the Western Cape, several unsuccessful attempts were made by the profession to persuade the government to review GST on medicine.

"Initially, the profession took the same stand on VAT but were dissuaded by the government which claimed that an exemption on health services would result in a see-saw action and push general VAT up by one percent."

Du Plessis was not available for comment.

FM: 9|8|91 (320)

INCOME TAX

VAT link

One of the most important implications of VAT for income tax relates to the determination of the cost of assets acquired, including trading stock, or amount spent by a taxpayer on services entitling him to deductions and allowances.

A new Section 23C, inserted into the Income Tax Act by the 1991 Income Tax Amendment Act, makes the position clear, says Gerhard du Plooy, a tax manager with Price Waterhouse Meyernel.

In terms of S23C(1), if a taxpayer who is a vendor for VAT purposes buys assets or incurs a deductible expenditure, the input tax credit to which he becomes entitled must be excluded from the cost of the asset or amount spent. This is an obvious and reasonable provision, as the input tax paid will be recoverable from Revenue at the end of the VAT period as an input tax credit.

S23C(2) contains special rules dealing with, firstly, stock on hand comprising materials acquired by construction, civil engineering and similar enterprises and, secondly, consumable goods and maintenance spares. Where these were acquired before the introduction of VAT, GST would have been paid. The VAT Act entitles vendors to claim an input tax credit for GST paid, subject to certain timing provisions.

In terms of S23C(2)(b), where a vendor takes advantage of the transitional provision, GST paid and deducted shall be deemed a recoupment under S8(4)(a) of the Income Tax Act. This means that GST recovered in an input tax credit will be included in gross income and subject to income tax.

However, where the taxpayer continues to hold trading stock at the end of the tax year, this effect is delayed by a new subsection 22(1A). This states that the cost of such stock for income tax purposes is deemed to have been reduced by any GST included in its cost price, now deemed to have been recouped for the purposes of S8(4)(a). ■

Paraplegic wins bout in tax battle

SUSAN RUSSELL

A 30-year-old paraplegic whose sole income is a third party award equivalent to a junior fireman's salary has fought a long legal battle with the Multilateral Vehicle Accidents (MVA) Fund and Inland Revenue after finding out that tax was being deducted from his biannual payouts.

The fund and the Commissioner of Inland Revenue were yesterday refused leave to appeal against a court order granted in June this year compelling the MVA to stop the tax deductions.

Matthew Hogan had wanted to be a fireman after leaving school, but a motor accident in 1977 at the age of 16 left him permanently unemployable.

Hogan instituted a damages claim against the fund in 1979 for loss of earning capacity. The fund agreed to pay him what he would have earned as a fireman.

The payments are now about R2 300 a month.

Granting an order in Hogan's favour in June, Mr Justice C Plewman rejected the fund's claims that it was obliged to make the deductions in terms of the Income Tax Act.

The fund's settlement of Hogan's claim was not an undertaking to pay a salary from which tax was deductible, the judge said, but an undertaking to pay compensation of a capital nature.

Mr Justice Plewman yesterday rejected an application by the fund and the commissioner for leave to appeal.

Du Plessis to respond to VAT objections

(320) CT 9/8/91

Political Staff

DURBAN. — Finance Minister Mr Barend du Plessis, under fire over the controversial Value Added Tax (VAT), is to issue a "comprehensive statement" on the subject within 10 days.

The latest salvo has been fired by the Congress of South African Trade Unions (Cosatu), which has demanded an immediate 5% wage increase for all workers to compensate for the inflationary effects of VAT.

It is to back its demand with mass action, which is also to serve as a protest against President F W de Klerk's response to Inkathagate.

A spokesman for Mr Du Plessis said yesterday that he intended giving a "comprehensive statement in response to a variety of representations" on VAT.

In a statement after a special meeting of its executive yesterday, Cosatu said the handling of Inkathagate had fallen far short of the demands of the majority.

The executive said it would call a special meeting on August 14 to finalise a programme of mass action.

Johan van Wyk: the reason for that foreign kiss — isn't Peaches from France out maybe?

NEWS

VAT blow for ~~many~~ creches

320

Star 9/8/91.

John Miller
Star Line

Certain creches, after-care centres and colleges will have to charge VAT from the end of September.

Only those institutions linked to a Government education department will not have to do so.

A spokesman for Inland Revenue said VAT would not be charged on creche fees for children aged from three to six if they attended pre-primary classes at a creche linked to an educational authority. However, if such a creche or nursery school enrolled children under the age of three their fees would be subject to VAT.

Lynn Morris of the Housewives' League said creches and after-care centres were two areas in which the league had asked for relief when submissions were made to the Vatcom hearing. But these were turned down.

Badly off

"I do not think the Government realises how badly off a lot of people are and that not only single parents but married women are also forced to go out and work and put their children in a creche or after school centre in order to make ends meet."

She said working women were helping the economy and deserved to be assisted.

Brenda Reisnik, owner of Birnam Business College, said the imposition of VAT on all private college fees was an absolute catastrophe.

A spokesman for the Single Parents Group said VAT would affect thousands of people who relied on creches and after-care centres.

Cosatu to organise wide protests against new tax

320

Star 9/8/91

By John Miller

THE STAR VAT WATCH

The Congress of South African Trade Unions is to set up a broad front with other organisations to campaign against VAT on basic foodstuffs, medical services and medicines.

Campaign co-ordinator Lisa Seftel said Cosatu would meet consumer bodies and other organisations on August 22 to map out a plan of action.

She said Cosatu would like to see products such as milk powder, legumes, rice, sugar, stamp maize, maize rice, meal, oats, eggs, vegetable oil and pilchards all zero-rated.

"Basic foodstuffs, with medicines and medical services, affect the mass of our people, who already do not have the means to provide for themselves."

Miss Seftel also accused Minister of Finance Barend du Plessis of dragging his feet.

"We met him on July 16, and after submitting a memorandum on union fees, he asked for further representation, promising to get back to us within 48 hours."

She said the necessary information was submitted on July 24, but Cosatu was still awaiting a response.

Affiliated unions would push for a 5 percent interim salary increase to compensate for the inflationary effects of VAT.

"If these issues are not resolved by October, there is a good chance of industrial unrest."

LABOUR BRIEFS

320

W/Mail 9/8/-15/8/91

Drive against taxes launched

Cosatu's Northern Transvaal region is to launch the federation's "no taxation without representation" campaign at a shop stewards' council meeting at Medunsa at the weekend.

Adopted at Cosatu's national congress, the campaign will involve demands that employers stop deducting PAYE from workers' salaries, as taxes are used "to wage a secret war against the democratic movement", said Cosatu's northern Transvaal secretary, Donsie Khumalo. If employers refused to heed the call, Cosatu would consider further action, he warned.

Khumalo said the anti-taxation drive would be coupled with Cosatu's campaign against Bophuthatswana's Industrial Conciliation Act.

This week, Cosatu wrote to Manpower Minister Eli Louw complaining that his department had transferred UIF deductions from Bop citizens working in South Africa to the homeland.

Noting that Cosatu had not been consulted on this, it demanded an end to the practice, and the recall of all UIF money transferred to Bop together with accumulated reserves.

Barend silent as VAT storm rages

(320) ARG 10/8/91

FRANS ESTERHUYSE, Weekend Argus Correspondent

THE Minister of Finance, Mr Barend du Plessis, is maintaining a stony silence as a countrywide storm of protest against the government's controversial Value-Added Tax (VAT) rages on.

His hardline stance has been sharply criticised by the Democratic Party on the grounds that he has failed to respond to issues raised in the public outcry.

DP finance spokesman Mr Jasper Walsh told Weekend Argus his party would persist with its representations and was planning to continue "vigorous opposition" to the implementation of the VAT Bill.

"People are dying of malnutrition and starvation, and yet now we are going to tax basic foods. One thing we have pleaded for is that there must be no tax on milk powder for baby food, and yet the government has refused to agree to that."

Meanwhile, organised business, trade unions, consumers' organisations and others have continued protests, appeals for a government rethink and various other actions against the new tax. But so far the outcry appears to have fallen largely on deaf ears in Pretoria.

The only response received by Weekend Argus from Finance Minister Du Plessis to a request this week for his comment on the mounting storm was a brief statement — issued through a spokesman in his office — saying he intended to issue a "comprehensive statement" within the next 10 days.

The Weekend Argus message to the minister had requested his response to continuing public protests and a threatened "revolt" in some quarters against VAT.

His attention was drawn specifically to protest actions and statements by the SA Chamber of Business (Sacob), the trade union federations Cosatu, Nactu and their affiliates, the Democratic Party, the Housewives' League of SA, the new organisation Vatwatch under the chairmanship of Professor Louise Tager, and the Dispensing Family Practitioners' Association of the African National Congress.

The minister was asked: "Is there any possibility that the government will reconsider VAT or aspects of it in the light of these protests, objections and criticisms? If so, is any alternative form of taxation being considered?"

The Finance Ministry spokesman said the minister's "comprehensive statement" would be in response to a variety of representations and investigations into the implementation of VAT.

"Any interim response from him would therefore serve no purpose," the spokesman said.

The Democratic Party's Mr Walsh said the DP's objection to VAT had been made on these grounds:

- VAT's 13 percent rate of taxation was unacceptably high.
- The government had pre-supposed that by giving massive input credit benefit to businessmen this would not be passed on to consumers.
- A critical point was that the government, in deciding to levy the tax on basic foodstuffs other than brown bread and mealie meal, undertook to have a system in place to alleviate the impact of this additional tax on the poor.

As the government had failed to meet this promise, it should postpone the implementation of the tax on basic food until such time as the promised mechanism was in place to alleviate the plight of the desperately poor.

Mr Walsh, whose party opposed the VAT legislation, told Weekend Argus the effect of the government's action was that it was now taxing food that was not taxed before.

In spite of all the objections and protests, the minister had not responded to the real issues.

"He is not taking the public seriously. The government has a sophisticated advertising programme on TV and radio, but they are not addressing the key issues. I think we must make further representations," Mr Walsh said.

- Deputy Minister of Finance Dr T G Alant has defended VAT, saying it is "a fair, efficient and neutral system".

In a letter published in The Argus, Dr Alant responded to criticism from readers.

He writes that the introduction of VAT on September 30 represents "the most comprehensive and important tax reform since the introduction of GST 13 years ago."

"VAT is the product of much research and wide consultation.

"VAT has a proven track record in 44 countries and a further 12 countries are currently introducing the system."

Dr Alant says it must be borne in mind that since VAT differs fundamentally from GST, the effect of the two systems cannot be compared by focusing on selected items.

VAT crooks on the rise?

C/Press 11/8/91

VATWATCH is being inundated with calls from the public reporting suspected cases of misleading advertising – and alleged unwarranted VAT-related price increases.

Professor Louise Tager, chairman of the independent body set up to monitor the efffect of Value-added Tax on the consumer, said Vatwatch had already referred a number of cases of allegedly misleading advertising to the Advertising Standards Authority.

In all cases consumers were being encouraged to "buy now, before VAT", implying that prices would rise after September 30 – which would be untrue for products already carrying GST, as the VAT rate is lower.

Tager said some complaints had also been received from business people alleging their suppliers were upping prices due to the imminent introduction of VAT. Others requested information.

"I must emphasise that it is not the task of Vatwatch to explain the principles and mechanics of the VAT system. Yet it is evident from the calls we receive that many people are quite ignorant about what VAT entails. It is of great importance that consumers become fully acquainted with the VAT system.

"Vatwatch has been created to encourage consumers to look out for unusual trends and movements in retail prices in the months before and after the introduction of VAT, and to inform Vatwatch if any such trends occur.

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"We also hope to encourage commerce and industry to pass on to consumers the cost benefits that VAT will generate.

"Ultimately, the aim of VAT should be to lessen the pressure on the consumer price index and, therefore, on the rate of inflation," she said.

Vatwatch to monitor price trends

GILLIAN HAYNE

VATWATCH launched a six-month-long market research project on Friday to identify price trends before and after the introduction of VAT, Vatwatch chairman Louise Tager said.

Interfact, the company commissioned to do the research, will monitor about 120 sales points.

Interfact partner David Geldenhuys said the object was to check on the prices of the same goods at the same stores and so determine price trends.

While Vatwatch keeps its vigil, many companies are still coming to grips with the effects VAT will have on their businesses — such as on payroll systems and fringe benefits.

Inland Revenue chief director Trevor van Heerden said in most cases salaries, wages, allowances, bonuses, commission, overtime pay and pensions would not be subject to VAT. Remuneration which was subject to PAYE/SITE would not attract VAT. However, independent contractors would have to charge VAT on their services.

Fringe benefits would incur VAT if the fringe benefit consisted of a supply of goods or services, assuming it did not arise from an exempt or zero-rated supply.

Van Heerden stressed that VAT would be levied on the employer and no distinction would be made between assets acquired before or after September 30.

As an example he said that VAT on a personal computer, acquired by a company for an employee, would have to be paid by the company.

VAT would be calculated by applying the tax fraction (12 over 112) to the income tax cash equivalent of the fringe benefit.

Some employees pay employers part of the cost of the fringe benefit. In this instance, the employer would have to charge VAT on the contributions made by the employee.

"It will be treated the same way as any other supplies (sales) made," Van Heerden said.

As employers would not be allowed to claim an input tax credit for VAT paid on a company car, the capital portion of the use of the car, granted as a fringe benefit, would not attract VAT.

However, the running cost element of the benefit would be subject to VAT — maintenance, repairs and insurance.

Van Heerden noted that the valuation of the fringe benefit for VAT purposes would thus differ from the income tax value.

Concessions on VAT 'not the answer'

Star 12/8/91

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By Paula Fray

Finance Minister Barend du Plessis has hit back at Cosatu's demand for a 5 percent increase in salaries to offset VAT by saying there were "better ways of helping poor people" than merely granting tax concessions.

Commenting on Cosatu's demands that VAT be excluded on basic foodstuffs and medical services and the union's threat that the campaign might be backed by strike action, Mr du Plessis said he would present a package in the near future which would deal with the problem.

Mr du Plessis said in a statement the trade union federation's demands boiled down to repeating the same mistakes the Government had made under GST.

Judge halts taxation of injury pay

Star 12/8/91

Staff Reporter 320

The Commissioner of Inland Revenue could not tax a paraplegic's compensation, a court has decided.

The ruling was upheld in the Rand Supreme Court when leave to appeal against the decision was dismissed by Mr Justice C Plewman.

The Multilateral Motor Vehicle Accidents Fund and the Commissioner for Inland Revenue brought the application after a Transvaal Provincial Division of the Supreme Court ruling in April.

Matthew Hogan worked at the Johannesburg fire department until he became a paraplegic in a car accident in 1977.

Suffered

According to an affidavit, he has had seven spine operations since his accident and has suffered severe pain in his lower and middle back. He has been unable to find work, and blames his disability for two failed marriages.

His parents cannot support him and his compensation is his only income.

He brought the application against the accident fund when it excluded his bonus from his compensation.

The Commissioner of Inland Revenue was named as a respondent because the accident fund had deducted tax.

Mr Justice Plewman accepted that the compensation was for his inability to earn future income.

"The undertaking was not an undertaking to pay a salary, which would give rise to a (tax) deduction, but to pay compensation of a capital nature."

A 13th cheque would have to be included in the calculation of the payout because it was part of Mr Hogan's former income.

Supermarkets introduce dual price system to ease transition

By John Miller
Star Line

320

Star 12/8/91

THE STAR VAT WATCH

12% VAT

The country's leading supermarkets will introduce a dual pricing system within the next three weeks, and display and distribute posters and pamphlets to help the consumer become acquainted with VAT.

The first store to introduce both VAT and GST marking was Woolworths three weeks ago, with such prices appearing on those items that are not date-stamped. Spar followed shortly after.

The next chain to begin dual marking will be Checkers when it introduces the system from today.

OK will follow on September 1 with most of its non-food lines and foodstuffs to follow on September 15. Pick 'n Pay will also begin next month.

Spokesmen for most of the stores said this system would continue for at least two weeks after September 30, the day VAT comes into operation.

Mervyn Kraitzick, marketing director, foods, for OK, echoing the view of other chains, said the introduction of the dual system would ease the switch-over on September 30, saving millions of rands on overtime that night.

"It will also enable the consumer to know which price will be paid before and after VAT and help the consumer to see if any escalation of prices takes place before the tax is introduced."

Mr Kraitzick added that certain suppliers were already trying to bring through price increases ahead of VAT and their normal timing.

"If we accept this, consumers will pay higher prices earlier than they might otherwise have done."

Housewives League vice-president Jean Tatham said she hoped the system would not cause confusion.

"At present, prices do not include GST, which is only rung up at the till, whereas the VAT price is inclusive and at first glance appears to be more, even though it is not," she said.

Prices to be monitored 'before and after'

By Paula Fray
Consumer Reporter

Star 12/8/91

320

Vatwatch has launched a comprehensive six-month market research project to identify price trends before and after the introduction of VAT on September 30.

Vatwatch chairman Professor Louise Tager said in an interview the first results were expected before the end of August.

It was hoped that by mid-September sufficient information would be available to indicate whether businesses were taking advantage of VAT to increase prices.

About 120 sales points countrywide will be monitored, according to David Geldenhuys, a partner in Interfact which has been commissioned to do the research.

Mr Geldenhuys said a basket of goods and services ranging from perishables, cleaning materials and other groceries to a variety of services used by families would be monitored both in urban and rural areas.

The basket will remain constant throughout the research period.

● Dual-pricing move — Page 5

~~(244/55~~ (320)

Fuel price rise: don't be duped, AA warns

The belief that VAT will not affect the price of fuel should be viewed with some suspicion, the Automobile Association has warned. Star 12/8/91

It said although fuel would be zero-rated, there was a strong indication that VAT would be levied in the Budget next year at a higher rate than GST and would result once again in tax on tax.

Refusals to pay 'a threat to VAT'

(320)

B Day 13/8/91

GILLIAN HAYNE

CIVIL disobedience is the biggest threat facing government over its controversial introduction of VAT, says the Federation of Salaried Staff Associations (Fedsal).

Interest groups might lobby fiercely, but mass refusal by trade unions to pay VAT will be the one which effectively derails the new tax regime, it says.

The promise of "drastic" action by Fedsal, Cosatu and Nactu will mean millions of people simply refusing to pay VAT — a show of disapproval which the British public used to great effect to overthrow Margaret Thatcher's poll tax.

This is the pressure mounted against Finance Minister Barend du Plessis with less than seven weeks before VAT's implementation.

The issues at stake are the VAT treatment of trade union subscriptions, basic foodstuffs, and medicines and medicial services. Du Plessis has promised a comprehensive statement within 10 days.

The Housewives League's Lyn Morris fears Du Plessis will grant concessions willy nilly.

Morris says many requests for special treatment, especially on basic foodstuffs, are reactions by the poor and elderly staring starvation in the face.

She blames government, which has "dragged its heels" on the proposed food aid programme, for the current dissatisfaction.

"Many of the requests for exemptions on foodstuffs are because people have heard nothing about the promised assistance. A speedy announcement on who and how the poor and elderly will be helped through the food aid programme will go a long way to dissipating pressure on government to grant exemptions from VAT," she said.

The problem with unlimited special treatment was that government might be forced to increase the rate of VAT to compensate for revenue lost.

Morris says: "My fear is that the Minister will succumb to the pressure, allow the exemptions, and then put the rate up to 14% or 15%, which would be disastrous."

According to statistics released by the Bureau for Market Research, a worker with an income of R778 will need R70,85 more a month after the introduction of VAT to maintain his minimum living level.

Fedsal's general secretary Piet Heymans says that to cover the increase in the cost of living, unions will have to negotiate higher wages, which will accelerate the economy's inflation spiral.

Also in the spotlight is the VAT treatment of medical services and medicines.

Deputy Minister Theo Alant said yesterday VAT would not be imposed on petrol and diesel.

Doctors oppose VAT on medical services

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Argus 13/8/91

VIVIEN HORLER
Medical Reporter

BETWEEN 350 and 400 Western Cape doctors meet tomorrow night to protest against the "inhuman" imposition of VAT on medical services.

Doctors will be given petitions for themselves and their patients to sign, "imploring the minister not to impose this tax on sick South Africans", says Dr Tony Behrman, vice-chairman of the Cape Western branch of the Medical Association of South Africa, which has organised the meeting at UCT.

Doctors will be advised on how to implement VAT in their practices should their plea fail, and they will be addressed by Mr Reg Magennis, Masa's director of health policy, a member of a firm of accountants and a spokesman for the Receiver of Revenue.

Dr Behrman said it is hoped doctors in the Western Cape will have collected about 7 000 signatures by the end of the week.

"We don't expect them not to tax medicines. Medicines have attracted GST and I doubt if they'll allow that cherry to fall off the tree, but to tax medical services is inhuman. It is a bitter tax for a bitter South Africa.

"If VAT is charged on medical services, I believe the more impoverished 60 percent of the population will find it increasingly difficult to seek medical care. They will delay consulting a doctor until their problem is more grave, and will eventually end up as state patients in an already over-burdened system."

Dr Behrman said Masa had applied to be zero-rated, which meant that doctors would be able to claim back the VAT charged on their input charges such as electricity, rent and telephone bills, and would charge their patients VAT at nil percent.

Failing zero-rating, doctors had asked to be declared exempt, which meant they would have to pay full VAT on their input charges, but patients would not be charged.

So far it appears that doctors will be standard-rated.

Business Report

'No VAT on petrol,' says govt minister

(320) CT 13/8/91

PRETORIA. — The government was not presently considering imposing Value-Added Tax on petrol and diesel, the Deputy Minister of Finance and of National Education, Dr Theo Alant, said in Pretoria yesterday.

Dr Alant rebutted reports that the government was to introduce VAT on petrol and diesel next year.

"I wish to state unequivocally that from 30 September 1991, which is the date on which VAT is to be imposed, petrol or a distillate fuel which is subject to the fuel levy, will be taxed at zero rate, which means that no VAT will be imposed on this fuel."

Dr Alant is to head a panel of tax experts at a meeting to discuss Value Added Tax (VAT) in Chatsworth, Durban, later this month.

The "Vat agenda" meeting has been arranged by independent House of Delegates MP for Durban Bay, Sathie Naidoo, who will chair the proceedings.

Also on the panel will be the Department of Finance's Trevor van Heerden, Vatcom member Kisten Moodley, Professor Lindsay Mitchell of the University of Natal, Professor Dilip Garach of the University of Durban-Westville and Professor Louise Tager, the chairman of Vatwatch.

Naidoo said yesterday he had arranged the meeting to "give businessmen an opportunity to raise problems with the authorities and academics".

● The Housewives' League of South Africa has again asked the public to give their full support to the campaign for a zero rating of Value-Added Tax on basic foods and medical services.

Mrs Lyn Morris, national president, said the league called on the Minister of Finance to zero-rate medical services, milk powders, meat, fish, eggs, margarine, dried legumes, fruit and vegetables.

The league's campaign had already succeeded in eliminating VAT on milk, butter and frozen vegetables, she said. — Sapa and Own Correspondent

VAT already fuelling inflation

320

Star 13/8/91

By Sven Lünsche

Value added Tax (VAT) may already be contributing to higher prices, says the Econometrix research institute in its comments on the latest hike in the Producer Price Index (PPI).

Central Statistical Service reported yesterday that the PPI jumped from a year-on-year rate of 13 percent in May to 14,1 percent in June. On a monthly basis the index increased by a hefty 1,3 percent.

Most worrying was the fact that the producer price rises of food products have been soaring over the past year. The CSS figures show that agricultural food products have been rising by 42,1 percent year-on-year, while fishing products have risen by 15,7 percent.

Commenting on the increases Econometrix says in its latest Ecobulletin: "One wonders to what extent the recent rise in inflation can be attributed to pre-emptive price increases by business and aggressive wage demands by workers directed at protecting themselves against the possible erosion of their profits and living standards respectively when VAT is introduced.

Disservice

"If this is so, then VAT is already doing the country's fight against inflation a great disservice and the government's policy-makers may be shooting themselves in the foot as regards inflation," Econometrix says.

The increase in the PPI would have been even greater in June had it not been for the weakening of the rand against the US dollar, which brought down the annual rate of increase in imported commodities from 8,5 percent in May to 7,8 percent in June.

On a monthly basis the PPI for imported goods actually showed a 0,6 percent fall from May to June after declining by 0,8 percent in the previous month.

In contrast producer price inflation for locally produced goods continues in an upward trend, which, according to Econometrix, has prevailed over the past 16 months.

This rate was up to 15,5 percent in June from 14,1 percent in May and compares with a rate of 12,5 percent a year ago.

Prices of locally produced goods also showed a hefty 1,4 percent monthly increase, which is equivalent to 16,8 percent on a compound annual basis.

NEWS FOCUS

Exporters may need initial line of credit

BlDay 14/8/91 (320)

Deloitte Pim Goldby's VAT team responds to queries raised by Business Day readers.

If you have queries about VAT, address them to: VAT Queries, Business Day, P O Box 1138, Johannesburg, or fax (011) 836-0805 or 497-2224.

We cannot respond individually, but will concentrate on areas of general concern raised by readers.

EXPORTERS AND CASH FLOW

EXPORTERS may have to arrange an initial line of credit to finance the tax paid to their suppliers while waiting for the Receiver of Revenue to refund the VAT.

To this extent they may initially be worse off than other vendors who can reduce a cash flow deficit by output tax collected.

On average, an exporter with a one-month tax period can expect to receive his refund from the Receiver of Revenue after about 70 days.

Therefore, if the exporter's creditors' settlement terms are less than 70 days, which is highly likely, there will be a cash flow deficit for a number of days.

The problem will not extend beyond the initial period, as the refund of the first period's VAT should secure sufficient cash flow to finance the tax payable for the next period and so on.

In order to minimise the effect of this cash flow disadvantage exporters are advised to:

- ☐ Apply for a one-month tax period if their supplies do not exceed R30m;
- ☐ Insist on the early receipt of tax invoices from their suppliers;
- ☐ Ensure that their accounting systems produce the necessary information to prepare the VAT return as close to the beginning of the following tax period as possible; and
- ☐ Make their purchases towards the end of a tax period.

VOLUNTARY REGISTRATION

WHERE a person's taxable supplies are below R150 000, provision is made in the Act for voluntary registration.

In deciding whether to apply for registration there are a number of factors which need to be considered:

- ☐ Whether or not your suppliers are registered vendors. If they are and you do not register, the input tax which you pay will be an additional overhead to your business. In this situation, will you be able to absorb this incremental cost or will you have to pass it on to your customers?;
- ☐ Whether or not your customers are registered vendors. If they are registered, they may consider taking their business to your registered competitor in order to secure their input tax credit, for the goods or services which you supply;
- ☐ The impact of VAT on your cash flow. If you do not register you will now be required to pay input VAT on your purchases, whereas previously most of your purchases were exempt from sales tax.

  This situation will be aggravated if your debtors settlement terms exceed those of your creditors; and
- ☐ The administrative burden of compliance with the VAT Act.

SELLING ONE'S HOUSE TO A REGISTERED CLOSE CORPORATION

IN TERMS of the VAT Act, where a vendor purchases immovable property, transfer duty will not be payable if the seller can certify to the Inland Revenue Commissioner that he has accounted for the VAT.

The seller would therefore have to be a registered vendor for transfer duty not to be payable on this transaction.

If, for example, an individual conducting his business through his close corporation from home, sells his residence to his registered close corporation, transfer duty of 5% on the market value will be leviable.

However, a notional input tax on this transaction will be granted to the close corporation if the house is used for the making of taxable supplies.

If, on the other hand, the house is used partly for residential purposes (more than 10% of the time) this notional input tax credit will have to be apportioned, on a basis acceptable to the Inland Revenue Commissioner.

Medics to meet over 'inhuman tax on sick'

Star 14/8/91 320

By Carina le Grange
and Own Correspondent

The medical profession is making last-minute attempts to prevent VAT on medical services.

A few days ago the Medical Association of South Africa (Masa) met Minister of Finance Barend du Plessis to discuss VAT.

In Cape Town, up to 400 western Cape doctors are expected at a protest meeting tonight against the "inhuman imposition of VAT on sick people".

The Society of Dispensing Family Practitioners has already launched a countrywide petition.

The Dental Association of South Africa has also met Mr du Plessis.

It is understood, the Minister will announce this week whether appeals for VAT not to be standard-rated — at 12 percent, such as other services — has been successful.

Masa said yesterday it had asked Mr du Plessis at the latest meeting to review the decision to standard-rate medical services and to postpone the implementation until all possible negative results on health care had been eliminated.

VAT AND YOU

Masa again appealed for the VAT zero-rating on medical services.

Masa chairman Dr Bernard Mandell said it could result in more and more patients — including medical scheme members requiring expensive treatment, and the chronically ill — turning to the State because benefits would not cover their expenses in full.

He added that poor patients without medical aid who were treated at reduced rates in the private sector would also not be able to cope with cost increases.

The organiser of the Cape Town meeting, Dr Tony Behrman, said he believed VAT would make it increasingly difficult for the "impoverished 60 percent of the population to seek medical care".

"They will delay consulting a doctor until their problem is more grave."

● A zero-rating means doctors would be able to claim back the VAT charged on their input charges such as electricity, equipment, rent and telephone bills, and would charge patients VAT at nil percent.

Cosatu calls for action that will scuttle VAT

The Argus Correspondent ARG 15/8/91 (320)

JOHANNESBURG. — Cosatu has called for nation-wide factory demonstrations and protest actions to start "with immediate effect", as part of their campaign to stop VAT.

Spokesman Mr Neil Coleman said if the tax is implemented on September 30, Cosatu will send worker delegations to employers, demanding an immediate five percent increase.

These steps were the result of government "stonewalling" of Cosatu and other organisations over VAT, Mr Coleman said.

VAT should be suspended pending negotiations on the following issues:

- Zero-rating of basic foods, medicines, medical services, trade union subscriptions.
- Poverty relief programmes.
- How the taxation system can be reorientated to benefit the majority of South Africans.

Doctors' last stand — 'Scrap luxury tax on illness . . .'

STEFAANS BRÜMMER, Staff Reporter 320

ABOUT 300 Western Cape doctors have made a final stand rejecting value-added tax on medical services.

ARGUS 15/8/91

The doctors unanimously adopted a resolution calling on Minister of Finance Mr Barend du Plessis to give medical services zero-rating status.

The resolution said: "Fully realising that it is indefensible to tax ill-health, we implore the minister to reverse his decision in the interests of all ill South Africans and to excuse medical services from all VAT."

Copies signed by the doctors will be presented to patients and they hope to hand Mr Du Plessis a petition of 7 000 signatures on Monday.

Dr Tony Behrman, vice-chairman of the Western Cape branch of the Medical Association of South Africa, asked how South Africa could "afford a luxury tax on illness".

Masa director of health policy Mr Reg Magennis said that several times the association had met Mr Du Plessis, who had undertaken to make a public statement during the first week of August. The announcement was postponed "due to Inkathagate".

Mr Magennis said Mr Du Plessis might put together a package which would not go all the way towards zero-rating.

"The implications of VAT are that the poor ... will experience additional hardships. The Medical Association does not accept this.

"We stick to our request for zero-rating. We ask the minister to be very cautious when he makes a final decision."

Swazis warn on 'VAT chaos'

(320) AEG 15/8/91

MBABANE. — Swaziland businessmen, through the kingdom's Chamber of Commerce, have warned that there may be chaos at border posts when VAT becomes law on September 30.

Swaziland retains the GST system.

The chamber said the kingdom's business sector still had no clear indication from South Africa how VAT would affect Swaziland's importers and exporters.

To add to the chaos expected, Swaziland's busiest border post Ngwenya is in the throes of a multi-million rand expansion programme. — Sapa.

Pay early to save VAT, says SATV

320 ARG 15/8/91

SHARON SOROUR
Staff Reporter

TELEVISION viewers can save more than 50 percent of the increase in licence fees if they pay before before Value Added Tax (VAT) is implemented, Minister of Home Affairs Mr Gene Louw said today.

Ordinary licence holders could save R16,07, while concessionary holders could save R4,82 by paying on or before September 28.

Increased licence fees will be promulgated by Mr Louw in a special Government Gazette today.

Mr Louw said because VAT came into effect only on September 30, the SABC could pass on a considerable saving to TV licence holders who paid their full annual licence fee on or before September 28. September 29 was not a working day.

The SABC announced on Saturday that television licences would go up by 25 percent, of which 6,6 percent emanated from VAT after savings on GST had been accounted for.

Mr Louw said the fee for the new licence year, starting on October 1, would be R133,93 instead of R150 for licence holders paying before or on September 28.

The fee would then increase by only R13,93 on the present licence fee, he said.

The increased fee for concessionary licence holders paying on or before September 28 would be R40,18 instead of R45, an increase of R4,18 on the present fee.

"In order to qualify, it is of the utmost importance that payment be effected on or before September 28. Cheques posted before then but not received in time will in no circumstances qualify for the discount," Mr Louw warned.

Fees paid after September 28 would be R150 for ordinary licence holders and R45 for concessionary holders.

The reduction would not apply to monthly debit orders coming into effect on or after September 30. These were fully subject to VAT and remained R13,50 a month for ordinary licence holders and R4,25 for concessionary holders.

If licence holders wished to qualify for the discount and pay the full annual licence fee by debit order, they should notify the SABC before September 17 so that debit orders could be processed before September 28.

Mr Louw said the SABC could not accept responsibility for cheques delayed in the post and not received on or before the due date.

"In such a case, the SABC remains liable to the Commissioner for Inland Revenue for payment of the statutory prescribed VAT in full and the licence holder holder will therefore not be able to avoid subsequent legal obligations.

NESS

'Mind-boggling' VAT problems feared

Business Staff 320 ACG 15/8/91

SHORT-TERM insurers and brokers are beside themselves with the administrative problems posed to them by VAT.

The implications of the new tax, to come into effect on September 30, are "mind-boggling", according to Cover, the insurance industry magazine. The publication in its August edition poses the half-serious suggestion that an 11th-hour exemption from VAT be sought.

"Only one other country, New Zealand, has followed the VAT insurance route — other countries found it unworkable," according to an editorial.

"Prevention could well be better than cure in this case."

An article in the magazine, written by Deloitte Pim Goldby partner Anne Pappenheim, illustrates some of the implications of VAT for insurers and companies carrying insurance.

She says organisations registered as vendors for VAT purposes will need to look carefully at their cover in view of the fact the tax is leviable on indemnity payments on insurance claims.

Accountants will have to consider how much they will need to retain after paying VAT on the indemnity to cover the loss claimed for.

She gives the example of stock in trade with a net cost to a firm of R1 000 after the input tax credit from the purchase has been claimed. The sum insured would need to be R1 120, leaving the firm with R1 000 for the replacement of the stock after paying over R120 in VAT to the Receiver of Revenue.

The situation, however, is complicated in the case of company cars — for which vendors are unable to claim input tax credits.

Turnover tax 'to be built into margins'

BDay 15/8/91

(320)

ROBERT GENTLE

THE imminent turnover tax on banks' gross interest earnings was likely to be built into banks' margins and not displayed as a separate tax, banking sources said yesterday.

This would mean that the 0,75% tax would be fully integrated into its prices, for example on interest charges or bond rates, and clients would have no idea what proportion was due to the tax.

This would not necessarily be bad news for the consumer, banking sources said, because market forces might compel banks to hold down price rises to below what they might be if the tax was a visible, add-on charge like GST.

The fiercely competitive home loan market was one area in which this could happen, they said. It was conceivable that some banks might not raise their lending rates at all for fear of losing market share.

First National Bank (FNB) spokesman Jimmy McKenzie said it would be speculative to discuss the precise effect the tax might have on, for instance, bond-holders, until final details were released.

McKenzie said he did not believe that Reserve Bank Governor Chris Stals would relax interest rates to soften the impact of either the turnover tax or VAT.

A spokesman from another bank, who declined to be named, said he thought Stals

☐ To Page 2

Turnover tax

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(320)

☐ From Page 1

might yet lower rates because of what he called the "political sensitivity" of the taxes and the possible effect on bond-holders.

Allied Bank deputy MD Nallie Bosman said: "I think the impact will be great on the bottom line of banks and they will seek to recover it across the different sectors in which they operate."

He declined to speculate on the exact effects of the tax until final details were released.

According to public statements by both Inland Revenue and certain banks, finality had not been reached yet on the exact structure and mechanism of the tax.

Inland Revenue director, legal drafting, Ian Meiklejohn said the dossier would be published as soon as it was finalised — probably within a few weeks.

The tax, which is to be levied on registered financial intermediaries, is expected to raise about R400m annually, half of which will come from the banking sector.

Standard Bank chief accountant Henry Shaw said it was too early to be specific about how banks would react to the tax or how they might pass it on.

"It depends on the structure of each bank as well as the prevailing interest rate environment."

Last week, Standard MD Conrad Strauss said he would prefer the tax to be built into margins rather than simply added on because a large proportion of banks' interest income was not easily recoverable in this way.

VAT raises fears over health care

GERALD REILLY (320)

PRETORIA — The Medical Association of SA (Masa) is concerned that government's R220m poverty safety net will not be in place when VAT is introduced on September 30. B/Day 15/8/91

Masa federal council chairman Bernard Mandell said there was also concern that the amount available would be insufficient to provide relief to offset the impact on health sevices, let alone compensate for the tax's overall impact.

Mandell said Masa had again appealed to Finance Minister Barend du Plessis to zero-rate medical services.

Du Plessis was asked to at least postpone its implementation until possible negative results on health care had been eliminated.

Mandell said Masa was concerned that VAT would make health care less accessible to patients.

This would have far-reaching implications for the state.

Medical scheme members needing costly treatment and the chronically ill would turn to the state because benefits failed to cover cost.

Poor patients without medical aid would not be able to cope with cost increases resulting from VAT.

VAT could have a greater impact on the private sector costs incurred by public sector patients who were subsidised by the state.

This could strenghten the demand for a national health system.

Mandell said other proposals made to Du Plessis were tax relief on medical expenses, adjustment of the means tests and the increase of the public health budget by an amount equal to the VAT collected from this source.

The introduction of a national health insurance fund to ensure all patients would have access to essential and life-saving services was another.

Masa also asked for the funding of a national consensus forum working towards the design of an efficient and equitable health-care system.

Cosatu warns of industrial action over VAT

320

B/Day 15/8/91.

VERA VON LIERES
and PATRICK BULGER

COSATU yesterday called for the implementation of VAT to be delayed and warned of industrial action if the demand was not met.

The ANC, which is due to release a policy statement on VAT today, is likely to reflect Cosatu's objections to the tax, which is to be introduced on September 30.

ANC sources said the organisation would object to the 12% rate, as well as the fact that it would be levied on medical services and building supplies, which it saw as inhibiting homebuilding projects.

Finance Minister Barend du Plessis is expected to make a comprehensive statement on union and consumer bodies' objections to the tax next week.

Cosatu's national campaigns committee met yesterday and unanimously decided to oppose VAT. Members called for a delay in implementation until satisfactory responses had been received on the issues of zero-rating of basic foods, medicines, medical services and union subscriptions, a poverty relief programme and a way to "reorient the tax to the benefit of the majority of South Africans".

Cosatu repeated its demand for an immediate 5% across-the-board wage increase if government went ahead with VAT on September 30.

An "anti-VAT summit" has been planned for next week and will bring together consumer, medical, relief, trade union and other bodies opposed to VAT.

Organisations that will attend include Cosatu, the Federation of Salaried Staff Associations, the Medical Association of SA, Operation Hunger, Nactu, the Consumer Council and the Johannesburg Child Welfare Society.

Cosatu would also table its VAT demands in negotiations with government and Saccola early next month.

Cosatu to defy VAT

(320) CT 15/8/91

JOHANNESBURG. — The Congress of SA Trade Unions (Cosatu) said yesterday it would defy the implementation of VAT on October 1, unless a number of conditions were met.

After a meeting of its national campaigns committee yesterday, Cosatu emphasised its determination to oppose VAT and to defy its implementation.

Delegates agreed the "government had stonewalled" in response to representations by Cosatu and other organisations on problems with VAT.

Cosatu demanded the suspension of the implementation of VAT, pending negotiations on:

- The zero-rating of basic foods, medicines, medical services and trade union subscriptions;
- Poverty relief programmes, and
- The reorientation of the taxation system to benefit the majority of South Africans.

To back its demands, Cosatu plans a national campaign which would include factory demonstrations and protest actions. Delegations would be sent to employers to inform them that workers would demand an immediate 5% wage increase following the implementation of VAT.

"We want to emphasise that our demand for the suspension of VAT's implementation is non-negotiable, since there is no way in which the state can resolve the problems relating to VAT before September 30," a statement said. — Sapa

Farmers against VAT

BLOEMFONTEIN. — The Free State Agricultural Union yesterday said all unprocessed food should be zero-rated, in view of implications the 12% VAT will have for agriculture.

The congress agreed to ask the Minister of Finance to zero-rate unprocessed food products, after a plea by Mr Pieter Joubert of Dewetsdorp.

Mr Joubert said that while at present about R2,4 billion was lost from the exemption of basic foods from GST, it was not far-fetched to say farmers would lose at least R2 billion through the introduction of VAT.

Mr Gerrie Greyling of Harrismith said price increases following VAT, particularly on protein-rich food like beans, meat and milk, would have an extremely detrimental affect on the poorest section of the community. — Sapa

Taxing illness unhealthy, say doctors

(320) CT 15/8/91

Staff Reporter

MORE than 350 doctors last night unanimously rejected the imposition of Value Added Tax on all medical services and called on Minister of Finance Mr Barend du Plessis to reverse his decision.

At a meeting at UCT organised by the Medical Association of SA (Masa), the doctors also signed a petition rejecting VAT on all medical services and asked that the minister exempt medical services.

Dr Tony Behrman, vice-chairman of the Cape Western branch of Masa, also asked the doctors to each take a petition back to their practices and collect 20 signatures from their patients.

He said he was hoping to collect 7 000 signatures and undertook to have these on Mr Du Plessis's desk by 5pm on Monday.

The doctors resolved that it was "indefensible" to tax ill health.

Dr Behrman said the signature campaign would be of major significance in "helping a perplexed minister to reverse his unhealthy decision".

After the anti-VAT section of the meeting the doctors were addressed by a panel of experts on the effects of VAT on their practices.

Meanwhile Dr Bernard Mandell, chairman of Masa's federal council, said in a statement yesterday the imposition of VAT was now only a month away and the association has asked once again that medical services be zero-rated.

If this were done, doctors would pay VAT on the supplies and goods they received but claim it back from the Receiver of Revenue.

Under the system proposed by the government, doctors pay VAT on supplies and goods and get their money back by passing it on to their patients — so patients would pay 12% VAT before any consultation.

"Masa remains concerned that VAT will have a serious, detrimental effect on health care by making it less accessible to the patients.

VAT chaos looms for insurers

By Des Parker 320

Star 15/8/91.

Short-term insurers and brokers are beside themselves with the administrative problems posed by VAT.

The implications of the new tax, to come into effect on September 30, are mind-boggling, says Cover, the insurance industry magazine.

The publication in its August edition poses the half-serious suggestion that an 11th-hour exemption from VAT be sought.

It says in an editorial: "Only one other country, New Zealand, has followed the VAT on insurance route; other countries found it unworkable.

"Prevention could well be better than cure in this case."

An article in the magazine written by Deloitte Pim Goldby partner Anne Pappenheim illustrates some of the implications of VAT for insurers and companies carrying insurance.

She says organisations registered as vendors for VAT purposes will need to look carefully at their cover in view of the fact the tax is leviable on indemnity payments on insurance claims.

Accountants will have to consider how much they will need to retain after paying VAT on the indemnity to cover the loss claimed for.

She gives the example of stock in trade with a net cost to a firm of R1 000 after the input tax credit from the purchase has been claimed.

The sum insured would need to be R1 120, leaving the firm with R1 000 for the replacement of the stock after paying over R120 in VAT to the Receiver of Revenue.

The situation, however, is complicated in the case of company cars — for which vendors are unable to claim input tax credits.

Mrs Pappenheim quotes the example of a car with a net cost to the firm of R56 000 — R6 000 being the VAT payable on purchase. "To replace the car, the vendor (the firm) will need to have available the net cost of the car to him, that is R56 000.

"As it is a 'motor car' (as defined in the Act) and is to be used as a company car, the input tax credit is denied when he acquires the replacement vehicle.

"In order to have R56 000 available to replace a stolen car, the vendor will need to receive R56 000 plus 12 percent, that is R62 700, from the insurer."

Mrs Pappenheim alludes to one of the major concerns of insurers — the legal obstacles to insuring against tax liabilities "in these circumstances".

Things are simpler for "non-vendors" because they will not have to pay VAT on short-term insurance payouts they receive. They will need to insure the R56 000 car only for the replacement cost of R56 000.

Short-term insurance brokers will not be liable for paying over output VAT on insurance premiums, even though they may issue the relevant documentation — which becomes a VAT invoice in the hands of the insured part. Responsibility rests with the insurance company.

Mrs Pappenheim says it will be in the interests of brokers to register as VAT vendors whether or not their annual turnover exceeds the R150 000 threshold. As vendors, they will be able to claim input credits on the costs of running their businesses.

VAT rethink urged as unions pledge nationwide protests

Star 15/8/91

320

By Jacqueline Myburgh

Cosatu has called for nationwide factory demonstrations and protest action to start "with immediate effect" to reduce the effects of VAT.

The implementation of the tax also had to be suspended, spokesman Neil Coleman said yesterday.

This was "non-negotiable", since the Government could not solve the problems associated with VAT before its planned introduction on September 30.

If the tax were implemented on that day, Cosatu would send worker delegations to employers, demanding an immediate 5 percent wage increase.

These steps were in response to the Government's "stonewalling" of Cosatu and other organisations on "serious problems which the implementation of VAT would create", Mr Coleman said.

VAT should be suspended pending negotiations on:

- Zero-rating of basic foods, medicines, medical services and union subscriptions.
- Poverty relief programmes.
- How the tax system could be reoriented to benefit the majority of people.

" We urge Barend du Plessis to reconsider the statement repotedly made ... by Gene Louw that the implementation date will not be reviewed," Mr Coleman said.

Cosatu's proposal would be put forward at an anti-VAT summit on August 22. Operation Hunger, Johannesburg Child Welfare and the Consumer Council are among the organisations that have said they will attend.

Pressures

- Economists warned this week that VAT, coming in at 12 percent, will not only increase the price of goods previously not subject to GST (about one-third of the shopping basket) but could push up the inflation rate by as much as four percentage points to around 19 percent.

This would add to other pressures on food prices. The Central Statistical Services (CSS) revealed that the cost of agricultural food products had increased by 42,1 percent in the past year.

However, pressures on the prices of agricultural foodstuffs, such as meat, chicken, eggs and milk, do not include a big rise as a result of an increased import duty on soya oil cake, an animal feed, as was incorrectly reported yesterday.

These food prices will increase by only 0,62 percent as a result of the import duties. The Star regrets the error.

- More than 350 doctors last night rejected the imposition of VAT on all medical services and called on the Minister of Finance to reverse his decision, Sapa reports from Cape Town.

At a meeting organised by the Medical Association of SA at UCT, the doctors also signed a petition rejecting VAT on all medical services.

Masa vice-chairman Dr Tony Behrman also asked the doctors to each take a petition to their practices and collect 20 signatures from their patients.

He said he was hoping to collect 7 000 signatures and undertook to have these on Mr du Plessis's desk by 5 pm on Monday.

● VAT Watch — Page 7

FM 16/8/91 (320)

VAT FM 16/8/91 (320)

Last-minute alarms

With six weeks to go to VAT-Day (September 30), a disappointing number of prospective vendors have not returned their registration forms and face serious embarrassment if still unregistered by then.

According to statistics furnished by Des Goosen of the office of the Commissioner for Inland Revenue, not even half the pre-estimated pool of vendors has yet submitted forms.

Pooling lists of prospective vendors at the threshold R150 000 turnover per year from tax records of provisional taxpayers, taxpayers subject to PAYE and those paying GST generated a grand total of 681 000.

Revenue expected that of these, some 400 000 would register. But by August 14, only 105 000 had registered; 198 000 returns reflected a status of no registration required, duplication, or undelivered; and a further 47 000 are being "edited" by Revenue.

On the face of it, these figures are discouraging, but Goosen says Revenue is braced for a last-minute rush. Administrative plans exist for VAT staff to work long overtime and to second staff from other tax areas.

Arthur Andersen VAT consultant Shane Ferguson warns that the consequences of not registering could be serious. A party who's required to register but doesn't has no right to insist on the issue of a tax invoice and would be unable to claim any input tax credits.

But VAT would still have to be paid to Revenue on his sales. Failure to do so could result in penalties of double the amount of tax.

Furthermore, he could not issue tax invoices to his customers. So the unregistered party would either be uncompetitive or have to absorb VAT himself.

Various wild rumours abound, including talk of the postponement of VAT, zero-rating for a list of 16 foodstuffs and the hiking of the rate to 14% to compensate for the narrowing of the tax base.

A press report says Lyn Morris, national president of the Housewives' League of SA, claims that government has already agreed to zero-rate VAT on medical services, milk powders, meat, fish, eggs, margarine, dried legumes, fruit and vegetables.

Another series of rumours suggests that serious tension has developed between Revenue and government over the pressure of meeting the September 30 deadline.

Finance Minister Barend du Plessis won't respond to questions by the *FM* on these subjects. He has, however, announced his intention of giving an interim media briefing on VAT, probably around August 28-30. But the *FM* believes that a major announcement could come as early as this week.

Du Plessis ... *under pressure*

It is evident that anxiety about the impact of VAT on the consumer and concern to protect living standards are not confined to radicals.

Nevertheless, government's biggest worry (apart from the predicted administrative pile-up) is what black unions may do by way of aggressive industrial action (*Current Affairs*, July 26).

What might have defused opposition to VAT was some direct assistance to offset its impact on the poor, but there is no real indication that any workable system is ready for implementation.

Government faces various awkward options. Postponement would have grave implications, as the resuscitation of a largely discredited GST might pose enormous problems.

And the longer the interregnum, the more elbow-room lobbyists will have to make further inroads into the VAT base.

The soft option might be to give way on foodstuffs. The VAT Act gives the Minister of Finance temporary powers to amend the legislation in any way he thinks fit to overcome possible teething troubles.

The outcome of these pressures is unknown, but government will be hard put to avoid a serious humiliation as the VAT deadline nears. ■

SANCTIONS FM 16/8/91 (320)

The harbour that was beached

A secret plan devised by the Department of Foreign Affairs to build a harbour in Turkey to get around coal exporting sanctions was dropped after the outbreak of the Gulf War. The scheme was apparently to have been financed by the private sector, but under control of the department's planning division, then headed by the present ambassador to France, Marc Burger.

The *FM* first reported the existence of the plan after news that the SA Police had requested R250 000 of slush funds from Foreign Affairs to sponsor two Inkatha rallies (*Current Affairs* July 26).

About three years ago, SA coal exports to Belgium came under severe pressure. This resulted in the release of Belgian citizen Helena Pastoors, who had been convicted under SA security laws. Her release was negotiated between Foreign Minister Pik Botha and his Belgian counterpart, Leo Tindemans — when coal exporting contracts were up for renewal.

The *FM* has learnt that Tindemans was under pressure from socialists in the Belgian parliament. They pressed for Pastoors' release after co-accused Klaas de Jonge (who was holed up in the Dutch embassy for months) had been given permission to leave SA. De Jonge's departure coincided with the release of the SA Defence Force's Major Wynand du Toit from an Angolan jail and French priest Pierre Albertini from Ciskei.

Botha this week refused to comment on the Pastoors issue. "I cannot deny or confirm it. Various factors are considered when a person in Pastoors' position is released. Some of these factors are confidential and I cannot comment on them."

But the Foreign Minister did offer an explanation to the *FM* why the Turkish harbour scheme did not get off the ground.

"The desperate need which existed a few years ago to obtain secure, long-term coal contracts was no longer essential to the coal industry. The Gulf War had also had a major impact . . ."

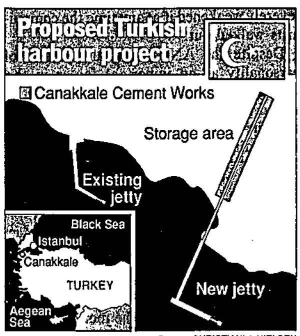
Botha continued: "The private sector was also concerned about the fact that in matters of this nature there never can be a guarantee. Should the private sector, however, be interested (in continuing with such a scheme) I believe that the Turkish government might be interested in discussing the matter."

Botha and coal industry representatives met for the first time at Newlands House in Cape Town (Botha's official residence), probably at the beginning of 1989. A scheme was mooted to build a harbour on the Turkish coastline near the Canakkale cement factory on the approaches to the Dardanelles. The *FM* has also learnt that Botha paid a secret visit to Turkey at that time — but he would not confirm this.

According to documents and maps in the possession of the *FM*, it appears that plans for the construction of a coal terminal were looked at as early as January 1988. Johannesburg financial consultant Ian Forbes tells the *FM* that he was involved with the project — doing feasibility studies — at that time.

A Christiani & Nielsen report, which deals with proposals for the "Canakkale Cement Marine Terminal for coal and iron ore," is dated February 10 1988. According to the report, the site was first visited on January 19 and 20 1988 in order to assess the technical feasibility of the proposals.

At that stage, Forbes and his partner, Jurgen Weiss of Austral Trade International, had been in contact with a former Finance Department official in Zurich, Chris van der Walt, and his associate, Gert Peter. Van der Walt died a couple of months ago.



Source: CHRISTIANI & NIELSEN

Van der Walt put Forbes and Weiss in touch with John Branscombe, a retired businessman who had offices in Paris and Germany, and operated a bank account out of Geneva. Contact was also made with a Colonel Varda, an undercover Turkish military intelligence officer.

Through a top Turkish civil servant, Oz Turkman, Forbes worked with Yussuf Ozal, a brother of the then Turkish PM, Turgut Ozal (now Turkish president). Forbes told the *FM* that he had been doing the feasibility studies with the Turkish State Planning offices through Yussuf Ozal — who had apparently also been involved with arms exports from SA to Turkey.

According to the *FM*'s sources, the ownership of the plant would have remained with the shareholders and financiers until their investment had been covered by the operation. Thereafter the Turkish Electoral Authority would have taken ownership of the coal power station — a system known as BOT (build, operate and transfer). The sources say that SA's private sector share would have been very small.

"Our attempt was primarily to obtain reasonably large long-term coal exporting contracts. Our task was to investigate the possibilities and then to involve the private sector. We advised, made contact and designed the plans," one source told the *FM*.

According to the Christiani & Nielsen plans, another proposal envisaged the construction of a second jetty with ship loaders and unloaders.

The budget costs for the second proposal were estimated at £25m, which excluded handling equipment. The report stated that these are "ball-park figures and arrived at in a limited time span." Forbes reckons the final project would have cost £110m (about R525m) including the handling equipment.

Major coal exporters this week confirmed that they were present at the Newlands House talks. Amcoal chairman David Rankin says he attended the meeting, but "Amcoal was not in favour of the project." Rand Mines' Allen Sealey echoes the sentiment. "We looked at the project as a coal industry and a committee was put together to investigate what likely size port would be needed. Having looked at the project as a whole, we felt it was not economically viable.

"We could not justify it and I think it was Genmin's Brian Gilbertson who on behalf of us all, signed a letter in which we — in a friendly way — informed the department of our reservations."

Sealey says he seriously doubts that Rand Mines would in future be interested in such a scheme.

"But I cannot talk for the industry. We would not consider it unless something unforeseen happens. The Turkish market on its own did not justify the port they had envisaged." Rankin says Amcoal would not consider entering into such a scheme in future.

Forbes, who says he did feasibility studies, claims that he received no payment. "The question then is, who got the boodle?" The *FM's* Foreign Affairs source says that in the end no money was spent, apart from a small amount for some of the feasibility studies of their own. *Eddie Botha*

UMKHONTO WE SIZWE FM 16/8/91

Ungrasped nettle

The ANC is again facing the ~~problem~~ of divided loyalties.

Umkhonto we Sizwe (MK), the ANC's

continue →

Barend invites ANC for talks about VAT

320

PRETORIA. — Finance Minister Mr Barend du Plessis has invited the ANC to discuss the details and role of VAT, the controversial tax system to be implemented in South Africa at the end of next month.

Mr Du Plessis was reacting to ANC objections to the implementation of VAT without consulting the organisation.

He said the government had consulted a large number of interest groups and organisations since the implementation date of VAT was announced in March this year.

He reiterated that the decision to implement VAT was announced timeously — in February 1988.

During investigations into a new tax system by the Margo Commission, extensive consultations were conducted with a wide variety of interest groups across the spectrum.

APG 16/8/91

These talks had culminated in the VATCOM report made public earlier this year, he added.

"The ANC is most welcome to also send a delegation for discussions on both the details of VAT and the pivotal role it will play in the reconstruction of our economy in pursuing high and sustained growth.

"Apart from this media release, our willingness to meet with the ANC has already been expressed to them telephonically," Mr Du Plessis added.

Mr Du Plessis will issue a statement replying to the storm of VAT protests and demands for exemptions at a Press conference in Pretoria next Friday.

ANC reject VAT: Barend offers talks

320 CT 16/8/91

Own Correspondent

JOHANNESBURG. — The ANC yesterday labelled VAT "completely unacceptable" and demanded it be scrapped, prompting Finance Minister Mr Barend du Plessis immediately to invite an ANC delegation to discuss the matter.

At the same time yesterday, sources close to the government indicated that amendments were "likely".

The source was commenting on a flood of objections to the introduction of VAT made by a variety of organisations this week, including the South African Chamber of Business, the Congress of South African Trade Unions, the Federation of Salaried Staff Associations, the Medical Association of SA, Operation Hunger, the National Congress of Trade Unions, the Consumer Council and the Johannesurg Child Welfare Society.

One of the lobbyists, Pick 'n Pay chairman Mr Raymond Ackerman, said he had told Mr Du Plessis that the tax on basic foods would be suicidal at this crucial stage in efforts to restore peace in the country.

"I told him, too, that in other countries where VAT has been imposed — Germany, France, Britain and others — basic foods have been excluded from the tax."

The Department of Finance is considering the objections and Mr Du Plessis will respond on August 23, a finance spokesman said.

ANC economics department head Mr Tito Mboweni and information director Mr Pallo Jordan said the government had no right to impose the tax on the eve of democratic transformation.

"We do not accept that the present Nationalist government has any moral right whatsoever to impose this tax," they said.

Petition to go 'countrywide'

Staff Reporter

THE petition initiated by the Medical Association of SA against VAT on medical services "would go countrywide", according to the vice-chairman of the Western Cape branch of Masa, Dr Tony Behrman.

The petition would be presented to the Minister of Finance, Mr Barend du Plessis, by the close of business on Monday, Dr Behrman said this week.

Dr Behrman said the response to the petition "so far has been very good".

"People are already struggling to maintain a standard of health," he said.

● The Dispensing Family Practice Association will hold a protest meeting against VAT on medical services at UCT's Medical School on Sunday.

Opponents clamour for scrapping, suspension or lower rate

Uproar over VAT grows

Star 16/8/91

By Paula Fray (320)

The Government is under immense pressure to postpone the implementation of value added tax, or at least drop the rate from 12 percent.

Finance Minister Barend du Plessis is faced with an unprecendented groundswell of resistance — ranging across the political and social spectrum from housewives, businessmen, doctors, unions and extra-parliamentary organisations.

A flood of objections to the tax, due to be introduced on September 30, has been led by anger over the inclusion of VAT on medical services and basic foodstuffs.

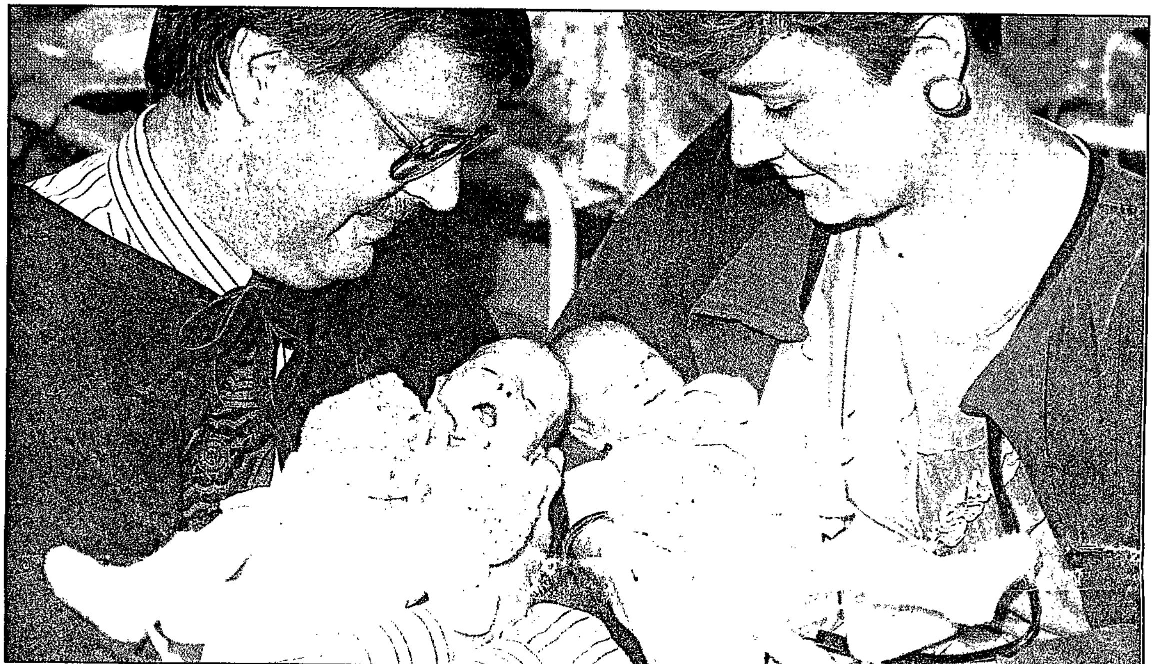
As pressure mounts, there is increased speculation among businessmen that the Government will have to amend the VAT Bill.

Yesterday the ANC called for the imposition of VAT to be suspended. Mr du Plessis responded by inviting the organisation to discuss the details a[illegible] role [illegible] VAT.

Doctors

Cosatu has said the suspension of VAT was "non-negotiable" and threatened nationwide protest actions.

At a meeting in the Western Cape on Wednesday night, 350 general practioners voted in favour of excludin[illegible] VAT on medical se[illegible]



Tiny twosome . . . Michelle (left) and Taryn van der Westhuizen with their parents of eight days, Johan and Marinda. They were more than happy to go to double trouble — in-vitro fertilisation — to have their special babies. Report on Page 2. Picture: John Hogg

Finance Minister Barend du Plessis is faced with an unprecendented groundswell of resistance — ranging across the political and social spectrum from housewives, businessmen, doctors, unions and extra-parliamentary organisations.

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Doctors

Cosatu has said the suspension of VAT was "non-negotiable" and threatened nationwide protest actions.

At a meeting in the Western Cape on Wednesday night, 350 general practioners voted in favour of excluding VAT on medical services and doctors contacted by The Star agreed.

"For patients to pay VAT is obviously iniquitous ... it is a basic necessity and taxing it is ridiculous", said one.

As the controversy mounted, the South African Chamber of Business (Sacob) yesterday appealed to the Government to make an early "definitive announcement on VAT which will allay the growing uncertainties in business circles".

Today Frank Swarbreck, of the Tearoom, Restuarant Proprietors and Caterers As sociation, said: "People are being lulled into a false state of optimism. On the surface it is very simple but when they go out of business, they'll wonder why."

Mr Swarbreck said it was vital the owner of a small business understood VAT in the daily management of his business "or he is going to be in serious trouble".

Eight out of 10 small businesses canvassed in a random survey this morning all claimed to understand enough about VAT to get by, but would leave the fine print to their accountants.

There was only one vote in favour. "It's a super tax, quite logical. I don't know what all the fuss is about," Lance Cumley of a suburban nursery claimed.

ANC department of economic planning member Tito Mboweni said 12 percent VAT would lift inflation 2,5 percent "in direct opposition to the Reserve Bank's stated policy to curb inflation".

SA follows the world trend with introduction of VAT

320

W/Mail 16/8-22/8/91

By REG RUMNEY

A SURVEY of sales tax and Value Added Tax in 93 countries shows that South Africa is following world trends in introducing VAT.

It shows a big shift in introducing VAT from 1980 to the present.

The survey, in tabular form, was produced for *Juta's Foreign Tax Review*.

Juta's Review founding editor Marius van Blerck notes that in 1980 only 26,9 percent of the 93 countries surveyed had implemented VAT systems.

Mostly European or South American countries adopted VAT then. By the end of 1992 it is estimated that 61,3 percent of the countries surveyed will have implemented VAT, and most of those countries adopting VAT are African or Asian.

Most of the countries, which were chosen at random, had either sales tax or VAT.

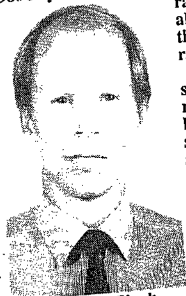
"It's misleading — and somewhat patronising — to say that South Africa won't cope with VAT, considering that countries like Bolivia, Guatemala, Ivory Coast, Kenya and Senegal (to name a few) have taken VAT in their stride."

Van Blerck suggests developing countries are increasingly realising that VAT is an attractive fiscal option. It is extremely efficient and can thus form the cornerstone of fiscal policy and raise revenue essential for health, education and welfare.

Van Blerck says that though several countries have differential rates, with top rates for luxury goods sometimes more than 100 percent, the trend is towards a single rate.

Having different rates for different classes of goods increases the potential for evasion, he notes, with goods attracting the higher rate being sold as goods attracting the lower rate.

Bad news for consumers is that the tendency around the world is for the rate of VAT to settle above 15 percent, in the 15 to 19 percent range.



Marius van Blerck

Van Blerck also says that in South Africa, if VAT is to embrace most foodstuffs and all medical services, it is essential that the bulk of revenues gathered be devoted to the alleviation of poverty through, among other things, feeding programmes (especially in schools) and expanded medical services, such as clinics.

Van Blerck reckons the qualms over imposing VAT on foodstuffs is valid.

Taxing health care is more complex. But he points out a huge amount is spent by the relatively wealthy on health care. The poor don't spend much and therefore would pay less tax on this. The poor could benefit from this revenue if it was rechannelled to primary health care etc.

But he asks why unions should be favourably treated in terms of VAT.

BUSINESS

VAT protests gather steam

320

w/Mail 16/8 - 22/8/91

As September 30 approaches, opposition to Value Added Tax mounts. But is it too late — and are the protests valid? By MONDLI MAKHANYA

JUST six weeks before its implementation, opposition to Value Added Tax is gathering momentum.

Realisation of the real implications of VAT has launched several pressure groups into action. Consumer bodies — alarmed at the inflationary impact of the inclusion of basic foodstuffs — have voiced strong protest against the broadness of the VAT base. Charity organisations too have expressed dismay that plans for poverty relief promised by the state are not yet in place. So widespread is concern about VAT's potential social implications, that Democratic Party leader Zach der Beer, among others, has recommended its postponement.

However, the strongest outcry so far has come from the South African Chamber of Commerce and Business and the Congress of South African Trade Unions. Sacob has called for a massive R1,2-billion relief plan to aid the poor.

In a warning to the government, Sacob says: "Unless a programme is implemented to offset the price increase effect on basic foodstuffs, then the proposed VAT system ... will be subject to such opposition that it's very implementation will be threatened."

[redacted]

Says Deloittes's Cronje: "The more complicated the system, the more people cheat. People will charge the wrong rates for products and pocket the money. Multiple rates also make auditing impossible."

Twine says this complication would make the administration much more costly for the private sector. Businesses would most likely pass this extra cost on to the consumer.

"Consumers may find themselves paying less to the Reciever of Revenue but more to business," says Twine.

Cronje points out that most opposition to VAT is politically motivated and linked to its implication for the poor. "If a serious move is made to alleviate poverty and offset VAT's inflationary effects, much of the resistance will dissipate."

But government is insisting that the R220-million set aside for relief aid in this year's Budget is adequate. However, the mechanism for the distribution of this aid is not yet in place. The only move so far from the government is a forum for organisations involved in food relief work, organised by the Department of Health and Welfare and Health, which is set for the beginning September.

Whatever decision the government makes on VAT will undoubtedly be influenced by political considerations since the issue has now assumed political status.

Cosatu spokesman Neil Coleman makes this clear: "The whole issue is linked to the issue of an interim government. The government cannot embark on a campaign of restructuring during this period of transtion. That should be left to a democratic government to do."

The first sign of the "social upheaval" which VAT might cause has come in the form of strong resistance from the Cosatu. The giant trade union federation demanded the suspension of VAT pending negotiations on the zero-rating of basic foods, health care and union subscriptions, a poverty relief programme, and the restructuring of the taxation structure. In addition to organising an "anti-VAT" summit for various interest groups on August 22, Cosatu has also warned that if VAT is implemented on September 30, as planned, it will demand an interim five percent wage hike from employers in order to offset its inflationary effects.

The main thrust of resistance to VAT comes from the fact that whereas about 50 percent of the CPI basket were exempt from General Sales Tax, these will now be subject to VAT. Only mielie-meal and brown bread are exempt. Economists have predicted that the inclusion of basic foodstuffs in the VAT net will push the inflation rate up four percentage points.

Cosatu's demands for a five percent wage increase are mainly based on recent research done by the Labour Research Services. It found expenditure on food constitutes 30 percent of the budget of black households. In addition to this, the report says, food is the fastest-rising component of the Consumer Price Index.

The monopolistic structure of most South African industries is also likely to exacerbate the inflationary spiral. Corporations — untamed by competition — will most certainly pass the cost of wage increases on to the consumer.

Says Econometrix economist Tony Twine: "We supect that part of the Producer Price Index acceleration is related to wage demands and settlements that included some kind VAT of accommodation."

Unions are also resisting union subscriptions' inclusion in the VAT net. This move could push union subscription up by almost 10 percent. Even white unions have expressed concern at this

There has been resistance to VAT from other quarters as well. The medical profession is up in arms about health care being subject to the tax (see accompanying report). The banking sector is also uneasy about a 0,75 percent levy on interest charges. This will probably be passed on to the consumer.

But calls for the postponement of VAT may be too late as many businesses have spent the past six months gearing up for the change over and any deferment would upset this.

Says Deloitte Pim Goldby tax expert Willem Cronje: "It would be catastrophic. It would be like an athlete who has spent months preparing for the Olympics only to be told at the last minute that they have been postponed. All the big companies will be ready for the change over so it would achieve nothing to postpone it now."

But Standard Bank taxation manager Godfrey Howes feels otherwise: "There is a lot of lobbying going on and we don't really know what it will finally look like when it is implemented. We should postpone it and do it properly."

Howes is in favour of a revamped GST.

Another option that has been bandied around, especially in the union movement, is a multi-rate VAT structure. This system, which is in use in a number of Western European countries, entails having different rates of VAT for essential and luxury goods.

However, this option may just provide the loopholes which the switch from GST to VAT is supposed to close. Furthermore, this system

BUSINESS

Government now 'punishing people for getting sick'

W Mail 16/8-22/8/91 (320)

The standard rating of health services under Value Added Tax is adding to the medical profession's woes, reports **MONDLI MAKHANYA**

THE charging of Value Added Tax on health care is being vociferously opposed by the medical profession.

The inflationary pressure resultant from the VAT standard rating will put health care out of reach of most people. Groupings in the medical field have made representations to the government to zero-rate medical services.

The VAT factor comes amid a crisis in the medical aid industry (See Page 18). Medical schemes have been hit by excessive claims from members and have been compelled to increase rates.

A number of schemes have indicated they may have to push up membership fees by between 20 and 30 percent.

Sanmed managing director Nick du Preez — who says VAT will only push costs up by eight percent — cautions that increases of this proportion will not only be due to VAT but also to the influx of excessive claims this year.

Medical Association of South Africa chairman Bernard Mandell says the worst pressure will be on patients without medical aid as they would not be able to cope with the increases. Primary health care will also receive a setback. This sector is already surviving on limited resources and its inclusion under VAT would mean funds would have to be diverted from existing services to cater for this, Mandell believes.

"It is a fact that the state is under tremendous pressure to cope with its current load in providing health services. Budgets are being cut and long queues are already becoming a problem," he added.

The Western Cape-based Dispensing Family Practitioners Association (DFPA) has come out strongest against the impositon of VAT on medical services, calling it "immoral".

Chairman Robert Rapiti reckons medical aids are already pricing themselves out of the market and any increases in the rates will put their services out of the reach of ordinary people.

"The government is effectively punishing people for getting sick. That is immoral."

Another group pressing government to zero-rate medical services is the National Medical and Dental Association. Director David Green believes VAT will force people who have been using private health care to start using public health services.

"Only 20 percent of South Africans are on medical aid. This figure is now likely to drop to 15 percent and the five percent will begin using public health services."

Green says this influx into the public sector could be a positive development but "at the moment, our public health service isn't in good shape".

Rapiti says Finance Minister Barend du Plessis told a DFPA delegation in July that "we shouldn't use a moral argument to get medical services exempted because others can do the same with foodstuffs".

Despite all these cries of protest, government is not budging.

The standard rating of health care in this country seems to have been adapted from New Zealand, where everything has a standard VAT rate. South Africa's VAT system is modelled on the New Zealand one. However, in several Western European countries health care is either zero-rated or taxed at a lower rate.

Cosatu acts on VAT (320)

■ Cosatu's Campaigns Committee met this week to map out a programme

W/Mail 16/8-22/8/91

(320)

of mass industrial action against the introduction of VAT and also to flesh out the federation's campaign for the resignation of the government and the election of an interim government. Cosatu is demanding a delay in VAT's implementation date pending further negotiations and will be part of the anti-VAT summit next week. W/Mail 16/8-22/8/91

Business Staff 320 AUG 17/8/91

Capital Gains Tax poser

CAPITAL Gains Tax (CGT) still falls within the bounds of speculation which obviously makes any attempt to minimise the impact difficult — any counter steps will depend on the exact terms of legislation, if and when it is promulgated.

"Until the spectra of CGT gains some body and details emerge of what modifications are contemplated, there is quite frankly little defence that one can consider," says Brian Bechet, writing in the latest issue of the Wall Street Journal.

However, he does go on to point out that one sure way of reducing any eventual realised surplus is to increase the cost of acquisition.

VAT HOTLINE

David Clegg

(320)

Arg 17/8/91

Will VAT threshold have negative effect on business?

MONSIEUR Frank raises the following question: "There are industries in which a majority of businesses have annual turnovers of less than R150 000 per annum and therefore do not register for VAT, but other businesses in the same industry have turnovers above the registration threshold and must therefore charge VAT on their sales or services.

Surely thiswill encourage some businessses to stay static and remain under R125 000 while also leading to the absurd situation where customers could shop around and support the enterprises not liable for VAT. Is this what the Receiver had in mind? Surely all enterprises should pay their share including cottage or home industries?"

Monsieur Frank raises a very serious question which concerns a large number of people. The same concerns applied in Sales tax, but at the lower registration threshold of R50 000. In trying to understand the answer we need to remember the following basic points:

■ The small business which does not register for VAT, does not charge VAT on its sales/services, but must pay VAT to all its suppliers and *cannot* claim this VAT cost back from anyone.

On the other hand, his regisstered competitor must charge VAT on sales/services, but can reduce is cost base by claiming "input VAT" back from the Receiver. In theory then, he charges his fees from a lower cost base and this should narrow the differential to less than 12 percent.

The point made immediately above shows that the difference in charges between the registered organisation and the unreguistered organisation should be less than 12 percent — but how much less depends upon whether the industry concerned is labour intensive or material intensive. If it is material intensive — a grocer's shop — then input VAT credits will be fairly high and there may be not much difference between the final selling prices of the registered and unregistered competitors.

On the other hand, in a service industry there are few input VAT credits(salaries are not subject to VAT) and here there could be a very real gap between the registered and unregistered competitors charges (with VAT).

Generally, market forces will prevent there being too much difference between two competitors side by side in the main street, one registered and one unregistered. In fact, if the unregistered has an advantage, he is likely to put his price up to only just below the VAT inclusive charge at the shop next door.

Differences in the standard of service and efficiency may then make the difference to the shopper rather than Rands and cents.

Remember from the first point above, that the unregistered business does not pay tax on his inputs and so, to that extent, makes his contribution to the Revenue.

Furthermore, if being unregistered, he manages to achieve a bigger mark-up (which might happen quite easily) he will pay more income tax (at a rate greater than VAT).

Ideally, of course, everybody should be registered. But many people believe that the R150 000 threshold is already too low and that the smaller and less sophisticated business should be cut out of the system as it does not have the accounting staff or capabilities to cope.

Barend's tax timebomb

'The introduction of VAT is neither a major nor a vital tax reform'

Star 17/8/91

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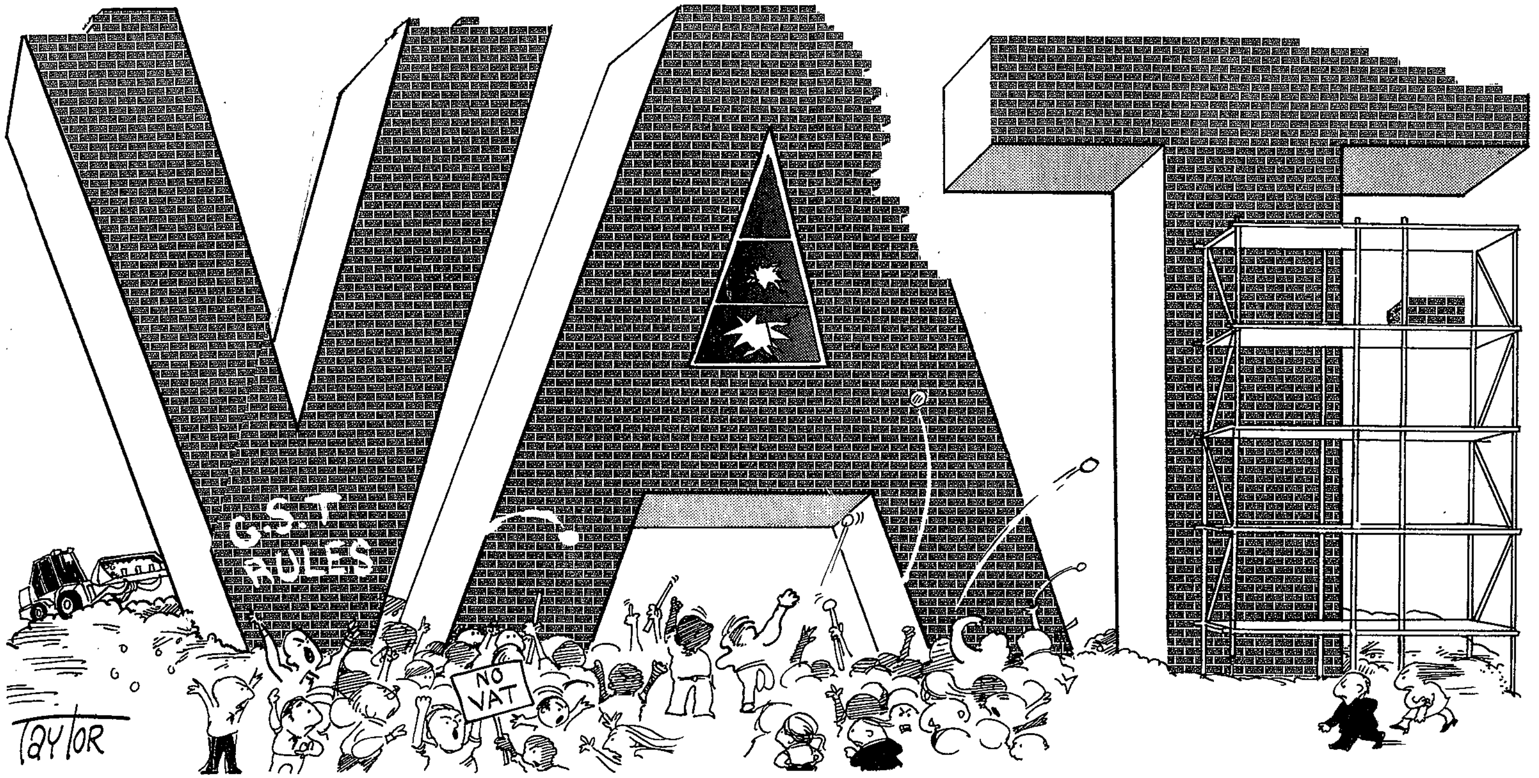
WHEN the Government first told South Africa in June last year that value added tax (VAT) would be introduced in October this year to replace general sales tax (GST), the announcement was cautiously welcomed by many commentators.

Yet, as the date for the introduction of VAT approaches, a tax revolt the likes of which has hitherto not been seen in South Africa has been rapidly gathering momentum to the point where there are strong calls for a rethink on the advisability of introducing VAT next month.

Strike action and the non-payment of VAT has been called for by Cosatu while the SA Chamber of Business (Sacob) is pleading for the introduction of a special package to assist those who might be worst affected by the new tax.

The ANC this week described VAT as totally unacceptable, and an urgent meeting has been set up with the Minister of Finance to discuss the issue.

In addition, the past week has seen a flood of objections to the introduction of VAT from several organisations including the Federation of Salaried Staff Associations, the Medical Association of South Africa, Operation Hunger, the National Coun- ... the Con-



subjected to the various stages of the VAT chain, and now that fresh produce and foodstuffs which were previously exempt from GST becomes liable for VAT, the poorer sections of the community and the unemployed who have sought refuge in the informal sector will be paying tax indirectly for the first time.

Is this appropriate in the context of the socio-political tensions and transition in which the country currently finds itself? Is it not political dynamite?

It would appear to be so, judging from Sacob's urgent appeal for an aid package to be arranged post haste to assist those poor among us whose ability to afford to feed themselves will be jeopardised by the new tax.

Moreover, the political overtones are strongly reflected in the ANC's call on the Government this week not to introduce VAT and the urgency with which the Minister of Finance, Barend du Plessis, has agreed to discuss the issue with the organisation.

Leaving aside issues relating to the administrative burden and complexity of VAT, its potentially inflationary implications and its politically explosive impact on the poor, our principal reservation in questioning the appropriateness of ... in VAT is more fundsumer Counc... anc the ..ohan-nesburg Child Welfare Society.

A sense of urgency seems to be building up for some action by the Government in response to the storm of protest, either in the form of a decision to postpone, cancel or amend the implementation of VAT or, conversely, to quell speculation regarding this possibility with a reaffirmation of commitment to the new tax.

What needs to be recognised at the outset is that the replacement of GST by VAT represents only partial tax reform. There are a multitude of other sources of government revenue besides GST which are not affected by the introduction of VAT.

These include taxes on income or profit such as personal income tax, fringe benefits tax, company tax, taxation of interest and so on, or taxes on expenditure such as customs and excise duties, the fuel levy, marketable securities tax and so on.

GST is an expenditure tax which represents just one out of a host of sources of government revenue. Therefore theoretically at least, VAT is preferable to GST and should replace it.

Since VAT should, again theoretically, be levied at every stage of the economic process from the importation of raw materials through to production, the wholesaling of the goods and their final distribution, it is more broadly based and more difficult to evade than GST, which is levied only at the final point of sale.

This implies that, unlike with GST, VAT favours no section of the economy. It is therefore, again theoretically, a more equitable form of expenditure tax. In addition, from the tax evasion viewpoint, studies have estimated that up to 60 percent of GST payments currently being evaded would be picked up by VAT.

The principal reservation one has with the implementation of VAT is not, however, whether it is a better tax than GST or not. Rather it relates to the appropriateness and timing of such a change given the structure of the South African economy and society and the delicate stage of political transition in which the country finds itself.

Secondly, it needs to be asked whether improving the nature of the country's tax system is sufficiently important to warrant the administrative, social, political and economic upheaval which it has already caused and which it is likely to cause in the future if implemented.

The first problem one has with VAT is the enormous administrative burden which it has already exacted and is likely to continue exacting from the economy.

When VAT is introduced, the official inflation rate will automatically rise because about 80 percent of the consumption basket represented in the consumer price index will be subject to VAT compared with only about 45 percent currently subject to GST.

The cost to the formal business sector of gearing up for VAT both in terms of implementation of new systems and in terms of time spent dealing with VAT, which could be more productively employed elsewhere, has been enormous.

As for the poor man-in-the-street, he seems to be totally bewildered by what he must do to prepare himself for VAT and what it might mean for his pocket. The same applies to many small businessmen. As for the Government, it has had to employ almost 1 000 extra civil servants to oversee the implementation of VAT and prevent evasion of the new tax.

Indeed the concept of VAT is sufficiently complex to raise the question of whether it is not inappropriate for a developing country like South Africa. The standard retort is that VAT has been successfully introduced in no fewer than 44 countries, some of which are developing and in Africa itself. Yet it is significant that three leading First World countries, namely the United States, Canada and Australia, have rejected the VAT option partly because of its administrative complexity and associated costs.

Dr AZAR JAMMINE
Director and chief economist
Econometrix (Pty) Limited

There are, however, other probably even more important reservations. The first is whether the introduction of VAT in the South African economy of today will not prove to be inflationary.

When VAT is introduced, the official inflation rate will automatically rise because about 80 percent of the consumption basket represented in the consumer price index will be subject to VAT, compared with only about 45 percent currently subject to GST.

This is primarily because fresh foodstuffs and a multitude of services (including medical and municipal) are likely to carry VAT, whereas they currently do not carry GST.

The 12 percent rise in the price of about 35 percent of the consumption basket not currently subject to GST but which will be subject to VAT is likely to outweigh substantially the 1 percent reduction in the prices of goods represented in the 45 percent of the consumption basket which are currently subject to GST at 13 percent and which will become liable for VAT at a (lower) 12 percent.

Fortunately the introduction of VAT will coincide with the anniversary of the huge rise in fuel prices in October 1990, which has since been reversed and which will therefore limit the rise in the official inflation rate in October to no more than 1 to 2 percent.

Now, theoretically, it might be argued that even this relatively limited increase in the official inflation rate resulting from VAT will be a once-off phenomenon since a year down the line, if the VAT rate is not changed, the one-year effect on the year-on-year inflation rate will wash out.

Moreover, it is argued that over time the benefits of the input tax credits due to be granted to business on purchases of capital equipment and intermediate goods will be passed on to consumers in the form of lower price increases.

Such premises, however, ignore the structure of the South African economy. Given the concentration of power in the labour market and business sector in South Africa, it cannot be expected that trade unions will refrain from demanding higher wage increases to compensate workers for the impact of VAT and that Big Business will pass on the benefits of the input tax credits to the consumer in the form of lower prices.

Given the concentration of power, it cannot be expected that trade unions will refrain from demanding higher wage increases to compensate for the impact of VAT and that Big Business will pass on the benefits of the input tax credits to the consumer in the form of lower prices.

Already trade unions are making demands for a 5 percent wage hike to protect them against the ravages of VAT, while likewise it appears as if some businesses might already be raising prices inordinately to preempt having to raise prices once they come under scrutiny of Vatwatch and in so doing risk being seen as exploiting the new situation.

Moreoever, by virtue of its powerful position in the economy, the concentrated big-business sector is more likely to keep the benefits of the input tax credits for itself rather than contribute towards reducing the inflation rate.

One's fear is therefore that far from inflation rising temporarily as theory deems it should do when VAT is introduced, the rise in the official inflation rate resulting from VAT might well become a permanent feature and not a once-off phenomenon.

From a political viewpoint the biggest fear is that VAT will effectively result in sick and unemployed people having to pay tax for the first time. Thus far, medical expenses have not been subject to GST and it is the informal sector which has been one of the major beneficiaries of the ability to evade GST.

Now that the informal sector will effectively be purchasing goods which have already been menta...

Given its apparent unpopularity, does its introduction really constitute major and vital tax reform? We think not.

Even the Margo Commission looked upon VAT as a less than optimal option.

Replacing GST by VAT merely exchanges one form of indirect tax for another. But the more fundamental weaknesses of our tax structure relate to the high progressivity of the personal income tax curve which leads to pernicious fiscal drag, as well as the taxation of income on savings and the exemption of capital gains from the tax net.

This combination of structural weaknesses continues to lead to the progressive impoverishment of individuals and the direction of investment towards financial assets rather than real productive projects.

VAT does little to address these fundamental problems. Is it really worth risking political upheaval in order merely to improve one single element of an otherwise unsatisfactory tax system?

Would it not have been better to try to overhaul the tax structure completely by, for example, abolishing GST entirely and introducing a single low flat-rate of tax on all income and capital gains, as we at Econometrix have often recommended, instead of merely tinkering with the present system at the risk of anarchy and chaos?

Govt refuses Vat reprieve

S/Times (Bus Times) 18/8/91 (320)

By CURT VON KEYSERLINGK

THE Government is going ahead with Vat. That is the message from Finance Deputy Minister Theo Alant.

He was responding to questions from Business Times, prompted by reports that the Vat D-Day of September 30 would be extended.

Among the reasons for the delay reports are threats of a "Vat revolt" by trade unions and political groupings and allegations that the Government is unprepared to cope with the flood of applications by businesses to register as vendors.

Foul

Dr Alant says the Vat rate will remain at 12% as planned and his department will not prevail on the Reserve Bank to drop interest rates as a "sweetener" to ease its introduction.

With fewer than six weeks to go before implementation, only 29% of the estimated 400 000 businesses that should be Vat vendors have been registered. Dr Alant says applications for registration are being handled within 14 days of receipt.

From his comments it appears that those who think they might foul the Vat plan by failing to register have nothing to gain.

Dr Alant says: "In terms of the Act a vendor who fails to register is personally liable for payment of the tax he should have collected from his customers. I am confident that practically all vendors who are required to register will do so.

"Interest and/or penalties are payable on Vat not paid. A vendor who does not register is liable to a R4 000 fine or imprisonment of 12 months."

Dr Alant declines to comment on measures to soften the impact of Vat on the poor. He says measures to ensure that the transition to Vat is as smooth as possible are under consideration and discussions are being held with various parties.

It is widely believed that some concessions will be made. They could take the form of the zero-rating of medical services and some staple foods in addition to brown bread and mealie meal.

Additional measures such as the SA Chamber of Business' proposed R1,2-billion fund to alleviate the impact of Vat on the poor are also being considered.

They will probably be announced in the coming week by Finance Minister Barend du Plessis after approval by the Cabinet. Mr Du Plessis declines to make any public statements on Vat until then.

There seems little hope that businesses will pass on all the cost-savings they receive from Vat rebates. Vatwatch chairman Louise Tager says businesses tell her they will not be able to pass benefits to customers.

Professor Tager says: "We find this questionable. Vat has been structured to allow business credit for Vat paid on capital and intermediate goods previously subject to GST.

"There can be no justification for the unwillingness of business to pass on a saving of this magnitude."

Upgraders may miss it

S/Times (Bus/T) 18/8/91

By CURT VON KEYSERLINGK

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THERE is doubt that the Cabinet will approve the present version of the tax-break scheme for new investors planning to export beneficiated minerals.

Contained in the Taxation Laws Amendment Act rushed through Parliament, it gives discretion to a committee of bureaucrats to grant companies write-offs on plant in excess of its actual cost.

Unlike the present depreciation scheme that gives the benefits in the form of tax credits only after the plant starts operating, the new scheme puts cash in the hands of those qualifying while their plant is being built.

The scheme is apparently being re-evaluated because of anomalies it may cause in, among others, the petrochemical industry.

Some established companies geared primarily to supplying the SA market have complained that it could put them at a disadvantage to those receiving the benefit and who may also sell some of their output at home.

Freeze

Mossgas is one project that could suffer. Because of the low oil price, it may be forced to devote a large proportion of its effort to producing high-value petrochemicals instead of fuel which can be made far more cheaply by Sasol and conventional oil refineries.

It was originally intended that Mossgas would concentrate on producing fuel to lessen SA's dependence on imported crude oil.

"The effect of the legislation has been to freeze all decisions on investing in petrochemical plants using natural gas supplied by the Mossgas offshore facilities until investors know if they qualify," says an industry source.

It is argued that the scheme is not suited to the petrochemical industry because producers need the flexibility to sell here or abroad, depending on demand.

VAT AND YOUR BUSINESS

THE 13th in a series of articles deals with some amendments to the Vat Act.

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 R69,95 (excluding GST) plus R5 postage and handling fee. It is available from: VAT: Levenstein & Partners, Box 18600, Hillbrow 2038; or fax 643-3423.

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.

Important changes to the original law

S/Times (Bus/T) 18/8/91. (320)

THE TAXATION Laws Amendment Bill was tabled in Parliament after promulgation of the Vat Act.

The important amendments are:

- Municipal rates and taxes will be exempt from Vat. However, all other services supplied by the municipality, such as water, lights and refuse removal, will carry Vat.
- There was a controversy in the original draft as to whether a funeral benefit policy is long- or short-term insurance. The amendment classes it as a financial service, and as such it is exempt from Vat.
- The original Act provided that where a company car was subject to GST, Vat had to be charged on its disposal. The amendment states that where a company car is sold, no Vat need be charged, regardless of whether GST was paid.
- Where a business is run from home, and the building is bought after September 30, Vat must be charged on its subsequent disposal, regardless of whether the individual claimed a partial input credit or not. So it is essential that the individual claims the partial input credit to lessen the Vat burden.
- Brown bread, super maize meal, special maize meal, sifted and unsifted maize meal are now zero rated. They will not attract Vat and the supplier will be able to claim input credits.
- Vat on entertainment will be allowed only if provided by a company mainly supplying entertainment in the normal course of business.

Capital

- Initially where any goods or services costing less than R40 000 were subsequently applied for non-taxable use, no adjustment had to be made. This now applies only to capital goods. An adjustment will have to be made for all other goods (stock in trade).
- The Bill prevents any organisation from splitting up its branches and registering them separately so as to get cash-flow advantages by submitting Vat returns every second month instead of monthly.

Vendor classification will be determined with reference to the total value of taxable supplies, including the branches, divisions and enterprises registered as separate vendors.

- Vat is payable on imports when the duty is levied. If there is none, it falls due when the duty would have been charged.
- An amendment allows vendors to claim GST paid on all trading stock, not merely on consumable stores and raw materials, provided accurate records are kept.

However, construction contractors will not be able to claim GST paid on materials already incorporated in a building. They will still have to charge Vat on progress payments made before September 30 where the services are rendered after that date.

The Vat department has indicated that it is aware of this problem and is investigating it.

Bail-out blow faces taxpayer

St Times (Bus T) 18/8/91 (320)

By DIRK TIEMANN

TAXPAYERS may soon be asked to top up a R800-million State agricultural fund designed to guarantee any bad debts of co-operatives and the Land Bank.

The fund was set up by the Government in 1984 when co-ops claimed they could no longer finance farmers.

It covers the carryover debt of the farmer and protects Land Bank loans to the co-ops.

Agricultural economist and editor of Effective Farming Symond Fiske believes the Land Bank and co-ops have already claimed R575-million under the scheme.

Marginal

He thinks there will be a rush in the next 18 months to claim the rest. Claims against the fund run at about R12-million a month. The fear is that the rate of foreclosures will increase.

The Land Bank this week foreclosed on a Northern Cape farmer and put up his three farms for R100 at an auction where it was the only bidder. The farms will be auctioned again.

Mr Fiske says the guarantee encourages the co-ops to keep marginal farmers alive, while selling them inputs and protecting them if the farmers go under.

This means that money is being used to keep the co-ops going instead of helping farmers who could survive.

An agricultural economist at a commercial bank says: "The co-ops are asking the Government for more money for the guarantee fund. It will probably be granted for political reasons.

"The co-ops are making business out of the scheme. They are earning money from the farmer, from the State guarantee and they add a 1% to 1,5% margin to money borrowed from the Land Bank."

The commercial banks also have reason to be worried about any rush of foreclosures because it would become more difficult for them to recover their loans.

Their combined exposure to agriculture is R5-billion.

Standard Bank, First National and Volkskas each have between R1-billion and R1,5-billion exposure to farmers.

Total agricultural debt is R16,5-billion.

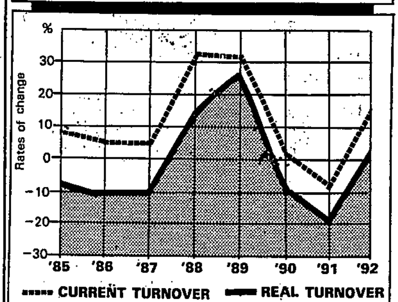
Special adviser to the Minister of Finance Japie Jacobs says: "If there were to be a rush of claims, we would have little option but to supplement the fund. But as chairman of the Land Bank financial committee, I believe there is adequate scope to accommodate existing bad debt. The expected rush of foreclosures is exaggerated."

Dr Jacobs says the guarantee scheme has also helped commercial banks because it has kept farmers solvent and allowed them to continue farming, enabling them to repay debt.

Vat booster hopes out of the window

S|Times(Bus|T) 18/8/91 320

CIVIL ENGINEERING TURNOVER



Source: SA Federation of Civil Engineering Contractors

THIN order books for capital goods suggest that the expected take-off of capital investment after the introduction of Vat will not happen this year.

Steel and Engineering Industries Federation of SA (Seifsa) economist Michael McDonald says his sector expects better business conditions only in the second quarter of next year.

But even then, the turnaround will be slow, says Mr McDonald.

The projections of businesses involved in capital projects contradict economists who expect an upturn in the economy before the end of the year.

Lead

Mr McDonald says: "The order books were starting to improve, but there was a big drop in July. We did a survey of orders and 70% of respondents said busines would be worse than last year."

Seifsa represents the motor industry, shipbuilding and all engineering except civils.

Mr McDonald says capacity use is less than 50%. There is a lead time of between six and 12 months before orders are executed.

Layoffs in steel and engineering have been running at about 2 500 a month for the past year, and 6 916 were discharged in July.

Mr McDonald says it will take a long time for the industry to recover because of the decline in government capital expenditure.

Motor manufacturers do not expect an increase in truck sales after the introduction of Vat.

Chemicals, which provides many industrial materials, is also gloomy about the rest of the year.

By DIRK TIEMANN

South African Federation of Civil Engineering Contractors (SAFCEC) expects a 20% drop in real turnover this year. In the last recession the worst year-on-year decline was a little over 10%.

SAFCEC economist Hank Langenhoven says order books look poor and the third quarter will be worse than the second. Tender activity is still declining, seasonally adjusted.

Mr Langenhoven says: "Turnover and employment in the industry hit an all-time low in 1987 and 1991 will be similar. Employment in the industry for the first half of 1991 dropped 20% to 79 000 — the lowest ever — and 1992 will not be much better.

"March and June are traditionally the busiest months because of government and local authority yearends, but nothing has happened.

"Civil engineering activity usually lags behind the economy by a year. Economists seem to think this lag has been reduced because of the government social spending, but this is not happening. Contracts for township development are not increasing."

Breweries

Private construction spending is holding steady at about R1,5-billion. This includes breweries and head offices.

Mr Langenhoven says the industry hopes for real growth of between 3,5% and 4,5% in 1992. But the economy must pick up between the fourth quarter of this year and the second quarter 1992 for it to happen.

Capacity use in the industry is about 60% and will not reach levels of the early 1980s, he says.

Last-minute VAT change will cost stores a packet

By Paula Fray
Consumer Reporter

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Stores which introduced a dual-price education campaign to facilitate the switch to value added tax on September 30 are now faced with remarking millions of goods as a result of the lower VAT rate announced on Wednesday.

One company said of the Minister's announcement on Wednesday: "He penalised the organised."

While welcoming VAT at a lower rate, Checkers managing director Sergio Martinengo expressed disappointment at the announcement at such a late stage. This change had "high cost-implications for the supermarket industry", he said.

"Checkers has already begun most of the preparations for the implementation of VAT.

"The changes that will now have to be made in terms of dual-pricing labels, point of sale, stationery and computer systems will bring an estimated additional cost of R250 000, which will be absorbed by Checkers," he said.

Withdrawn

Woolworths financial director Ray Schur said: "We are obviously delighted that the customer will pay only 10 percent. But we would have liked to have known this a few months ago."

Explanatory VAT literature would have to be withdrawn, millions of dual-priced goods would have to be re-marked and explanatory signs in stores redone, he said.

"We did the dual pricing to save time and money before VAT was introduced. Now we are just going to have to spend time and money."

Mr Schur said the adjustment would cost "a lot of money".

Pick 'n Pay chief executive Raymond Ackerman said the decrease in VAT would "amount to massive last-minute administrative costs and adjustments, especially as far as renegotiating prices with all suppliers".

However, he welcomed the drop as a reasonable concession by the Department of Finance.

According to Edgars divisional manager Rob Lanning the workload now facing the group before the introduction of VAT was "massive".

The stores began a dual price marking campaign last month to show customers how the new system worked as well as to slowly introduce the new prices to facilitate the change-over.

Venter defends VAT aid

320

TANIA LEVY

IN AN attempt to deflect the furore over VAT, National Health Minister Rina Venter last night reiterated government's R220m commitment to food aid which she said was only one element of a comprehensive safety net.

Venter appealed to fund-raising organisations involved in food assistance to apply to the Health Department for financial backing.

She said clinics would extend feeding programmes to include energy-rich staple foods instead of just milk powder.

At a forum on September 5 and 6 a committee would be elected to draft and manage a long-term development programme to address SA's undernourishment and malnutrition problems.

All interested parties were invited to attend, said Venter.

Organisations, including Cosatu and the ANC, have said VAT will hit poor people hard and have called for more basic foods to be exempted from the tax. Finance Minister Barend du Plessis has promised to reply this week to growing criticism of VAT.

The poverty safety net was detailed in the 1991 Budget, which also included the zero-rating under VAT of maize meal and brown bread, as well as the allocation of R820m for improving old age pensions, R660m to eliminate pension disparities and R50m for job-creation, Venter said.

GERALD REILLY reports the distribution of poverty relief is likely to be handled by established welfare organisaions.

Sources said it would be a major task to deal with aid applications and sort out the deserving from undeserving.

The R220m is only to cover needs for five months from October to the end of the current financial year.

● Comment: Page 8

5/8/91

Relief bodies to protect poor from effects of VAT

320

The Argus Correspondents ARG 19/8/91

JOHANNESBURG. — The government plans to use existing relief organisations to implement its R220 million programme to protect the poor from the effects of VAT, Minister of National Health Dr Rina Venter has announced.

However, welfare organisations strongly criticised the government for not consulting them about the structure of the saftey net or how it would affect their operations.

Last night Dr Venter said it was not, at this stage, necessary to negotiate the details of the plan with the various welfare organisations.

She said they had been asking for more money for many years and her department knew their programmes.

She called on organisations which provided or could provide food aid to apply for financial assistance without delay "in order to provide immediate targeted food assistance".

She also announced that targeted food assistance programmes administered by the clinics of local authorities would be extended.

In a separate statement Finance Minister Mr Barend du Plessis said the extension and implementation of an appropriate social security net was one of three ways in which poverty was being tackled.

The fact that VAT, with two exceptions, would be introduced on basic food stuffs meant the implementation of VAT gave a "certain time urgency to the necessity of certain further steps", Mr Du Plessis said.

He said the programme would run on the basis of existing welfare infrastructure and extended to rural areas and "self governing states".

There were over 1 300 registered welfare organisations involved in feeding schemes as well as 2 000 clinics in the state's primary welfare programme.

"The government has decided to empower the people to take charge of this programme," Dr Venter said. The organisations' autonomy would not be infringed.

She stressed the programme was aimed at developments which "helped people to help themselves". Another condition was that the money was used in projects which penetrated specifically targeted groups.

These included pre-school children and pregnant and nursing women, children aged between six and 12 years, the elderly and other social dependants and certain groups of the unemployed.

Some of the biggest welfare bodies have slammed the government for:

- Not consultating the organisations over the structure of the safety net to protect lower income groups from the negative impact of VAT; and
- Its tardiness in informing them on how the introduction of VAT would influence their operations.

WEATHER 19-8-91

VAT like criminal act, says Naidoo

320

CT 7/8/91

JOHANNESBURG. — The implementation of Value Added Tax is tantamount to a criminal act, says Congress of SA Trade Unions general secretary Mr Jay Naidoo.

Speaking on SATV's Agenda programme last night, he said Cosatu was not opposed to the tax in principle but was concerned with the inflationary effect of its implementation, particularly on health services and basic foodstuffs.

He said the R220 million relief aid offered by the government was "hopelessly inadequate".

On the question of strike and industrial action should the government not take note of calls to postpone the tax, Mr Naidoo said it was a national crisis and if the government did not listen there would be a public outcry.

Responding to Mr Naidoo, Finance Minister Mr Barend du Plessis said he would be making an announcement on Friday. — Sapa

VAT: Govt acts to help the poor

329 CT 19/8/91

JOHANNESBURG. — The government has announced a range of "targeted food assistance programmes" designed to meet severe criticism over the introduction of Value-Added Tax (VAT).

National Health Minister Dr Rina Venter said yesterday that a series of programmes would be launched as part of a long-term strategy to address the problem of severe poverty in South Africa.

Relief organisations that provide food to malnourished South Africans were on Sunday urged by Dr Venter to register with her Department of National Health.

In a statement released at a news conference, Dr Venter said that if these organisations registered, they would be able to receive "immediate targeted food assistance".

However, she did not announce any relief from VAT for these organisations, or for the poorer sections of the population.

Dr Venter said there had been a "safety net" provided for the poor in the 1991 Budget, which included R220m for food assistance programmes and the zero-rating of VAT on maize and brown bread.

Dr Venter also announced that the department's own feeding schemes would be extended.

"... the targeted food assistance programmes administered by the clinics of local authorities to combat malnutrition will be extended.

"Where in the past skimmed milk powder only was made available to identified cases, additional staple and energy-rich foods will in future also be provided," Dr Venter's statement said.

A forum, to be held on September 5 and 6, was also announced by Dr Venter, who said the meeting would examine the long-term problems of under-nourishment and malnutrition.

Organisations involved in providing food aid would be invited to join the forum, which would appoint a committee responsible for "drafting and managing a long-term nutritional development programme".

● Medics slam VAT, medical aid bill — Page 2

Medics slam VAT, medical aid bill

(320) CT 19/8/91

JOHANNESBURG. — Government plans to levy Value-added Tax on medical services, and its draft bill to amend the Medical Schemes Act, came under heavy fire at the two-day conference of the Society of Dispensing Family Practitioners here over the weekend.

The ANC's health secretary, Dr R Mgijima, sided with the society in roundly condemning the government's plans to levy value-added tax on medical services.

The right of the whole population to health care was not negotiable.

Dr M Adam, chairman of the society, accused the government of drawing up its draft proposals for the Medical Schemes Act without prior consultation with the representative bodies for the medical and dental professions, private hospitals, private day clinics and pharmacies.

The society considered the draft proposals totally unacceptable in their current form and rejected them.

Especially unacceptable in the proposed bill was the removal of direct and guaranteed payment by medical aid schemes.

"This defeats the very purpose of the Medical Schemes Act and is contrary to the basic purpose of health insurance," Dr Adam warned.

"A large number of especially black patients will resign from their medical aid funds, since their cards will not help them buy medical care when they need it most."

Another of the many other objections to the draft bill was the removal of disciplinary measures for medical aid schemes.

"This will literally allow medical aid schemes carte blanche."

The organisation warned that the government had drawn up the draft bill in direct contradiction of the principles laid down by the World Medical Assembly, which require any health care system to be determined by prior consultation with the representatives of organisations of physicians.

The deputy director general of the Department of National Health and Population Development, Dr Hans Steyn, said the government agreed on most health care issues put forward by the ANC representative — but disagreed on the methods to be used.

Dr Steyn said the government did not favour a national health service scheme, but agreed that the present health departments urgently needed restructuring. — Sapa

Tax on ailing slated at meeting

320

CT 19/8/91

Staff Reporter

PEOPLE will have to turn to alternative medicine with the introduction of VAT, a meeting of the Dispensing Family Practitioners' Association heard last night.

Chartered accountant Mr Hilmi Daniels said in his address to the association at UCT that with the introduction of VAT, medical fees could be expected to increase, as doctors would wish to maintain their standard of living and would be forced to charge patients VAT for their services.

"Apart from an increase in hospital fees and potential medical aid tariff increases of about 20%, patients will be forced to pay portions of their medical accounts at and with each consultation.

'Immoral'

"Disposable portions of incomes will be far less once VAT is introduced, with massive all-round, spiralling price increases, and the public will not be compensated by employers."

The chairman of the DFPA, Dr Robert Rapiti, told the meeting — held to oppose the introduction of VAT — that to enforce VAT was "immoral" and the medical profession was strongly opposed to levying health care services.

"To tax the sick and ailing is immoral and taxation methods should be alligned to benefit and support them, not to punish them", he said.

Mr Rapiti said he had met the Minister of Finance, Mr Barend Du Plessis, in July and raised the moral argument, but that Mr Du Plessis said "the same could apply to food and clothing".

All one needs to know about mining tax

BDay 19/8/91 (320)

MINING TAX IN SOUTH AFRICA, by Marius van Blerck (Taxfax, R175)

MINING has been SA's dominant industry for more than 100 years but only now has a book been published which deals exclusively with the taxation of the mining sector.

Van Blerck sets the scene by discussing general tax principles in depth, giving definitions and mining-linked case law. No term is used without first being studied, and principles which do not relate to mining are given cursory attention.

He then moves on to the mining industry itself. He looks at what constitutes mining taxable income, discusses mining tax rates and how the mining tax system differs from those in other industries.

There is thorough coverage of sensitive issues such as ring-fencing, leases, the treatment of royalties, hedging, capital redemption and capital allowance deductions, to name but a few.

For instance, ring-fencing — "the isolation for tax purposes of certain types of activities, income or losses" — which restricts the mining sector more than any other, is extensively examined. Types of ring-fences which affect the taxation of the mining sector include taxpayer ring-fences, mining activity ring-fences, gold formula ring-fences, capital expenditure, general and individual mine ring-fences and the prospecting ring-fence.

Mining Tax in SA has already justified its existence by becoming the prescribed book for Unisa's mining tax module.

Course coordinator Piet Nel says the book is well presented, follows a clear logic and encapsulates the essence of what is involved in mining tax.

"In the past, our students had to rely on general tax books and court cases for reference. Our course is aimed at the decision makers within the mining industry and this book provides all they could want to help make development mining decisions," he said.

It is essential reading for mine managements, mining analysts, undergraduate and postgraduate accountancy and tax students, and anyone with a specific interest in the mining industry.

Van Blerck, group tax consultant at Anglo American, accepted the burden of formulating a reference book for the industry because "it is a matter for concern that there is widespread ignorance of the relevant principles, and amongst some of those who have some knowledge of the area a degree of misunderstanding often exists".

His real achievement is that he has tackled a complex subject, given it the detail necessary to make it an essential reference book, and still managed to write it in a simple style.

There is no jargon, no legal pomposity — it is accessible and interesting for layman and academic alike.

GILLIAN HAYNE

is not over yet. Mr Gorbachev must still have some support. But it is a whole new ball game unless he gets back in control."

would not dash prospects of South Africa developing economic relations with the Soviet Union. — Sapa-AP.

● Markets react — Page 13

taken over as acting president but most news bulletins led with the hurricane lashing the US Eastern seaboard. — Star Bureau.

Govt's 'safety net' for VAT too late, say welfare groups

Star 19/8/91

320

By Paula Fray and Jacqueline Myburgh

The Government plans to use existing relief organisations to implement its R220 million "safety net" programme to help protect the poor from the effects of VAT, Minister of National Health Dr Rina Venter announced yesterday.

But welfare organisations have criticised the Government for not consulting them about the structure of the safety net, or how it will affect their operations.

Dr Venter said it was not necessary at this stage to negotiate details of the plan with the welfare organisations. They had been asking for more money for many years, and her department knew their programmes.

Dr Venter called on organisations which provided or could provide food aid to apply for financial assistance without delay.

Food assistance programmes administered by the clinics of local authorities would be extended.

In a separate statement, Finance Minister Barend du Plessis said the extension and implementation of an appropriate social security net was one of three ways in which poverty was being tackled.

The fact that VAT, with two exceptions, would be introduced on basic foodstuffs meant that the implementation gave a "certain time urgency to the necessity for further steps".

Feeding schemes

Dr Venter said there were more than 1 300 registered welfare organisations involved in feeding schemes, as well as 2 000 clinics in the State's primary welfare programme.

She stressed that the programme was aimed at developments which "helped people to help themselves".

Another condition was that the money be used in projects which penetrated specifically targeted groups. These included pre-school children and pregnant and nursing women; children aged between six and 12 years; the elderly and other social dependants; and certain groups of the unemployed.

Housewives League president Lyn Morris yesterday said the Government had dragged its heels in implementing the VAT safety net.

"This money was available in March in the Budget. Why wait for three or four weeks before VAT takes effect to start the programme?"

A forum will be held in Pretoria at which organisations can nominate a working committee responsible for drafting development policy.

Ina Perlman, national director of Operation Hunger, said her organisation was still not sure whether it would be exempted from paying VAT on food and certain services, and whether its Gold Rush competition tickets would be subject to VAT. She was "deeply concerned about the incredible hardships VAT would impose upon the poor".

● More reports — Page 6

Horwood recalls dilemma

320

Star 19/8/91

Staff Reporter

The new VAT tax, which the Government is now being asked to call off, was considered as a form of indirect taxation 13 years ago when general sales tax was introduced, says former Finance Minister Owen Horwood.

He would not comment on the wisdom of the Government's decision to implement VAT, but said that in 1978 GST served the purposes of his department.

GST was introduced when the marginal rate of income tax was 72 percent. The Government brought the income tax rate down to 50 percent and introduced GST at 4 percent.

An investigation into indirect taxes revealed that GST would be the most suitable, but Mr Horwood would not say why VAT had been discarded as an option.

Many people had escaped the GST net.

NEWS

Valencia Khumalo . . . Government should have waited.

Thomas Maluleke . . . will pay tax on goods that were exempt.

Shane Balluto . . . doesn't think VAT should be introduced.

Carmen Walters . . . worried dealers might increase their prices.

Nazira Vally . . . the working class will be the hardest hit.

Eugene Martin . . . VAT seems to be worse than GST.

Arie van Buren-Schele . . . it might be good in a way.

Mohamed Bhana . . . why should doctors add VAT to charges?

Public up in arms, survey finds

320

Staff Reporter Star 9/8/91.

All the people interviewed on Johannesburg's streets on Friday by The Star were against the introduction of VAT on September 30.

Valencia Khumalo, of Protea, Soweto, said the Government should have waited for negotiations to be concluded before implementing VAT.

"The new tax system must agree with the policies of the new government," she said.

Thomas Maluleke, of Chiawelo, Soweto, said: "We are being taxed with PAYE and we will still face more tax on goods that were exempt from GST. Why didn't the Government consult political organisations and workers?"

Bertrams resident Shane Balluto said he did not think VAT should be introduced at all.

"They say it will help us, but it is only going to help the Government."

The fact that some dealers might increase their prices in the name of VAT worries Carmen Walters of Riverlea.

Nazira Vally of Lenasia said: "The working class is going to be hardest hit. Dealers have to be more accountable under VAT than was the case under GST, so they are going to increase their prices to make up for what they stand to lose."

Eugene Martin from Bez Valley believes the public will be hit hard. "VAT seems to be worse than GST."

Arie van Buren-Schele, of Roodepoort, said VAT would be hard on members of the public who were already struggling, but that it might be good in a way, as the billions the Government would make could be used to uplift the poor.

Mohamed Bhana of Benoni said: "VAT is going to bring tremendous hardship on the black worker who has to fork out more for food which was not taxed under GST. Why should doctors who treat the poor in the locations add VAT to the patients' charges?"

19 1991

VAT foe of poor – black businessmen

320

By Abel Mushi Star 19/8/91

THE STAR VAT WATCH

12% VAT

A prominent black businessman contacted by The Star at the weekend believes the new VAT system would not benefit, but rather present more financial hardship to, the public in general and the lower-income groups in particular.

Former Daveyton mayor Tom Boya objected to the implementation of VAT, saying it would make the poor even poorer.

"VAT will create much more poverty. In terms of percentages it might be slightly lower, but more things are going to be taxed under VAT than they were under GST."

Mr Boya said the Government had not done enough to educate people on VAT.

"The Government has the power to make amendments as well as to allow more time for full participation by all people in the country to address this question fully before VAT is implemented," Mr Boya said.

Soweto tycoon Richard Maponya told The Star: "It looks as if VAT is going to hit the poor of the poorest more.

"VAT does not make much provision for the man-in-the-street, particularly on items in the bread-and-butter line, which should be exempted.

"It is going to be hard for people who are struggling and those who are unemployed."

Mr Maponya said the VAT system needed to be reviewed and restructured in such a way that it would accommodate the poor.

A prominent Soweto entrepreneur, Toby Makwakwa, said implementation of VAT would pose administrative problems to most businessmen who did not have bookkeeping skills.

The 1 percentage point difference, according to Mr Makwakwa, was of "no significance as VAT still cuts the consumer".

According to the National African Federated Chambers of Commerce (Nafcoc), VAT will put the heaviest financial burden on the poor.

Old-age pensions needed to be equalised to avoid diseases resulting from starvation, Nafcoc said, adding that medical services should be excluded from VAT.

Nafcoc said prices needed to be monitored effectively in order to avoid the spiralling of prices resulting from the introduction of VAT. Taking into account that new houses were subject to VAT, direct assistance was needed for new home-buyers.

Medical group collects thousands of signatures

Star 19/8/91

By Paula Fray (320)

Thousands of signatures have been collected in a nationwide campaign; opposing VAT being levied on medical services, organised by the Society of Dispensing Family Practitioners.

The petition, launched last month with an advertising campaign, calls for a zero rating on medical services.

The SDFP has described the implementation of VAT on medical services as immoral.

"The Government is imposing a tax on illness when it should be subsidising the cost of illness. We have not got control over when we become ill and accordingly we should not be taxed on medical services and medicines," the petition reads.

SDFP executive member Dr Eddie Sarlie said the petition was going exceptionally well. Between 13 000 and 15 000 signatures from doctors, patients and the public had been returned from the ~~first~~ batch of forms sent out to medical practices.

Forms printed in the press and sent out to individuals were coming in "fast and furiously" and it had been impossible to keep track of the number of signatures.

The society aims to collect a million signatures and present the petition to the Minister of Finance in the first week of September.

Dr Sarlie that with the present economic situation and unemployment rate, there was concern about the affordability of health care.

"The ordinary person can't afford medical treatment at the present time ... how will they afford it with an added 12 percent?" asked Dr Sarlie.

The society was at present on a fund-raising drive among members, he said, and the petition advertising campaign in the media would continue subject to this.

Tax on monthly food bills will soar

By John Miller (320)

The tax on a monthly food basket will almost double with the introduction of VAT. Star

A Housewives League survey established that a 5 percent VAT rate on all groceries will bring in almost exactly the same amount as the present 13 percent GST. 19/8/91

The average black family of five with a monthly take-home package of R1 103 spends about R530 on groceries.

About R200 is spent on meat, fish and poultry, R40 on dairy products, R60 on fruit and vegetables, R31 on bread, R8 on eggs and R10 on margarine.

This means that out of R530, more than R350 is spent on goods that are at present non-taxable.

On a basket costing R528, add GST of R23,14 and it will cost R551,14.

With the same net total of R528 and VAT at 12 percent, tax will work out to R63,30. If VAT were as low as 5 percent, it would cost R26,40 against the present R23,14 GST.

A white family of four with a monthly income of R3 342 will spend R667 on groceries, with GST totalling R34,31.

When VAT of 12 percent is introduced, tax on the net total of R667 will rise to R80,04.

The league recently called on the public to give its full support to the organisation's fight for the zero rating of basic foodstuffs.

Rina's 'VAT food plan' treated with scepticism

(320)

CT 20/8/91

Political Staff

DURBAN. — Health Minister Dr Rina Venter's food assistance programme, designed to counter the effects of value-added tax (VAT), was met with scepticism yesterday.

The Congress of South African Trade Unions (Cosatu) described it as an attempt by the government to "cover up" the fact that it was introducing the tax without proper planning and with no idea of its impact.

The Democratic Party's finance spokesman, Mr Jasper Walsh, said the R220 million provided by the government in the current budget for relief to the poor was "totally inadequate". The DP estimated that total expenditure of R2,36bn was required to effectively meet the problem across the country.

The National Medical and Dental Association (Namda) said the scheme was an "attempt to buy political acceptance for VAT without making any real impact on the problem", while the National Council for Child and Family Care welcomed the scheme, saying it had a R33m deficit this year.

Doctors to apply 'more pressure'

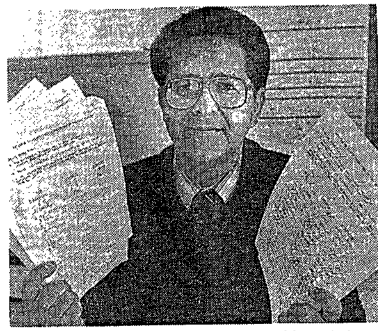
CT 20/8/91 (320)

Staff Reporter

THE fight against VAT on medical services would continue — even if the Minister of Finance, Mr Barend du Plessis, rejected a Western Cape petition signed by 14 000 people in just three days, doctors said.

The petition, with an initial target of 7 000 signatures, was initiated by the Western Cape Medical Association of SA (Masa). The chairman, Dr Tony Behrman, vowed "more pressure" if the tax on medical services was not scrapped.

Under VAT doctors will pay 12% tax on supplies and recoup it from patients.



ANTI-VAT DOSE . . . Western Cape Masa chairman Dr Tony Behrman has collected 14 000 signatures. Picture: RICHARD BELL

VAT likely to push up short-term insurance

SEAN VAN ZYL

PREMIUMS for short-term insurance are expected to rise by between 6% and 8% when VAT is implemented on September 30.

However, industry sources yesterday said consumers could avoid paying VAT for the first year of its introduction by cancelling their existing cover and renewing policies on an annual premium contract before the September 30 deadline.

Insurers said although monthly premiums would automatically include VAT, annual premium business written before September 30 would attract VAT only at the next renewal date.

While registered vendors could claim VAT input credits against their insurance costs, they noted the average individual had no such recourse.

The source said the Receiver's office had warned insurers not to exploit the loophole by changing policy dates or encouraging policyholders to renew their contracts before VAT.

A joint statement released yesterday by the SA Insurance Association and SA Insurance Brokers Association said virtually all short-term cover would attract VAT.

Insurers said they would be able to offset the greater part of the 12% VAT cost increase against input credits on their claim costs.

As a result, premiums would not rise by the full 12% VAT rate as insurers would be able to absorb at least half the increase, "though rate increases will vary between insurers and type of risk".

The only short-term business that would escape the VAT net would be cover on offshore property and goods in transit, and certain financial guarantee policies.

It said that after September 30 claims would be settled inclusive of VAT, thus the value of sums insured, particularly classes of business which did not include a GST component, would have to be increased appropriately once the new tax system was in place.

Aid body tied up in govt red tape

B/Day 20/8/91.

(320)

DARIUS SANAI

WORLDVISION's managers were redirected to eight different government offices yesterday when they tried to find out how to take up National Health Minister Rina Venter's weekend offer of cash aid for poverty relief.

The community development organisation said this highlighted government's inability to properly co-ordinate the scheme that it had proposed.

Other welfare and medical groups condemned government's attempt to soften the effects of VAT as "inadequate and archaic".

Operation Hunger spokesman Ina Perlman said she was concerned that the R220m earmarked by Venter for food aid would never reach its intended targets.

Worldvision director John Allwood warned of a "bureaucratic bungle" that would shift money from one department to another and never benefit those suffering from the effects of VAT.

Government's implementation of VAT showed a distinct lack of forethought and planning, Allwood said.

He said the introduction of the tax was an ideal time for government to work out an innovative system of welfare aid that would directly benefit those in need, instead of operating through a government bureaucracy.

He approved of government's decision to exempt bread and maize from VAT, but another Worldvision spokesman said yesterday "man does not live on bread alone".

Perlman said VAT would have a "terrifying" effect on the ability of most South Africans to buy basic foodstuffs.

She said government food aid would not be enough, and called for it to make more details of the scheme known.

The scheme, which requires welfare organisations to apply to government for financial backing, could have a "horrendous impact on cash flow" as organisations would presumably have to wait several weeks before receiving rebates on their outlays, Perlman said.

Inadequate

Meanwhile, Sapa reports the National Medical and Dental Association (Namda) said yesterday the aid programme was inadequate.

In a statement, Namda said the measures were "inadequate to alleviate the effects of VAT on previously GST exempt foodstuffs".

It said the aid was an "attempt to buy political acceptance for VAT without making any real impact on the problem".

Namda said it was estimated VAT would increase the burden on the consumer by R1,5bn on food prices alone and called for VAT on medical supplies and basic foodstuffs to be zero-rated.

However, the National Council for Child and Family Care issued a more positive statement yesterday, welcoming Venter's scheme.

Joan Oberholzer, national director of the council, said it was running at a R33m deficit this year.

Uproar as VAT rate falls under harsh spotlight

Star 20/8/91

By Paula Fray (320)

The uproar over the introduction of value added tax has, once again, put the proposed rate at which it will be introduced under the spotlight.

Consumer organisations have said the rate, at 12 percent, is too high.

Consumer Council assistant director, communications, Daan Kruger said the organisation would welcome a reduction in the rate but it had to remembered that the State had banked on a higher rate in order for its books to balance.

"We regard VAT as a far more equitable tax than GST," he said. "Certainly VAT at a lower rate would decrease the burden on the consumer."

Housewives League president Lyn Morris said the body had looked at calculations where there were no exemptions.

"A rate of 5 percent VAT, where there was no zero rating on food, would give the Government the same income as 13 percent GST," she said.

However, with exemptions the league had looked at a rate of 8 percent.

"A rate of 12 percent is too high. I don't have a lot of confidence that businesses will pass on their input credit," Mrs Morris said.

Several business organisations, including the South African Chamber of Commerce, have recommended a rate of 10 percent.

Econometrix chief economist Dr Azar Jammine said VAT was the tax on the value added on the economy. This was the gross domestic product, estimated at about R300 billion during the coming tax year.

"In that context, the Government is aiming at raising about R20 billion from GST/VAT," Dr Jammine said.

"Theoretically, if you excluded the exemptions as well as evasion, the tax could be introduced at 6,66 percent."

However, there were some exemptions — including brown bread and mealie meal.

"Bearing in mind that there is a possibility of some evasion, my own assessment is that VAT could have been introduced at 10 percent."

Short-term insurers to pass on half of VAT

Star 20/8/91

By Sven Lünsche (3.29)

The short-term insurance industry is set to pass on at least half of the 12 percent increase arising out of the introduction of value added tax on short-term insurance policies.

The SA Insurance Association (SAIA), the umbrella body for the industry, and the SA Insurance Brokers Association (SAIBA) say in a joint statement that virtually all their policies will attract VAT.

The associations say it is expected that insurers would in general be able to absorb at least half of the potential increase, though rate increases would vary between insurers and the type of risk insured.

"We wish to reassure consumers that advantage will not be taken of the introduction of VAT to obtain additional premium increases."

However, claims will be settled inclusive of VAT and to make this possible, sums insured will have to be set at levels which included VAT.

The few products that will not attract VAT are specialised financial guarantee policies, which are VAT exempt, and policies relating to international transport and goods or property situated outside the country, which will be zero rated.

Little change

On policies relating to individuals, household and motor vehicle insurance currently include GST, so little change is expected.

But individuals should expect to pay more for houseowners' policies as the replacement costs of buildings will now be calculated to include VAT.

The situation relating to corporations is more complex and depends on the domicile of the insurer, the type of risk insured, the impact of VAT on the cost of replacement goods and the vendor status of the insured.

"Where claims are settled by means of indemnity payments, the proceeds in the hands of the insurers who are vendors (where the income exceeds R150 000) will be subject to output VAT.

"This will not apply to payments to non-vendor claimants," SAIA and SAIBA say in their statement.

In the transitional period, SAIA has recommended that its member companies do not adjust the sums insured for VAT purposes in respect of policies due after September, but rather indemnify policyholders against the VAT impact in such "transitional claims".

All sums should be reassessed at the next renewal after VAT has been introduced, SAIA says.

Barend hints at making 'pre-emptive' statement on VAT today

BDay 21/8/91

320

LESLEY LAMBERT

FINANCE Minister Barend du Plessis indicated yesterday he might reschedule his VAT announcement from Friday to today, which means he will address the politically explosive issue one day ahead of an anti-VAT summit organised by the ANC and trade unions.

If he does, it will follow immediately on this morning's Cabinet meeting at which he will disclose his VAT proposals to his colleagues.

A statement issued by the Finance Department yesterday said there was a possiblity that a public announcement would be rescheduled to today.

A Finance spokesman said Du Plessis was unable to postpone another important meeting scheduled for Friday. There was nothing sinister about the move.

But the ANC and Cosatu — whose powerful last-minute lobbying has forced Du Plessis to make the public statement — have made it clear they will view it as an attempt to pre-empt their latest round of demands for negotiated relief measures.

ANC spokesman Saki Macozoma said if Du Plessis announced his plans without consulting the various pressure groups, the ANC would have to defy VAT.

Cosatu and other lobby groups have make similar threats of mass action and defiance in recent weeks in the run-up to the introduction of VAT on September 30.

A Cosatu spokesman said Du Plessis had attempted to reschedule a VAT meeting with the union for yesterday or today but the union had been unable to accommodate the Minister.

Economists say Du Plessis is caught between the tax purists, who argue that VAT's viability depends on the minimum of exemptions and special treatment, and the pressure groups, who are threatening to mobilise millions of poor people unless significant relief measures are granted.

There has been broad consensus among organised business, welfare and opposition political circles that proposed relief measures will not provide sufficient relief to the estimated 17-million inadequately fed South Africans.

Sacob has called on government to make R1,2bn available for assistance, while the DP has proposed R2,4bn.

Other relief proposals have included a significant reduction in the VAT rate, zero-rating or reduced rates for essential items such as basic foodstuffs, medical services and supplies, housing and trade union subscriptions.

Du Plessis is unlikely to make major concessions in any of these areas. Inland Revenue Department spokesmen have warned that each percentage point reduction in the VAT would represent about R3bn in lost revenue.

They have also calculated that the zero-rating of all foodstuffs, medical services and supplies, housing and union fees would push up the rate for other items significantly to about 18%.

Masa delivers VAT petition

A STATEMENT from the Minister of Finance's office is expected later today on a 14 000 signature petition handed to the government by Masa yesterday against the imposition of VAT on medical services. 320

A spokesman for Pretoria's Medical Association of SA (Masa) confirmed the Masa Western Cape petition had been delivered.

Under VAT, doctors will pay 12% tax on supplies and recoup it from patients. — Sapa

CT 21/8/91

New deal may be known today

(320) (185) (320)

Own Correspondent

JOHANNESBURG. — Minister of Finance Mr Barend du Plessis has indicated he might make his VAT announcement today instead of Friday — one day ahead of a VAT summit called tomorrow by the ANC and trade unions. 21/8/91

He is to disclose his proposals at a cabinet meeting this morning.

A statement by the Finance Department yesterday said Mr Du Plessis was unable to reschedule an important meeting on Friday.

'Drop VAT on secondhand goods'

320

By John Miller
Star Line Star 21/8/91

Certain pawnbrokers have become the latest group to call on the Government to waive VAT on secondhand goods.

Chairman of the South African Pawnbrokers Association Tom Fuhri said that with the introduction of VAT consumers will be paying more for their goods.

He said there was also a problem with dealers who earned more than R150 000 as they would either have to become registered vendors who charge and pay VAT or those who do not.

He said black consumers would be the hardest hit.

"They are the major buyers at pawn and secondhand shops."

Mr Fuhri said the fact that VAT could be levied on secondhand goods appeared in itself to be a contradiction as these items do not increase in value.

At present the voluntary association of pawnbrokers consists of about 450 members nationwide. However, there are an estimated 4 500 dealers who are responsible for a multimillion- over.

A spokesman for Inland Revenue said secondhand dealers would also receive an input credit when buying goods and only charge VAT on the profit or the amount added on before the sale price.

VAT lowered, aid package unveiled

(320)

B/Day 27/8/91.

LESLEY LAMBERT

GOVERNMENT has reduced VAT to 10% and announced a package of measures aimed at relieving the plight of the poor and defusing the political resistance which has threatened to scupper the tax.

Responding to strong political pressure, Finance Minister Barend du Plessis announced a wide-ranging package of relief measures, including exemption of state hospital services and medicines, exemption of trade union subscriptions, provision for an additional R150m in direct assistance and special treatment for the building industry during the transitional period.

Du Plessis said the fiscus would lose R1,5bn as a result of the rate reduction. This would be recouped partially by an increase in excise duties on alcohol, tobacco and other luxury items, which would collect about R260m in revenue, and higher fuel prices, which would collect R630m.

Petrol prices increase by 13c a litre and diesel prices by 8c a litre tomorrow. The petrol price rise was made up of a 10c increase in the fuel levy and 3c to make up for the inflationary effects of a strong dollar on crude oil purchases.

Even at a rate of 12%, the tax authorities had expected VAT to yield slightly less than GST because of the credits producers would receive for tax paid on the purchase of capital and intermediate goods.

Du Plessis said if other revenue sources did not make up the additional shortfall from the rate reduction, government would have to fund it with the sale of more strategic oil stocks.

He said government had considered a number of options when faced with resistance to the new tax. It had considered abandoning VAT, postponing it until April next year or introducing a variety of VAT exemptions and zero-ratings for the poor.

The package which it approved yesterday was aimed at achieving the broadest base and lowest rate possible without undermining VAT's efficiency.

By keeping exemptions to a minimum, the authorities aimed to keep the base broad and avoid the administrative disruptions associated with numerous exemptions.

● DU PLESSIS

To compensate the poor for the potentially regressive nature of VAT, government took a two-pronged approach: a 2% reduction in the proposed rate and provision for increased levels of direct assistance outside the tax net.

Du Plessis, who left yesterday's Cabinet meeting to make the announcement, used the opportunity to try to boost confidence in VAT.

He emphasised that it was likely to assist the expected economic upturn as producers would start making the capital purchases they had been postponing until the input credit became effective. Input credits would also contribute to the competitiveness of SA manufacturers in foreign markets.

● See Page 8

VAT the last straw – pensioner

320 ~~300~~

By Paula Fray

Star 21/8/91

Germiston pensioner Tom Coetzee believes the implementation of VAT may well be the straw that breaks the camel's back.

Over the past few weeks he has faced:

- An increase in rates and taxes.
- An increase in the cost of his television licence.
- The rising cost of food.
- The possibility of increased medical bills. He went on early retirement with a heart complaint.

The 57-year-old father of five — including a 15-year-old son still at school — believes it is time for South African consumers to make a determined stand.

"My rates and taxes went up by R20 and my electricity by nearly R20.

"VAT means about a R300 extra cost for me and I can't afford it. My medication might step up ... I may have to pay VAT on (doctors') consultations.

"The Government says 72 countries have applied VAT ... but they don't say how," he pointed out.

Over the past few weeks Mr Coetzee has called several embassies to find out how VAT was implemented in their countries. He has also called Cosatu to air his views.

"We're moving to an open society, but the Government won't fight any price increases because they benefit from them," Mr Coetzee said. "My argument is that the media should publish the salaries of members of Parliament as well as their perks.

"While people go hungry at night, they build expensive civic centres. They put culture above a man's living standards ... only a select handful of people will benefit from the improvements to the Johannesburg Civic Theatre."

Like most of his neighbours, Mr Coetzee is opposed to VAT on medical services and basic foodstuffs. But he would like to go further.

"Basic stuffs are not just bread, but include daily consumables. Working housewives rely on items such as tinned foods.

"What's happening now is that the middle class will become poor ... God knows what will happen to the poor."

His wife Jeanette said their rates had increased three times in the past two years: "They've gone up from R82 to R123."

Her husband fears that VAT will cause a spiral in prices and an increase in Government bureaucracy. "They will spend a million to save 10 cents.

"These days you go to the supermarket and you don't look at what's gone up in price but look for what's at the same price as before," he said.

"Businesses are definitely taking advantage of VAT and are putting up prices already. I can see it daily. Things just go up and up. When VAT comes in they might not push up the prices because they already have," he said.

According to Mr Coetzee, prices of certain goods at a local supermarket had risen substantially over the past month. One brand of golden syrup had risen from R2,29 to R2,99. A brand of peanut butter had increased from R1,99 to R2,59. Deodorant had increased from R4,19 last month to R4,79 last week.

Food parcels, said Mr Coetzee, would make "beggars of the poor".

"If we can't even manage to cope, how will they (poorer people) cope?"

Tom Coetzee . . . It's time for consumers to make a stand. Picture: Paula Fray

● 'Drop VAT on second-hand goods' — Page 10

Inflation likely to benefit from latest moves

BDay 22/8/91.

ANDREW GILL and SHARON WOOD

YESTERDAY's move to cut VAT to 10% and increase the petrol price by 13c was the lesser evil for inflation when compared with the original intention of introducing the tax at 12%, economists said.

Inflationary pressures would be softened by the two percentage point cut in the VAT rate, Bankorp economist Nick Barnardt said, but would be negated, to a large extent, by the petrol increase.

The petrol hike would probably result in a modest temporary rise in the inflation rate, but should be regarded as a positive move in the fight against inflation, he said.

He warned that the knock-on effects of the petrol price hike could not be ignored. The effects of last November's petrol price hike were felt early this year and were higher than expected.

320

The new 10% VAT rate would have a positive impact on economic conditions. If VAT had been introduced at 12% it would have hit consumer spending, which was supporting the economy earlier this year.

Also, it would lessen the potential for "dangerous" wage hikes next year by curbing inflationary expectations.

Standard Bank chief economist Nico Czypionka said it was difficult to predict the overall effect on inflation of the reduction in VAT and the petrol price hike.

But the reduction to 10% in VAT could have a positive effect on inflation, which had been expected to rise by two percentage points had VAT been implemented at 12%.

In particular, it would reduce inflationary expectations. "It will make the task of the Reserve Bank easier and the chances of an earlier reduction in interest rates are enhanced," he said.

The 13c hike in the petrol price and the higher excise taxes on alcohol and petrol effectively shifted the burden to the middle and upper income groups.

But the lower income groups would still be affected by VAT on foodstuffs.

Sacob chief economist Ben van Rensburg said the fuel price hike would have an unavoidable influence on the rate of inflation but the effect should be reduced by the lowering of VAT to 10%.

Barend's plan draws support

BlDay 22/8/91 (320)

Business Day Reporters

THE speed of Finance Minister Barend du Plessis's reaction to mounting criticism of VAT took commerce, industry and labour by surprise yesterday.

Although unprepared for the announcement, most sectors reacted positively.

However, Cosatu said government's action smacked of tinkering and taking unilateral decisions without consulting interested parties.

Sacob's Ben van Rensburg said the positive steps announced by government should adequately address many of the pressures that had built up against VAT. "The substantial broadening of the relief programme should also make the introduction of VAT more acceptable to those who are in need of social assistance."

Cosatu spokesman Neil Coleman said the trade union body would react in full later today, after the summit meeting of all interested organisations had discussed Du Plessis's decision.

ANC spokesman Gill Marcus said the organisation would react later today.

Saccola chairman Anton Roodt said: "The decision to lower the VAT rate seemed to be a concession, but I'm not sure it meets all of the trade union demands. I would have thought some prior consultation by government would have alleviated some concerns," he said.

Transport and motor industry sources described petrol and diesel price increases as "acceptable under the circumstances."

Transport sources said the 10c increase in the fuel levy was the only realistic means for government to compensate for VAT coming in at 10%.

A transport analyst said that the public was relatively insensitive to fuel price increases and government had taken the safest route in attempting to counter the effect of reducing VAT. However, commuters could expect further increases in bus and taxi fares.

National Association of Automobile

☐ To Page 2

Barend

BDay 22/8/91 (320)

☐ From Page 1

Manufacturers of SA (Naamsa) director Nico Vermeulen welcomed the new measures on the basis that VAT at 10% represented a far better form of tax than GST.

Vermeulen said the lower rate would provide a much needed boost to economic growth and with relief programmes, benefit the poorer sections of the community.

SAA said it would cut its domestic airfares proportionately in line with the VAT decrease.

The 13c a litre petrol price hike would not have any effect on the jet fuel price.

Chamber of Mines CE Tom Main said the chamber welcomed the exemption of Krugerrands.

Sapa reports the Consumer Council welcomed the decision to reduce the rate to 10%, which, a spokesman said, was a more equitable rate than the proposed 12% and would make a big contribution to the distribution of income.

The council also welcomed the direct aid and other relief measures for the needy.

Tax will push up cost of dying

South

22/8– 28/2/91.

320

By Henry Ludski

VAT has turned funerals into a grave matter.

It was confirmed by the Western Cape Regional Services Council this week that tariffs relating to cemeteries and crematoriums would be subject to Value Added Tax.

A spokesperson for one of Cape Town undertakers said the new tax ruling on crematory and crematorium services would add about R150 to the cost of their cheapest funeral.

Said Mrs Gwen Venter of one of Cape Town's largest undertakers: "Funerals are already costing people an arm and a leg and VAT will only make it much worse."

Mrs Pam Belelie, of another firm, said the cost VAT would add to funerals would be a "real killer".

Escalating funeral costs has pushed the price of a basic funeral to about R1500 but this could increase to R5000 for more expensive funerals.

The RSC caters for about 12 000 burials and cremations and subjecting these services to VAT will boost government coffers by R1-million a year.

In July the RSC, which runs the largest cemetory and cremation service in the country, increased the cost of a public grave from R470 to R560. Making this subject to VAT would push the cost to about R600.

The RSC said that the matter had been referred to the Department of Inland Revenue for a ruling.

Cosatu hits out at new VAT scheme

320

South 22/8 - 28/8/91.

By Heather Robertson

Barend has backed down on VAT — but poor people still face a battering.

Finance minister du Plessis' sleight of hand on Wednesday saw VAT pruned from a planned 12% to 10%, and petrol up by 13 cents a litre. The reduced rate at 10% is in line with businesses' proposals in Vatcom's recommendations.

Cosatu — which had hit out strongly at the 12% proposed rate — described the new package as a trade off for big business.

Spokesperson Neil Coleman reaffirmed Cosatu's demand that the Minister enter a more effective process of negotiations with the major parties affected by VAT.

Calculations by economists commissioned by the labour federation show that under VAT, the majority of low-income earners will have to pay up to R26 tax a month — largely on food.

This is more than double the tax now paid by the average black household. To compensate for the increased spending, Cosatu is pushing for a 5% increase in wages.

The labour federation this week convenes a VAT summit — bringing together delegates from the Medical Association of South Africa (Masa), the ANC, Operation Hunger, the Consumer Council, Child Welfare, the Housewife's League and black consciousness labour grouping Nactu.

This is the first time that organisations from across the political spectrum have rallied around a common national consumer issue.

The organisations have met Minister du Plessis separately on various occasions, calling for VAT zero-rating or exemption on health services, union subscriptions and basic foodstuffs

Mr du Plessis yesterday agreed to exempt state-aided hospital services and trade union subscription fees.

But Dr Robert Rapiti of the Dispensing Family Practitioners Association argued that VAT exemption for state hospital services did not help patients who went to general practitioners.

According to Mr Andrew Ball of Labour Research Services (LRS), a service group which does a VAT-watch for Cosatu, this week's ministerial announcement meant that "government is still offering VAT as a gift to business."

LRS and Cosatu argue that for low-income earners to survive, VAT should be at 6%.

Research by LRS charged that the government had failed to recognise "that in countries like New Zealand where the system has been successful, VAT is coupled with an equitable social security system."

Through VAT, the government is giving benefits to the larger businesses in the faint hope that these will somehow benefit both rich and poor, it noted.

Said Ball: "All big business are getting is a handout in the form of rebates on input and capital expenses. There is no incentive for them to invest in new production.".

The LRS suggests that revenue lost through a lower rate of 6% VAT could be raised through taxing the rich by reintroducing tax on dividends, a minimum tax on company profits and increasing the rate of estate duty tax and gift taxes

VAT drops to 10% but petrol up by 13c a litre

(320) ARG 22/8/91

The Argus Correspondent

JOHANNESBURG. — In a dramatic turnabout in the Value Added Tax scheme, the government has announced a drop in the VAT rate from 12 percent to 10 percent and an increase in the petrol price by 13c a litre from tomorrow.

The new reduced VAT will be implemented as planned on September 30, Finance Minister Mr Barend du Plessis said at the Union Buildings, Pretoria immediately after a Cabinet meeting yesterday.

But Mr Du Plessis did not make any further exemptions on basic food.

He announced:

- An increase in petrol (13c a litre) and diesel (8c a litre).
- An increase in excise duty on "luxury goods.
- A VAT exemption on union subscriptions.
- A VAT exemption on services by State and State-assisted hospitals and clinics.

Mr Du Plessis said private medical services would continue to be subject to VAT when the new system was implemented. (Contributions to medical schemes and funds would also continue to be VAT exempt.)

The increase in petrol and diesel and in excise duty on luxury goods — including alcohol, tobacco and TV sets — is aimed at recouping lost revenue resulting from the reduced VAT rate.

ButThe increase in excise duty — expected to recoup an estimated R260 million towards the expected R1,5 billion shortfall this year — should not increase the current cost of luxury items, as the excise will merely make up the lost GST revenue.

"The lowering of the VAT rate is primarily intended to give relief to the less affluent portion of the population," Mr Du Plessis said.

The 13c increase in petrol and the 8c rise in diesel are expected to make up the bulk of the shortfall.

Of the 13c petrol increase, 10c will contribute towards raising R630 million for the shortfall and 3c will compensate for the current under-recovery in oil costs due to the strong dollar.

"To further soften the effect of VAT and the recent rise in food prices on the needy, all social assistance schemes will be subject to a once-off adjustment with effect from October this year.

"In most cases this adjustment will amount to about R10 a month, to be derived from a R150-million budget for this purpose," Mr Du Plessis said.

Subsidies to old-age institutions would not be reduced as a result of the increased assistance.

Minister of Public Enterprises and Economic Co-ordination Mr Dawie de Villiers is this week due to announce a "whole host of projects" to bolster job opportunities using the R1-billion proceeds raised from the reduction of strategic oil reserves.

The Independent Development Trust project had now approved 108 low cost housing projects with about R1,5 billion already committed by the organisation.

Mr Du Plessis said these two major injections into the economy were primarily aimed at relieving the plight of the poor.

The new VAT system was to be implemented at an opportune time, as South Africa was at the lowest point of an economic cycle. South Africa had seen the longest recession period since the World War 2.

Mr Du Plessis said a limited relief of about R50 million had been made available as a transitional measure to overcome certain problems identified in housing development.

Negotiations were still in progress with local authorities about the charging of VAT on their income on property rates and services.

In reaction to the announcements consumer bodies welcomed the lower VAT rate but expressed concern over the increased petrol cost.

New tax deal seeks social good and economic discipline

BPcut 22/8/91 BAREND DU PLESSIS (320)

THE intended introduction of a broad-based VAT at a rate of 12% on September 30 released a flurry of objections, criticisms and even threats.

Many of the reactions reflect a true concern for the lot of many South Africans who are struggling. Unfortunately, the situation is also being exploited by groups wishing to promote their own political aims.

Government has great sympathy with the destitute and will do everything in its power to render assistance. However, maintaining a sound macro-economic structure should also not be jeopardised in the process.

Unfortunately the proposals for changes to the VAT systems are not all equally practical, nor will they benefit those who are held as the ones who should be benefited.

The government seriously considered several possibilities:

□ That the VAT system be abandoned and the present system retained. This would be extremely detrimental to the SA economy. It implies that SA industries will never be placed on the same competitive footing as those of other countries which do have VAT systems;

□ Postponing the VAT implementation date. With the amount of preparation already done in the public and private sectors, this would have undesirable administrative and cost consequences. It would also further delay investment decisions; and

□ Introducing a variety of VAT exemptions and zero-ratings to assist the poor. This would place VAT on the same dangerous road as GST. It has been decided that adjustments should be made in such a way as to maintain as far as possible the integrity of this tax system and to extend targeted assistance in such a way as to achieve immediate results.

Firstly, VAT will be introduced at 10%. The loss of revenue in 1991/92, compared with the budget-based 12%, is estimated at R1,35bn.

Secondly, to further soften the effect of VAT and the recent rise on food prices on the needy, all social assistance schemes will be subject to a once-off adjustment from October 1. In most cases, this adjustment will amount to approximately R10 a month. Details hereof, and also of other steps to be taken by the authorities to ensure that the benefits reach the intended recipients and that double payments are avoided, will be announced soon by the National Health and Population Development Minister. Some R150m will in this way accrue to almost 2,4-million individuals.

Welfare organisations will also be able to reclaim VAT on their inputs to the extent that they are financed out of state funds or donations by the state. These enhanced allowances will cost the state an additional R150m which will be financed out of the contingency reserve.

Thirdly, government has decided to raise by 10% the means test for patients who qualify for treatment at the lower tariffs at state hospitals. This means that more people will qualify for subsidised medical services. The medical needs of approximately 80% of people are catered for in state and provincial hospitals and in clinics operated by the state and local authorities.

These institutions will not have to register or collect VAT on the medicines which they supply and the services they are providing. The hospitals remain liable for payment of VAT on their inputs.

The effect of this is that the majority of South Africans will not have to pay VAT on the medical services they receive.

Further, it has erroneously been suggested that medical schemes and funds will charge VAT on the nominal fees received for medical services provided, but will be entitled to claim all the tax on inputs relating to the medical services and medicine. This was not the intended effect and an amendment will be introduced to make all the activities of these funds exempt from VAT.

Representations have been received that medical services be zero-rated. This has been thoroughly considered. In the light of the wide-ranging effects which zero-rating or exemption would have on, among others, the pharmaceutical trade, as well as the substantial contribution which government already makes in respect of medical care for under-privileged, government does not see its way clear to make any further concesssions in this regard.

Fourthly, representations have been received on behalf of the trade union movement that contributions by members to trade unions be exempt from the tax. Arguments have been advanced that they are in fact benefit funds. To place the matter beyond doubt, it has been decided to except from the tax the contributions to all employee organisations.

Fifthly, certain problems have been identified in connection with transitional rules relative to the erection and sale of dewellings and residential land which have necessitated limited relief of approximately R50m being made available as a transitional measure.

Finally, all denominations of gold coins, including the Krugerrand, will be taxed at the zero rate.

Government is aware that these measures will place great pressure on the income side of the Budget. Three measures to alleviate this will be implemented.

Firstly, the lowering of the VAT rate is primarily intended to give relief to the less affluent portion of the population. However this reduction will also apply to the prices of less essential goods that are subject to excise, such as liquor, tobacco, motor, vehicles and TV sets. It has been decided to increase slightly the rate of excise duty on all such goods. Details will be announced in due course.

Secondly, in view of the rising international fuel price and the fact that fuel in SA is still relatively under-utilised as a source of treasury financing, the price of petrol is to be increased with effect from August 24 by 13c a litre and that of diesel by 8c. The additional revenue for 1991/92 is estimated at R630m. Low income commuters will be exempt from VAT.

It is realised that the increase in fuel levies will give rise to higher transport costs in respect of which the state continues to subsidise low income users. An appropriate adjustment in these subsidies can be accommodated within the contingency reserve.

Thirdly, paraffin, used to a large extent by the poor, is not subject to the fuel levy. The lower VAT rate also lowers the tax on this product.

It is realised that these measures will give a moderately expansionist character to the Budget. It will further strengthen the rising tendency in expenditure by government.

These developments will assist in lifting the economy out of the current condition of structural stagnation. However, from the nature of the expenditure it should not put noticeable pressure on the current account of the balance of payments.

Although, because of the decline in real private consumption expenditure, there is no danger that there will be overspending in SA, caution will nevertheless have to be exercised against a too rapid acceleration in domestic expenditure.

In line with the active pursuit of co-ordinated monetary and fiscal policy, these changes in fiscal policy have been thoroughly cleared with the Reserve Bank, and the Bank president concurs with the new policy mix. Government accepts, however, that these steps may necessitate the continuation of a restrictive monetary policy because of the somewhat high budget deficit before borrowing of 3,8% of GDP, compared to the 3,7% notified last Friday.

□ **This is an edited version of Finance Minister Du Plessis' statement delivered yesterday.**

Petrol price up, but VAT down by 2%

(320) CT 22/8/91

PRETORIA. — The price of petrol is to be increased by 13 cents a litre from tomorrow and that of diesel by 8c, the Minister of Finance, Mr Barend du Plessis, announced yesterday.

Addressing a news conference at the Union Buildings, following yesterday's cabinet meeting, on the Value Added Tax system which is to replace GST in the country from September 30, he also announced that:

- The VAT rate would be 10% and not the previously proposed 12%.
- All state and state-assisted hospitals would be exempt from VAT on their fees.
- R150 million increase in all social allowances.
- Trade union fee contributions were considered a benefit and would be exempt from VAT.
- Adjustments would be made to ease the position of medical aid schemes vis-a-vis VAT.
- The government planned to reduce the import surcharge further.
- Details on an improvement for a number of communities — using the R1 billion from the strategic reserves — would be made known next week, aimed at relieving the plight of the poor.

Mr Du Plessis said the additional revenue for 1991/92 from the fuel increases was estimated at R630m.

The price of paraffin would not be affected.

Crude oil was now much more expensive than at the start of the year and future developments on the fuel price would depend significantly on the crisis in the USSR.

On the proposed levying of VAT on local authorities' rates, Mr du Plessis said he could not "give you a ruling" as these bodies were coming back to the government to re-negotiate.

On the general economic scenario, he said everyone in South Africa had hoped that the next economic upswing would come earlier than than was now generally foreseen.

Had it not been for the Persian Gulf crisis, the upswing could already have started, and it was hoped that the escalatory effect of events in the Soviet Union would not similarly retard the economic recovery.

Further measures to stimulate industrial growth, especially for export-orientated industries, would be announced soon.

Mr Du Plessis said the introduction of VAT at 10% represented an effective loss of revenue of almost R4 400m for a full year.

He said details of the once-off R150m adjustment to social assistance schemes from October 1 would soon be announced by the Minister of National Health, Dr Rina Venter.

Almost 2,4 million individuals would benefit, he added. — Sapa

Petrol is up, VAT is cut

CT 22/8/91

320

PRETORIA. — The government yesterday slashed the rate for VAT, but put up the price of petrol and diesel.

The price of petrol is to be increased by 13c a litre from tomorrow and that of diesel by 8c, the Minister of Finance, Mr Barend du Plessis, announced yesterday.

Addressing a news conference at the Union Buildings — following yesterday's cabinet meeting — on the value-added tax system which is to replace GST from September 30, he also announced that the VAT rate would be 10% and not the previously proposed 12%.

● Report — Page 3

R23-m grant to pay township services

Political Staff

AN amount of R23,64 million has been made available by the East Rand Regional Services Council to 10 township councils to help them pay for water, waste water treatment and refuse removal.

But unless the township authorities themselves can provide at least 50 percent of the budgeted costs for these services, payments from the RSC grant will be halved as from January.

In a statement announcing the funding, the RSC explained that the intention was "to overcome possible health dangers and to avoid the total collapse of services".

The first payments will be backdated to July 1

The councils to benefit are Tokoza, Katlehong, Vosloorus, Tembisa, Daveyton, Wattville, KwaThema, Ratanda, Tsakane and Duduza.

For councils to raise 50 percent of costs upon which receiving the full grant will depend, residents' payments will have to increase considerably.

RSC chairman Mr Leon Ferreira stressed that funds would not be made available to pay for the supply of electricity to the 10 townships.

Sowetan 22/8/91

Anti-VAT campaign launch

320

By IKE MOTSAPI

MORE than 17 black organisations will meet at the Johannesburger Hotel today to protest against Value Added Tax.

Ms Lisa Seftel of Cosatu said the National Campaigns Committee had instructed Cosatu to launch a campaign of factory demonstrations, protest actions and notifying employers that workers will demand an immediate five percent increase if VAT was implemented.

"Our demand for the suspension of VAT is non-negotiable. We urge Barend du Plessis to reconsider.

"If he does not he will actually be saying the Government wants VAT and 'damn the consequences'," she said.

Sowetan 22/8/91

Among organisations attending are the ANC, World Vision, National Black Consumer Council, Johannesburg Child Welfare and the Consumer Council.

'Barend's gymnastics exercise'

(320) CT 22/8/91

THE Minister of Finance, Mr Barend du Plessis, was engaging in an exercise of arithmetic gymnastics by simultaneously reducing the rate of VAT while increasing the fuel price, Democratic Party finance spokesman Mr Jasper Walsh said last night.

"What the consumer wins on the one hand, he loses on the other.

"What is needed is an extension of VAT relief on basic foodstuffs, massive and effective targeted relief programmes and the removal of VAT from medical services and prescribed medicines," Mr Walsh said.

● The Consumer Council yesterday welcomed the government's decision to reduce the rate of VAT to 10%.

● The South African Health Workers' Congress has "cautiously welcomed" the announcement that public health facilities will be zero-rated. — Political Staff, Sapa, Own Correspondent

Interest rates cut likely to be put off – economists

Star 22/8/91

By Sven Lünsche (320)

The announced reduction of the rate at which VAT would be introduced in October would be beneficial to inflation but might delay a cut in interest rates, economists said today.

While the cut in the planned VAT rate from 12 to 10 percent has been somewhat offset by the rise in the petrol price, on balance the new rate will be a lesser evil for inflation.

Dr Azar Jammine, director of the Econometrix research institute, said today the inflation rate could rise by a one-off one percentage point if VAT was introduced at 10 percent.

Previously he had estimated that VAT at 12 percent could push up consumer price increases by an immediate 2,5 percentage points in October.

Under the current GST system, 45 percent of consumer goods are taxed at 13 percent. Under VAT, the rate at which these goods will be taxed will fall to 10 percent but this will be more than offset by the introduction of another 35 percent of consumer goods into the VAT net. On balance, therefore, says Dr Jammine, the inflation rate could rise by one percentage point.

Another economist said a drop in interest rates, which had been expected over the next few months, was likely to be delayed by the announcement, as it would force Government to borrow more money.

Consumer groups hail VAT drop

Star 22/8/91.

By Helen Grange and Paula Fray (320)

In a dramatic turnabout, the Government has announced a drop in the VAT rate from 12 percent to 10 percent and an increase in the cost of petrol by 13c a litre from midnight on Friday.

The new reduced VAT will be implemented as planned on September 30, Finance Minister Barend du Plessis announced at Pretoria's Union buildings after a Cabinet meeting yesterday.

However, Mr du Plessis did not make any further exemptions on basic foodstuffs.

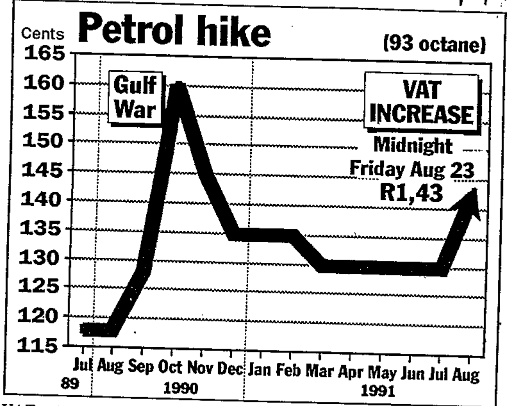
In reaction to the announcements, consumer bodies welcomed the lower VAT rate, but expressed concern over the increased petrol cost.

Mr du Plessis announced:

- An increase in petrol (13c) and diesel (8c).
- An increase in excise duty on "luxury goods".
- A VAT exemption on union subscriptions.
- VAT exemption on services by State and State-assisted hospitals and clinics.

Mr du Plessis said private medical services would continue to be subject to VAT when the new system was implemented. (Contributions to medical schemes and funds would also continue to be VAT exempt.)

The increase in petrol and diesel and the increase in excise duty on luxury goods, including alcohol, tobacco and television sets, are aimed at recouping lost revenue from the reduced VAT rate.



The increase in excise duty — expected to recoup an estimated R260 million toward the expected R1,5 billion shortfall this year — should not, however, increase the current cost of luxury items, as the excise will merely make up the lost GST revenue.

"The lowering of the VAT rate is primarily intended to give relief to the less affluent," Mr du Plessis said.

The 13c a litre increase in petrol and 8c rise in diesel is expected to make up the bulk of the shortfall.

Of the 13c, 10c will contribute to raising R630 million for the shortfall, and 3c will compensate for the current under-recovery on oil due to the strong dollar.

"To further soften the effect of VAT and the recent rise on food prices on the needy, all social assistance schemes will be subject to a once-off adjustment with effect from October this year.

"In most cases this adjustment will amount to approximately R10 per month (to be derived from a R150 million budget for this purpose)."

Minister of Public Enterprises and Economic Co-ordination Dawie de Villiers is due this week to announce a "whole host of projects" to bolster job opportunities using the R1 billion proceeds raised from the reduction of strategic oil reserves.

The Independent Development Trust project had now approved 108 low-cost housing projects with about R1,5 billion already committed.

These two major injections into the economy were primarily aimed at relieving the plight of the poor, Mr du Plessis said.

The new VAT system was to be implemented at an opportune time, as South Africa was at the lowest point of an economic cycle, Mr du Plessis said.

Mr du Plessis said a limited relief of about R50 million had been made available as a transitional measure to overcome problems in housing development.

Negotiations were still in progress with local authorities about the charging of VAT on their income on property rates and services.

Housewives League president Lyn Morris said: "I'm very happy with the VAT reduction, and it seems right that luxury goods should increase.

"My only problem is the ripple effect which usually accompanies a petrol increase," said Mrs Morris.

"In addition, the petrol rise will affect black taxi fares, which affects the poor.

"I hope that in the next budget the Minister will look at tax relief for lower income groups."

Consumer Council director Jan Cronje said the organisation welcomed the lower rate and the measures of relief for the poor.

DEPARTMENT OF FINANCE

No. 2044 **23 August 1991**

Statement of Revenue collected during the period 1 April 1990 to 31 March 1991 (Final).

Treasury, Pretoria.

DEPARTEMENT VAN FINANSIES

No. 2044 **23 Augustus 1991**

Staat van Inkomste ingevorder gedurende die tydperk 1 April 1990 tot 31 Maart 1991 (Finaal).

Tesourie, Pretoria.

Head of Revenue	Inkomstehoof	Estimate Begroting 1990-91	Month of March Maand Maart 1991	1990	Total 1 April to 31 March Totaal 1 April tot 31 Maart 1991	1990
		R	R	R	R	R
State Revenue Account	***Staatsinkomsterekening***					
Inland revenue:	Binnelandse inkomste:					
Tax on income	Belasting op inkomste	37 771 732 000	3 638 299 756	3 178 849 231	37 098 329 725	32 437 083 383
Loan Levy 1989–94	Lenningsheffing 1989–94	—	—	12 319 702	2 422 935	705 319 702
Sales tax	Verkoopbelasting	18 207 000 000	1 636 278 876	1 470 416 200	18 046 840 392	16 551 068 041
Other taxes:	Ander belastings:					
Non-resident shareholders' tax	Belasting op buitelandse aandeelhouers	425 000 000	19 147 840	24 860 307	416 071 104	424 344 292
Non-residents' tax on interest	Rentebelasting op buitelanders	2 100 000	1 964	(32 838)	718 620	1 691 401
Undistributed profits	Onuitgekeerde winste	1 100 000	6 447	34 454	2 250 742	857 592
Donations tax	Geskenkbelasting	4 500 000	505 484	891 391	6 507 833	4 330 106
Estate duty	Boedelbelasting	82 000 000	4 365 659	3 174 421	81 960 666	75 906 747
Trade securities	Handelseffekte	255 000 000	27 475 926	43 101 851	243 288 313	278 072 760
Stamp duties and fees	Seëlregte en gelde	700 000 000	58 589 285	99 610 355	649 859 240	678 044 066
Transfer duties	Hereregte	755 000 000	72 301 500	64 407 768	766 440 855	675 332 730
Miscellaneous	Diverse	—	—	—	—	—
Mining leases and ownership	Mynverhurings- en eiendomsregte	411 000 000	92 186 164	52 228 451	432 194 803	541 252 069
Interest and dividends	Rente en dividende	60 789 000	11 348 193	98 846 752	65 774 321	463 677 995
Levies	Heffings	4 800 000	(120 178)	971 769	13 292 785	9 351 256
Recoveries of loans and advances	Terugvorderings van lenings en voorskotte	94 529 000	25 667 147	36 701 495	90 710 972	64 562 881
Departmental activities	Departementele bedrywighede	1 107 621 000	483 938 403	145 885 973	1 565 580 949	4 557 004 082
	R	59 882 171 000	6 069 992 466	5 232 267 282	59 482 244 255	57 467 899 103
Less: Payments to self-governing national states	*Min:* Betalings aan selfregerende nasionale state	913 732 000	78 315 526	60 032 904	913 086 783	687 954 904
Total: Inland revenue	Totaal: Binnelandse inkomste R	58 968 439 000	5 991 676 940	5 172 234 378	58 569 157 472	56 779 944 199
Customs and excise duties:	Doeane- en aksynsregte:					
Customs duty	Doeanereg	2 490 000 000	206 694 605	174 314 702	2 502 339 286	2 193 751 156
Excise duty	Aksynsreg	3 060 000 000	343 489 272	243 687 827	3 157 831 400	2 641 112 187
Surcharge	Bobelasting	2 085 000 000	164 352 830	207 147 294	2 075 342 796	2 625 354 195
Miscellaneous	Diverse	206 800 000	17 739 264	25 413 157	196 312 637	215 356 932
Fuel levy	Brandstofheffing	3 928 000 000	293 185 204	285 202 156	3 930 234 349	3 908 976 490
Ordinary levy	Gewone heffing	106 000 000	2 470 368	8 242 559	107 922 553	69 628 518
	R	11 875 800 000	1 027 931 543	944 007 695	11 969 983 021	11 654 179 478
Less:	*Min:*					
Amount to the credit of Central Revenue Fund	Bedrag tot krediet van Sentrale Inkomstefonds	—	—	37 313 000	223 500 000	447 800 000
Payments in terms of Customs Union Agreements	Betalings ingevolge Doeane-unieooreenkomste	3 447 800 000	223 500 000	41 287 000	3 175 291 812	2 402 457 000
Total: Customs and excise duties	Totaal: Doeane- en aksynsregte R	8 428 000 000	804 431 543	865 407 695	8 571 191 209	8 803 922 478
	R	67 396 439 000	6 796 108 483	6 037 642 073	67 140 348 681	65 583 866 677
South African Development Trust Fund	Suid-Afrikaanse Ontwikkelingstrustfonds	50 000 000	4 992 451	4 909 891	62 313 482	54 045 341
Sorghum Beer Research Fund	Fonds vir Sorghumbiernavorsing	1 200 000	—	—	—	—
Allocations from fuel levy:	Toewysings uit brandstofheffing:					
Oil Pollution Fund	Oliebesoedelingsfonds	6 000 000	—	—	—	—
South West Africa	Suidwes-Afrika	10 000 000	—	—	—	—
TBVC Countries	TBVC-lande	140 000 000	—	—	—	—
	R	207 200 000	4 992 451	4 909 891	62 313 482	54 045 341
	R	67 603 639 000	6 801 100 934	6 042 551 964	67 202 662 163	65 637 912 018
Revenue Account: House of Assembly	***Inkomsterekening: Volksraad***					
Inland revenue	Binnelandse inkomste	—	58 644 261	146 069 357	259 207 062	325 511 440
Revenue Account: House of Representatives	***Inkomsterekening: Raad van Verteenwoordigers***					
Inland revenue	Binnelandse inkomste	—	3 113 195	3 383 984	37 348 743	27 324 105
Revenue Account: House of Delegates	***Inkomsterekening: Raad van Afgevaardigdes***					
Inland revenue	Binnelandse inkomste	—	1 151 550	1 235 105	6 589 263	5 471 678
	R	—	62 909 006	150 688 446	303 145 068	358 307 223
Grandtotal	Groottotaal R	67 603 639 000	6 864 009 940	6 193 240 410	67 505 807 231	65 996 219 241
Reconciliation with statement published by Government Notice 790 in *Government Gazette* of 19 April 1991:	Rekonsiliasie met opgaaf gepubliseer by Goewermentskennisgewing 790 in *Staatskoerant* van 19 April 1991:					
In Transit 31 March 1990	In Transito 31 Maart 1990	—	—	—	137 965 625	—
In Transit/Overremitted, 28 February 1991	In Transito/Te veel oorgedra, 28 Februarie 1991	—	109 235 371	—	—	—
Collections as above	Invorderings soos hierbo	—	6 864 009 940	—	67 505 807 231	—
	R	—	6 973 245 311	—	67 643 772 856	—
In Transit/Overremitted, 31 March 1991	In Transito/Te veel oorgedra, 31 Maart 1991	—	(198 934 099)	—	(198 934 099)	—
In Transit Revenue Account: Administrations	In Transito Inkomsterekening: Administrasies	—	(60 723 609)	—	(240 236 062)	—
Received into Exchequer Account	In Skatkisrekening ontvang R	—	6 713 587 603	—	67 204 602 695	—

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DEPARTMENT OF PLANNING, PROVINCIAL AFFAIRS AND NATIONAL HOUSING
DEPARTEMENT VAN BEPLANNING, PROVINSIALE SAKE EN NASIONALE BEHUISING

No.2039

23 August/Augustus 1991

STATEMENT OF PROVINCIAL REVENUE COLLECTIONS (INCLUDING COLLECTIONS DIRECT BY PROVINCES) FROM 1 APRIL 1990 TO 31 MARCH 1991
STAAT VAN INVORDERINGS VAN PROVINSIALE INKOMSTE (INSLUITEND DIREKTE INVORDERINGS DEUR PROVINSIES) VAN 1 APRIL 1990 TOT 31 MAART 1991

Head of Revenue Hoofde van Inkomste	Cape of Good Hope Kaap die Goeie Hoop		Natal		Transvaal		Orange Free State Oranje-Vrystaat		Totals Totale	
	91-03-01–91-03-31	90-04-01–91-03-31	91-03-01–91-03-31	90-04-01–91-03-31	91-03-01–91-03-31	90-04-01–91-03-31	91-03-01–91-03-31	90-04-01–91-03-31	91-03-01–91-03-31	90-04-01–91-03-31
Sources of Revenue transferred/Bronne van Inkomste oorgedra	R	R	R	R	R	R	R	R	R	R
Licences/Lisensies										
Dog, Fish and Game/Hond, Vis en Wild	15 481	344 205	160 787	1 097 392	71 786	1 281 138	121 352	990 686	369 406	3 713 421
Motor Vehicles/Motorvoertuie	26 614 547	160 181 404	16 748 655	139 126 407	8 943 934	324 447 465	12 943 419	41 648 764	65 250 555	665 404 040
Miscellaneous/Diverse										
Hospital Receipts/Hospitaalontvangste	12 826 643	135 633 128	(8 585 207)	52 316 022	23 207 728	232 869 704	4 211 051	44 093 896	31 660 215	464 912 750
Other Receipts/Ander Ontvangste	2 059 585	33 666 805	32 396 905	147 221 869	44 085 893	101 485 418	1 177 260	15 029 471	79 719 643	297 403 563
Fines and Forfeitures/Boetes en Verbeurdverklarings	34 820	157 415	664 349	7 918 059	3 063 761	37 304 151	546 720	4 660 411	4 309 650	50 040 036
Auction Dues/Venduregte	—	—	—	—	—	—	—	—	—	—
Entertainment Tax/Belasting op Vermaaklikhede	—	—	—	—	—	—	1 526	120 804	1 526	120 804
Racing and Betting Taxation/Belasting op Wedrenne en Weddenskappe	349 212	34 054 474	3 464 758	47 693 379	10 492 172	114 825 064	1 490 797	13 536 283	15 796 939	210 159 200
Wheel Tax/Wielbelasting en Bydraes	—	—	—	—	—	—	—	—	—	—
Black Hospital Tax and Contributions/Swart Hospitaalbelasting en Bydraes	—	—	—	—	—	—	—	209	—	209
Totals/Totale R	41 900 288	364 037 431	44 850 247	395 373 128	89 865 274	812 262 940	20 492 125	120 080 524	197 107 934	1 691 754 023
Totals/Totale (1989/90) R	101 361 437	390 059 946	64 123 714	368 785 183	1 808 010	647 998 751	15 283 990	108 835 369	182 577 151	1 515 679 249

E. G. DE BEER,
Director-General: Department of Planning, Provincial Affairs and National Housing.
Direkteur-generaal: Departement van Beplanning, Provinsiale Sake en Nasionale Behuising.

(320) FM 23/8/91

VALUE-ADDED TAX FM 23/8/91 (320)

Dangerous quandary

Finance Minister Barend du Plessis is to address the media on VAT this Friday. It is clear there will be a political price to pay, whether government stands firm on VAT in its present form and confines itself to focused relief outside the fiscal system, or whether it gives ground on elements of the VAT base.

If Du Plessis zero-rates a whole range of foodstuffs, the tax base will be dangerously narrowed and much of the purpose of switching to VAT will be undermined.

Should he decide to offset the resulting loss of revenue by disallowing input credits on the purchase of capital and intermediate goods, the undesirable cascading effect built into GST would remain intact. And such a reversal would affect the capital expenditure plans of industry, seriously damage the principle of tax certainty and further undermine business confidence.

Another option is to reduce the VAT rate to, say, 10%, running the risk of dislocating government finance. Though setting the rate at 12% may have erred on the side of caution, it is not easy to estimate the revenue from VAT. One uncertainty is how much revenue will be gained by eliminating opportunities to cheat on GST, both at retail level and through misuse of GST registration numbers to make domestic purchases.

Du Plessis has said he will not postpone VAT. Government confronts a technical problem — the slow pace of registrations (*Economy* August 16). One tax specialist says this could be overcome by letting vendors not registered by September 30 use their GST numbers as a temporary measure.

Postponement would do nothing to resolve disagreements over the impact of VAT on

continue

(320) FM 23/8/91

the consumer and will merely give a further opportunity to opponents of the new tax to gnaw away further at its foundations.

Probably the worst choice would be to revert to the now discredited GST. The enormous costs incurred in preparing for VAT would be wasted and this would surely result in far greater loss of face for government than any other option. Whether GST could ever be made to work again is also moot.

If political damage is inevitable, the right thing to do is to lose support in a good cause. Any concessions should be made outside the strictly fiscal framework of VAT as it stands on the statute book. It is better to be generous in giving away social benefits to the truly needy on a focused basis than to yield to middle-class indignation on food and medical services and so undermine the VAT base. ■

ADVERTISING EXPENDITURE 320

FM 23/8/91.

The sun'll come up — tomorrow

A number of positive factors are at work on the marketing economy, leading to hopes that 1992 will see strong growth in advertising expenditure. But there are still some imponderables holding things back:

□ The economy. Though the strength of the upturn is still unpredictable, technical factors almost guarantee some kind of resurgence early next year. Or even, given seasonal factors, in the last quarter of 1991.

Thanks to the high gearing between adspend and consumer spending, a relatively small uptick in the general economy translates into a much larger surge in advertising.

"Yes, 1992 is looking a lot better," says Ogilvy & Mather chairman Bob Rightford. "Already we are seeing much more positive attitudes towards adspend for the balance of this year. Many clients hold back advertising money already committed because they don't feel too secure about it.

"We feared in the final quarter they would hit us when we don't have time to take corrective action. Now that budgeted but uncommitted money is coming back into budgets. It is not dramatic but it's positive and it's moving in a pretty wide area.";

□ VAT. The replacement of GST with VAT could be a huge bonus for advertisers, who will now be able to claim back the tax levied on advertising as an input credit. If they reinvest all this money into advertising, it could inject something like R260m into ad budgets next year.

Indications are strong that most advertisers will do just that. The Association of Marketers reports that more than 80% of its members intend to reinvest their tax savings in advertising. The imponderable here, however, is whether VAT will be delayed or altered in response to the growing tax revolt;

□ The return of multinational business. This is still on a small scale, but already ad agencies have benefited from the resumption of foreign airline services to SA. Investment capital is starting to flow in, disinvested companies are considering coming back and brands long denied us may be introduced.

This has caused a certain amount of preemptive marketing activity by entrenched market leaders. "The fear of additional and new competition is causing people to reevaluate their advertising budgets," says SBBW MD Elliot Schwartz. "A lot of clients with local brands want to build brand values in anticipation of foreign companies coming back and buying brands. So there is defensive spending too."

McCann chairman Tim Bester agrees: "Any person who wants to enter SA has time against him. You can't do it overnight. Where we have clients already operating they take pre-emptive action.

"We can spend 20% more than last year before our opposition comes into the country. Our budgets for next year are looking substantially better just for that reason."; and

□ The opening up of the African market. Exporters have been exhibiting their wares in Zambia and investigating opportunities in Kenya. Rightford sees "big opportunities for existing clients which will raise investment funds for export."

One of the best indicators of a future improvement is the number of TV commercial productions, says Bester. "Last year, our TV production department reduced from seven people to two. This year, there's been an amazing increase in the number of TV commercials costing over R100 000 a month. People don't make R300 000 commercials unless they're going to flight them."

Despite the ebullience, current conditions are still difficult, notes Young & Rubicam CE David McKinstry. "I think next year will be better than this one but I would not break open the champagne just yet. We have to go through a fairly tough trench first.

"You have to get the financial year-end out of the way and most of those are December or February. If people are going to cut, they will do so in the last quarter. That is when they start to deliver the budgets for next year. So the critical time for crystal ball gazing is around September." ■

Taxing exercise

In a world where likeability has become an important criterion of an ad's success, taxation as a product starts off with several marks against it. Indeed, says Hunt Lascaris marketing director Paul Bannister, a campaign for something as universally unpopular as value-added tax looks like it belongs in an episode of *Mission Impossible.*

But is the advertising, as has been suggested in some quarters, a "waste of money"? A recent issue of the trade newspaper, *Marketplace*, commented: "Last year huge sums of the taxpayer's money were spent on an ad campaign which said nothing and did nothing. It is doubtful if anyone in business or a member of the public can recall any salient message from the initial VAT campaign.

"This year the VAT authorities are running a campaign which is even worse. The commercials must be the worst rubbish the public has heard in many years."

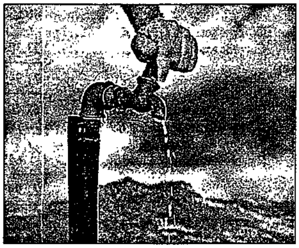
Last year's campaign was done by The Agency. This year's by Hunt Lascaris is sophisticated, but tested positively. The "dripping tap" TV commercial, for example, is a metaphor for the wasteful leakage of GST. A similar analogy is made with the run-down farm and its dilapidated windmill. In both cases VAT is portrayed as the hero: a "better tax for a better SA."

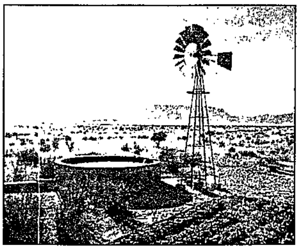
That may be true, but it seems not many people believe it. Part of the problem is that it is difficult to distinguish reactions to advertising from attitudes towards the product.

HSRC research, however, indicates that the VAT campaign has had an impact. It found that 85% of white respondents and 67% of black respondents had seen or heard the ads, and more than 50% of both groups found them believable. More than 60% of all respondents felt the campaign communicates and explains VAT — though 14% of whites describe it as irritating.

Unfortunately the research is not a true reflection of attitudes since it was conducted by telephone. Among whites this may be valid, but among blacks, hardly any of whom have telephones, it certainly isn't — even though telephone penetration is now reaching down into many less-affluent homes.

No matter what people thought, though, the advertising clearly hasn't been strong enough to overcome their fundamental dislike of the tax. Perhaps no advertising could have done that. Government seems to have been caught flat-footed by the delayed-action tax revolt, when it should have mounted a high-powered publicity and PR campaign across all communications fronts. Now it is almost certainly too late.





VAT advertising ... *too big a task*

Tony Koenderman

THE VAT BUNGLE (320) FM 23/8/91.

Sleeping with the enemy

Whether value-added tax is actually a better tax than GST has tended to get lost in a debate that is becoming increasingly politicised. It's difficult to resist a suspicion that radicals, seeing themselves continually outfoxed by State President F W De Klerk, have seized on VAT as an issue with which to reassert their position; but the plain fact is that the introduction of the tax has been so unbelievably ham-handed as to give plenty of opportunity for point-scoring.

When the tax was mooted, two of the main advantages claimed were that, as it was a broader tax, it would be possible to have a lower rate than for GST; and that, by eliminating GST's "cascading" effect, it would be anti-inflationary. In the upshot, early hopes that the rate could be as low as 9% or 10% have been totally dashed; while barely a day passes without some new price increase being attributed directly to the switch from sales tax to VAT.

Meanwhile, business has become progressively more horrified at the extent to which it finds it has been press-ganged to divert resources to acting as a tax collector, while the failure to announce any of the welfare measures promised to alleviate the regressive impact of a broad VAT against a narrower but selective GST has alarmed not only the woolly-minded radicals, but anyone with a social conscience.

To what extent the failure of business enterprises to register for VAT reflects incompetence and to what extent passive resistance is unclear. But as VAT-day draws nigh, we look like ending up with a system that will have none of the claimed advantages, and all the confessed disadvantages.

And this for a fundamental change in fiscal policy that's been years a-planning.

What has happened to our public service? Are these the people who introduced decimalisation, even GST itself, with so (relatively) little hassle?

Fact is, in an accountable democracy — such as SA has never had — a bungle like VAT would have meant resignations at the highest (that is, Cabinet) level.

And, since the mealymouthed virtual abandonment of privatisation, it's not as if the economic backroom boys of the public sector have had much else to do.

The whole affair is sad testimony of declining levels of competence, as — even before a political settlement — the bloated bureaucracy readies itself for a future of wasteful inefficacy, like its counterparts elsewhere on the continent. When the *FM* repeatedly argues that SA's future must be in Africa, that sorry sort of levelling down isn't quite what we have in mind. ■

Fight against VAT continues

320 BDay 23/8/91.

LESLEY LAMBERT

THE ANC, Cosatu and other critics of VAT rejected government's concessions yesterday, saying they were "inadequate and not negotiated", and vowed to continue their battle for "a more acceptable system".

About 20 of the organisations which attended an anti-VAT summit in Johannesburg demanded an urgent meeting with Du Plessis.

They said they would ask him to postpone the new tax, scrap the petrol price increases and enter into negotiations for a "more widely acceptable system".

Delegates, representing the ANC, trade unions, civic organisations and the health and welfare sectors, appointed a co-ordinating committee to manage the process and decide what action to take if Du Plessis rejected the demands.

Numsa national secretary and co-ordinating committee head Bernie Fanaroff told a news conference after the summit: "We want to convey to the Minister that we would like to negotiate as a matter of urgency.

"There was a general feeling from people at the meeting that their constituencies would strongly resist the bulldozing of the system into practice."

He and Cosatu general secretary Jay Naidoo said while the summit approved of the principle of VAT, it rejected the way it had been implemented and the inadequacy of relief measures for the poor.

Fanaroff said: "We would like to see the system reviewed by negotiations and would like to have access to the calculations on which the rate was based.

"We also believe that food and health care should be zero-rated.

"We also agreed that if the Minister went ahead and implemented the new tax on September 30 without negotiation, there was likely to be general resistance from the public," Fanarhoff said.

Other spokesmen representing some of the organisations at the summit indicated that they expected widespread anger and industrial action from their constituencies if Du Plessis refused to accede to the demands.

Government's concessions on the VAT rate and relief aid, coupled with measures to recoup revenue losses, have been generally accepted by commerce and industry who say they represent relief without significant damage to the efficiency of the new tax system.

Du Plessis used the special powers granted to him in the Taxation Laws Amendment Act to make the concessions.

● See Page 7
● Comment: Page 10

Company tax cuts at risk

(320) ANDREW GILL (180)

GOVERNMENT's VAT revamp may have delayed the proposed reform of individual and company tax.

Finance Minister Barend du Plessis said this week the proposed reduction of the maximum marginal tax rate of companies and individuals to 40% over three years may have been placed at risk unless other revenue sources could be exploited. BDay 23/8/91

If the fuel price levy and excise duties had not been implemented the risk of delaying tax reform would obviously have been very real, he said.

However, Finance Department deputy director-general Estian Calitz said yesterday the reform programme had not been abandoned. Progress depended on economic growth and how successful revenue collection was this year.

Sacob economist Keith Lockwood said Du Plessis' statement did not mean the end of tax reform. Current economic performance put pressure on government's ability to lower tax rates. A lower VAT rate may improve performance, increasing overall revenue.

Govt's last-minute move costs retailers 'millions'

B/Day 23/8/91 (90) 320

MARCIA KLEIN and WILLIAM GILFILLAN

THE reduction of the VAT rate to 10% had cost SA's commerce and industry millions of rands, spokesmen said yesterday.

While they welcomed the change, they said its late arrival would cost the industry a large amount of money to change the systems that many had timeously put in place.

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While he welcomed government's decision to lower the VAT rate, he said the fact that the announcement came at such a late stage meant "high cost implications for the supermarket industry".

He said Checkers had begun preparations for the implementation of VAT. "The changes that will now have to be made in terms of dual pricing labels, point of sale, stationery and computer systems will bring about an estimated additional cost of R250 000 which will be absorbed by Checkers."

But, Pick 'n Pay marketing director Martin Rosen said the changeover to VAT would be moderate. This was because all stores would be operating scanning facilities by the time of VAT's introduction.

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An industry spokesman said retailers which had high volume and high turnover rates "would probably not be too far down the road in terms of pricing their merchandise".

Explaining

Woolworths financial director Ray Schur said the change to VAT had cost the company "a fortune initially, and Barend has just added to the cost".

Woolworths' preparation included having a VAT committee, which had been running for nine months, dual ticketing all merchandise, having in-store signs explaining VAT and sending customers leaflets on the new system. "In the next five weeks we will have to change everything", he said. Woolworths staff would be working overtime to complete the change in time.

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Foschini group's VAT project head Norman Day said it was difficult to estimate the start up costs of the introduction of VAT, or what it would cost to change to 10%. However, he said there would be a marginal benefit to the company because GST on certain expenses would be replaced by input VAT.

A spokesman for a major clothing chain said the reduction in the rate of VAT would significantly increase costs. He estimated that the introduction of VAT had cost his company up to R1m.

A SA Breweries beer division spokesman estimated the changeover would cost it under R100 000 which was the cost of printing new forms and pricing tables. He added that the big costs would be the associated costs in people's time and changes to its systems.

Cosatu wants VAT talks 'to prevent a national disaster'

B/Day 23/8/91

JAY NAIDOO

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COSATU does not believe that Finance Minister Barend du Plessis' announcement on VAT on Wednesday adequately addresses all the problems associated with the tax.

We therefore stand by our position that the Department of Finance needs to postpone the implementation date of VAT. We are prepared to enter into negotiations as a matter of urgency with a view to completing them as rapidly as possible. A process of negotiations in which the parties are seriously committed to reaching agreement is the only effective way of dealing with conflict.

Du Plessis has argued that the costs of postponing the implementation date of VAT will be too high. However, we believe that the costs of social and industrial conflict if the government insists on pursuing its present course, may be far higher.

The Minister and his department have failed properly to negotiate or even consult in several respects. Organisations have not been privy to the calculations upon which the VAT rate was set. The revenue targets have not been made clear.

Even now we do not know on what basis the 10% figure was arrived at. It seems that the recommendations of the many organisations to Vatcom were not heeded. The only input which was taken seriously was that of the IMF, which is not as familiar with South African conditions as the other organisations.

In recent weeks, as the opposition to VAT has mounted, the Minister has still been reluctant to consult properly. Following our meeting with him on July 16, at which he undertook to consult with Cosatu, we were unable to obtain a reply to numerous faxes and phone calls for several weeks.

Even now the Cabinet's response is an attempt to undermine and pre-empt consultation rather than to strengthen it. The Minister's announcement was scheduled for August 23, but was hastily reorganised in an attempt, we believe, to pre-empt the decisions of the VAT summit held yesterday.

It is only as a result of increasing public pressure that the Departments of Finance and National Health have come forward this week with a series of measures to address the shortcomings of VAT. However, these responses are rushed, poorly thought out and inadequate. They are a thinly disguised attempt to pre-empt a proper process of consultation and negotiations. They are likely to lead to more conflict, not less.

We have several objections to the revised VAT system. We continue to believe that the rate is too high. The Housewives' League recently calculated that the rate would need to be set at 5% on all groceries to bring in the same amount of revenue as the present 13% GST. Increasing the price of petrol and diesel will only worsen the problem.

In the studies we have commissioned it appears that most countries have given a great deal more consideration to the impact of VAT on the poor, the unemployed and other disadvantaged groups. There have been differential rates, with lower or zero-rating of essential commodities and services and a higher rate for luxuries. The SA government is fond of quoting the overseas experience of VAT, but appears to be ignoring its lessons.

Items previously exempt or excluded from GST will be taxed.

These include basic foodstuffs, medicines, medical services, sick pay contributions, water and electricity. The addition of tax on these items will fundamentally affect the living standards of the unemployed, aged and lower-paid workers.

We support the view of the health sector that VAT on medicines and medical services is immoral. The partial exemptions announced on Wednesday are not good enough.

It has been calculated that a 12% VAT rate could increase the inflation rate by about 2,5 percentage points. While figures still need to be established about the inflationary effect of a 10% VAT rate, the petrol and diesel price increases announced on Wednesday will also be inflationary.

There is no guarantee that the inflationary effect of VAT will only be short term, as the government is trying to suggest. Futhermore, even a short-term rise in inflation will be disastrous in the present climate.

We are also concerned that VAT will be abused by the commercial sector to raise prices. We do not believe that Vatwatch alone is an adequate safeguard. In other countries, far-reaching measures have had to be introduced to prevent price rises during the implementation stage. Other countries have more developed mechanisms and organisations to safeguard the consumer.

The costs of administering VAT, especially for the small business sector, will be huge. These will inevitably be passed on to the public. In other countries provisions have been made to assist small business.

The amount of poverty relief granted by the government remains inadequate and there has not been proper thought or consultation on the mechanisms to distribute it. Without carefully considered programmes and the participation of the affected communities and organisations, poverty relief will not achieve its objective.

It also does not make much sense to introduce poverty relief while at the same time removing subsidies on basic staple foods such as maize and bread. Further, the targeted groups for poverty relief are the "indigent". This effectively excludes the lower paid worker, who will therefore not benefit from these programmes.

It is not too late for the government to reconsider its position. Even after the government has adopted such a high-handed approach, we are prepared to enter into genuine negotiations to resolve the conflict.

Unless we can reach consensus we will be facing a national disaster. There will be a decline in the standard of living for all, and for those not protected against cost of living increases, starvation will stare them in the face.

The Inkathagate scandal involving government abuse of taxpayers' money, together with the fact that the majority of the people in SA are taxed without representation, has already created widespread anger. If tax changes are introduced without the widest possible consultation and consent, heightened conflict could jeopardise the transition process in its current delicate phase.

Furthermore, government should not underestimate the sensitivity of any population to unpopular taxes — advice which Margaret Thatcher would give them for free. We believe that opposition to VAT from the man in the street cuts across all racial and other barriers, even after the latest announcements. This is opposition which the government ignores at its peril.

☐ **Naidoo is Cosatu's general secretary. This article is based on Cosatu's submissions to yesterday's VAT summit.**

Govt's last-minute move costs retailers 'millions'

B/Day 23/8/91

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MARCIA KLEIN and WILLIAM GILFILLAN

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VAT REA

Market waits for windfall

SHARON WOOD

GOVERNMENT may raise the R510m additional revenue needed as a result of the lowering of VAT to 10% from any of its normal financing sources, including the Public Investment Commissioner (PIC), Finance Department deputy director-general Estian Calitz said yesterday.

If the PIC is used, this would be done on a commercial basis at normal interest rates. The balance of R510m would either come from the PIC or the capital market, said Calitz.

The reduction in the VAT rate to 10% would reduce budgeted revenue by R1,4bn, but R260m would be raised through higher excise duties and R630m from the petrol price increase. B/Day 23/8/91

The money would definitely not be raised through bank loans, he said.

Capital market rates increased slightly on news of government's greater borrowing requirement.

Analysts said this was in anticipation of the government coming to the market to raise about R700m.

New tax changes to benefit poor

By PETER DENNEHY

WORKING-CLASS people in particular are expected to benefit from changes to the Value Added Tax (VAT) system announced by Finance Minister Mr Barend du Plessis on Wednesday.

Everyone will benefit from VAT being imposed at 10% instead of 12%, but several other concessions — especially those related to health — will be of more a relief to the poor.

State and provincial hospitals and state and local authority health clinics will no longer have to collect VAT on the services they provide or the medicines they supply.

Yet private hospitals and clinics, such as Constantiaberg Medi-Clinic, the Gatesville Medical Centre and the Mitchells Plain Hospital, will still have to charge their patients VAT.

Another concession concerns the means test — determining who qualifies for subsidised medical services — which is to be eased, according to Mr Pieter Coetzee, spokesman for Mr Barend du Plessis. In other words, more people will qualify for such services, he said.

A provincial spokesman said yesterday that the current (unadjusted) means test cut-off point between private patients and others was an income of R15 000 a year for a single person, and R25 000 a year for a family.

Anyone earning above that was classified as a private patient and had to either go to a private hospital or pay tariffs determined by the Representative Association of Medical Schemes (RAMS).

Mr Rob Speedie, executive director of RAMS, said he was very pleased that medical aid schemes and medical benefit schemes would both be regarded as exempt from VAT.

Mr Speedie confirmed that only about 23% of South Africans were covered by medical aid or benefit schemes.

Mr Du Plessis said in his announcement that the medical needs of about 80% of South Africa's

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— Barend

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population were catered for in the heavily-subsidised state hospitals and clinics.

● SAA domestic air fares are not going to come down as a result of VAT falling from 12% to 10%, but they will not go up as much as they would have done.

Public relations officer Ms Janie van Vuuren said yesterday that SAA had previously announced that air fares would rise 3,9% from September 30, but only part of this increase will now be implemented.

VAT is not charged on air tickets, because transport is zero-rated. But SAA had to pass on certain of its VAT costs to its customers.

ANC will carry on VAT fight

320 CT 23/8/91

Own Correspondent

JOHANNESBURG. — The ANC, Cosatu and other critics of VAT rejected government concessions yesterday, saying they were "inadequate and not negotiated", and vowed to continue their battle for "a more acceptable system".

About 20 of the organisations which attended an anti-VAT summit here demanded an urgent meeting with Finance Minister Mr Barend du Plessis.

They said they would ask him to postpone the new tax, scrap the petrol price increases and enter into negotiations for a "more widely acceptable system".

Opposition parties yesterday slammed the government's handling of the introduction of VAT — as well as its decision to "slip in" a huge fuel price increase behind the announcement of a reduced VAT rate.

The Democratic Party's two finance spokesmen, Mr Ken Andrew and Mr Jasper Walsh, called on the government urgently to convene a meeting of all political organisations, business, trade unions, consumer organisations and major relief organisations to negotiate amendments to VAT.

The Conservative Party's spokesman on trade and industry, Mr Daan Nolte, said the 13c a litre hike in the petrol price would "fuel inflation".

And the 8c a litre increase in the price of diesel would lead to a number of farmers — large diesel consumers — "going under".

The SA Black Taxi Association said yesterday that the petrol price increase meant more problems for the already beleaguered black taxi industry. The increase would have to be passed on to the equally economically troubled commuters.

In the Western Cape organised commerce and consumer interests welcomed the decreased VAT rate, but criticised the increase in the price of petrol and diesel.

Both the Automobile Association and the SA Road Federation said road-users had once again been burdened with a tax on petrol from which they would not benefit.

The managing director of Captour, Mr John Robert, said the petrol price increase could be detrimental to the entire domestic tourism industry.

In Pretoria the Medical Association of South Africa welcomed the announcement that patients using state health services would not pay VAT, but expressed concern that this benefit was not extended to the private sector.

The Motor Industries Federation welcomed the VAT reduction but deplored the increase in fuel prices which, it said, would push up inflation.

'Setbacks'

MIF executive director Mr Vic Fourie said: "It is difficult to understand why, if this petrol price increase is intended to fund the reduction in the VAT rate, it needs to be implemented some six weeks before VAT is officially introduced into the country."

The Housewives' League welcomed the reduction in VAT but felt the petrol increase could negate the VAT decrease.

The president of the SA Agricultural Union, Mr Nico Kotze, expressed disappointment that the government was not prepared to exclude basic foods from VAT or to phase in the tax on those products gradually. This and the diesel price increase were major setbacks for agriculture, he said.

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- Business reaction — Page 10

and would like to

VAT move — 'Massive costs for business'

(320) CT 23/8/91

By ARI JACOBSON

THE timing of the 2% deduction VAT to 10% has caused chaos and uncertainty said leading tax exponent Ernst & Young's David Clegg yesterday.

"Don't get me wrong," said Clegg "the cut in VAT is wonderful relief for the man-in-the-street — but last minute lobbying has brought on massive costs for business."

Clegg pointed out that product ticketing by large organisations ahead of the VAT D-day on October 1 would have to be altered to incorporate the change.

"These costs will almost certainly be passed onto the consumer," he said.

Another worrying factor said Clegg was that the estimated R1,5bn lost through the lower rate of VAT could mean that personal income taxes will be targeted in next years budget.

"There has to be some play-off and while R630m is predicted to be collected from the petrol price increase (through the fuel levy) there is still a large shortfall."

The government is following the European example and focusing taxes on luxury goods such as tobacco and alcohol and in this manner hoping to close the revenue gap.

But Clegg was sceptical about this being enough to wipe out the losses from the drop in the VAT rate.

From an economics perspective Old Mutual's Ursula Maritz considered the switch to be "reasonably positive".

She explained that only R260m would be collected from the luxury goods tax which would lift the deficit to about 4% of gross domestic product (GDP) — previously the figure was 3,4%.

"This should have a stimulatory impact on economic growth," she said.

From an inflationary viewpoint Maritz said Old Mutual's workings showed that at 12% there was a 2,5% knock-on effect on the consumer price index (CPI).

"At a 10% VAT rate the CPI influence falls to 1,5% with a further 0,5% from the increase in the petrol price."

taz

Government warned on VAT

Sowetan 23/8/91 (320)

THE Government should postpone the introduction of Value Added Tax to avoid mass industrial action, delegates attending an Anti-VAT meeting were told yesterday.

The meeting, held in Johannesburg, resolved to urgently meet Finance Minister Barend du Plessis "to warn him of the dangers that lay ahead" if he went ahead with implementing VAT on September 30.

Delegates warned that if the Government did not heed the people's demands there "will be general industrial action countrywide".

Enormous pressure forced VAT backdown

Barend du Plessis was obliged to reduce VAT this week after consumer protests against the new system rose to a crescendo. HELEN GRANGE AND PETER FABRICIUS report.

Star 23/8/91 (320)

JUST A week ago, Finance Minister Barend du Plessis appeared determined to dig in his heels and impose VAT at the original rate of 12 percent.

But as the voice of opposition reached its loudest pitch, he and the rest of the Cabinet clearly decided to strike a compromise between placating the public and fulfilling the demands of the Exchequer.

Consumer bodies generally agree that yesterday's announcements of a lower VAT rate was largely a result of the "almost hysterical" public and political pressure which escalated remarkably in the last few weeks.

"The consumer came out well on this one, and I think we witnessed the extent to which public opposition to this sort of thing can have an effect," Consumer Council director Jan Cronje said.

Government sources indicated yesterday that the change of heart over the VAT rate was not the result of internal pressure within the Cabinet, but appeared to be a decision made by Mr du Plessis because of external public and political pressures.

"Both the Democratic Party and the Labour Party wanted a lower rate, as did others," one source said.

"Eventually there was so much pressure that one felt one had to give in."

It is known that the Minister was saturated in the last few weeks with representations from consumer and employer groups — with an angry Mediese Vereniging team, sporting 14 000 signatures, meeting with him only the day before the new announcement.

VAT had also become a dirty word among political groups including the ANC, which demanded to have its implementation postponed until the organisation had made proper representations to Mr du Plessis about its effects.

Cosatu had also joined the anti-VAT bandwagon, afraid that its low-income members would be worse off under the new tax.

The increasingly politicised issue of VAT placed Mr du Plessis' department in a difficult situation, which, as he conceded this week, demanded that the Government make its decisions known as quickly as possible.

Briefly addressing the ANC's demand for postponement, Mr du Plessis said on Wednesday that VAT had been decided on as a replacement for GST since mid-1980 and that to postpone it now would seriously disrupt industries.

Although many of the petitioners in the consumer industry and business scored a victory this week, some objectors, despite their mounting cry against VAT, had no such boast.

The medical industry sorely lost out on its demand for a zero rating on medical services based on the argument that it was immoral to charge VAT on illness.

Mr du Plessis took a hard line on this sector, subjecting it to VAT notwithstanding the debate, which he dismissed as an argument that led nowhere.

However, it was expected that whatever changes Mr du Plessis did make, there would have to be the unhappy few.

As general reaction to the announcement reflected, most of those affected by the incoming tax system have accepted, some more graciously than others, that Mr du Plessis made a fair compromise. □

Property, building sectors cheer

By Frank Jeans (320)

Finance Minister Barend du Plessis's adjustments to the VAT system have been welcomed by leaders of the property and building industries.

The concessions are seen as "great news" for home buyers and the development community.

A leading estate agent, Scott McRae of the Camdon's Group, said: "The drop in the VAT rate from 12 to 10 percent will reduce home buying costs, encourage building and give developers the opportunity to lower sales costs and lessen pressure on home costs."

Concessions include:

- Complete exemption from VAT of new homes completed within a year before September 30 this year — if an agreement of sale is concluded before March 31 next year.
- A decrease in the VAT rate on builders' services from 12 to 3 percent if a home is completed by December 31 this year.
- If completed by March 31 1992, a decrease in the VAT rate on builders' services from 12 to 6 percent.

In the last two cases, however, a sales agreement has to be signed by the end of next month — after which VAT comes into force.

Mr McRae said: "It was previously estimated that the 12 percent VAT rate would have pushed the cost of an average house up by about R7 000.

"The lower rates will, therefore, mean considerable savings for the home buyer and will provide a welcome boost for the property industry."

The home building industry is delighted over the VAT concessions.

Johan Grotsius, executive director of the National Association of Home Builders, said: "Township development and building form an integral part of the hous ing provision process.

"The VAT impact of 12 percent would have meant an immediate 6 percent increase in costs which would have to have been met by the man in the street."

Mr Grotsius urges a further look at housing subsidies, however.

23/8/91

VAT used in 46 countries

By Roy Cokayne Star 23/8/91

PRETORIA — One must look at both the revenue collected by value added tax (VAT) and how the government spends this revenue in judging the system, says Professor Michael Katz, chairman of the government's tax advisory committee.

Giving a background briefing on VAT before Minister of Finance Barend du Plessis' announcements of changes, Professor Katz said it had been argued that VAT had a harsher impact on the poor but VAT should not be considered in isolation.

The VAT system should also not be seen as being a tax only for a sophisticated country. It had equal relevance in developing countries.

The decision to introduce VAT was not confined to South Africa. Forty-six countries had already introduced VAT, some under different names, while five more were contemplating its introduction.

Today VAT is an important feature of tax

Defending VAT . . . Professor Michael Katz.

programmes in many countries on every continent," he said.

The major reason for the introduction of VAT was that GST was a flawed system and needed to be replaced.

Leakages

One of the flaws of GST was that there were many leakages and VAT was technically superior to GST.

It was estimated that a VAT system would result in an increased yield of between 40 and 60 percent using the same base.

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Some people argued that if VAT was so much better than GST why could it not be introduced at a lower rate than GST or why could considerably more revenue be collected if it was levied at the same rate.

"The flaw in the argument is that you have to deal with two coefficients — the rate and the base. The VAT base in some cases is wider because it includes services and certain products excluded under GST.

"But in some respects it has a narrower base because it allows full input credits for capital and intermediary goods."

Commenting on the place of tax in the redistribution of income, Professor Katz said in a new South Africa VAT was even more relevant than when the Margo Commission sat.

The government in a new South Africa would be required to embark on social upliftment programmes and would need a stable and reliable source of income.

VAT changes welcomed — but consumers' tax burden shifted

Star 23/8/91

(320)

By David Canning

DURBAN — The welcome reduction in value added tax to 10 percent has been tempered with warnings by tax experts that the burden on consumers has simply been shifted — and that consumers and income tax payers will pay in other ways.

Bob Stretch, senior tax partner with Ernst and Young in Durban, said he saw the move as a short-term concession designed to establish initial acceptance of the tax.

Stepped up

He expected VAT to be stepped up to the 16 to 17 percent level as soon as the government believed this was practical.

He also believed that the concessions on VAT would put paid to hopes of income tax concessions.

Tax expert Costa Divaris, in Durban to conduct a special series of VAT seminars, said he felt embarrassed for the government in that it had been forced to change its proposals even before implementation of VAT.

He described the rate reduction as window-dressing and said the government's own advertising campaign had been misleading, leading consumers to the inevitable conclusion that they were going to shoulder a greater burden.

Misguided

The changes had proved the government had been misguided in moving away from gener al sales tax which remained the best system in the world. He also rejected the argument that VAT allowed less cheating than GST.

Generally, however, this week's VAT annoucements have been welcomed.

Mike Norris, president of the Durban Metropolitan Chamber of Commerce, said that the reduction in VAT from 12 to 10 percent had gone some way towards reducing the impact of VAT on inflation.

However, he remained concerned about the magnitude of the fuel price, an increase which would prove inflationary.

Overall, it could push costs up by between 2,5 and three percent. Moreover the impact on the agricultural sector could have a significant impact on food prices.

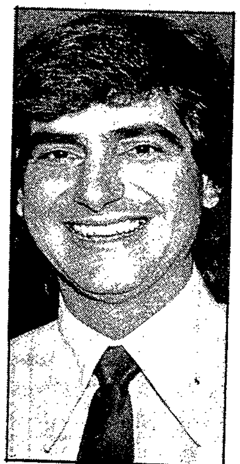
Mr Norris was disappointed that the Minister of Finance again had failed to take account of the GST content in the fuel price by continuing to zero rate fuel for purposes of VAT.

Homework

He calculated there remained a carry-over GST content of about nine percent in the fuel price.

His chamber also was concerned about the "ad hoc" approach being taken towards changes in taxes which suggested that the Government was not doing its homework properly.

Furthermore he believed that further urgent attention had to be given to ways of alleviating the position of the poor.



"Embarrassed for government" ... tax expert Costa Divaris, who describes the VAT rate reduction as window-dressing.

Industrial action still looms over new tax

Star 23/8/91

(320)

Twenty-two organisations, ranging from trade unions to charity bodies, have condemned the Government's intention of going ahead with the implementation of VAT without consulting them.

The organisations met at a press conference organised by the Congress of South African Trade Unions in Johannesburg last night in response to Finance Minister Barend du Plessis' latest tax announcements.

Cosatu's Jay Naidoo threatened widespread industrial action if the Government went ahead and implemented VAT.

Dr Bernie Fanaroff of the National Union of Metalworkers was appointed co-ordinator of the agreed programme of action, to make sure that the organisations' demands were met. He was also assigned to arrange an urgent meeting with the Government.

Among the organisations were the ANC, the Johannesburg Child Welfare Society, National Black Consumers Union, National Medical and Dental Association, Operation Hunger, World Vision and the South Africa Union of Journalists. — Staff Reporter.

Lower VAT rate of some benefit

Star 23/8/91

By Sven Lünsche

The Government's decision to lower the rate at which VAT will be introduced from 12 to 10 percent has been described as correct, given the political opposition building up against it.

Its impact on key economic variables is more difficult to assess.

Economists canvassed yesterday seemed to agree that VAT at the lower rate would have a significant impact on the inflation rate, interest rates and government borrowings.

While the cut had been somewhat offset by the rise in the petrol price, on balance the new rate would be a lesser evil for inflation.

Consumer

Dr Azar Jammine, director of the Econometrix research institute, said the inflation rate could rise by a one-off one percentage point if VAT was introduced at 10 percent, against a three percentage points rise if VAT had been at 12 percent.

Under the current GST system 45 percent of consumer goods are taxed at 13 percent.

With VAT, the rate at which these goods are taxed will fall to 10 percent, but this will be offset by the introduction of another 35 percent of consumer goods into the VAT net.

The 13c-per-litre rise in the petrol price will undoubtedly have a ripple effect on other consumer prices, as will excise duties on cars, tobacco products, liquor and TV sets.

However, the impact of the higher fuel price and the levy will be to raise the Consumer Price Index (CPI) by no more than 0,5 percent, thus still leaving a net effect of about one percent lower inflation in October.

More importantly, though, is the impact of the lower VAT rate on inflationary expectations.

"In so doing, demands from organised labour for wage increases to compensate for the impact of VAT on income will be tempered, as will any excuse business might have to raise prices inordinately," Dr Jammine said.

"As a result, the final inflationary impact of VAT at 10 percent should be reduced somewhat, compared with what it might otherwise have been."

Not all economists agree, though.

Tom Hood reports from Cape Town that Dr Ockie Stuart, director of the Stellenbosch Bureau for Economic Research, says the higher fuel price will largely offset the lower VAT rate.

The increased petrol price will soon add 0,5 percent to the CPI, but in the longer term the impact on inflation will be much more than that, he says.

"VAT at 10 percent will still add about one percent to inflation and we are back at a forecast rise in the CPI of two percent in October," Dr Stuart says.

Yield

Turning to government revenue, Finance Minister Barend du Plessis calculated on Wednesday that a VAT rate of 13,3 percent would yield the same revenue as GST.

The reduction in the VAT rate will thus result in an estimated loss of revenue in the current fiscal year of R1,35 billion, with only an additional R890 million flowing to the Government from the fuel levy (R630 million) and excise duties (R260 million).

The difference of R460 million will thus have to be raised through borrowings, which is likely to expand the deficit before borrowing from 3,4 percent to 3,8 percent in the current fiscal year.

The need to raise additional funds, coupled with the impact of the petrol-price hike, could well impair prospects of a reduction in interest rates this year, Dr Jammine says.

BUSINESS

A step in the right direction

W/Mail 23/8/-29/8/91 (320)

Finance Minister Barend du Plessis has not countered all the opposition to VAT. But he has taken steps in the right direction in terms of tax equity and relief for the poor, reports **REG RUMNEY**

FINANCE Minister Barend du Plessis took some bold steps in the direction of redistribution and poverty alleviation this week.

These, designed to alleviate the possible effect of the imposition of VAT on food and the potential increase in inflation, should be applauded.

The reduction of the VAT rate to 10 percent will do most to alleviate the effect of VAT on the poor, particularly in food prices.

Remember, however, that there is nothing to stop the tax being raised, as GST was.

Du Plessis talked of "perceptions" that VAT would increase inflation.

In terms of the government's own argument, VAT should have no long-term effect on inflation. Tax adviser to the government Michael Katz, in a background briefing, mentioned that in a study of 35 countries which had introduced VAT, the introduction had had little or no effect on inflation in 22 of them, or 63 percent. Du Plessis also stressed that Vatwatch would be on the lookout for businesses which did not pass on the benefits of having tax on capital and intermediate goods counted as inputs. The argument goes that consumers were paying double tax with GST, the so-called "cascade effect".

GST was payable on machines used to make goods, and on the goods themselves. Now businesses will get tax credits for machinery. This should mean that the goods should be cheaper in the long run because of VAT.

So dropping the rate could be taken to be an admission that businesses may not pass on the savings.

To a certain extent, the accompanying increases in excise duties and fuel will negate some of the decrease in VAT. But it could be argued that this is a compromise the government had to make.

Du Plessis also caved in to union pressure in allowing union contributions to be exempt. This means unions will have to pay VAT on all their inputs, however.

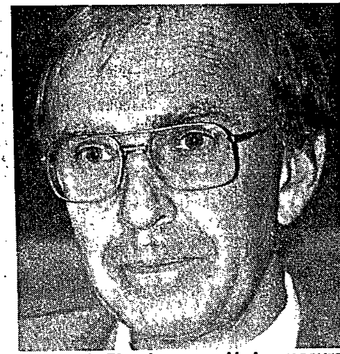
What Du Plessis — in the main — did not do was cave in to understandable political pressures to postpone VAT, scrap it, or introduce sweeping exemptions. He did introduce exemptions and to the extent that exemptions undermine the effectiveness of VAT, which is effective because it is a broad-based consumption tax with a clear audit trail, this is undesirable.

Tax experts such as Marius van Blerck have pointed out that opposition to VAT itself is wrong, whatever the merits of the way it is implemented. Sooner or later we would probably have to have VAT. More and more countries in all continents and at all stages of development are adopting this form of consumption tax.

Du Plessis shrewdly aimed what relief he did introduce directly at the poorest part of the population, and health care was a good example of the right direction.

He did not exempt or zero-rate medical services. But he let patients at state and local hospitals and clinics off the VAT hook, noting that the medical needs of around 80 percent of South Africans are catered for in these heavily subsidised institutions. They will be exempt, which means they will pay tax on their inputs, however. The means test will also be raised by 10 percent to allow even more people to be treated at the lower tariffs at state hospitals.

In opposing calls by the Medical Association of South Africa to zero rate all medical services, Du Plesses said the supply of medicine and medical services were subject to structural problems which had nothing to do with tax.



Barend du Plessis ... caved in to pressure

On offsetting the raised price of food, Du Plessis pointed out the R220-million assistance scheme, criticised as not being enough to offset the increase in the prices of basic foods other than maize and brown bread, which are zero-rated, was a "starter" fund. If more money was needed, more would be obtained from the government's contingency fund, he said. It remains to be seen if this will satisfy criticism from the African National Congress.

Du Plessis's use of pensions to inject money into the community is a shrewd move, given that pensions in rural areas are a big source of money for impoverished extended families. The R150-million in extra state spending is not huge, though. It will be financed from the contingency reserve.

The changes in a nutshell

(320) W/Mail 23/8-29/8/91

- THE VAT rate is to be dropped from the intended 12 percent to 10 percent. This will mean a loss of revenue of R1,5-billion.
- To make up for the revenue lost by this move, the fuel levy on petrol is to be increased by 10c. A further 3c rise is included to make up for a rise in the price of crude oil because of the strengthening of the dollar against the rand. For the same reason, diesel goes up 8c. These increases will come into effect on Saturday.
- Excise duties on liquor, tobacco and luxury goods such as videos, hi-fis, etc, will be raised — but in such a way as to keep prices where they are now.

The imposition of VAT on liquor, tobacco, and luxury goods at 10 percent would have meant the price to the consumer would have dropped. GST at 13 percent is now levied on these goods.

Excise duties will be increased to a level at which the lower VAT rate will be cancelled out.

- All union dues will be exempt from VAT.
- Gold coins are legal tender, and will be taxed at the zero rate.
- VAT exemption on contributions to medical schemes is extended to medical services provided directly by some of these schemes.
- Patients treated at state and provincial hospitals and state and local authority clinics will not have to pay VAT on medicines and medical services they receive.
- All social assistance such as old age pensions will be raised, in most cases by R10 a month, to offset the effect of VAT and the rise in food prices.
- Certain concessionary rates on the housing and land sales to avoid double tax were announced.

Ackerman's plea as VAT storm rages

(320)

ARG 24/8/91

FRANS ESTERHUYSE and SORCHA VASEY
Weekend Argus Reporters

THE storm over the government's controversial Value-Added Tax rages on with new threats of widespread industrial action.

And in a dramatic plea, supermarket chief Mr Raymond Ackerman has called on the government "in the interests of peaceful negotiations" to put off VAT for at least a year.

In the middle of the row is Finance Minister Barend du Plessis whose belated concessions this week have been rejected by the ANC, Cosatu and other influential critics.

The main gripe is that he bungled the whole issue of VAT, failed to consult adequately with consumer bodies and other organisations and tried to ram his plan through with a minimum of relief for those affected.

There is also mounting criticism against the 13c a litre hike in the petrol price — a move expected to step up inflation with further consumer price increases.

Amid a new wave of protests, more than 20 anti-VAT organisations have urged the government to enter into negotiations for a more acceptable system.

Pick 'n Pay boss Mr Ackerman said last night: "In the interests of peaceful negotiations the implementation of VAT should be delayed for at least a year." Mr Ackerman, who is chairman and chief executive of the company, emphasised that he was speaking in his personal capacity.

"If I was wearing my Pick 'n Pay hat I would say go ahead with it," he said. If VAT was delayed, he said, his company stood to lose the R10 million it had spent on implementing the system. But, he said: "Mr De Klerk should overrule everybody and make a decision that is good for the country."

Mr Ackerman said the implementation of VAT on September 30 would result in a tax revolt.

"VAT is dividing South Africans at a time when the country's peace process can ill-afford the conflict.

"The leftwing feels very bitter about not being consulted. The public perceives it wrongly and the last thing we need are demonstrations and marches in the streets."

The Receiver of Revenue was considering allowing retailers to sell goods already marked up at the 12 percent VAT rate on the understanding that this would be reduced to 10 percent at the tills, Mr Ackerman said.

"This is absolutely crazy and I am totally opposed to it. It would be extremly confusing. Can you imagine the bewilderment of customers and the potential for chaos in the stores?"

Meanwhile the Democratic Party has called on the government to convene an urgent meeting of all political organisations, business, trade unions, consumer organisations and major relief organisations to negotiate amendments to the VAT proposals.

"The government has totally bungled the introduction of VAT. To be effective a tax must be generally accepted as fair and necessary — on both counts government has failed dismally," said the DP's finance spokesmen, Mr Ken Andrew and Mr Jasper Walsh.

Mr Andrew said that the process to prepare for VAT had been started correctly when the government published a draft Bill, invited comments and provided for consultation with a wide range of people and organisations.

However, the introduction of VAT went wrong when Finance Minister Barend du Plessis began pushing it through before the process of consultation had been completed. At that stage the minister's approach became "high-handed and arrogant".

Other critics say he began dismissing or ignoring protests and even refused to answer questions about VAT.

The DP has listed the government's "fundamental mistakes" in introducing VAT. These are:

- They failed to consult widely with the major political organisations not represented in parliament, including the trade unions;
- They overruled key recommendations from Vatcom, the committee established to hear and consider representations;
- They failed to allow parliament to consider final recommendations and motivate amendments. The consultation process was therefore incomplete and consensus was not obtained;

VAT HOTLINE

David Clegg

320

AUG 24/8/91

Petrol (at the higher price) won't be taxed

IN A letter to the editor some days ago, a reader complained about VAT in general terms and gave as an example of the many things that will increase in cost, school and other educational fees which he said would be subject to VAT.

Readers will remember from an earlier VAT Hotline that school, university, technicon and certain pre-primary fees are all VAT exempt, so while one might have some sympathy with the reader's general concern, the example he chose was unfortunate.

Mr J Comber of Bergvliet has asked whether petrol will be subject to VAT.

No. All fuel subject to the "fuel levy" — that is petrol and diesel — is zero rated. In other words, no VAT is charged when you buy it, whether from a petrol pump or in bulk. Of course, from a business point of view, this means that no tax credit can be claimed either.

Two questions on property transactions have been received this week.

The shareholders of a share block company have requested that the company open a sectional title regiser, the company has complied with that request and are currently in the process of opening the register. If the register is opened after September 30, 1991, and the share block holders are only able to take transfer after that date, will the share block company be regarded as a "property developer" consequently requiring the transferees to pay VAT on the flat they have "owned" for some time.

This is a highly technical and interesting question. A number of arguments may be raised on both sides, but in my view there are three clear reasons why no VAT is chargeable.

□ Generally speaking a sharehblock company will not be registered for VAT purposes as the charging of levies is not a taxable transaction. It is completely clear that when such an exempt organisation sells its capital assets, it does not have to become registered and charge VAT even though the sale proceeds exceed the registration threshold of R150 000 per annum.

□ Although I have referred to a "sale", I doubt that the transaction whereby a shareblock company gives transfer of units to its members, could properly be described as a "supply" for purposes of the VAT legislation and even if it could, I doubt that the adoption by the member of his share of the company's loan obligations could be described as "consideration". If there is no consideration and the transaction has to be valued at market value, a strong argument exists that the market value is nil, simply because the occupational rights of the member held through the block share, mean that the unit has no value at all to anybody else and hence, no "market value".

□ Even in the event that the share block company is registered for purposes of charging VAT on levies (a voluntary situation which might arise in the case of some commercial shareblock developments) the disposal of the units would not seem to be in the course, furtherance or termination of that enterprise and even if it was, the same arguments regarding value would still arise.

This whole matter is under discussion within Inland Revenue, Pretoria, at present and some statement is likely to be made shortly.

Mr Hamilton asks whether his agreement to purchase a cottage in a retirement village, entered into in November 1990, could end up being subject to VAT if occupation, transfer and payment of balance of purchase price takes place on or after September 30, 1991?

No. It is completely clear that this transaction is excluded from VAT.

However, in some situations like this there are difficulties for the developer who may find his cost structure increasing after introduction of VAT in respect of pre-sales. His profit margins may be squeezed but there is no way of recovering from the purchaser.

Decision to cut VAT the right one, economists say

320

AMG 24/8/91

Business Staff

THE government's decision to lower the rate at which VAT will be introduced from 12 to 10 percent has been described as correct, given the political opposition that was building up against it.

Its impact on key economic variables is more difficult to assess.

Economists canvassed this week seemed to agree that VAT at the lower rate would have a significant impact on the inflation rate, interest rates and government borrowings.

While the cut has been somewhat offset by the rise in the petrol price, on balance the new rate will be a lesser evil for inflation.

Dr Azar Jammine, director of the Econometrix research institute, said that the inflation rate could rise by a one-off one percentage point if VAT was introduced at 10 percent, compared with a three percentage points rise if VAT had been at 12 percent.

Under the current GST system 45 percent of consumer goods are taxed at 13 percent.

With VAT, the rate at which these goods are taxed will fall to 10 percent, but this will be offset by the introduction of another 35 percent of consumer goods into the VAT net.

The 13c-per-litre rise in the petrol price will undoubtedly have a ripple effect on other consumer prices, as will excise duties on cars, tobacco products, liquor and TV sets.

However, the impact of the higher fuel price and the levy will be to raise the Consumer Price Index (CPI) by no more than 0,5 percent, thus still leaving a net effect of about one percent lower inflation in October.

More importantly, though, is the impact of the lower VAT rate on inflationary expectations.

"In so doing, demands from organised labour for wage increases to compensate for the impact of VAT on income will be tempered, as will any excuse business might have to raise prices inordinately," Dr Jammine said.

"As a result, the final inflationary impact of VAT at 10 percent should be reduced somewhat, compared with what it might otherwise have been."

Not all economists agree, though.

Dr Ockie Stuart, director of the Stellenbosch Bureau for Economic Research, says the higher fuel price will largely offset the lower VAT rate.

The increased petrol price will soon add 0,5 percent to the CPI, but in the longer term the impact on inflation will be much more than that, he says.

"VAT at 10 percent will still add about one percent to inflation and we are back at a forecast rise in the CPI of two percent in October," Dr Stuart says.

Turning to government revenue, Finance Minister Barend du Plessis calculated on Wednesday that a VAT rate of 13,3 percent would yield the same revenue as GST.

The reduction in the VAT rate will thus result in an estimated loss of revenue in the current fiscal year of R1,35 billion, with only an additional R890 million flowing to the government from the fuel levy (R630 million) and excise duties (R260 million).

The difference of R460 million will thus have to be raised through borrowings, which is likely to expand the deficit before borrowing from 3,4 percent to 3,8 percent in the current fiscal year.

The need to raise additional funds, coupled with the impact of the petrol-price hike, could well impair prospects of a reduction in interest rates this year, Dr Jammine says.

□ The reduction in VAT rate percent has been tempered with warnings by tax experts that the burden on consumers has simply been shifted — and that consumers and income taxpayers will bear the burden in other ways.

Rob Stretch, senior tax partner with Ernst and Young, said he saw the move as a short-term concession designed to establish initial acceptance of the tax. He expected VAT to be stepped up to the 16 to 17 percent level as soon as the government believed this was practical.

Tax consultant Costa Divaris said he felt "embarrassed" for the government in that it had been forced to change its proposals even before implementation of VAT.

He described the rate reduction as window-dressing. Its own advertising campaign had been misleading, leading consumers to the inevitable conclusion that they were going to shoulder a greater burden.

He said the changes had proved the government had been misguided in moving away from General Sales Tax which remained the best system in the world. He also rejected the argument that VAT allowed less cheating than GST.

VAT bomb set to blow

Widespread union strike action looms

Star 24/8/91 (320)

MUSA MAPISA, ZINGISA MKHUMA and OWN CORRESPONDENT

MINISTER of Finance Barend du Plessis has failed to defuse the VAT time bomb.

Confrontation between the Government and the powerful anti-VAT lobby now seems inevitable.

Anti-VAT campaigners, backed by the trade union movement, say the Government must climb down on the controversial tax.

The Government, in turn, has dug in its heels, warning that there will be no more concessions.

Meanwhile, widespread strike action by Cosatu-affiliated trade unions is looming.

And in a dramatic plea, supermarket chief Raymond Ackerman has called on the Government "in the interests of peaceful negotiations" to put off VAT for at least a year.

There is also mounting criticism against the 13c-a-litre boost in the petrol price — a move expected to step up inflation with further consumer price increases.

Mr du Plessis failed to impress trade unions and other lobby groups with the concessions on VAT he announced on Wednesday. The Government's decision to drop the VAT rate to 10 percent from 12 percent came about after intense pressure from Cosatu, political groupings and other lobbyists.

STANDING FIRM: Minister Barend du Plessis.

But the move has been described by Cosatu as rushed, poorly thought out and inadequate.

Cosatu has called on the Government to postpone the implementation date of VAT and enter into negotiations and wide consultation with various groups on the issue, or face intense and widespread industrial action.

Cosatu warned yesterday that the cost of social and industrial conflict, if the Government went ahead with its plans, would be "much higher" than costs that could result if the implementation of VAT was suspended.

"It is amazing that even those unions in the public sector that are considered conservative are also talking of industrial action," Cosatu spokesman Neil Coleman said yesterday.

He said that as part of industrial action, Cosatu members may demand immediate salary increases if the Government went ahead with its plans.

Such action could be spontaneous.

But Cosatu says it is not too late to negotiate.

As opposition to the Government's VAT plans continued after Wednesday's announcement by Mr du Plessis, Deputy Finance Minister Dr Theo Alant offered to hold talks with those still opposed to the VAT plans.

But a spokesman for the Department of Finance, Peter Coetsee, yesterday underlined that there were no changes in Government plans so far as VAT was concerned. "We are going ahead as scheduled and there are no changes from what the Minister said earlier this week."

In a Cosatu-convened summit on Thursday, 22 organisations, ranging from trade unions to charity bodies, condemned the Government's intention of going ahead with VAT without consulting them,

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VAT row

● FROM PAGE 1.

saying they would continue to fight for a more acceptable system.

The summit decided that a committee be formed to work on a plan of action to thwart the Government.

Cosatu spokesmen confirmed that if the Government refused to relent on VAT, it would still face widespread protest action, including strikes.

Pick 'n Pay boss Mr Ackerman said last night: "In the interests of peaceful negotiations, the implementation of VAT should be delayed for at least a year."

Mr Ackerman emphasised that he was speaking in his personal capacity.

"If I was wearing my Pick 'n Pay hat, I would say go ahead with it," he said. If VAT was delayed, he said, his company stood to lose the R10 million it had spent on implementing the system. "But," he said, "Mr de Klerk should overrule everybody and make a decision that is good for the country."

Mr Ackerman said the implementation of VAT on September 30 would result in a tax revolt.

The Democratic Party has called on the Government to convene an urgent meeting of all political organisations, business, trade unions, consumer organisations and major relief organisations to negotiate amendments to the current VAT proposals.

"The Government has totally bungled the introduction of VAT," said DP finance spokesmen Ken Andrew and Jasper Walsh. "To be effective, a tax must be generally accepted as fair and necessary — on both counts Government has failed dismally."

Other critics say Mr du Plessis had dismissed or ignored protests and even refused to answer questions about VAT.

The DP has listed the government's "fundamental mistakes" in introducing VAT. It says the Government:

- Failed to consult widely with the major political organisations not represented in Parliament, including the trade unions.
- Over-ruled key recommendations from Vatcom, the committee established to hear and consider representations.
- Had in-depth discussions with an International Monetary Fund (IMF) delegation, much of whose advice they accepted without substantiating their reasons for acceptance. (320)
- Failed to allow Parliament to consider final recommendations and motivate amendments. The consultation process was, therefore, incomplete and consensus was not obtained.
- Failed to react timeously to key lobby groups such as local authorities and the medical profession.

The DP says that despite Mr du Plessis' "belated but welcome" decision to reduce the VAT rate from 12 to 10 percent, he has failed to resolve a number of key areas of dispute.

The Government last night responded to the attack, saying it had consulted all parties before implementing VAT.

In a statement, Dr Alant said the Government had invited comment from all parties when it announced in February 1988 that VAT would be implemented. It had invited groups to briefing sessions by the then Deputy Minister of Finance, Dr Org Marais, and had taken notice of representations made after the bill had been introduced to Parliament.

"A great deal of money was spent on inviting all interested parties to comment on the VAT system and the draft Bill," said Dr Alant.

"No representations were received from the parties and organisations now accusing the government of not consulting.

"Cosatu and other parties are welcome to make arrangements for as many meetings with the Minister and Department of Finance as they may need for further discussions on VAT and any other tax matters."

ANC spokeswoman Gill Marcus said her organisation failed to understand on what basis the Government had decided that VAT should be 12 percent and later reduce it to 10 percent.

She called on the Government not to go ahead with implementing VAT before wide consultation on an acceptable tax system.

Conservative Party spokesman Daan Nolte said Mr du Plessis' recent tax announcement was a sign that the Government was yielding to ANC pressure.

VAT looms as racing's nemesis

Star 24/8/91.

320

ROBERT GARNER
Racing Editor

VAT is set to impoverish the South African horseracing industry unless punters are made to pay even more for the privilege of betting.

Horseracing officials estimate that the controversial tax, which is to be introduced on September 30, will cost the industry many millions of rands a year and set it on the road to financial ruin.

The off-course tote betting organisations in each of the four provinces, which pay more than R100 million in provincial taxation each year, will be hardest hit.

It is estimated that VAT will cost TAB Transvaal, the off-course tote betting organisation in the Transvaal, R10 million a year and the three racecourses in the province another R1,5 million.

Racecourses and off-course tote betting organisations are non-profit-making and receive only a small commission from the hundreds of millions of rands wagered annually with bookmakers and on the tote.

Any profits are ploughed back into horseracing, which is one of South Africa's largest industries, to improve facilities, keep prize money at competitive levels, etc.

TAB Transvaal showed an operating profit of R16 million last year but the organisation is about to install a new computerised betting system, which will cost R34 million.

As things stand, TAB Transvaal could not hope to finance the new system after VAT is introduced. Colin Dunn, chairman of the Highveld Racing Authority, believes horseracing's only option will be to increase the take-out from certain tote betting pools.

"We have to accept that VAT is a tax meant to be passed on to the consumer, in this case the punter.

"There is no way the horseracing industry can absorb VAT. You only have to look at TAB Transvaal's annual profit and the huge commitments that that organisation is facing.

"The take-outs on certain bet types will have to be increased. That is always undesirable but I don't see how else the industry can cope with VAT," said Mr Dunn.

Central Government originally stated that VAT was not intended to result in the take-out from bets being increased and that it might recompense provincial administrations if they had to reduce taxation on bets in order to retain the status quo.

According to Mr Dunn, that thinking has "fallen by the wayside".

Highveld racing authorities are now negotiating the issue of VAT with the Transvaal Provincial Administration, which it is understood is not even prepared to consider lowering provincial taxation on betting.

A punitive 25 percent is already deducted from Jackpot, Place Accumulator and Pick 6 pools, and bets like the Trifecta.

The long-term effects are worrying horseracing officials.

"It would be suicidal to increase the take-out on tote win bets. Illegal bookmakers are costing the racing industry millions of rands a year and we will drive even more business their way if there is a bigger deduction from tote win pools," he said.

"It has also been proved that for every percent you increase the deduction from a betting pool, there is a corresponding decrease in turnover. The long-term effects of VAT for horseracing could be disastrous."

WAITING FOR VAT MAY COST YOU MORE

320 ~~322~~ ~~244~~

S1 Times 25/8/91.

IF YOU thought that waiting for the introduction of VAT could save you thousands when buying a used car, think again. Prices may in fact rise rather than drop after VAT comes into effect.

On the face of it, VAT should reduce the effective purchase price of used vehicles. In the case of private sales, no tax whatsoever is payable, where the current GST system adds 13 percent to the asking price.

There is also an anticipated VAT-related saving in the case of new light commercial vehicles, since owners will be able to claim back the VAT paid on these vehicles.

However, motor industry executives are perturbed that would-be vehicle buyers could be caught unawares by an anticipated swing in demand after VAT is in place. And that could mean that prices will rise rather than fall.

Toyota Marketing Company MD Brand Pretorius points out that now is actually a very favourable time to buy a used car. "With everybody waiting for VAT, used car stocks are high at most dealers. And they are very keen to sell," he said.

Car prices set to rise as demand increases

Discounts and special financing deals abound as the saturated market tries to shed stock before VAT. However, buyers are not prepared to pay 13 percent GST only weeks before the new tax arrives.

"What they don't realise," Pretorius insists, "is that as soon as buyers climb in when VAT is introduced, the strong increase in demand will see used car prices soar.

"Also, there is a very good chance that these buyers will still have to pay GST. Used cars in dealers' stock before VAT is introduced continue to be subject to GST. It could take months before that pent-up stock is cleared."

While privately owned cars will be exempt from all tax as soon as VAT is implemented, the expectation is that prices will rise across the board as soon as this happens.

Slump

By how much is a moot point, but some dealers are predicting price hikes of between 18 and 20 percent — a figure which totally eclipses the saving on GST.

The slump in the used car market in anticipation of VAT has had a restricting influence on new car sales, too. Dealers, already overloaded with trade-in stock, have had to cry enough and are losing new car sales as a result.

Delta marketing and sales director Willie van Wyk also believes that buyers who wait until VAT arrives are cheating themselves. "The pent-up demand is definitely going to cause a price hike."

And as far as light commercials are concerned, interim price increases — due to inflation, higher production costs and currency fluctuations — will erode much of the 13 percent benefit.

Losses

The expected sudden surge in demand for light commercials will place an even heavier burden on hard-pressed local manufacturers, who are already facing massive production losses after the recent crippling strike.

While the losses are likely to be at least partly recuperated by year-end, many popular vehicles will be in short supply, and waiting lists could stretch over months. Almost inevitably, price increases will see prices rise in the period between ordering a new light commercial and its delivery.

Some manufacturers are trying to coax buyers into the market before VAT arrives by offering preferential interest rates on approved used cars. BMW, for instance, has a financing package offering an effective 15 percent interest rate on its approved used cars.

But while special deals on factory-approved cars abound at the moment, buyers may not be so lucky when the post-VAT demand makes selling that much easier. Almost certainly, the aggressive sales campaigns currently being run will be replaced with a far more sober, conservative approach.

Exotic car dealer Ross Fyfe of Investment Cars echoes the sentiments of the motor industry.

☐ To Centre Pages

S1 Times 25/8/91

☐ From Page One

"The exotic car market has gone through tough times, but we have now reached the lowest point and we believe that those who want to get in on the ground floor should do it now.

"Prices are very competitive indeed and good investment opportunities abound. However, there are a lot of fence-sitters who are waiting for VAT before they jump in. And that surge in demand is sure to see prices rise.

Fyfe predicts an initial jump of up to 18 percent.

320 ~~244~~

"Shrewd buyers are putting down money now and still driving a very favourable bargain, despite having to pay GST. And with prospects looking good, their investment growth could be quite spectacular."

Prospective buyers of used cars are still likely to find the best buys with private sellers, who are not likely to be as aware of increases and demands.

While the overall average for used cars will almost certainly climb, private sellers will be content with recovering their GST costs.

Vat changes in a nutshell

320

S/Times (Buss IT) 25/8/91

CHANGES to Vat announced this week are:

- Vat rate down from 12% to 10%.
- Fuel tax rises by 10c a litre on petrol and 8c/l for diesel. The petrol price rises by an additional 3c because of crude-oil price increases and is not Vat related.
- Excise tax on liquor, cigarettes and other luxury goods will rise to make up for the loss of revenue on these items caused by the drop in the Vat rate. A new excise tax structure is to be announced.
- Vat on Krugerrands is zero rated.
- Medical services and medicines supplied by State hospitals and clinics are exempt from Vat.
- Medical services and medicines supplied by medical schemes and medical funds are exempt from Vat.
- Contributions to trade unions are exempt from Vat.
- Vat on new homes and property for new housing developments will be phased in over the period ending on March 31, 1992.

To soften the impact of Vat a R1-billion project financed by the sale of strategic oil reserves and a R220-million scheme to help the poor have already been announced.

Further measures announced this week are:

- Social pensions increased by about R10 a month at a cost of R150-million to the Treasury.
- Transport subsidies will be increased by an unspecified amount.

Reducing the Vat rate will reduce State revenue by R1 350-million for the rest of the year (R4 400-million annualised).

The higher excise duties will bring in an additional R260-million over the rest of the year and the higher fuel tax R630-million.

State borrowing will have to rise to cover the net loss of revenue, thereby increasing the government's deficit before borrowing from 3% to 3,2% of gross domestic product.

This could affect plans to reduce company tax and the top marginal income-tax rate to 40% in the next three years.

Barend's cleft stick package

S Times (Bus T) 25/8/91 320

By CURT VON KEYSERLINGK

THE GOVERNMENT painted itself into a corner that forced last-minute changes to Vat this week, say businessmen.

"It's crisis management," says a business leader, who asks not to be named.

"Although the International Monetary Fund recommended 13% Vat, the Government was warned that anything over 10% would cause political problems."

Ernst & Young tax partner David Clegg says: "Given the decision to go with 12%, the Government should have coupled publication of this figure with an announcement of huge projects to help the poor.

"The relief measures announced beforehand were not enough."

Business Times has learnt that Finance Minister Barend du Plessis decided to reduce Vat from 12% to 10% as late as last Sunday. He worked into the night to draft the revised Vat structure.

It received Cabinet approval on Wednesday shortly before being announced.

The result is a package that economists say will hinder economic growth.

Fuel

Aubrey Dickman, honorary professor of economics at Wits Business School, says: "The amendments were probably necessary to meet popular opinions and political demands, but they do not help tax reform and long-term growth.

"They merely defer the inevitable. People may feel they have won this round against the Government, but concessions made now will have to be paid for by painful adjustments in the future."

He considers the plan to recover revenue lost through the lower Vat rate by raising the fuel tax to be a retrogressive step because it negates Vat's cost-containing effects.

Because fuel tax is not rebateable, its increased cost will cascade through all businesses whose costs are affected by the price of petrol and diesel. This is so to a lesser extent as a result of increased excise duties.

"I accept that there should be a tax on fuel. But a higher fuel tax is very much second best to higher Vat.

"Reducing the Vat rate will also increase the Government's deficit which has inflationary implications and could delay the reduction of nominal interest rates.

"Mr Du Plessis says the lower Vat rate could delay the reduction of corporate tax and the top marginal income rate to 40% which the Government hoped to achieve in the next three years.

"Our effective company and personal tax rates are high by world standards. If they are not reduced, SA will remain relatively unattractive for both foreign and domestic investment."

Rand Merchant Bank economist Rudolph Gouws says: "Ideally, the Government should not have compromised on Vat. However, it had no option but to take account of political realities."

Professor Dickman says of the claim that Vat takes money from consumers and puts it in the pocket of business: "This does not sound very good, but we must remember that the business sector is the key to the country's economic survival.

"If we do not have investment we will have no new jobs."

Professor Dickman says Vat is a vital element of the process of transition, courageously embarked on some years ago, and the additional economic restructuring needed to make industry more competitive.

A sound Vat system will allow for the reduction of company taxes. This will permit a phased reduction of import tariffs as SA manufacturers will be better able to compete with foreign producers who pay low company taxes.

This, in turn, will enable them to sell at more competitive prices in both domestic and foreign markets.

Boycotts

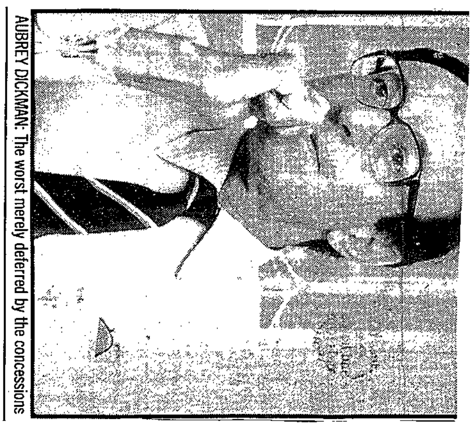
It will also reduce the need for costly export subsidies, financed by the taxpayer, which are in any event unacceptable in terms of the General Agreement on Tariffs and Trade (Gatt).

Another economist says one advantage of the Vat concessions is that they will increase revenue from those blacks who escape their share of tax burden through rent and electricity boycotts.

From now on they will pay higher excise taxes on such things as television sets, cigarettes and beer, more than 85% of which is drunk by blacks.

Black taxi operators, who do not receive State subsidies, will pay more for petrol.

Mr Du Plessis said at his news conference that increased excise duties could not be called a burden on the very poor because "those who cannot afford to buy food certainly cannot afford these items".



AUBREY DICKMAN: The worst merely deferred by the concessions

Sacob pleads for consumer

S/Times (Bus)(T) 25/8/91.

Business Times Reporter

THE SA Chamber of Business (Sacob) has appealed to business to pass the benefits of VAT to customers.

"Business is under the public microscope on its role in Vat. Competition must be seen to work," says the country's largest employer organisation in a four-point programme for business.

The call comes amid renewed claims that suppliers and retailers have increased prices ahead of the new tax.

Louise Tager, head of the Government-appointed watchdog body Vatwatch, says that in recent months a wide range of post-Vat price increases have been announced on products and services currently exempt from GST.

They range from short-term insurance and airfares to theatre season tickets.

Professor Tager appeals to business to calculate post-Vat prices again and to take into account the cost benefits that will result from Vat,

"If business uses the imminent introduction of Vat alone as a reason for increasing prices it will be a severe blow to attempts to curb inflation."

Sacob says capital intermediate goods have been exempted from Vat in the interests of economic growth, job creation and international competitiveness.

The cost savings will take time to permeate through the system, depending of the rate at which investment decisions are made. Compliance costs are also high.

General price increases also make it unlikely that the full cost savings can be passed to consumers.

"But, industry and commerce should be seen to be identified with tangible benefits from the implementation of Vat."

The rate cut to 10% can also be included in constructive marketing strategies, says Sacob.

320

Renege

The organisation also warns business that failure to register with the Receiver of Revenue can lead to higher costs and the inability to claim credits.

Companies must ensure they are geared to handle Vat before September 30.

Sacob says businessmen should "take every opportunity to urge Government not to renege on its commitment" to lower personal and company tax.

"Unless Vat is eventually supported by personal and corporate tax relief, economic performance will continue to be adversely affected.

"Direct taxation is now the Achilles' heel of tax reform."

VAT AND YOUR BUSINESS

SEVERAL unfamiliar words are contained in the Vat Act. The 14th in a series of articles on Vat discusses them.

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 R69,95 (excluding GST) plus R5 postage and handling fee. It is available from: VAT. Levenstein & Partners, Box 18600, Hillbrow 2038, fax 643-3423.

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.

Words soon to be in common use

S/Times (Bus/T) 25/8/91 (320)

THE VAT ACT contains several unfamiliar words that will soon become commonplace.

It is thus important to become aware of their meaning and the context in which they should be used.

- Commercial rental establishment. It refers to residential space let to five or more people and accommodation let continuously for not more than 45 days to the same tenant where gross annual receipts exceed R24 000. Hospitals, nursing homes, hospices or rest homes are included, but non-profit establishments and hostels let to employees are excluded.
- **Connected Persons.** This is the relationship between any natural person, corporation, trust fund, partnership or close corporation. It includes any company or related people who control or hold 10% or more of the voting rights or the equity of a company.
- **Consideration** is anything given in exchange for the supply of goods and services. This excludes unconditional gifts to associations not for gain and deposits, unless the deposit is treated as payment or is forfeited.
- **Enterprise** is an activity carried on in or partly in South Africa by a person where goods or services are supplied to another for a consideration.
- **Exempt.** These are supplies that are neither standard nor zero rated. Vat is not charged on these items. Input tax relating to the production of these supplies cannot be claimed from the Receiver.
- **Export country.** Countries outside SA, except for Transkei, Bophuthatswana, Venda and Ciskei (TBVC).
- **Fixed property** includes land and improvements, sectional title units, shares held in a shareblock company and any timeshare interest.
- **Input and output tax.** Input tax is Vat paid on goods and services bought by the enterprise. Output tax is that charged by the enterprise when it sells goods and services.
- **Money.** It is defined as coins, paper currency, bills of exchange, promissory notes, bank drafts, postal orders and money orders, provided they are legal tender. Krugerrands and items of numismatic interest (collectors' items) are excluded.
- **Motor-car.** It is defined as a vehicle with three or more wheels built or adapted mainly to carry passengers. Excluded are vehicles designed to carry more than 16 people, any vehicle with an unladen weight of 3 500kg, caravans and ambulances.
- **Notional input tax** is the value of the tax fraction (12/112) where a vendor buys supplies on which he does not pay Vat because the item is second hand or has been repossessed. The purpose of this is to make dealers in second-hand goods competitive with the private sector or non-vendor where Vat is not charged.
- **Services** include anything done or to be done. Less obvious services are the right to use a trademark, making a facility or advantage available, for example, a theatre.
- **Standard rate** applies to goods and services subject to 10% Vat.

Vat regarded as recipe for disaster

Citizen 28/8/91 (320)

By DERRICK LUTHAYI and Sapa

INDEPENDENT tax adviser Matsheru Matsheru says the reduction of Value Added Tax (Vat) from 12 percent to 10 percent is to be welcomed, but with reservations.

He said the new rate was still high compared to the present GST system and that the individual income tax rate was 43 percent.

Because after-tax earnings were low consumers could not afford to pay 10 percent Vat.

Matsheru said there was no balance between tax on earnings (income tax) and tax on spending (Vat).

Du Plessis should have strived to achieve a balance between these two taxes, because the one influenced the other.

"In the confusion, Du Plessis increased the price of petrol and diesel and to me this was a bad strategy.

It is known that when petrol prices go up, it also pushes up the prices of other goods and services. This will still lead to inflation and if this is not followed quickly by wages and salaries increases, it may lead to industrial revolution.

Businesses may take advantage of petrol increases to put up their prices.

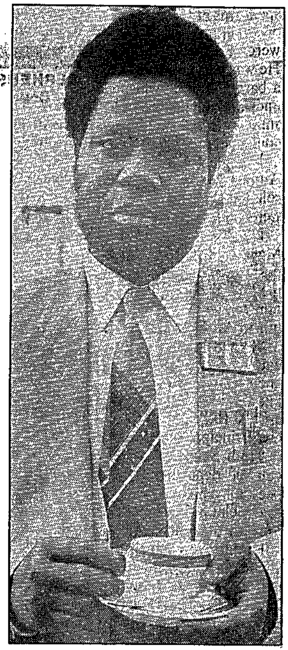
Matsheru added that Du Plessis made another big mistake by not zero-rating all foods.

"If I were him, I would zero-rate all food and only tax them afer a year and only when inflation is down. I would also tax food after a year and then only on a phased-in basis."

Matsheru said it was not certain Vat would be implemented at the end of September.

If Du Plessis did not heed Cosatu calls and consult them on Vat issues, "we may face an industrial tax revolution of the worse kind and this may disrupt the implementation of the Vat system unless employers agree to increase wages and salaries".

"On the other hand, if Du Plessis can heed Cosatu's call and postpone Vat, business will lose confidence in him and he will also lose credibility. He cannot win either way."



MATSHERU ... Vat not the answer. ■ Pic: GIDEON NHLAPHO

Ready to expose VAT exploiters

320

By CAS St LEGER

VATWATCH, South Africa's Value Added Tax watchdog, may not have legal power to protect consumers from exploitation.

But it will rely on an equally effective force: public exposure of VAT profiteers.

"Vatwatch can alert the general public. Such a consumer awareness campaign is necessary in our country, and not only in relation to VAT," said Deputy Finance Minister Dr Theo Alant, whose department pays for Vatwatch.

"People can report to Vatwatch any unwarranted price increase ascribed to VAT. Vatwatch can make it publicly known.

"My own son went to a shop to buy shoes. They didn't have his size available and he was told the shoes could be ordered but the price would be 40 percent more because of VAT.

"That is the sort of thing consumers must be aware of and report to Vatwatch," said Dr Alant.

"Vatwatch could then contact them and say if you do not stop that practice, we'll make it known to the general public.

Committee

"The chainstores are afraid of Vatwatch. We do not think there is a case for a legal penalty," Dr Alant said.

Vatwatch itself operates on a modest budget of R300 000 from July to year-end to run its Johannesburg office with three full-time staff.

It is headed by the country's most experienced consumer protector, Professor Louise Tager, 54, former Wits Dean of Law, chairman of the Business Practices Committee and executive officer of the Law Review Project.

She has hand-picked her independent committee members. They are Andrew Ball (Labour Research Services), Anna Boshoff (SA Consumer Union), Leon Ghavalas (National Council for the Aged), Sheila Lord (Housewives League), Sally Motlana (Black Housewives League), Sam Ntuli (Civic Associations of the Southern Transvaal), Cynthia Chabeli (Black Consumer Union), Mahlomola Skosana (National Coucil of Trade Unions) and Ina Wilken and Jan Cronje of the SA Co-ordinating Consumer Council.

Committee members are not paid; they receive an honorarium of R300 each plus expenses for attending Vatwatch meetings. ST Times 25/8/91.

PROF LOUISE TAGER
Lots of experience

Vatwatch has appointed the market researcher, Interfact, to conduct a monthly price survey of goods and services from 120 outlets. Though results will be published, names of outlets and products will not be made available. The purpose of the surveys is to track trends.

Prof Tager, with the aid of the Advertising Standards Authority, has also stamped out a number of "buy now before VAT price increases" advertisements, which, she said, were misleading.

"The purpose of Vatwatch is to create consumer awareness and to ensure there is not exploitation," said Prof Tager.

Where there are unwarranted price increases, Prof Tager will approach the retailer and suggest he examine his budget. "There's no statutory sanction for Vatwatch. Consumer protection is gained through education. A criminal prosecution is no real sanction; a real sanction would be Vatwatch columns in a newspaper. To go to a newspaper and say so-and-so has refused to co-operate with Vatwatch is a much stronger sanction than legislation that creates a criminal offence.

"The teeth is the public image of all the businesses," Prof Tager said.

Miss Wilken said consumers were being asked to monitor prices on any three items and contact Vatwatch if price anomalies were noticed.

"The more complaints we have, the more we can do about it. If the price is out of proportion, we will go back to the dealer and ask him what is going on; if we are not satisfied, we will go to the media.

"There is no legal recourse but I can promise you they will do anything not to get their name in the newspaper."

CONSUMERS' CHAMPION ... Vatwatch's Ina Wilken Picture: SUE KRAMER

Vat will close the GST gaps

By LUCAS de LANGE

C/P News 25/8/91 (320)

THE Margo Commission of Inquiry's report five years ago was adamant that South Africa needed a new tax system.

Income and company tax rates were too high on the one hand, while General Sales Tax (GST) was becoming less and less efficient as taxpayers avoided the payment of GST through ever widening loopholes.

In fact, the commission estimated that the state lost some R1 500-million in tax during 1985 as a result of concessions on certain basic foodstuffs.

Yet the Commission believed only about R400-million of the loss directly benefited the poor. The balance landed in the pockets of the well-heeled who had the expertise to exploit the concessions.

Today the loss to the State could be even double that amount or more. Nobody knows. What is a known fact is that, for instance, certain flourishing wholesale houses will lose business once GST is abolished at the end of next month. Some experts estimate that more than half of the turnover of some of these firms consists of sales to people with access to a "tax number" allocated to a club, small retailer or whoever.

They pay no GST on these purchases because, in theory, they are supposed to resell the items (on which GST is payable) or use the items as raw materials to produce something else – such as processed food – on which GST should be collected.

Of course, they never do that. The tax number "borrowed" from a club or a "licensed" friend is simply a ruse to avoid GST on a range of items.

The result of these practices is a higher rate for GST.

In this area at least, the new Value Added Tax (Vat) will make a huge difference because the tax is added right from the moment of manufacture or importation.

So, if the State does not get the full amount, at least a much larger portion will become available which would, hopefully, enable the government to extend the very necessary subsidies to help the very poor in this country.

But it is also of great importance that the country's entire tax structure should be lowered. The rates for company and income tax are among the highest in the world and this is causing a steady drain of highly qualified people abroad.

At the same time, foreign entrepreneurs are reluctant to settle here because of high taxation.

Experience all over the world has shown that Vat is a far better tax than GST. It is more widespread, not so easy to avoid and can contribute towards lowering production costs.

Unfortunately many services will be taxed, while the poor will suffer because items such as basic foodstuffs are caught in the net. The Government has made some concessions apart from the reduction of the Vat rate from 12 percent to 10 percent.

The answer to the problem lies elsewhere: the country badly needs a growing economy to generate the volume of income which will enable the state to reduce tax rates. This will encourage new ventures, which would mean new jobs for those who suffer because they have no income.

Reef call to join forces against VAT

(320) ARGT 26/8/91

The Argus Correspondent

JOHANNESBURG. — Disillusionment over how some organised bodies were tackling the implementation of value-added tax on basic necessities prompted a Johannesburg group of friends to form "Citizens against VAT".

Small businessman Paul Meyer said the group initially got together to voice their grievances and then decided to go further — they drew up a petition and began collecting signatures.

"The reason we got together was because everyone voiced their opinion to each other. Nobody got together as a body to do something," Mr Meyer said.

"There is a feeling among people that the government is supposed to be representing us. But they are ruling by decree," he said. "Its time people stood up and told the government what they want."

They collected over 1 000 signatures by merely calling their friends. More forms were sent further afield and those sent back have yet to be counted.

The "Citizens Against VAT" petition, against the tax on food, clothing, medicines, books (knowledge) and personal services (such as doctors), states that the undersigned feel "they are being severely jeopardized by the government's approach to VAT on necessities that directly affect their lives".

Mr Meyer said food and clothing were basic necessities for survival.

"To tax everyone fairly would be to keep the tax on luxury items," he said. "We are already being taxed heavily with pay as you earn."

He pointed out that when general sales tax was first introduced, the government had promised that they would use the income on items such as roads.

"But the government is privatising. There are toll gates on the roads for which GST was supposed to be paying for," Mr Meyer said.

"Now is the time to oppose them and show the government what we feel about it. They must represent us in the way we want them to do it."

He has called on all interested parties, including those who have started their own petitions, to join forces.

Mr Meyer can be contacted at (011)957-2919.

Vat cut won't prevent Vatwatch

CT 26/8/91

(320)

JOHANNESBURG. — Despite the recently-announced 2% reduction in the VAT rate, businesses would still be monitored to ensure there was no price exploitation.

In a statement issued yesterday, Vatwatch chairman Prof Louise Tager said the organisation would monitor price trends before and after the introduction of VAT.

"Irrespective of the VAT rate, business will be enjoying major cost benefits because of the VAT system's input tax credit mechanism.

"The saving to be achieved by business is going to be substantial.

"It is our task to see to it that the business sector does everything in its power to pass that saving on to consumers."

She said that a wide range of post-VAT price increases had been announced and forecast on products and services — including short-term insurance, flight tickets and theatre season tickets — that were exempt from sales tax.

"I want to appeal to business to calculate their post-VAT prices again.

"It would be a severe blow for any attempt to curb inflation if business used VAT ... as a reason for increasing prices," she said. — Sapa

Pass cost benefits on to consumer, business told

Star 26/8/91.

Consumer Reporter 320

The essential objective of Vatwatch remained unchanged despite the Government's welcome reduction of the VAT rate to 10 percent, chairman Professor Louise Tager said yesterday.

The organisation's aims are to monitor price trends before and after the September 30 introduction of VAT and to highlight suspected cases of price exploitation that use VAT as a smokescreen.

"Irrespective of the VAT rate, business will be enjoying major cost benefits because of the VAT system's input tax credit mechanism. The saving to be achieved by business is going to be substantial.

"It is our task to see to it that the business sector does everything in its power to pass that saving on to consumers," Professor Tager said.

THE STAR VAT WATCH

10% VAT

A wide range of post-VAT price increase were announced and forecast on products and services currently exempt from sales tax, she said. These ranged from short-term insurance and flight tickets to theatre season tickets.

"I want to appeal to business to calculate their post-VAT prices again and to take into account the cost benefits that will result from the introduction of VAT.

"It would be a severe blow for any attempt to curb infla tion, if business used the imminent introduction of VAT only as a reason for increasing prices," Professor Tager said.

Group forms 'Citizens Against VAT'

Star 26/8/91.

By Paula Fray 320

Disillusionment at how some organised bodies were tackling the implementation of value added tax on various basic necessities prompted a Johannesburg group of friends to form "Citizens against VAT".

Small businessman Paul Meyer said the group initially got together to voice their grievances and then decided to go further — they drew up a petition and began collecting signatures.

"The reason we got together was because everyone voiced their opinion to each other ... nobody got together as a body to do something.

"There is a feeling among people that the Government is supposed to be representing us. But they are ruling by decree," he said. "It's time people stood up and told the Government what they want."

They collected over 1 000 signatures from their friends. More forms were sent farther afield which have yet to be counted.

Citizens against VAT . . . Paul Meyer.

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Mr Meyer said food and clothing were basic necessities for survival.

"To tax everyone fairly would be to keep the tax on luxury items," he said.

"We are already being taxed heavily with pay as you earn," Mr Meyer said.

He pointed out that when GST was first introduced, the Government had promised it would use the income on items such as roads.

"But the Government is privatising. There are toll gates on the roads for which GST was supposed to be paying," Mr Meyer said.

"The well is going to run dry some day," he said. "Now is the time to oppose them and show the Government what we feel about it. They must represent us the way we want them to."

He has called on all interested parties, including those who have started their own petitions, to join forces.

Mr Meyer can be contacted at (011) 957-2919.

(320) ARG 27/8/91

Tax relief blow for savers

DEREK TOMMEY

JOHANNESBURG. — Savers can wave goodbye to hopes of getting special tax concessions on their interest payments.

Banks and building societies can wave goodbye to hopes of getting a more level playing field in their fight with life insurance companies.

This emerges from an address by Dr Japie Jacobs, special economic adviser to the Minister of Finance.

Dr Jacobs is chairman of the Committee on the Promotion of Equal Competition for Funds in Financial Markets, better known as the Jacobs Committee.

However, Dr Jacobs had one pleasing point for financial institutions.

He said the authorities were not in favour of using them as a milk cow for deserving and socio-economic projects.

Dr Jacobs said the government was often criticised for not using tax incentives to promote savings, and referred to its investigation earlier this year of a final withholding tax on interest income accruing to individuals.

But the difficulties of implementing it had for all practical purposes eliminated its use — which was to be regretted, he said.

It might have been advisable to have retained the building societies' tax privileges in order to finance houses.

But the elimination of the differences between banks and building societies had made such an option unworkable.

Referring to the call by banks and building societies to compete on a fairer basis with insurance companies for the public's savings, Dr Jacobs said it was not possible to escape the verdict of the market place that interest-bearing financial assets were unattractive savings vehicles in the present environment.

But the suggestion that the competitive disadvantages of banks and building societies could be overcome by granting them the same freedom to invest as the insurers had little practical merit.

He referred to the argument that the insurance companies had an advantage over deposit-taking institutions because, while taking in deposits, they did not have to keep the same reserves as banks and building societies.

Dr Jacobs said payments to insurance companies were not regarded as deposits.

In addition, steps had been taken to prevent insurers marketing investment products which provided a policyholder a maturity, surrender or loan value within five years.

This was based on liquidity considerations as seen from the investor's point of view, and was regarded as a workable solution.

The insurer was also unable to guarantee the investor a certain return.

Dr Jacobs indicated that he could be in favour of lightening the tax on insurers.

According to the "trustee principle" their average rate of tax should be the same as that of their policyholders, he said.

But they were paying the maximum marginal rate of 43 percent.

Dividends were taxable in their hands, though not in the hands of other taxpayers, and expenses werenot fully allowed for.

"It seemed inconsistent that the government, on the one hand, provides tax incentives for certain savings such as contributions to pension funds and annuities, and, on the other, imposes taxes aimed at reducing the net effect of these tax incentives."

Dr Jacobs said there were growing calls for financial institutions to provide funds for the upliftment of the underprivileged.

"It is necessary to stress that savers would by-pass those institutions or, even worse, save less, if interventionist policies exposed financial institutions to undue risks.

"It would be better to use existing specialist institutions to address these gaps in the provision of finance."

■ The financial services industries could be self-regulated rather than controlled by the public sector, Minister of Finance Barend du Plessis has hinted.

This could come about with the establishment of a Financial Services Act, which would require all providers of financial services to register and state the nature of their activities.

Opening Old Mutual's twin showpiece buildings in central Johannesburg he said regulatory principles should be based on market forces.

goods will be affected.

A prediction that the rand will weaken against the dollar would indicate

with excessive debt will not be significant.

● **Private consumption expenditure (PCE).**

are aware that the different sectors of the JSE are affected by varying CPI rates.

a company, the analyst has a solid foundation to start predicting future performance.

VAT cut could help to curb inflation

Star 27/8/91

Finance Staff 320

The tax adjustments announced last week by the Minister of Finance could result in the consumer price index rising less in the short term than would otherwise have been the case, says Sanlam's chief economist, Johan Louw.

"As far as the switch from GST to VAT is concerned, the envisaged recomposition of the consumer price index makes it very difficult to determine the net effect of this change. At this stage, we think it should bring about only a small once-off increase in the inflation rate."

Mr Louw adds: "The higher petrol price and excise duties, on the other hand, are expected to cause this rate to rise further by an estimated 0,7 percent percentage point in September. (The forward and backward linkage effect could push the inflation rate still higher in time).

"All in all, we foresee that the inflation rate (after the tax adjustments) will be just over 14 percent by the end of the year. For 1991 as a whole, we estimate a figure of between 14,5 percent and 15 percent This could decline to an average rate of about 13 percent in 1992," Mr Louw says.

Meanwhile it is reported that the knock-on effect of the VAT rate reduction will cost business millions.

Particularly affected are retailers, and Woolworth's financial director Mr Ray Schur said yesterday it was unfair of the government to spring the change with such little time left.

"While we are absolutely delighted from the consumer point of view we have less than six weeks to do what we have just spent the last six to nine months doing," he said.

"We have already spent a great deal of money on the transition and it will cost a great deal more to adjust to the 10 percent rate," Mr Schur said.

Pick 'n Pay chairman Raymond Ackerman said he was "jubilant" because the new rate was in line with what he had originally called for.

He said the re-adjustment would cost the company up to R500 000.

"We are going to have to renegotiate with every single supplier around the country. Our buyers are going to have to work around the clock and it is going to be a hell of a job," Mr Ackerman said.

Checkers managing director Mr Sergio Martinengo said the the switch would probably cost the company R250 000.

Consumers need pre-VAT plan to assuage pain

320

Star 27/8/91

By Paula Fray

THE STAR VAT WATCH

10% VAT

Consumers need to structure a "pre-VAT plan" to assess the effect the new tax system will have on their cash flow from September 30, says financial planning manager Martin McAusland.

Mr McAusland, of the accounting firm Price Waterhouse Meyernel, said the introduction of value added tax would add fuel to the fire which was melting the purchasing power of South African salary earners.

"VAT is going to add considerable pain to the scorching effects of high inflation, high personal taxation and fiscal drag that people are already suffering," Mr McAusland said.

"With average pay increases falling way behind rising costs, consumers will just have to make further lifestyle sacrifices and let their living standards slide further."

Mr McAusland advised consumers to structure the "pre-VAT plan". Breadwinners and consumers, he said, did not realise how severely VAT would hit their pockets.

"Companies have been planning for and learning about VAT for several months, but most individuals have done nothing," he said.

"Regardless of their incomes, all South Africans should budget for VAT and be prepared to live smarter or more frugally."

He stressed that the imposition of VAT on telephone accounts, short-term insurance premiums, electricity, water and sewerage charges, fruit and vegetables, fresh meat and fish as well as medical services would impact heavily on disposable incomes.

By adding 12 percent to July's costs of items to now be covered by VAT, people could ascertain the approximate effect on their October budgets, excluding inflation.

"Everyone is just going to have to live a lot more prudently in future," he said.

'Govt must account for taxpayers money'

Star 27/8/91. (226)

Staff Reporter (320)

A Johannesburg man who believes it is time for the Government to be held accountable for the way in which taxpayers' money is spent has begun campaigning for the start of a national taxpayers' group.

Mervyn Milner was so incensed by the reaction of a local councillor whom he approached for assistance against the initial high rate of VAT that he decided to take a public stand.

"I, as an individual, will feel the pinch ... and no-one is doing anything about it," Mr Milner, an insurance broker, said.

Since speaking on a local radio programme he has received several calls from members of the public who support his wish to start an "United Taxpayers Front".

According to Mr Milner, such an organisation would strive to make the Government accountable for its financial actions.

It would also make the taxpayers trustees of their own money — restoring taxpayers as the employers and Government officials as the employees.

The ultimate aim was to form a taxpayers' lobbying group which could put pressure on the Government and eliminate the wasting of money "on what is not regarded as a priority".

Mr Milner is organising a meeting where members of the public can express their views.

● Anyone who is interested or can assist, can contact Mr Milner at (011) 615-4997.

Last-minute changes to property VAT

(320) CT 28/8/91

UMTATA. — Last-minute changes to Value-Added-Tax affecting the property industry has seriously complicated the administration of the VAT system, tax specialist Michael Stein said yesterday.

In terms of the amended proposals, new houses completed before September 30 would be exempt from VAT provided they were sold subject to transfer duty before March 31 next year, he told the annual convention of the Institute of Estate Agents at the Wild Coast in the Transkei.

Land sold for building purposes by registered vendors by March 31 next year would be subject to VAT of 6% as well as transfer duty, instead of the new 10% VAT.

Houses built and sold after August 21 but before December 31 would be subject to VAT of 3%. Six percent VAT would be charged on houses sold after August 21 if they were built between January 1 and March 31 next year.

"In spite of the government promising the business community a full six months to prepare for VAT, it was still tinkering with the system only five weeks to go before its introduction," Stein said.

The delay had caused even more pressure from groups to push for more concessions and demands, which could now seriously undermine the effectiveness of the new tax, he added. — Sapa

Revenue trend alarming — Stals

320

CT 29/8/91

Own Correspondent

JOHANNESBURG. — The deep recession has taken its toll on government revenue with personal income tax and company taxes lagging far behind budgeted estimates.

The sluggish revenue has caused concern in official circles, with Reserve Bank Governor Chris Stals describing the revenue trend as "alarming".

An analysis by Bankorp economist Emile van Zyl shows the increase in revenue from company taxes, non-gold mines and individuals was only 2,5% for the period April to June. This falls far short of the budgeted increase of 19,3%.

"Revenue from these categories would have to increase by 22,8% for the rest of the fiscal year to catch up with the Budget estimates. That is a tall order during a recession," Van Zyl said, predicting a shortfall of about R3,5bn on income tax. He added that the Budget estimate for personal income tax (27,2%) seemed especially optimistic.

A breakdown of revenue patterns is not yet available for July, but overall revenue rose by less than 2% for the period April to July. The budgeted increase is 11,1%.

The recession is knocking government revenue because of lower growth in company profits, unemployment and lower wage increases. United economist Pierre Morgenrood said a decline in economic activity immediately implied a slowdown in revenue if tax rates remained unchanged.

Company profits rose by an annualised 10% in the first half of this year compared with 13,5% in 1989, according to the Reserve Bank Economic Report. GDP fell by 1% in the first half of 1991 from 1990.

Economists said government's main hope of averting a higher deficit was if the yield from VAT exceeded expectations. Some feared that the loss in revenue due to the lower rate might not be offset fully by the higher fuel levy, as the petrol tax could also be affected by a sluggish economy.

The deficit could also be contained to close to the budgeted 3,4% if a tight rein is kept on spending. Spending rose by about 14% in the first four months, against a budgeted 13,7%.

Morgenrood notes that social spending is ahead of Budget. Planning, provincial affairs and housing has spent more than 40% of the budgeted allocation, while own affairs, education and training and development aid are also ahead of Budget. Protection services are below Budget.

Stals pointed out in his speech this week that the deficit in the first four months of the fiscal year was "no less" than R5,6bn, or 55% of the total budgeted deficit for the year as a whole — compared with 35,7% at the same time last year.

Stals said: "Of greater concern from a monetary policy point of view, is that the deficit was financed to a large extent by an increase in the net claims of the banking sector on the government."

Lower-income homeless will be hit by new tax

320

By Ali Mphaki

THE implementation of VAT will make affordable housing in South Africa a mirage, vice-chairman of the Witwatersrand Network for the Homeless, Mr Thami Mncube, said yesterday. Sowetan

Mncube said it was a tragic and telling indicator of the Government's priorities at this time that it had not seen fit to protect lower-income homeless people from the negative effects of VAT. 29/8/91

He said that tax mechanisms should be devised to provide as much help as possible to this sector to lessen, not further exacerbate, the crisis of homelessness.

"By taxing land, labour, administrative overheads, the present cost of serviced land and housing, already beyond the means of 70 percent of urban dwellers, will be increased by up to seven percent.

It was the organisations' view that by increasing lower-income people's expenses on outlays for transport, food items and recreation now subject to tax, will diminish their already meagre disposable income.

"They will have even less money for decent housing," said Mncube.

The organisation called upon the attention of all interested bodies to the "unfortunate" effects of VAT on the issue of housing the homeless.

"It is in the immediate and long-term interests of the whole society, and not only homeless people, that all efforts be directed to helping achieve secure affordable housing for millions of homeless people.

"The implementation of VAT as proposed is counterproductive to this," Mncube added.

THE STAR
VAT
WATCH

10% VAT

Lawyers fees and VAT clarified

Star 29/8/91.

320

By John Miller
Starline

The amount of VAT to be charged to legal clients will be left to each lawyer and his conscience, says the president of the Transvaal Law Society, Dr Antonie Gildenhuys.

However, he does point out that anyone who needs a lawyer or legal advice must shop around.

If a legal matter is in process before September 30 and concluded afterwards, VAT is only applicable on the amount of work done after that date.

Clients dissatisfied with the amount charged can and should contact the society in Pretoria who will appoint an assessment committee to investigate the charges and if need be reduce the amount.

Each month the society receives about 10 complaints from clients who believe they have been overcharged and one a month of unethical overcharging.

Dr Gildenhuys said: "With a few exceptions, attorneys do not work according to fixed tariffs but negotiate a reasonable fee for each job."

He said clients are entitled to ask and be told how the attorney arrived at the amount and what provision had been made for VAT.

Subscribers to The Star to pay VAT

Star 29/8/91 320

Staff Reporter

Home deliveries of The Star will fall within the wide net of value added tax when the new system comes into effect on September 30.

However, readers who subscribe before VAT is implemented next month can save on their VAT payments and on the full cover price.

According to The Star's circulation director Graham Bird, deliveries to subscribers will now be taxed.

"Previously, subscription rates were structured so that GST was payable on only a portion of the overall rate and was excluded from the delivery fee," Mr Bird said.

The introduction of VAT meant tax was now payable on the entire rate, he said.

The increase in subscriptions as a result of VAT would be between R1,70 for a three-month subscription of The Star Monday to Friday and R7,56 for a 12-month, seven-day subscription.

According to Mr Bird, the cost of The Star sold on streets and in outlets — including in TBVC states where tax was not collected previously — will not change.

Cosatu to lobby FW if Barend fails them

Star 29/8/91

The Congress of SA Trade Unions will seek an urgent meeting tomorrow with President de Klerk if Finance Minister Barend du Plessis does not respond to serious grievances about VAT, according to a Cosatu statement.

Cosatu's VAT co-ordinating committee, elected at last Wednesday's VAT summit, held its first meeting yesterday to consider steps to be taken to postpone the implementation of the tax until shortcomings in the system had been resolved.

The committee said it had written to Mr du Plessis detailing the problems with VAT, but to date he had not responded.

The committee would also request a meeting with Health Minister Dr Rina Venter and had planned a second VAT conference on September 23 to review progress in negotiations with the Government.

Meanwhile, the committee would challenge Mr du Plessis to a live TV debate on VAT, and it urged the public to write open letters on VAT to the Government.

Tax experts would combine proposals already submitted by organisations in the protest against VAT, and Cosatu would organise public meetings.

The statement listed 18 organisations supporting anti-VAT action. — Sapa.

Barend becomes the 'playground bully'

South 29|8 — 4|9|91 (320)

MINISTER of Finance Barend du Plessis is the latest "playground bully".

With a month to go before VAT is introduced, the fight is on to keep toddlers out of his clutches.

Educationists have estimated that VAT will increase the monthly cost of educare by up to R30 a child at schools and creches affected by the new tax.

Parents and educare workers were this week collecting signatures for a petition calling on Du Plessis to give VAT exemption to all — and not just some — educare institutions.

Mr Norman Patterson, Department of Inland Revenue director of VAT, said this week that only pre-schools recognised by education authorities and departments would be exempted from VAT.

However, he added, pre-school centres with an annual turn-over of less than R150000 would not be required to register.

KEEPING THE FISCAL FABRIC INTACT

FM 30/8/91 (320)

As the September 30 deadline for the implementation of VAT drew closer, so did pressure on government to make major concessions. It would be a mistake to suppose that all the pressure came from black radicals; VAT has attracted the resentment of middle-class whites too, especially in relation to medical costs.

The prudent observer also has to say that the full implications of the coming of VAT for SA politics and macro-economic stability will be properly discernible only over time.

With these qualifications, it can be said that the decisions announced last week by Finance Minister Barend du Plessis do at least ensure that the essential fiscal fabric of VAT is still intact. There are many courses that could have been taken which would have had dangerous implications for fiscal policy and for public finance. These, at any rate, have been avoided.

Government's package comprised in effect a reduction in the VAT rate to 10% (from 12% legislated), the loss of revenue to be compensated by a hefty increase in the petrol price by 13c/*l* and diesel by 8c/*l*; increased excise duty on luxury goods (at rates still to be announced); and marginal concessions on medical expenses.

Expenses incurred in public hospitals have been exempted — coupled with a 10% increase in the means test to qualify for the lower tariffs at public hospitals. The hospitals will still have to pay VAT on their inputs, but the patients will not have to pay anything.

There will also be a technical amendment to the VAT Act to make it clear that medical aid funds will not have to register, nor to levy VAT on fees, nor be entitled to an input tax credit on inputs related to medical services and medicines provided for their members.

Government has stuck to its guns in refusing to zero rate a whole list of foodstuffs, as urged by unions and consumer bodies. As a quid pro quo, an additional R150m in social relief has been announced. Government has conceded that union fees will be exempt, on the premise that unions — other than "traditional unions" — in the end will mainly provide similar benefits and services to their members.

Also left over for further negotiation with local authorities is the sensitive issue of exempting property rates from VAT. Government had conceded the point, but the local authorities then discovered this was a poisoned gift — because of the administrative expenses in separating out this form of revenue from revenue receivable for municipal services such as water and electricity.

Another rationalisation announced was that all coins designated as legal tender (including the Krugerrand) have been zero rated. There have also been some transitional concessions on house purchases.

In defending its position, government knocked down three possible alternatives:

- ☐ To abandon VAT and retain GST. Government points out that this choice would deprive SA exporters of the important advantage of a zero rating. (Incidentally, this method of assisting exports has the blessing of Gatt.) The *FM* would add that the loss of fiscal and political credibility would have been disastrous;
- ☐ Postponement of VAT by, say, six months. This would have caused a loss of administrative momentum, as well as causing a further hiatus in making investment decisions. Postponement would not have made it possible to dodge the basic issues in the end; and
- ☐ Introduction of a variety of VAT exemptions and zero ratings to assist the poor. This approach would have caused VAT to slide along the same path that has largely destroyed the effectiveness of GST, while the benefits would mostly not go to the really poor.

The *FM* understands government's reasoning on all these points and accepts the decision to reduce the VAT rate to 10% as preferable. What has been done (minor technical juggling excepted) has been to substitute other forms of indirect tax (liquid fuel and excise) for VAT, itself an indirect tax.

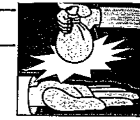
Though it may be argued that a petrol tax is regressive, because of the wide use of taxi services used by blacks, the fact remains that petrol is still lightly taxed in SA by international standards and the real price of petrol has drifted sharply lower over the past decade. A tax on petrol is easy and cheap to collect and evasion is impossible. Economy in the use of petrol also benefits the balance of trade. It may also be said that it is difficult to oppose higher excise duties on what are seen as luxury goods in the present social context.

The new calculations allow an estimated gross loss of about R1,4bn with VAT at 10%, compared with the position with VAT at 12%, but partly offset by an estimated gain of R890m on fuel and excise taxes, to leave a projected net loss of around R500m for the half year.

All the VAT estimates, arguably, have not allowed enough benefit from increased collections compared with GST. GST had become such a blatantly evaded tax that the substitution of VAT could quite easily achieve a net gain of many hundreds of millions through a major reduction in evasion levels, depending on the extent to which there was double taxation within the GST.

VAT's last chance

FM 30/8/91 (320)



Pierre du Toit is senior tax partner at Arthur Andersen

VAT is fighting for its life. There is no doubt the system is far superior to GST. Despite limited resources, the Directorate has mostly been doing an outstanding job technically. Yet there is a problem: the political handling of its introduction. And this may bring about the greatest fiscal crisis in SA's history.

In a country where a government commission (Vatcom) estimates that almost 50% of the population is below the Minimum Living Level, achievement of the technically desirable, broadly based indirect tax always posed a challenge. To have any hope of success, two elements were vital — consultation and a gradual, balanced pursuit of the objective. We don't know how much consultation there was, but there is nothing gradual or balanced about the process.

Things first went wrong when Vatcom's proposal of a phasing-in of the capital input credit was rejected. This necessitated a starting rate of 12% which, however legitimate in due course, posed an insurmountable political obstacle. Coupled, as this was, with the theoretically sound resistance to nearly all zero rating or exemptions, the destitute — those who do not measure these things in terms of tax theory or even comfort, but rather in terms of survival — were fast being lost to the cause.

There was one last hope — a massive advertising campaign promised substantial, targeted relief on at least food. But it came too late, offered no immediate, practical distribution potential and was a pitiful amount even within the economics of the new tax, let alone in the context of the need.

The initial criticism of degree grew into a popular resistance to the tax as a whole — the classical definition of revolution, it may be noted. Government reacted.

Having expended a huge effort on explaining that a wide range of exceptions on essentials would be unfair in that it favoured rich and poor alike, the totally indiscriminate measure of a rate reduction was offered — which affects the cost of mink and milk in equal measure.

To counter this contradiction, greater excise tax on luxuries was then promised, but by now political contact with the larger SA constituency had been lost completely — the Soweto parent, jobless and seeing his or her family disintegrate under the burden of poverty, has a very different perception of luxury to the Sandton family.

This is no socialist plea, but a statement of *realpolitik:* VAT is our last chance at a broad-based indirect tax.

Can we still save it? Yes, by taking the following route back to real negotiation:

☐ Go back to a phasing-in of the capital input tax credit, possibly selectively;
☐ Use the breathing space to introduce a discount rate and/or extend the zero rating of essentials, temporarily;
☐ Increase and really implement substantial alternative relief; and
☐ As that relief starts to be felt, phase in the input credit while phasing out the temporary exceptions or rate discount.

Not ideal, but business and citizen alike would prefer a gradual process towards a sound tax to the chaos of failure.

FM 30/8/91 (320)

VALUE ADDED TAX

FM 30/8/91 (320)

Chasing tails

Finance Minister Barend du Plessis' tinkerings with the VAT rate were obviously intended to disarm his critics in the run-up to implementation. He may have taken the political pot off the boil — but last week's revisions have created new complications for property transactions.

For the residential property and construction industry, the Minister has introduced a six-month concessionary period which will effectively cushion the initial impact of the tax. Ernst & Young's Charles MacKenzie believes this should address many of the inequities initially contained in the VAT Act. Even so, Building Industries Federation (Bifsa) economist Charles Martin believes that based on the revised VAT rate of 10%, house prices will be pushed up by 2% to 3%.

The house that VAT built

The way they rate

[illegible]	Completion date	Agreement concluded	Rate
Houses	Between Sept 30, 1990 and Sept 29, 1991	Before Mar 31, 1992	Exempt
	On or before Dec 31, 1991	After Aug 22, 1991 but on or before Dec	3%
	During period Jan 1, 1992 to Mar 31, 1992	After Aug 22, 1991 but on or before Mar 31, 1992	6%
	After Mar 31, 1992	Before Mar 31, 1992 After Mar 31, 1992	10% 10%
House building contracts	Before Mar 31, 1992	Before Mar 31, 1992	6%
Land for houses	–	Before Mar 31, 1992	6%

Source: ERNST & YOUNG

MacKenzie explains that one of the biggest problems for home builders, prior to last week's announcement, was that there would be no relief on GST paid on materials used before the introduction of VAT — even though VAT at 10% would have been payable on the property sale. "This was particularly unfair because sellers of other commodities are entitled to recover GST paid on trading stock held on September 30," he notes.

As a result of the revision, a house completed on or after September 30 1990 can now be sold VAT-free until the end of March next year. However, Mackenzie stresses that where such concessions are made on the payment of VAT the buyer will instead have to pay transfer duty.

On the basis of this, MacKenzie believes the only sellers who will lose out will be those who cannot dispose of stock in time, like developers who have over-stocked. He adds that buying land on which to build a house will now attract VAT at 6% if bought before March 31 1992. Here again, sale of the land will attract full transfer duty.

However, he feels the relief is generally most welcome — particularly as buyers of sub-R30 000 sites will pay only 7% (6% VAT and 1% transfer duty). When the land is bought from a private person, full transfer duty of 1% is payable on a R30 000 purchase but no VAT is applicable. "For more expensive land the concession is not significant, as the cost is 9% (6% VAT and 3% transfer duty on the amount of the purchase consideration that exceeds R30 000)."

MacKenzie retorts: "Where companies buy the land the transfer duty is 5% and this, with 6% VAT, pushes the cost to 11% — hardly a concession." He adds that the sale of a house in the course of erection — which is completed and sold before December 31 1991 in terms of an agreement concluded after August 21 1991 — will attract VAT at 3%. No doubt this will result in many existing contracts being cancelled. However, there is a chance that Section 73 of the VAT Act could revoke such cancellations and order payment at the full VAT rate. MacKenzie says that if a house is completed after January next year, but completed and sold before March, VAT will be payable at 6%. Sales on or after March 31 will be subject to full VAT at 10%.

"All housing contracts attract VAT at 6% provided the dwellings are completed before March 31 1992. The Minister did not announce any concessions for the construction of buildings other than dwellings. This is unfortunate, as fixed price contracts concluded before the end of September will attract VAT on the price specified. However, the contractor isn't obliged to pass the benefit of the input credit on to the client.

"While Du Plessis didn't address the question of input tax credits for these sellers it appears that, as the transactions are subject to VAT, a full input tax credit should be allowed."

Bifsa's Martin believes the concessions will provide a cushion during the transition to VAT — and, thereafter, the rate will revert back to 10%. "The result is that VAT will still push up the cost of houses. Worst hit will be the low-cost housing market which can ill-afford any increases. Relief measures in this area are, therefore, a matter of urgency," he argues. ■

The heads of Hydra

(320)

FM 30/8/91

The VAT bungle has given inflation a new lease of life

The battle against inflation must be won in the minds of people. Though the inflationary process was set in motion by excessive monetary demand which started in the Sixties and accelerated when the rand depreciated sharply against other currencies after 1983, its momentum now depends largely on the tide of expectations. This appears to be running remorselessly onwards despite an improvement in some important fundamentals.

For this reason, the way in which VAT has been introduced has proved disastrous. It has given impetus to expectations which are self-fulfilling, at precisely the time when demand for credit is showing signs of subsiding (see p31) and when the rand is relatively stable against a basket of major currencies.

While the tax is sound in principle and is not inherently inflationary, the government failed to develop a strategy for its successful implementation, despite the long period of preparation. Though VAT was expressly delayed to allow time for the necessary structures to be put in place, the transition has been badly mismanaged. To its credit, government has kept the essential structure of VAT intact in the face of continuing opposition — but implementation has deteriorated into ad hoc-ism.

This has happened because of its inability to respond to or, even better, anticipate public sentiment. This is a legacy of a time when the National Party did not have to account for its failures, when it came to power at each election on a platform of blatant racism regardless of its record in any other sphere. The need to nurture public opinion on economic issues has come more recently.

Now, white voters, who have seen their living standards shrink, have become more aware of the part which economic policy plays in their lives. And blacks, who have not yet acquired any meaningful vote, are suspicious of fundamental changes introduced under existing structures — and hostile to a broadly based regressive tax.

What was needed for the occasion was ingenuity, forward planning and skilful political management.

As government has repeatedly been told, the first step should have been tangible pre-emptive poverty assistance, outside the tax system. Early consultation with organised labour, consumer bodies and other organisations would also have been a comparatively simple device for defusing and containing some of the opposition building up against the new system of indirect tax. It would have been time-consuming and frustrating — because many opponents of VAT have political agendas and would prefer making political capital to finding solutions. But a consultative process and an earlier confrontation

continued

would have been preferable to the organised chaos that is now threatening to overwhelm the issue. It would not have dispelled all opposition but would have left time to come to terms with it.

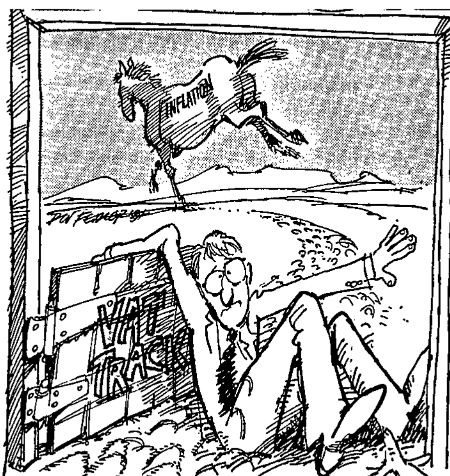
In the same vein, attempts to educate the population about the benefits could have started earlier.

But these palliative measures were not taken until opposition was reaching a crescendo. And they were then introduced with an air of crisis management which erodes confidence and creates uncertainty. Leadership was poor.

And stage management would have been the easy part. The difficult part is deciding the rate at which VAT should be set.

There is always an immediate cost to its introduction and it must be borne where it will do the least damage. Given the importance of inflationary expectations, it would have made sense to choose a level that would have been neutral from this point of view — a rate which, when applied to the broader base than did GST, would not generate a higher rate of inflation.

Standard Bank economics division estimates that at 9%, without any additional measures, such as the 8c-13c/l on fuel and new excise taxes, the rate would have had only a marginal effect on inflation. At 10%, this would rise to 1,2%. While 9% would be ideal, in practice, 10% may be as close as we could practically come to neutrality.



The problem then would have been: how to balance the Budget.

The Budget review, published in March for 1991-1992, projected that GST for seven months and VAT at 12% for five months would produce a loss of R910m against GST at 13% for the full year. A revision of budgeted projections, to take into account the changing circumstances and reduced revenues that materialised from GST over the intervening period, as well as VAT at 10%, showed that an additional loss of R1,4bn will be incurred by the change.

These figures, of course, can only be a rough estimate. Among other sources of confusion is the uncertainty about the extent of funds which have flowed out the GST loopholes now to be closed by VAT (see box).

But, given the size of the budgeted shortfall in revenue, expenditure would have to be cut accordingly. This appears a major problem at a time when huge socio-economic demands are being made on the fiscus. And only people with full access to the accounts of government would be able to say precisely where the cuts could be made. Without insights into State expenditure one can only work with information available to the public, to make suggestions as to where economies could be made — secret accounts, for instance. Though government says it has discontinued its funding to Inkatha, there are doubtless a range of

Continue

Business Report

Difficult to bring relief to poor through taxes — govt

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Own Correspondent

DURBAN. — It is very difficult to bring relief to the poor through the tax system the Deputy Minister of Finance and National Education, Dr Theo Alant, said yesterday.

Speaking in Durban, Alant said a tax such as GST or VAT could have a serious effect on the poor and with this in mind a number of measures had been taken to relieve the effects of the introduction of VAT at the end of September.

Included in these measures were the zero-rating of maize and brown bread, two basic foodstuffs used almostly exclusively by the poor, the exemption of transport, renting houses and all educational services.

He said other measures included targeted assistance while Finance Minister Barend du Plessis had last week announced that all medical services and medicines supplied by the state, provincial and local authorities would also be exempt from VAT.

Alant pointed out these services were already heavily subsidised by the state and met the needs of about 80% of the population.

With regard to foodstuffs, Alant said it had been decided to exempt only two basic items, after it was found that under the old GST system most of the exemption benefits were enjoyed by people who could afford to pay tax.

He said the exemptions under the GST system cost about R3bn.

With regard to assisting the poor Alant said much greater use would be made of direct assistance to the needy in the form of food being made available through welfare organisations.

"An amount of R220m will be spent between now and the end of March next year," he pointed out.

Citing examples of the inadequacies of the old GST system Alant said that more than 80% of the benefit of exempting certain foodstuffs was enjoyed by those who could afford to pay tax.

"Put differently, this means that R5 was spent to get R1 worth of aid to the poor."

The same he said could be said about exempting housing because the wealthy spent money on luxury homes and seaside holiday homes while many of the poor could not even afford the most basic shelter.

Alant said that while a lot of noise was being made about the introduction of VAT by various people and groups opposed to it, it was unfortunate they did not make use of the opportunities afforded to them to consult with government or the Department of Finance on the issue.

"There has never been so much consultation in South Africa about a tax system as there has been with VAT. It started with the appointment of the Margo Commission in 1984 which culminated in the Commission's Report in 1987 and the government's announcement in February 1988 that VAT was to be introduced," he said.

"The widest publicity was given to VATCOM's task and everybody in South Africa was invited to participate in the proceedings. A great number of people and organisations accepted this offer and more than 122 amendments were made to the bill as a result of VATCOM's recommendations," he stressed.

"There is nobody in South Africa that can say that he or she did not have the opportunity to express an opinion or make suggestions about the VAT system to be introduced on 30 September 1991," he added.

Despite VAT being paid on more items, Alant said the rate was considerably lower than GST and the effects of tax on tax would be eliminated.

However he said while VAT could cost consumers a few rand extra in October, there was no reason to believe the effect on the consumer price index would be more than 1%.

"Because VAT will lower business costs once it is introduced it will have a beneficial effect on prices and in the long run it will help us to reduce the inflation rate," he said. — Sapa

CT 30/8/91

Cape Times, Friday, August 30 1991

Customers will get help with new tax

Sowetan

30/8/91

320

By JOSHUA RABOROKO

WHILE speculation on the effects of VAT is rife, many consumers still do not even fully understand the ins and outs of the new tax system.

To help customers, two companies - Woolworths and Sales House - have embarked on a comprehensive VAT education campaign which, if not equipping every customer with all the details of VAT in their daily lives, will certainly help them as far as their retail purchases are concerned.

To ensure that the messages they are displaying at all their points of sales are fully understood and retained by customers, Woolworths has published an A-Z guide to the tax, available at all till points.

In addition, consultants have been appointed at every store to help customers who require further explanations.

The programme, hailed by customer councils as one of the most comprehensive to be instituted by any retail chain in South Africa, is the brainchild of Mr Ray Schur, newly-appointed financial director of Woolworths.

He has assembled a committee of nine in-company executives, each a specialist in particular areas of merchandising.

The nine members represent systems and procedures, stores, buying, suppliers, franchisers and exports, and communications.

"The question uppermost in all South African customers' minds today - and the one that has been least addressed up to now - is: 'What are the changes that VAT will make to my daily purchases?'

"This has been a priority in the Woolworths communication on VAT ands its implications," he said.

With the recent reduction in VAT, retailers now need to begin re-educating their consumers, says Sales House managing director Mr Ian Thomson.

Cosatu to see De Klerk on VAT

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Sowetan 30/8/91

COSATU will seek an urgent meeting today with State President F W de Klerk if Finance Minister Barend du Plessis does not respond to serious grievances about VAT, according to a statement released yesterday.

Cosatu's VAT co-ordinating committee, elected at last Wednesday's VAT summit, held its first meeting on Wednesday to consider steps to be taken to postpone the implementation of VAT until shortcomings in the new tax system had been resolved.

Problems

The committee said it had written to Du Plessis detailing the problems with VAT but to date, he had not responded.

The committee would also request a meeting with Health Minister Rina Venter and had planned a second VAT conference on September 23 to review progress in negotiations with the Government and to decide on further steps.

Challenge

Meanwhile, the committee would challenge Du Plessis to a live TV debate on VAT and it urged the public to write open letters on VAT to the Government.

Tax experts would combine proposals already submitted by organisations in the protest against VAT, while Cosatu would organise public meetings in major centres. - *Sapa.*

WORM'S EYE

Steven Friedman

How not to promote a new tax system

W/Mail 30/8-5/9/91. 320

CAN rulers who can't negotiate a tax negotiate a new society?

The great Vat row offers some interesting pointers about the way in which the government hopes to reach its "new South Africa"; it may partly explain why the ride is so bumpy.

The government, having announced tax measures it insisted were the most efficient available, has been forced to alter them in the face of pressure.

This cannot have helped create the investment climate it wants, since investors prefer to know that measures which are announced won't be changed. They cannot now be certain that any future plan the government announces will be implemented.

Even this might have been a gain for the government had it ended the pressure. But it hasn't done that either. So the Vat changes signal that the government is open to pressure — but will not react in ways which make the society more stable.

One reason may be that it handled "negotiation" on Vat in the same way it has been handling some other changes. In reply to claims by unions and resistance movements that it had simply imposed the tax, it replied that it gave them every chance to comment but that they didn't bother.

This may have something to do with the tendency in resistance politics to react to most government plans at the last minute. But the more important point is the way in which the government chose to "consult" them. Having announced its plans, it invited "interested parties" to comment.

Those who are now threatening to derail Vat didn't.

Resistance movement activists insist that this had nothing to do with incompetence: they refuse on principle, they say, to comment on anything which is presented to them in this way.

They say they are presented with plans devised by a government whose legitimacy they don't accept and are then invited to react — without any guarantee that their view will be taken seriously. This is not negotiation, since it assumes that the government is free to ignore its negotiating partners if it wishes.

A negotiated approach to Vat or anything else would have meant putting the proposals to political and interest groups and trying to reach agreement with them before it was announced. An agreement may have guaranteed stability and certainty. And, if the government's negotiating partners then threatened resistance, they could be accused of bad faith.

The way in which the government announced its changes strengthens the claim that it isn't interested in this sort of negotiation. By making the announcement the day before a meeting of unions and other groups to discuss the tax, it signalled that it had no interest in the meeting's outcome: even had it scrapped Vat, those who attended would have been forced to protest.

One explanation may be that the government is determined to show that it is fully in control. But a key change to Vat was made in March when the International Monetary Fund suggested it. And it was made so late that the budget had to be changed after it was printed: it took a while to discover what the government was really spending.

This suggests that the government is willing to surrender control to the IMF but not its negotiating partners — and that its reaction has more to do with its political strategy than with "sound tax planning".

It may also be determined not to be seen giving in to demands for "interim government" — or handing power to its opponents. But employers who negotiate with unions haven't handed over the factories: some insist that negotiation helps them to avoid that.

If anything, the strategy may convince its partners that they have a choice between interim government and being ignored: that will increase rather than reduce the pressure. A willingness to negotiate on key policy issues may be the government's only chance of avoiding interim government.

It may also be avoiding negotiation before the multi-party conference to increase incentives for joining the conference.

But movements used to using "mass action" as a first resort won't abandon it in the hope of being heard once the conference starts. And there is no sign that a refusal to negotiate now will persuade those who reject the conference to change their minds. The strategy might simply ensure that the conference begins in a more difficult, unstable, climate.

As long as the government pursues this strategy, it runs the risk that anything it announces will trigger conflict — and avoiding negotiation will continue to be a source of weakness rather than strength.

●*See Reg Rumney on PAGE 23*

NEXT WEEK: Ameen Akhalwaya

Forget the squabbles, Vat is tops

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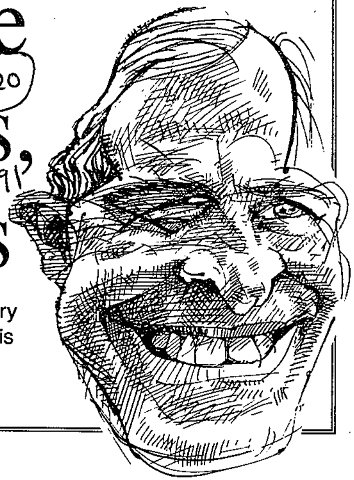
W/Mail 30/8–5/9/91

Despite the growing sound and fury over Vat, **REG RUMNEY** is standing his ground: Vat is in principle a much fairer tax, he argues in this provocative article



FIRST, forget for the moment the political arguments about Vat. Put aside, too, the claims that the government has bungled in its implementation.

Clear from your mind the emotion whipped up by lobbyists who have their own interests at heart as much as the consumers; of fury from motor-car mad South Africans for whom a rise in the petrol price is a blow worse than higher income tax.

Vat is a better tax and we will sooner or later follow the world trend in adopting it.

It is also not an entirely new tax. It replaces GST, to which it is similar. But it has refinements which make it harder to evade and make evasion less effective.

What Vat does, as opposed to GST, is to levy tax all along the production line, right to the consumer.

The consumer still pays the tax, now 10 percent. But part of that 10 percent has been levied already.

Take a look at the following example of how Vat is collected, taken from the *Ernst and Young Practical Guide to Vat:*

	Price excluding Vat	Vat	Selling Price	Tax Payable	Paid to Receiver By
Farmer sells peas to cannery	100	10	110	10	Farmer
Cannery sells canned peas to wholesaler	150	15	165	5 (15-10)	Cannery
Wholesaler sells canned peas to grocer	250	25	275	10 (25-15)	Wholesaler
Grocer sells cans to housewife	300	30	330	5 (30-25)	Grocer
Vat borne in 4 stages				30	
GST only at retail level also at 10 %				30	

Prices above all in Rands.

Because Vat is collected all along the production chain, the consequences of evasion are diminished.

What if the grocer in the above example, for instance, doesn't charge Vat — or even pockets it? That this is frequent under the Vat system is common cause.

With GST, the Receiver would have lost R30. Under Vat, only R5 will be lost.

In theory, Vat at 10 or even 12 percent should have no inflationary effect at all.

This is because businesses under Vat will be able to claim back the tax they paid on their machinery and the goods bought to make things — counting them as Vat "inputs". They can't do this under the GST system.

The savings they make they ought to pass on to consumers.

Widespread consumer opposition to Vat, particularly among whites, appears to coalesce around deep doubts that these savings will be passed on. It has been stressed that the Vat-watch body will be on the lookout for businesses which do not pass on the benefits of having tax on capital and intermediate goods counted as inputs, and will act against them.

But even if businesses do use the opportunity to push up prices, this should be a one-off effect.

Vat should have no long-term effect on inflation. In a background briefing to the announcement of the Vat reduction, Michael Katz, a tax advisor to the government, mentioned a study of 35 countries which had introduced Vat. The study found that Vat had had little or no effect on inflation in 22 of the countries, or 63 percent.

The savings on input tax have another important advantage, and one which makes it imperative to introduce Vat now.

Many economists believe South Africa has, or is reaching, the bottom of the downswing in the economic cycle. An export-led boom, they say, should begin sometime next year.

This, the argument goes, makes it imperative to introduce Vat now with full inclusion of capital and intermediate goods at Vat inputs.

South African exporters labour under the disadvantage of a high cost of capital. One reason for this is the GST system, which taxes their capital goods purchases. In order for them to compete successfully in manufactured exports, this tax must be removed — particularly as manufacturers in other countries we compete with don't pay tax on their capital goods.

South Africa needs to export more, particularly of manufactured goods, to have higher economic growth. This in turn will mean more jobs and higher living standards for all.

The question is also asked: If Vat is so much more efficient than GST, why did it have to be pitched at such a high rate? If more items will be taxable, why couldn't it have been lower than GST in the first place?

The answer lies in the government's decision to include in the Vat system inputs on capital goods at a stroke, instead of phasing this in.

Another argument of principle used against Vat is that it is regressive, *ie* it hurts the poor more than the rich.

It could equally be argued that a broad-based consumption tax like Vat is profoundly socialist in that it taxes the rich more heavily than the poor. The rich consume more, and they therefore pay more tax.

More importantly, as Katz stressed, it is not enough to look at only one tax. One must look at the totality of the tax structure. Government spending on such things as welfare programmes must also be taken into account.

Also, at the same time as introducing VAT the government has committed itself to lowering personal income tax over a period of three years. It could be argued that not enough is being done to address "fiscal drag" — the phenomenon by which inflation pushes up the nominal amount of salaries so that people are pushed into higher tax brackets and end up worse off. The tax tables, for instance, were not adjusted this year. If more money is raked in through indirect tax, it should be easier to drop income tax.

The most important accusation against the government in its handling of Vat is that it did not put a comprehensive programme in place to alleviate the introduction of Vat on foodstuffs.

Clearly, this will hit the poor hardest, because they spend a high proportion of their income on food and this will now be taxed. Du Plessis did promise more money would be forthcoming once the R220-million in poor relief that has been promised had been used. But no detailed programme is in place to disburse this money. Vat will have an immediate effect, and the programme should have been up and running.

All those concerned with the plight of the poor should push for the speedly implementation of such programmes.

Cosatu warns of social and industrial conflict

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Weekend Argus Correspondent

JOHANNESBURG. — Cosatu has warned the government that it would be responsible for industrial and social conflict which would follow if it continued "politicking" instead of addressing the concerns of a wide range of South Africans on value-added tax (VAT).

Cosatu had distributed letters to employers and staged demonstrations expressing dissatisfaction at the government's intention to introduce VAT, said spokesman Mr Neil Coleman.

It "could develop into serious industrial action if all other avenues have been exhausted".

Amid the programme of action decided on by the co-ordinating committee on VAT, the union federation remained committed to industrial action, said Mr Coleman.

Cosatu also responded with dismay to Deputy Minister of Finance Mr Theo Alant's allegations last week that the government had not received representations on VAT from parties and organisations "now accusing the government of not consulting".

"As far as Cosatu is concerned it is totally untrue to say no representations were submitted on the VAT issue," said Mr Coleman.

Cosatu submitted a memorundum on July 16 concerning basic food and medicine and on July 19 a further representation on trade union subscription and affiliation fees was made.

"Mr Alant's apparent ignorance of these submissions perhaps indicates the lack of seriousness which the government has displayed in relation to people's objections to VAT," said Mr Coleman.

Cosatu's main objections to the new tax system were:

■ The inflationary effect on top of the petrol and diesel price increases;

■ The possible abuse of VAT by the commercial sector to raise prices;

■ The inadequacy of Vatwatch;

■ The administrative cost of VAT, especially for the small business sector;

■ The "inadequacy" of poverty relief granted by the government; and

■ The negative impact of VAT on trade unions.

In another development, the Minister of Finance, Mr Barend du Plessis, this week agreed to meet the Co-ordinating Committee on VAT next Tuesday, said spokesman Mr Bernie Fanaroff.

The committee, formed at the Cosatu-convened VAT summit, asked for the meeting and had threatened to seek a meeting with President De Klerk if Mr Du Plessis refused their request.

At its first meeting this week, the committee formulated a plan of action to oppose implementation of VAT which included:

■ A challenge to the Minister of Finance to debate the issue on television with the committee;

■ A request to organisations and the public to send open letters to President De Klerk and the Minister of Finance asking them to postpone VAT to allow for a proper process of negotiation; and

■ Holding public meetings in major centres.

Mr Fanaroff said that in view of the crisis the impending implementation of VAT had caused, the committee had established an expert group to produce detailed proposals by September 6.

The committee also would convene a second VAT summit on September 23, at which a progress report would be made.

VAT HOTLINE

David Clegg

Near threshold, so register now for VAT

(320) AFG 31/8/91

MR J L HOLT asks : "I run a small retail shop and my annual turnover last year was about R120 000. Should I register for VAT?

As Mr Holt obviously knows, although his turnover has not reached the compulsory registration threshold of R150 000, he can register voluntarily if he thinks it is worth his while. In his position, I think I would. It is quite likely that he will pass the registration threshold before too long and he will be faced with a transition period which is administratively irritating and could be confusing to his customers. As he is already registered for GST, it makes sense to continue the registration for VAT. On the other hand, if Mr Holt was running a service organisation where his biggest costs were employees' salaries and his own time, I would be inclined not to register until it is absolutely essential.

An anonymous questioner has asked, whether when he asks a shop in Cape Town to send goods to his friend in England, it is a "zero rated export sale"

The exact facts are important. I assume that the questioner is buying a gift for his friend and the goods are being dispatched by the shop direct. In this situation, this is not a zero rated sale since the actual delivery of the goods in law is to the local purchaser first and only then to his overseas friend. An export sale is one where the goods are consigned and delivered to the purchaser at his address in an export country.

As I said, the exact facts are important. If a local merchant takes an order as agent for a foreign merchant who has the goods concerned and will deliver them to the recipient overseas, the sale is actually made by the unVAT-registered foreign merchant and VAT cannot be charged. The Cape Town merchant is merely acting as a conduit for the money and will take a zero rated commission on the transaction (because his customer is the foreign merchant and the goods are not in South Africa). Although I am not certain, I image the Interflora arrangement might fall into this category.

A similar situation arises (under the current law) where subscriptions to foreign magazines are dealt with by a local agent.

Must a broker, in respect or commission received by him from an insurer, pay over VAT to the Receiver of Revenue?

No, if the commission is in respect of life policies, as defined in the Insurance Act (section 2(1)(i) read with section 2(1)(n) of the VAT-Act). If therefore the commission is in respect of the Hospital Policy or short-term insurance and such commission amounts to more than R150 000 per year, the broker will have to register and pay over VAT.

☐ **David Clegg is a partner of accounting firm Ernst & Young.**

Vatwatch warning about dual price tags

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CT 31/8/91

JOHANNESBURG. — Consumers should be aware of dual price tags quoting present and post-Value Added Tax prices, Vatwatch chairman Professor Louise Tager said in a statement yesterday.

In one case brought to the attention of Vatwatch, an item was priced at R95,99 excluding GST and R107,51 including VAT.

"This could be misleading to the inattentive shopper who may get the impression that the present price is lower than it will be after the introduction of VAT," Prof Tager said. "In this particular example, the price with GST is R108,46, which is of course higher than the price under VAT."

● Thousands of clothing and textile workers plan to link hands around their workplaces on Wednesday in a "human chain" demonstration to highlight demands on job security and VAT.

The countrywide protest is being organised by the 190 000-member South African Clothing and Textile Workers Union. — Sapa

VAT less than it appears to be?

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CT 31/8/91

JOHANNESBURG. — The effective rate of the Value-Added Tax (VAT) system to be introduced on September 30 will probably be lower than the official 10%, accounting group Coopers, Theron, Du toit and Saico said yesterday.

Business and the public have focused on the consumer rate, and have failed to examine properly the positive effects of input tax deductions on the supply side, the group said.

Its conclusion was outlined in a presentation arranged under the auspices of the monitoring group Vatwatch.

It said South Africans were caught in a typical "Vat-vacuum" in which attention was focused solely on the deduction that a 10% VAT rate meant a 10% increase in those areas where General Sales Tax (GST) was not previously levied, or the 3% point gap between VAT and GST, currently charged at 13%.

What has been largely ignored is the substantial cost cut effects in the production and service supply line, it said.

Companies have mostly underestimated the full impact of eliminating GST on capital and intermediary goods, and the accumulating effect of VAT input credits all along the production and supply line.

In most cases this would be substantial enough to enhance profitability and contain costs to offset some of the VAT effect, according to the presentation.

Many short term insurers for example, previously not subject to GST, have been able to keep premium increases at an average below 5% although they will have to pass on 10% of their premiums to the Receiver of Revenue.

Large capital intensive industries in particular would benefit and they played an important role in the price chain from raw product to retail.

The Department of Finance has calculated that many big capital intensive industries have been waiting for the introduction of VAT to reap the benefit of the deductions on replacing plant and equipment.

Meanwhile, Vatwatch has warned consumers not to be taken in by other cost increases presented to the public as attributable to VAT. — Reuter

Cape Times, Saturday, August 31 1991 17

Tax relief on bonds 'critical'

(320) 31/8/91

DURBAN. — The government must seriously re-examine tax relief on bond repayments, incoming executive president of the Institute of Estate Agents, Trevor Downing, said in an interview shortly after his inauguration.

Speaking at the Wild Coast during the institute's annual convention, Downing said relief to homeowners was critical following the extended run of high interest rates.

He pointed out that of particular concern was the need to halt the number of repossessions of property falling back into the hands of the institutions, which he said was "having a devastating effect on families".

"Most of these homes are being repossessed from people whose only failure was to buy when the interest rate was 12,5%, but now cannot stretch their incomes to cope with 80% higher bond repayments," Downing explained.

He acknowledged government's traditional rejection of tax relief as extended to homeowners in other countries, but points out that the deterioration of disposable incomes had made relief imperative.

"The two-year run of rates hovering above the 20% mark, high inflation and recent fuel price hikes has created serious problems for low and middle income homeowners," he said. — Sapa