

TAXATION - 1991

SEPT.



WELL STOCKED ... Plenty of food in this fridge, but how will the poor manage when more items are taxed?

Helping the poor cope with costs

WHEN designing South Africa's VAT system, the Inland Revenue Department took into account the fact that under GST many foodstuffs were exempt from tax.

An investigation into the effect VAT would have on the needy showed that the GST exemption on food was an ineffective way of helping the poor. *open 11/9/91*

When you exempt an item with the intention of helping the needy you cannot, at the same time, prevent those who do not need help from enjoying the same benefit.

In a full year, South Africans buy more than R19-billion worth of tax-exempt food. The GST which the government foregoes on this food purchase is R2,4-billion.

But the poorest people of South Africa – some 12 million living below the minimum subsistence level – enjoy only 18 percent of the food tax exemption.

Clearly a tax system is not meant to help the poor, so it is better to tax everybody fairly and uniformly and

find other ways of helping the poor.

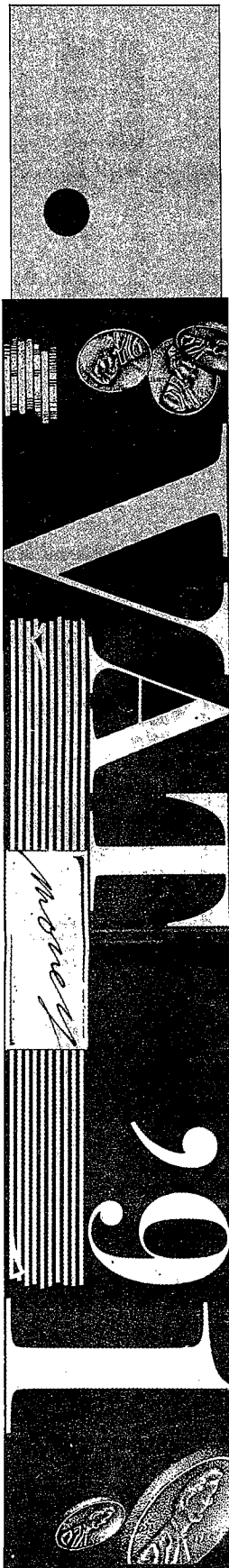
The same argument applies to home-building. To help the needy, we at present have a GST exemption on the labour cost involved in building a house. *(320) (217)*

But it means that the wealthy home-builder who can afford to pay tax, gets a far bigger concession than the poor. *(217)*

This argument, however, does not apply to commuter transport. By making these services free of tax, the government is making a direct concession to people who need help.

The tax-free goods and services under VAT are train, bus and taxi transport, education, and certain foodstuffs – brown bread and maize meal.

Other VAT benefits from which the needy will benefit are the lower tax rate – 10 percent against GST's 13 percent – the elimination of tax fraud, slower price hikes and a reduced inflation rate thanks to the reduced cost of business.



What VAT means to you

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VALUE-ADDED tax (VAT) is the tax consumers will pay on goods and services.

Like GST it is a tax based on the prices consumers pay. But why do we call this "value-added" tax? Well, the name refers to the way in which the tax is collected.

I let us explain by looking first at the way in which GST is collected.

Those goods which a business buys with the intention of reselling them to consumers, are bought by the business free of tax.

When you buy an item from a retail store, you pay 13 percent general sales tax, or GST. So on a R10 item, you pay R1.30 GST. The retail store has the responsibility of passing on your R1.30 tax contribution to the Receiver of Revenue.

In terms of VAT, more people – and not just the retail store – have the responsibility of collecting the tax in stages and passing it on to the Receiver. When a manufacturer makes an item and sells it to a wholesaler, the wholesaler pays an amount of tax to the manufacturer, who sends the tax to the Receiver of Revenue.

The wholesaler in turn sells the item bought from the factory, to retail stores, which pay tax to the wholesaler.

The wholesaler now deducts from this tax which he receives, the amount



Independent tax adviser and author of *Income Tax Made Simple*, MATSHERU, takes a look at what VAT has in store for consumers.

Paying tax on goods, services

inevitable that resistance action we have described here, only 10 percent of the retail price is paid to the Receiver of Revenue as VAT.

This is the 10 percent that consumers have to pay, but to make sure that the government actually receives this money, all the businesses involved in producing and supplying goods pay the Receiver in advance on behalf of you, the consumer.

Each business pays the Receiver only a portion of the tax, and recovers it from the next business in the chain. The last business in the chain – the shop from which you buy – recovers from you the tax which it has already paid on your behalf.

So, in effect, as far as the consumer is concerned, nothing will change. You will still pay VAT, would therefore pro-

hibit that resistance would have hardened and that considerable evasion would occur.

Also, other countries have found that GST cannot be pushed too high without causing distortions in the economy – hence the government's decision to phase out GST in October this year and to replace it with VAT.

Why do tax experts prefer VAT to GST?

■ GST has become extremely unpopular, because of the evasion and distortions it causes.

■ GST has lost its way, so to speak. Food should never have been taken out of the base. It is now internationally recognised that this is not the best way of helping the needy.

VAT, would therefore pro-



LOSING OUT... Companies will no longer to offer tax-free bursaries to the children of employees. Tax-free grants for studying for a diploma or a degree will also go.

factory, and sends the difference to the Receiver. Finally the retailer sells an item to you and charges you tax, deducts from it the tax which he has paid to the wholesaler, and sends the difference to the Receiver. In other words just like the wholesaler, the retailer pays tax on the value he has added to the product. That is why we call it value-added tax.

But the story does not end here. When people hear this explanation, they very often say: But everybody seems to pay — the manufacturer, the wholesaler, the retailer, and the consumer. Surely this means an enormous amount of tax is going to the Receiver?

It doesn't work this way. On the whole trans-

buy, but all the businesses that have handed the item you buy have already paid your tax in advance to the Receiver of Revenue.

The system is, therefore, spreading the responsibility of tax collection over the commercial chain. The main benefit is from which you buy sometimes felt tempted to pinch your tax money and not sent it to the tax man, they can no longer do so under VAT — because most of it will already be paid in advance to the Receiver.

How does VAT differ from GST? GST was introduced in this country in April 1978 at four percent — after which it escalated to 13 percent. At this high rate it was

Bursary perks go

THE tax exemption on bursary schemes offered by companies to the children of employees will be withdrawn from March 1 next year.

Speaking at a "New Tax Legislation and You" seminar, Pat McGurk, a partner in KPMG Aiken and Peat tax practice, said: "Any bursary offered after this date will be taxable, although bursaries awarded before March 1 for the 1992 academic year may still escape tax if they are awarded in terms of the approved rules."

"In some instances it may still be possible to award the bursary in advance without contraven-

he said.

Tax-free grants towards the cost of studying for a diploma or a degree, also fall away from March 1.

"A company can pay the fees of bona fide students studying towards qualifications useful to the company."

"Thereafter, a student failing his or her exams could be obliged to refund the bursary money."

"Occasional Bursaries" of R750 a year awarded to children of workers with incomes below the tax return threshold would also become redundant.

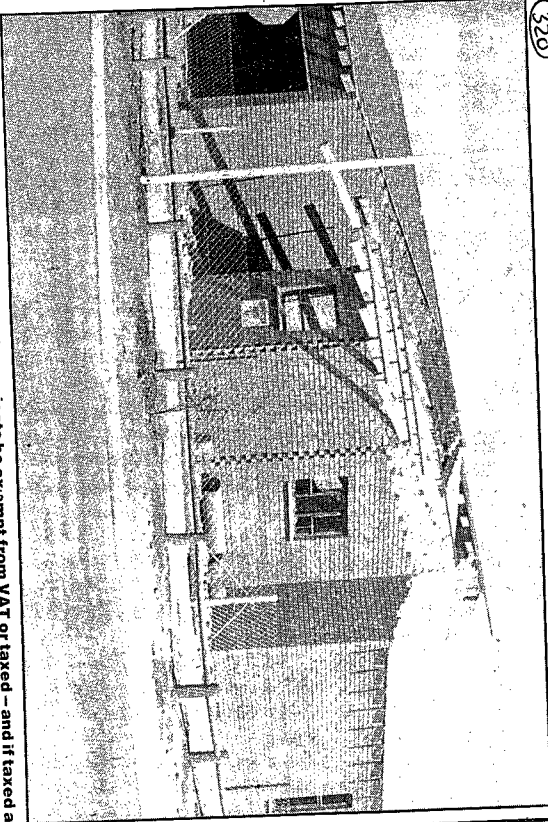
Changes bring complications

April 1991

LAST-minute changes to aspects of the VAT system which affect the property industry will greatly complicate the administration of VAT, says tax specialist Michael Stein.

Addressing the annual convention of Estate Agents this week, Stein said in terms of the amended proposals, new houses completed before September 30 would be exempt from VAT provided transfer duty was paid before March 31, 1992.

Land sold for building purposes by registered vendors by March 31 would be subject to VAT of six percent as well as transfer duty, instead of the new 10 percent VAT. Houses built and sold after August 21, but before December 31, would be subject to VAT of three percent. Six percent VAT would be charged on houses sold after August 21 if they were built between January 1 and March 31 next year. If a building contract for a new house was completed and the house sold



CAUSING PROBLEMS... Will new building projects be exempt from VAT or taxed — and if taxed at what rate? Changes in tax legislation are causing confusion and frustration.

ment promising the business community a full six months to prepare for VAT, it was still tinkering with the system just five

concessions and demands, which could now seriously undermine the effectiveness of the new tax, he added. — Sapa

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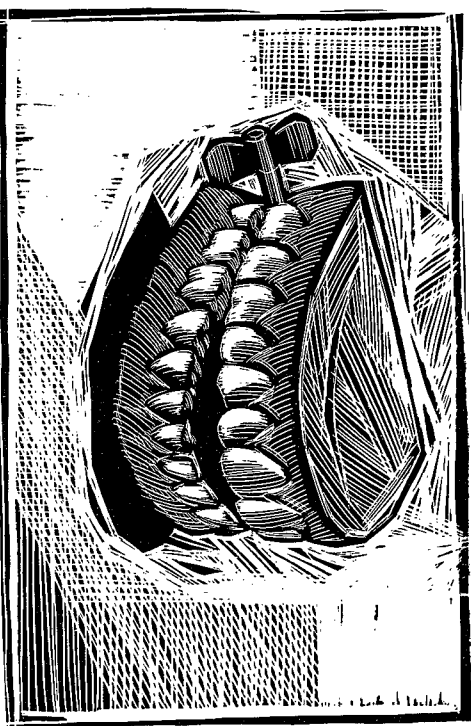
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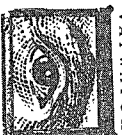
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MAKING SURE
IT'S FAIR.

Housewives must watch for rip-offs

By Peter 11/9/91
THE introduction of value-added tax (VAT) will provide consumers with an opportunity to play a more meaningful role in the struggle against the rising cost of living.

This was said in Johannesburg by Sally Motlana, president of the Black Housewives League and a member of the Vatwatch committee. Motlana appealed to housewives to familiarise themselves with VAT, and to speak up when it appeared that retailers were exploiting the introduction of VAT.

"Unscrupulous businesses are exploiting consumers because of our ignorance and apathy," she said.

Project will monitor prices

By Peter 11/9/91
A COMPREHENSIVE six-month market research project has been launched by Vatwatch to identify price trends before and after the introduction of value-added tax (VAT).

Vatwatch chairman, Professor Louise Tager, said the first research results were expected before the end of last month. It was hoped that by mid-September sufficient information would be available to indicate whether or not businesses were taking advantage of the forthcoming introduction of VAT by increasing prices.

"Consumers and businesses should bear in mind that goods already carrying GST could possibly come down in price; and that goods or services currently exempt from GST need not increase by the full VAT rate. The cost benefits which business will enjoy under VAT - a saving of R6-



DAILY BREAD ... Sally Motlana says the introduction of VAT is providing consumers with an opportunity to play a more meaningful role in the struggle against the rising cost of living.

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Vatwatch is looking out for consumers

By Peter 11/9/91
AN independent body aimed at optimising consumer benefits from the introduction of value-added tax (VAT), was launched last month. Known as Vatwatch, it comprises a committee of people who represent community networks nationwide.

It is chaired by Prof Louise Tager, Executive Officer of the Law Review Project and former Dean of the Law Faculty at the University of the Witwatersrand. Tager 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 change-over from GST to VAT. A second objective was to encourage retailers to pass on to consumers the cost benefits VAT will generate.



"Ultimately, the aim is to lessen the pressure on the Consumer Price Index and, therefore, on the rate of inflation," said Tager. "Under VAT, the sales tax which business pays on capital and certain other purchases, will no longer

PROF LOUISE TAGER ... Encouraging awareness of prices.

"Business must be encouraged to implement VAT in a way that really overcomes the shortcomings of GST in the best interests of both consumer and business."

VAT will get rid of tax upon tax

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Services will fall

into wider tax net

WE'VE all seen it by now. One after another, newspapers have published stories comparing Mr. and Mrs. Average Citizen's monthly budget at present with an estimate of costs after September 30 this year, when value-added tax (VAT) will replace GST.

Generally, a gloomy picture is painted. After all, VAT will be levied on more goods and services than is presently the case under GST.

At first glance, it seems inevitable that a R10 box of tomatoes, now free of tax, will cost R11 once VAT's 10 percent has been added.

Let's consider why VAT will replace GST. In a nutshell, we're getting VAT precisely to get away from a host of unnecessary cost factors, brought about by GST.

As far as that second hand car which you had in mind is concerned - its sales tax will disappear completely under VAT.

Worldwide countries are changing over from GST to VAT. Why?

Firstly because GST tends to hike prices unnecessarily. When a business purchases something for its own use - say, a truck, office furniture, or stationary - it pays GST. This is a real cost to any business, which it eventually recovers from you and me by building this cost into its prices.

And on top of that, we still pay 13 percent GST. So what changes under VAT? A major change is that businesses will no longer pay sales tax on their purchases. Thus the cost of producing and marketing goods will drop, which means many from you the more you



Under VAT your money will buy less as more goods and services previously tax free under the GST system will now be taxed. But the tax rate will drop three percent.

more tax. But in practice GST does not have this effect. At present we pay GST on goods only, not on services. This is patently unfair. The needy spend proportionately much more of their income on goods

who can afford a host of services ranging from the viewing of TV to the hiring of tax consultants, tennis coaching, for the kids, and daddy's golfing lessons. GST is not paid on these services. Under VAT, the sys-

price is 50c to help the farmer pay for the GST. Others levy GST on tractor. Under VAT, the price of the tomatoes drops by 50c because tax on the tractor is no longer a cost to the farmer. Thus the price of the tomatoes decreases to R9.50, before 10 percent VAT is added. The prices after tax is therefore R10.65 (and not a full 10 percent more compared with the situation under GST).

Some more good news: VAT will be inclusive. The price you see is the price you pay. VAT applies only to business transactions. A private transaction (eg when you buy your neighbour's car or home) is completely exempt from VAT. Although the difference does not appear to be substantial, we should not forget that, at 10 percent, VAT will be less expensive than GST. As a general guide, here is a list of goods and services on which VAT will be levied, and a list of goods and services on which consumers will pay no VAT. You will pay VAT on:

- Food
- TV and other licences
- Electricity and water
- Hotel accommodation
- Car and household insurance
- Telephone bills
- Medical services and medicine
- Legal and accounting fees
- Soccer and cinema tickets

WHEN you wake up on October 1 a new system of taxation will be in operation in South Africa, called value-added tax (VAT).

Like GST, VAT is a tax on consumer spending.

1. When is VAT imposed? VAT is imposed on most forms of consumer spending. When you buy food or clothing, or when you pay for services, VAT is applied.

2. Will I now pay both GST and VAT? No. VAT will replace GST. However, income tax will remain when GST disappears. This means you will still pay both VAT and Income Tax.

3. Will VAT be included in prices? Yes. The price you see on the shelf includes VAT. Also prices advertised on TV, radio or newspapers include VAT, as well as the fees quoted for service charges, eg legal fees.

4. When will VAT be introduced? VAT will be introduced on September 30, 1991.

5. Will I pay VAT on the sale of my private property? No. When you sell your house, car or household furniture you will not pay VAT, because such a private transaction does not form part of a business activity.

6. At what rate? VAT will be introduced at the rate of 10 percent, which is three percent lower than the present GST. In principle therefore, everything presently subject to GST should decrease in price by three percent after September 30 this year.

7. How does VAT differ from GST? VAT will be collected more efficiently than GST, and will close the loopholes for tax evasion. Under VAT, more businesses (and not just retailers) have responsibility for collecting the tax in stages and passing it to

the collection of the tax is designed in such a way that factories, wholesalers and retailers all pay VAT in advance on behalf of the consumer to the Receiver of Revenue. This means that if a dishonest retailer decides to "pocket" the tax paid by the consumer, all the tax will no longer be lost.

GST applies to goods only; VAT applies to goods and services. This is fairer because the rich use more services. VAT eliminates tax-upon-tax. Under GST, businesses have to pay tax on all kinds of their own purchases, and they build this tax cost into the price that the consumer eventually pays. On this price the consumer again has to pay 13 percent GST.

Under VAT, businesses will have much lower tax costs, and therefore they should be able to bring down their prices.

What foodstuffs will be VAT taxed?

- Fresh Milk
- Eggs
- Vegetables
- Fish
- Raw meat
- Fruit
- Rice
- White bread

9. Does this mean the cost of living will go up? Not necessarily. In most countries where VAT has been introduced, inflation has been brought under control - and therefore the cost of living - has decreased.

10. What services will be VAT taxed?

- Telephone
- Electricity and water charges
- Short-term insurance
- Private sales, eg houses, cars, furniture

11. Is it possible to get a refund on my personal loan?

No, interest is free of VAT.

12. Will I pay VAT when I let my private house to someone?

No. The rental on all residential accommodation will be free of VAT.

13. Will I pay VAT on my bond repayment? No VAT will be paid on bond repayments.

14. Will I pay VAT when I buy an air ticket? Yes. When you travel by air within South Africa you will pay VAT. But on commuter transport (taxi, buses, trains) no VAT will be payable.

15. Will I pay VAT when I buy an air ticket? Yes. When you travel by air within South Africa you will pay VAT. But on commuter transport (taxi, buses, trains) no VAT will be payable.

16. Will SA be the only country with VAT? No. VAT is being employed with great success in 46 countries, and several others are soon to change over to a VAT system.

It is interesting to note that African countries such as Senegal and the Ivory Coast were among the first in the world to adopt VAT. International agencies such as the World Bank strongly recommend the use of VAT. Will anything be free of VAT?

VAT will not be paid on:

- Brown bread
- Maize meal
- Commuter transport such as trains, buses, taxis
- Bank services
- Education
- Residential accommodation
- Private sales, eg houses, cars, furniture

17. Will anything be free of VAT?

VAT will not be paid on:

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- Maize meal
- Commuter transport such as trains, buses, taxis
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18. Will anything be free of VAT?

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10% Vat lessens blow for housing

S/ Times (Bus) 1/9/91 (320)

By TERRY BETTY

THE reduction in Vat to 10% will help the building industry because it will raise costs by between 2% and 4% instead of the initially expected 6% to 8%.

Builders say their industry is particularly sensitive to Vat-related cost increases because it does not charge GST.

Builders welcome the additional concession on residential construction that allows for a phasing in of Vat over several months.

Inland Revenue chief director, tax policy development, Trevor van Heerden says the main concern was the detrimental effect in the transitional period on low-cost housing.

But the benefit, the value of which is put at R50-million, will be felt across the board, not only in the low-cost sector.

The problem is that unlike most other industries, construction firms will not be able to claim input credits on GST paid on materials used in construction by September 30.

This means that houses built but not sold by that date

will be double taxed because the sale price will include GST paid on materials as well as Vat on the final price.

The amendments say that houses completed before September 30 and sold before March 31 will be exempt. Dwellings completed and sold before December 31 will be taxed at 3%. Those completed and sold before March 31 will be taxed at 6%.

Duties

In all these cases transfer duties will be levied and input credits can be claimed for expenses incurred after September 30.

Building Industries Federation of South Africa (BIFSA) economist Charles Martin says: "These concessions protect ordinary people against disproportionate price increases by putting them in about the same position they would have been under GST."

Also protected are people with fixed-price contracts. They were granted a bond based on the initial quote.

They would have had to find other means of financing the extra cost.

National Association of Home Builders (NAHB) executive director Johan Grotius says the low-cost housing sector will be hardest hit by Vat.

Administrative costs are proportionately higher in low-cost housing. A larger component of costs previously exempt will now carry Vat.

"But this should be softened by increased government assistance," says Mr Grotius.

Guide through tax minefield

A GOOD aid to understanding the new value-added tax (VAT) system which hits South Africa on October 1, is the book *VAT and you* written by tax expert Andre Myburgh.

The contents have been updated to include all the amendments to the VAT Act of 1991 approved by Parliament.

It is written in an easy to understand style. All the key terms are explained in a glossary.

The book also sets out what will happen in the transitional period, and covers:

- GST vendors who will not necessarily become VAT vendors.

- Financial lease agreements entered into during the GST period.

- Property improvements partly completed free of GST on September 30, and sold thereafter.

- Business inventories and whether it will be

necessary to take stock at the changeover period.

It also deals 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.

Myburgh says when the commissioner under Justice Cecil Margo looked at tax reform it reported that GST was unacceptable mainly because it:

- Has a cascading effect which pushes up prices.

- It is easy to avoid or to evade.

- Professional and other services and certain construction activities escape GST.

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

Margo recommended that GST be replaced by a broader invoice-driven VAT system.

Inland Revenue prepared for VAT's debut

PRETORIA — Inland Revenue's administrative VAT infrastructure was in place and the directorate was ready for launch day on September 30, a spokesman said yesterday.

Most of the 1 173 additional posts required for the new tax had been filled and the GST staff of 1 070 would be absorbed in the VAT structure.

The spokesman said 1 486 posts had been allocated to the VAT inspector-

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GERALD REILLY

ate. Extra initial costs of new posts, a larger fleet of vehicles for inspectors, computer equipment and extended office accommodation would exceed R60m.

The spokesman was unable to say exactly what additional staff salaries would amount to in the 1992/93 financial year.

The registration process, he said, was in full swing. (320)

Indications were that the initial register would exceed 200 000 cases.

On the phasing out of GST, the spokesman said it could take another five years before all cases under investigation were completed.

It was also likely that VAT inspections would bring new incidents of evasion to light.

New tax bad news for the dodgers

ONE of the best attributes of the new value-added tax (VAT) which will replace GST in October is that it spells bad news for tax dodgers.

Generally speaking, VAT is a fair, just and neutral tax, whereas GST has in recent years developed into a tax that created much unfairness and injustice.

For instance, the way in which GST is being administered makes it possible and tempting for an unscrupulous businessman to escape his tax responsibilities.

It is not too difficult for a business to keep quiet about much GST it collects from the public. This money is simply not paid over to the Receiver of Revenue.

In effect this means the business concerned is stealing from two parties: from the consumer who pays the tax, and from the

... but good news for all the rest of us

government which is supposed to receive the tax.

But the effect of this form of theft has deep implications. Because government does not receive the amount of GST it was hoping to get, the consumer ends up suffering in two ways.

Firstly because inadequate government funds means there is not enough money to build all the schools, roads and hospitals, and provide all the services that we expect from government.

Secondly because the government has to increase taxes to receive enough money for the provision of all those services we have mentioned. Thus, for example, the GST rate has soared from the four percent at which

it was originally introduced in 1978, to its present level of 13 percent.

VAT, on the contrary, will make tax evasion very difficult. This is because of the way in which the tax will be collected. At present GST is collected at one point only: when the consumer buys a product, usually from a retail store. The store then has the responsibility of paying the tax over to the Receiver.

Under VAT, the government will collect the tax from all the businesses involved in making, distributing and selling the product which the consumer finally buys. The consumer remains the person paying the tax,

but the manufacturer, wholesaler and retailer each pay in advance to the Receiver, and on behalf of the consumer, a portion of the consumer's VAT.

They pay over to the Receiver of Revenue the difference between what they collect for the consumer, and what he has already paid on his purchases.

If the manufacturer, wholesaler or retailer decided to pocket the tax received, at least it would mean he would not be stealing the full amount. Because not one of the parties involved knows whether or not the others are actually paying their tax portion to the Receiver, they may be less keen to keep the tax money for themselves. They know that the Receiver of Revenue's tax inspectors will be able to properly inspect the transaction and discover who is pinching tax money.

Tax incentives for major steel project to be announced 'in weeks'

MATTHEW CURTIN

GOVERNMENT would announce in a matter of weeks the way for the incentives which would clear the way for the multi-million-pound Columbus stainless steel joint venture between a Trade and Industry Steel & Vauxhall official said yesterday. The government official said the joint venture has been negotiating possible tax incentives since enacting the Finance Act, the amendments to the Finance Act and the Finance Act of 1974. The official said the amendments would be made to the Finance Act of 1974. The amendments would be made to the Finance Act of 1974. The amendments would be made to the Finance Act of 1974.

It is understood that discussions between the three departments and government have delayed the decision on tax breaks for export-oriented capital projects. Tax incentives are needed to get the 10,000 plant to be built near Highfield and the ground is understood to be about 150m.

They said the determining factor on whether the project went ahead was the proposed export incentive package for the project. The package would allow the capital expenditure to be written off when spent rather than waiting for the project to generate its own taxable profits.

Columbus would share Highfield's existing infrastructure near Witbank and be close to Samancor's Paternoster plant. Production would be at a rate of about 275,000 tons of stainless steel a year.

The plant would reach full production of 400,000 tons of stainless steel (WIB) 10 years after start-up. About 200,000 tons would be cold rolled to produce about 200,000 tons of stainless steel (CB). The remaining 200,000 tons of WIB would be exported as well.

SA exports would increase only gradually over the next 10 years, but continue to supply overseas cold rolling plants while also penetrating the cold rolling market. The plant would include a 60,000 tons a year ferrochrome plant to supply hot alloy steel. Current annual stainless steel production is approaching 1.1 million tons and Co-

lumbus believed demand would grow by between 5% and 6% a year. The necessary investment in SA would benefit from the availability in SA of all the necessary components for making stainless steel. However, SA had supplies only of high grade ferrochrome. Imports would make up the balance of the production costs. The ferrochrome would contribute only 1% of the production costs of 1% and the balance of 9% would be ferrochrome. The production would be of ferritic stainless steel which does not contain nickel.

Barend shrugs off low tax receipts

810am 3/19/91
FINANCE Minister Barend du Plessis yesterday shrugged off falling government taxes and said his department would be concerned about the possible under-performance of revenues only towards the year's end.

However, the prospects for an economic recovery later this year were looking brighter, he said.

Speaking at the Wits Business School in Johannesburg, Du Plessis said: "We never attach importance to the beginning of a fiscal year, because there is something peculiar in each tax year."

Du Plessis was responding to a question on whether he was concerned that tax receipts were well below projections for the first four months of the fiscal year.

Revenue collected in the fiscal year to July was only 3% up on last year, compared with the 11.7% budgeted for the year.

Revenue collected by GST could be much lower than expected because private

SHARON WOOD

consumption expenditure was lower than anticipated. Private consumption expenditure had held up firmly throughout the recession until the second quarter, when it fell by 0.5%.

Du Plessis said the Reserve Bank's leading indicator had risen for the fourth consecutive month after declining since mid-1987. In the past this had been a reliable indicator of an upturn in the economy.

"An upturn could occur with reasonable certainty in the second half of this year or the beginning of next year," he said.

He said he hoped SA's opening up to the international world would bring about a much better balance between wages and productivity, which would break inflationary expectations.

The miscalculation of the producer price index had not helped inflation because in-

To Page 2

Barend

810am 3/19/91
correct price rises had been built into wage demands, and "much came from the incorrect calculation", said Du Plessis.

There was no chance of getting rid of double-digit inflation from the economy unless a strict monetary and fiscal policy was maintained.

"Government cannot dish out money as it used to, to the managers of hospitals, education and roads."

Strict fiscal discipline, and keeping the

320
tax load where it was, would psychologically break inflationary expectations.

"Tackling major tax reform was a bit courageous," he said.

Government had asked regional services councils to channel finances into current expenditure rather than capital expenditure, because the townships' rent crisis had led to the loss of billions of rands.

Picture: Page 3

From Page 1

MEDIA SPOT

Now it's Vatman in VAT campaign

8/10/91 3/9/91
THE controversial VAT advertising campaign is gaining momentum in the late build-up to the September 30 implementation date.

Hunt Lascaris TBWA MD Reg Lascaris said the TV campaign would be supported by a significant amount of additional information explaining how VAT works.

There has been criticism of the TV adverts for providing too little information, but Lascaris said they had been supported by print, radio and other TV material. The series of three TV ads used the theme of leaking water to illustrate the millions of rands that were being lost through GST inefficiencies.

Lascaris said despite the criticism, research had shown a generally positive response to the VAT campaign.

The radio campaign also used the theme of leaking water, with the song There's a

Reports by
MARCIA KLEIN

Hole in my Bucket.

Hunt Lascaris was also working on additional material for VAT Facts and Vatwatch. VAT Facts responded to queries from consumers, while Vatwatch was aimed at protecting the consumer by ensuring that VAT was implemented fairly.

Exciting new ads were in the pipeline for Vatwatch, he said. A new TV ad showed that the consumer did have a voice.

The ads would also be picking up the change in the VAT rate from 12% to 10%.

The agency has designed "Vatman" and "VAT's Life" buttons for VAT officials.

Hunt Lascaris had set up a whole team exclusively for the VAT campaign, and Lascaris said every ad was approved by Finance Minister Barend du Plessis.

SA's tax net keeps on getting wider

GOVERNMENT may have committed itself to a reduction in the nominal corporate and individual tax rates, but effective taxation is increasing all the time as new revenue sources are found to assist the "process of redistribution".

In the 1990 Budget, Finance Minister Barend du Plessis undertook to reduce the corporate and the maximum marginal individual rate to 40% over five years and to make corresponding adjustments to compensate for inflation.

Last year the first step was taken in this direction, with corporate rates reduced from 50% to 48% and individual maximum marginal rates reduced by one percentage point to 43%. No provision was made for bracket creep.

The rate reduction was accompanied by the elimination of a wide range of concessions and the introduction of various forms of indirect taxation, many of them announced post-Budget.

One of the most controversial measures was the withdrawal of concessions on company bursary schemes and exam bonuses.

Financial authorities argued that it was done to stop companies abusing the system. A senior official in the Finance Department said the biggest beneficiaries of the concession had been senior ex-

ecutives who could afford unsubsidised education.

The money could be put to better use if it was channelled directly into the education system. He said this and other similar measures were being considered as a means of assisting the process of redistribution.

Many other corporate tax concessions have been scrapped or reduced in recent years in an effort to remove discretionary tax from the system and broaden the revenue base.

All of these measures have increased the effective amount of tax paid by individuals, reinforcing SA's ranking as one of the highest tax nations in the world and making a mockery of the tax rate reform, tax consultants say.

The introduction of VAT will broaden the tax base and is likely to place an additional financial burden on individuals.

Recent concessions to lighten the impact of the tax on the poor have required compensation from other revenue sources. By increasing petrol prices and excise duties on luxury goods some of the cost burden has been transferred to wealthier South Africans.

LESLEY LAMBERT

Barend gives VAT critics their say

LESLEY LAMBERT

8/10ay
4/9/91
FINANCE Minister Barend du Plessis agreed yesterday to establish a working group appointed by government and the VAT co-ordinating committee to study objections to the new tax.

The agreement was reached when Du Plessis met members of the committee, established by Cosatu, the ANC and other organisations which objected to aspects of the VAT concessions announced recently.

The working group would be instructed to report back on September 16, two weeks before VAT was implemented, the parties said in a joint statement issued yesterday.

It would consider the technical and administrative problems of implementing VAT, the effects of a delay in implementation, the possible inflationary effects, alternatives to the present provisions and

the revenue requirements of the new tax.

The statement said the meeting "noted Du Plessis' view that in the interest of the earliest possible resumption of investment and economic growth, the date of implementation of VAT should not be changed".

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The committee leader, Numsa national secretary Bernie Fanaroff, said the agreement with Du Plessis did not suggest the committee was backing down on its objections.

While it hoped the experts in the working group would answer certain technical questions, policy issues would take longer to resolve, he said.

□ To Page 2

VAT

8/10ay
4/9/91
In its memorandum to the Minister, the committee said it was concerned about problems associated with the implementation of the new tax and its effect on consumers.

A major concern was the new system's potential to boost the inflation spiral.

The delay in the purchase of capital goods, which would qualify for an input tax credit, would result in a significant reduction in revenue in the first year which

320 □ From Page 1
would curtail government's ability to give relief in other sectors or to spend on social and development projects, the committee argued.

"We fear that implementation of VAT in its present form will lead to widespread hardship and a backlash against payment of taxes. It is also likely to lead to industrial unrest, with workers in all sectors demanding wage increases to compensate for the effects of VAT," the memorandum said.

Medical taxation slammed

320 29 4/9/91 29

THE introduction of VAT on health services means that black people are being taxed for suffering from diseases that are caused by the political deprivations, a doctor has said.

Dr Aaron Motsoaledi, vice-chairman of the Northern Transvaal region of the ANC, was addressing a fundraising dinner of the organisation on Saturday night and told the gathering that 80 percent of black people were not on medical aid, while 80 percent of whites were.

Unfair

"This means that 80 percent of the entire nation is not on medical aid and are therefore going to be taxed each time they go to a doctor or to hospital.

By MATHATHA
TSEDU

"When we look at the diseases that black people suffer from, you find that they are tuberculosis, cholera and kwashiorkor.

"All these are related to the lack of clean water and food.

Hospital

"The responsibility to provide purified water is with the Government but many areas in the rural areas have no water at all, let alone clean water.

"These are the people who get sick and are going to be taxed for being ill due to the deprivation by Government," Motsoaledi said.

"It is all so unfair," he said, adding: "We are fighting against this, but who will help us?"

Group ³²⁰ formed for VAT probe ⁶⁴⁹⁹¹

JOHANNESBURG. — A joint working group to investigate the implementation of VAT was set up yesterday during a meeting in Pretoria between Finance Minister Mr. Barend du Plessis and the Co-ordinating Committee on VAT.

The working group, composed of experts from both sides, will report back on September 16, according to a joint statement.

The terms of reference for the new body include the technical and administrative problems of implementing VAT, the effects of delaying implementation and the possible effects on consumer prices.

Mr. Bernie Fanaroff, chairman of the Co-ordinating Committee, said Mr. Du Plessis had taken his group's concerns "seriously". He added that the deliberations of the working group would be made public "as far as possible". — Sapa

Working group on VAT set up

Star 4/9/91
By Paula Fray

A working group to investigate problems relating to the implementation of value added tax was set up by the Government and the Coordinating Committee on VAT after a meeting in Pretoria yesterday.

In a statement issued yesterday afternoon, Finance Minister Barend du Plessis and the committee said the working group would be instructed to report back by September 16.

The committee represents a broad range of organisations including the ANC, Cosatu, the Johannesburg Child Welfare Society and Operation Hunger.

The committee has repeatedly requested that the implementation of VAT on September 30 be delayed to allow the shortcomings of the system to be adequately addressed by a negotiation process.

However, Mr du Plessis said that in the interest of the earliest possible resumption of investment and economic growth, the date should not be changed.

The working group will consider the technical and administrative problems of implementing VAT, the effects of a

delay in implementation, the possible effects on the consumer price index of the present system, possible alternatives to the present provisions, and how VAT will affect Government revenue.

Its deliberations will, as far as possible, be made public, the statement said.

Committee co-ordinator Bernie Fanaroff said it was the committee's impression that the Minister was prepared to enter into discussion and was taking the working group "very seriously".

"We are looking to the working group to answer technical questions at this point. We and the Minister have not entered into policy debate."

According to Mr Fanaroff, the committee's objections to the system still stood. The group was preparing for countrywide report-backs at various public meetings.

The committee's representation to the Government follows a VAT summit on August 22 at which committee members reiterated concerns regarding VAT on basic foods, medicines and medical services as well as the adverse effects of the new system on small business.

● Stores offer tax-free splurge — Page 10

'Human chain' demo

By Shareen Singh ^{Sec 41919} ~~41919~~

In the first major action against VAT, and in support of demands for industrial restructuring, about 100 000 workers countrywide are set to take to the streets today in a "human chain" demonstration. (320)

The action, organised by the SA Clothing and Textile Workers Union (Sactwu), is in line with a recent Cosatu decision to hold demonstrations against VAT.

Sactwu spokesman Ebrahim Patel said

workers would also be highlighting their demand for union involvement in planning for growth and job security.

The union has held a series of workshops on economic restructuring as well as a major conference in April in which employers in the industry also took part.

Today's action aims to demonstrate actively on issues Cosatu has taken firm positions on.

Permission has been granted by various municipalities for the demonstrations to take place between 1 and 2 pm.

Research project will monitor effects of tax

Somefun 5/9/91

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By JOSHUA RABOROKO

A COMPREHENSIVE market research project has been launched by Vatwatch to identify price trends before and after the introduction of Value Added Tax at the end of the month.

The chairman of Vatwatch, Professor Louise Tager, said that the first research results were presented to the media in Pretoria last week.

At the presentation, which was also attended by the Minister of Finance, Mr Barend du Plessis, Tager said it was hoped that by mid-September sufficient information would be available to indicate whether or not businesses were taking advantage of the introduction of VAT to increase prices.

"Consumers and businesses should bear in mind that goods already carrying GST could possibly come down in price; that goods or services currently exempt from GST need not necessarily increase by the full VAT rate of 10 percent; and that the cost benefits which business will enjoy under VAT - a saving of R6 billion - ought to be

passed along to consumers," Tager said.

Mr David Geldenhuys, partner in Interfact, the company commissioned to do the research, said 120 sales points countrywide would be monitored.

He 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.

The basket would remain constant throughout the research period.

Prices would be monitored not only at major shopping centres in urban areas, but also small independent stores in rural areas.

He said the objective was not to compare prices at stores, but to check repeatedly on the prices of the same goods at the same stores, thus determining the movement of prices.

She said South African consumers had noted an alarming increase in the

price of goods over the past few weeks.

The price increases seem to be considerably higher than increases in previous months.

"Consumers are attributing the price increase to the introduction of VAT, and indeed, they have good reason to do so. Many voices in the business sector are making similar allegations.

"The presentation explains the real effect of VAT on the business sector. No registered vendors who make taxable supplies will be adversely affected by VAT because they will obtain a full tax credit for VAT payments."

"Registered vendors will, at the very least, be in a neutral profitability position."

In actual fact, the introduction of VAT could result in a decrease in a range of prices and, in the long term, could assist in curbing inflation.

Mass action looms over VAT

CT5/91

Staff Reporter

WESTERN CAPE trade unions and community organisations threatened mass action if the introduction of Valued Added Tax (VAT) was not postponed by the government.

The newly formed regional Co-ordinating Committee on VAT yesterday called for the delay of the tax — scheduled to replace GST on October 1 — so that safeguards and safety nets could be built in.

The National Co-ordinating Committee on VAT, formed last month by the Congress of South African Trade Unions (Cosatu) and the ANC, called for a review of the proposed VAT.

Implications

Investigations into the implications of VAT between representatives of the national committee and Finance Minister Mr Barend Du Plessis began on Tuesday.

The conference at a Woodstock hotel was convened by Cosatu and the ANC and attended by about 60 representatives from, among other organisations, the National Congress of Trade Unions (Nactu), the SACP, National Civics, Catholic Welfare Development, National Council for the Aged and the Social Workers' Union.

Meanwhile, thousands of workers in the Peninsula yesterday took to the streets to form human chains as part of a 15-minute protest against "industrial policy" and the introduction of VAT.

● Last-minute concessions on VAT likely —
Page 10

Last-minute concessions on VAT likely — analysts

ARI JACOBSON

(SFO) 2/5/91/91

THE government will almost certainly switch over to value added tax (VAT) as planned at the end of this month.

But experts think last-minute concessions will be made. These expect medical services to be exempt along with more basic foods in addition to brown bread and maize meal.

A spokesman for the Department of Finance pointed out yesterday that the working committee now

considering VAT "noted the view of the Minister (of Finance) that in the interests of the earliest possible resumption of investment and the same growth the introduction of VAT should not be delayed."

Director, Fin Goldie associate director, Borgis said he did not believe the government would switch from general sales tax (GST) to Vat would be postponed. Borgis pointed out that the indirect method of tax due to be introduced on October 1 — has been modelled on the New Zealand system.

"As that country does not tax medical services that is certainly one area that should be altered prior to the switch."

Ernst & Young tax manager Martin Walbeck supported the non-postponement view, saying the government was most unlikely to change the date, having already laid out by backing down on the previous rate of 12%.

The problem said Walbeck was that the authorities "were not fully up to steam with the nuances and difficulties inherent in the new system."

He pointed out that the setting up of the Vat co-ordinating committee was a direct attempt to deal with the queries ahead of the Vat D-day. A spokesman for the Ministry of Finance said there was very little chance of a Vat postponement but did see the possibility of a re-work-

ing of "the nuts and bolts of the new system."

Vat was introduced to bypass the problem of double taxation (capital goods were fixed with a further tax applied to the depreciation process) and to eradicate the large amount of tax avoidance.

But Borgis suggested a more efficient system would be able to maintain the single-stage tax and limit the number of exemptions currently in the GST system.



Brian Holmes has been appointed GM of the Market Motor Group's

VAT will hit housing hopes of the needy

Finance Staff

Murray and Roberts Construction's Housing Division says VAT could rob vast numbers of urban poor of the chance to own their own home.

Noel Ayers, M & R housing division's financial director, says his company stands at the threshold of a breakthrough in the provision of housing for disadvantaged communities, more than 60 percent of whom have an affordability ceiling of less than R12 500 on a home.

"For example, M & R subsidiary Ribco, has devised the Waltberg House. Specifically developed to offer a real and practical solution to housing needs to this sector of society, it can provide up to 20 sq metres of well constructed, durable and aesthetically acceptable shelter for just R5 300 (excluding GST/VAT).

Affordable

"This sturdy steel house is affordable and can meet short-term needs, and can also be incrementally upgraded and easily expanded with full re-use of components.

"In areas where semi-permanent or permanent land tenure is provided for unconventional housing, these houses, together with upgraded roads, water and electricity supplies can significantly improve the standard of informal housing. They can pro-

vide dignity and hope where today there is none.

At M & R's urging, several major financial institutions are looking into the feasibility of providing HP-type financing schemes for the Waltberg house and other affordable homes.

Hire purchase

"The banks and building societies could offer hire purchase terms over, say, four years, which means that the home owner would pay about R175 a month (as summing a 15% deposit) and at the end of the term own the home outright.

"The individual/family then has an asset that can be sold or let or used as security to finance a permanent home.

"The HP concept is readily understood by the intended customers, and there is no reason why they should not make use of such a service.

"However, VAT levied at the announced rate

could add as much as R636 to the basic cost of the home and R23 to the monthly repayment on terms. When you consider that the typical individual/family who would consider a Waltberg home earns R800 a month or less, it's clear that VAT will lower the affordability ceiling very significantly.

"VAT can spell the difference between a stable and secure future, not only for the people concerned but also for the country as a whole.

"Government must therefore consider zero rating VAT on informal housing to ensure its continued affordability. Half measures such as exempting this type of housing from VAT or providing a safety net for the poor just won't do."

Zero rating informal housing is also a cost effective and simple way to implement a subsidy for housing of the poor. No complex departments need to be set up to apply it.

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UITENHAGE

Regional Vat-attack body launches

By Mono Badela and 320
Thoraya Pandey

Southern S191-119191

A REGIONAL body to fight against VAT emerged from a local summit called by Cosatu and the ANC, held in Cape Town on Wednesday.

The summit attended by political, labour, education, welfare, business and medical organisations supported Cosatu's call for the suspension of VAT until proper negotiations with organisations representing those most affected by VAT were held.

Representatives of the Democratic Party agreed with the call, but could not commit themselves as they had no mandate.

The summit identified mass action as one of its central tasks.

Following a meeting earlier this week

between the government and the national community-based VAT Coordinating Committee, Mr Bernie Fanaroff, chairperson of the committee, said the implementation of VAT could be delayed if sufficient pressure was applied. A joint working committee comprising experts from both sides emerged from the meeting to investigate the implementation of VAT.

Fanaroff emphasised that the agreement reached in no way suggested a backing down on the part of the committee.

"Our objections and demands regarding the implementation of Vat still stand," he said.

Fanaroff added, "we know it is difficult for the minister to change his mind and realise he will not back down without pressure."

Cosatu General Secretary Mr Jay Naidoo said: "We are being informed

by various sources that it appears even the Department of Inland Revenue was not fully prepared for the implementation of VAT at the end of September."

A spokesperson for the Western Cape regional body said national negotiations on VAT could only be informed and effective through participation at grassroots level.

He said the body formed would meet on Friday where proposals for mass action would emerge.

"Cosatu and Naciu have already agreed on joint worker action which will be effected after Friday's meeting and broad guidelines were given to the body in the summit," said the spokesperson.

Asked why organisations had resorted to this late to the VAT issue, the spokesperson said recommendations had been sent to VATCOM, but were ignored.

NEWS IN BRIEF

Toyota and VAT

(320)

YESTERDAY'S headline, "Toyota prices set to rise after VAT", might have misled readers by implying that proposed increases were directly attributable to VAT.

Toyota Marketing MD Brand Pretorius has asked Business Day to make clear that in his comments he did not relate the possible price increase to VAT. He attributed it to the increase in the local content requirements from 70% to 78% announced on September 1, and government's decision to retain the 2,5% ad valorem duty introduced on July 1.

Government sources say these changes are in fact connected to the introduction of VAT.

B/Pas. 6/9/91

Own Correspondent

JOHANNESBURG. — Multibillion-rand projects are likely to get the go-ahead soon following government's approval yesterday of short-term tax incentives for export ventures.

The long-awaited incentives, made up of accelerated tax write-offs for capital expenditure on facilities used in the beneficiation of local raw materials, will be allocated for a two-year period. They will become available once projects are approved by a government-appointed committee.

The incentives will provide vital bridging assistance to many large projects, Trade and Industry Minister Org Marais said yesterday.

Columbus, the joint stainless steel venture between Anglo American's Highveld Steel and Gencor's Samancor, is almost certain to qualify for the assis-

Beneficiation: Govt ^(32b) ET 6/9/91 gives tax break details

tance. Another project likely to apply is Gencor's Alusaf aluminium smelting venture, while Anglo subsidiary African Explosives is also understood to have a major chemical project in the pipeline which could qualify.

Anglo executive director and Highveld Steel chairman Leslie Boyd and Samancor MD Hans Smith confirmed yesterday that they planned to apply for the incentives.

The main incentive will enable beneficiaries to start writing off the capital costs of machinery, property and pre-production interest once the costs are incurred. Existing depreciation of 20% over five years will apply, but the beneficiaries

will not have to wait for the plant to be commissioned before they start depreciating.

There are various conditions on which the committee, chaired by DTI director-general Stef Naude, will evaluate projects.

They must be internationally competitive, they must add at least 200% to the value of the base mineral or intermediate products processed and at least 60% of the intermediate or final product must be exported directly or indirectly.

The impact of the projects on the balance of payments must be minimised by the use of medium-term credit financing provided by the importing nation.

Masa: VAT not breaking rules

By Carina le Grange
Medical Reporter

The collection of VAT from patients would not be in contravention of rules of the South African Medical and Dental Council (SAMDC) which state that a doctor may not share his fee with any person who had not taken part in the services, the Medical Association of South Africa (Masa) said yesterday.

In a letter published in The Star yesterday, Dr S Flax of Malvern said he believed that any medical practitioner charging VAT for services, and then sharing the fee with the Minister of Finance, would be contravening SAMDC rules.

Sharing fees

He referred to a Government notice referring to rules specifying "acts or omissions in respect of which the council may take disciplinary steps" which included "sharing fees".

Dr Flax said that from this it was clear to him that Minister Barend du Plessis was ordering him to act unethically.

Masa secretary-general Dr Hendrik Hanekom said it fully supported the principle that VAT should not be collected on medical services, and

that it identified and had empathy with doctors who had difficulty with the principle of collecting VAT from patients.

Masa could not, however, not "support the argument that this would amount to unethical behaviour".

"Doctors are not sharing fees; they are adding value on to their fees in terms of the provisions of the Value Added Tax Act, and collecting this on behalf of the Receiver of Revenue. VAT is viewed in terms of the Act as an amount over and above the fee charged for services rendered," Dr Hanekom said.

It would not be illegal or unethical, the body said.

National Medical and Dental Association national director Dr David Green said Namda agreed with the sentiments regarding the ethics of taxing medical services and that it believed there were strong moral arguments against it.

"However, the legal situation ... is complex and relatively contentious. Can VAT on a doctor's bill be construed as part of the fee?" Dr Green asked.

The Department of National Health, the SAMDC and Namda are expected to respond to the issue today.

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RETAILERS FM 6/9/91

Footing the VAT bill

The cost of accommodating the last-minute cut in the VAT rate is more an irritant to businesses than a financial burden. But the move deepened the rift between government and the private sector over the general handling of the VAT issue. (320)

The rate reduction last month from 12% to 10% left a bitter taste in the mouths of businesses that from the beginning had called for VAT to be introduced at 10%. They now face the financial and logistical inconvenience of repricing merchandise, reprinting customer information pamphlets and re-organising administrative and cost systems around a lower rate.



Over in aisle 6... keeping pace with VAT changes

The total cost to retailers is impossible to determine, but probably runs into several millions of rands. And this doesn't include the staff costs, mainly in overtime, to meet

continue

FM 6/9/91

the month-end deadline for introducing VAT. (320)

Pick 'n Pay chairman Raymond Ackerman says all the hassle could have been avoided had government listened to private sector calls for an add-on system, as with GST, rather than an add-in system.

Rate changes then could have been accommodated by a mere switch of a key. He says government's insistence on the "price you see is the price you pay" approach is an attempt to hide the tax from the public so that consumers blame businesses for higher prices.

Though Pick 'n Pay's point-of-sale price scanning system means that prices on products don't physically have to be changed to cater for the rate cut, the prices of the 35 000 lines in the hypermarkets and 10 000 lines in the supermarkets must be renegotiated with suppliers, Ackerman says.

For Woolworths, the problem is more serious. Financial director Ray Schur says "each and every one" of 8m-10m items of merchandise must be reticketed. In addition, the chain is stuck with 140 000 pamphlets explaining VAT at 12%.

Checkers MD Sergio Martinengo says the direct cost to his organisation of catering for the rate cut is about R250 000. "What comes out of this exercise is that government needs to consult business before it acts. An add-on system would have avoided the problem we now face." He says a group of retailers will approach Finance Minister Barend du Plessis for some form of tax concession to compensate for the extra costs incurred in adapting to the rate reduction.

Shoprite MD Wellwood Basson estimates the wasted printing costs to his company at about R130 000, with additional costs of about R70 000. He doubts that asking Du Plessis for tax concessions will meet with success.

Clocks MD Trevor Honneysett says that while his company has not incurred significant direct in-store costs because high turnover means repricing can be delayed until the last minute, the staff costs involved in preparing for the conversion to VAT at 12% have been high.

"My fear is that the rate will revert to 12% in the not-too-distant future and we will have to repeat the whole exercise. An add-on system would have been far better." ■

FM 6/9/91 (320)

at low levels, are likely to dip still further.

"It's a short-sighted way of doing things," says one CE. "Government is forcing down sales by milking the industry for tax. Yet it could earn even more through higher sales levels — and at the same time create employment. It's counter-productive."

Manufacturers are not giving up, however. Executives are lobbying government this week for a reduction in duty levels and abandonment of the ad valorem. The board says the matter is still open to negotiation and further adjustments are possible at the start of the next excise quarter, on December 1. Even that sign of compromise does not please everyone.

"We have a new set of rules every week," says the CE of a German vehicle manufacturer. "We have hundreds of millions of rands invested here. How can you plan when the rules keep changing?" ■

FM 6/9/91 (320)

resultant increase in local content levels.

In terms of the Phase Six local content programme, manufacturers exceeding local content weighted-average levels are entitled to claim duty rebates from a central industry kitty. However, this kitty is funded by penalties levied on under-achievers. Without the excise duty adjustment, government says, the VAT factor would push too many companies into credit, with no one to pay in.

With the excise level now set at 39%, the local content target has been increased from 70% to 78%.

Vehicle manufacturers, however, say the excise duty rise is too high. They contend that the impact of VAT could be met by a rise of no more than 1,5%, a figure the Board of Trade and Industry describes as "abnormally low."

Manufacturers believe that the extra is intended to make up the current deficit, estimated at more than R200m, in the central industry kitty. But if that is the case, they argue, why does government continue to impose an additional 2,5% ad valorem duty on cars and 2% on commercial vehicles? This supposedly temporary duty was imposed in June precisely to cover that same deficit.

Some charitable industry chief executives believe that government has got its sums wrong and made a genuine miscalculation. Their more cynical colleagues suspect that government is using the motor industry to fund the tax shortfall caused by reducing VAT from 12% to 10%. The R240m that the 2,5% ad valorem is expected to bring in over the next year corresponds closely to the shortfall that Finance Minister Barend du Plessis announced he intends to claim back from luxury goods.

This suspicion is not dispelled by Trade and Industry Minister Org Marais' revelation that the board recommended scrapping the 2,5%, but it was turned down because "of the loss of State revenue it would entail."

Vehicle manufacturers object on two grounds: that cars and commercial vehicles are not luxury goods and that the unexpected retention of the ad valorem will force them to raise vehicle prices more than planned. Several manufacturers that planned to raise prices by about 4% this month say increases will now be around 8%, with similar rises later this year. Consequently sales, already

VAT FM 6/9/91 (320)

Soaking the car makers

The motor industry suspects that it has been targeted by government to pay for the tax shortfall created by reducing VAT from 12% to 10%.

Government has cited a "technical adjustment" for its decision to increase excise duties on motor vehicles from 35% to 39%. Because, unlike GST, VAT is considered part of the value of local content, the higher excise duties are intended to counter the

Nothing succeeds like success

Fm 6/19/91.
(320)



Pierre du Toit is senior tax partner at Arthur Andersen

dustrial) investment and export.

It's interesting to note that they all have in common a strong developmental character. Whatever the theory, any practitioner can vouch that the first questions potential investors ask relate to at least one of these, always in expectation of tax incentives.

Our own confusion between the theory and the practice is well illustrated by the fact that, just as the old marketing allowance is about to make its oft-deferred exit, the new beneficiation allowance, which is essentially an export allowance, is brought into the Income Tax Act. Before the critics jump in too soon, one may note that, as regards foreign investors, the tax allowance is at least responsive to "user" demands. If at the same time such allowances should conform to the criteria referred to below, the theoretical sin may well be pragmatically justified.

Whether fiscal or otherwise, any incentive that cannot be trusted by those it aims to attract must fail. Confusion about export incentives, fiscal and other, has for years been at least partially counter-productive. A variation of this need for consistency is that

an incentive should never be tampered with after a beneficiary has committed himself on the strength of it — that undermines every future effort towards effective incentives.

Any incentive must also give an effective benefit and it is a weakness of the typical fiscal incentive that the taxpayer may not have the taxable income to turn the package into cash.

The new beneficiation allowance, however, offers an important and simple remedy to this problem — it provides for negotiable tax certificates.

Above all, an incentive must encourage success and abandon failure. In this, the new decentralisation incentives look more promising than most of their predecessors.

Interestingly, this philosophy is also said to be very much part of ANC economic thinking on developmental incentives.

Business must know that the trend towards success-related incentives is likely to be with us for a long time. Not only will we have to get better at using them, we'll have to get better at earning them, too. And that is what, in turn, will justify their existence.

Swazi businessmen given VAT relief ³²⁰

Argus Africa News Service AACT 6/9/91

MBABANE. — Swazi businessmen, puzzled and worried about the implications for them of South African VAT, have been given some short term relief.

Yesterday it was announced that for the next six months goods crossing into South Africa from Swaziland will have special VAT-free status.

The announcement was made by the finance ministry after talks in Pretoria between the South African Department of Foreign Affairs, the Customs Department and Inland Revenue representatives and Swazi business and finance ministry representatives.

According to South African representatives at the meetings customs officials will be stationed at some, but not all, the border posts from September 30 to collect VAT.

The finance ministry statement also said that steps had been taken to zero-rate all exports from South Africa into Swaziland. But it stressed that this concession had not yet been formalised.

Swazi businessmen remain worried about the effect of the VAT legislation in the long term. A chamber of commerce source said there was concern about adequate infrastructure at border posts to administer VAT.

There is also concern about the position of Swazi exports which pass through South Africa en route to other countries.

Tax breaks tabled ³²⁰ for industry

Business Staff

JOHANNESBURG. — Tax concessions for major industrial ventures have been announced by Dr Dawie de Villiers, the minister responsible for mineral beneficiation projects.

Dr De Villiers was responding yesterday to calls for short-term tax relief by a number of companies planning huge investments.

Mr Brian Gilbertson, chairman of Genmin, which will have a major stake in two huge ventures, said last night the proposed tax relief was helpful.

He said he was pleased that there was now certainty about the government's proposals.

Genmin has plans to build a R3 billion stainless steel plant and a R3 billion aluminium plant. Sasol is also believed to have a major venture, which could benefit from the tax concessions.

Companies will be given two years to qualify for the measures, which allow them to depreciate machinery and plant from the year the expenses are incurred instead of when production starts.

To qualify, a project must be conducted on a scale that makes it internationally competitive, add at least 200 percent value, export directly or indirectly at least 60 percent by value of the intermediate or final product and the impact of the project on the balance of payments must be minimised.

VAT should make the prices fall ...

W/M 22 : 6/9-12/9/91.

If business gets the message, prices should at least be frozen, not go up, because of Value-Added Tax. But government's crisis management of the introduction of VAT will make monitoring problematic.

REG RUMNEY reports

320

RICES should not surge now or after the end of this month because of Value-Added Tax.

In theory, there should be room for prices to go down. VAT could result in a decrease in a range of prices, and in the long term could help curb inflation.

This is the message from Vavach, the body handed with the task of monitoring the effect of VAT on the consumer.

It is the theory propounded in a presentation put together by Coopers Theon Du Toit and the South African International Consulting Organisation on VAT now being screened by the National Business Network.

The presentation glosses over the administration costs of VAT, particularly to small businesses, though it could be partly offset by the savings, and there are a number of other areas of concern.

If a strong belief is that under VAT business has been given a huge sum to fight inflation and that if businesses are aware of how VAT really works they will pass savings on and prices should stay stable or drop.

However, the Finance Minister Barend du Plessis seems to have put a spoke in Vavach's wheel by raising the fuel price at the same time as implementing VAT, however desirable an increase in fuel tax might be for other economic reasons.

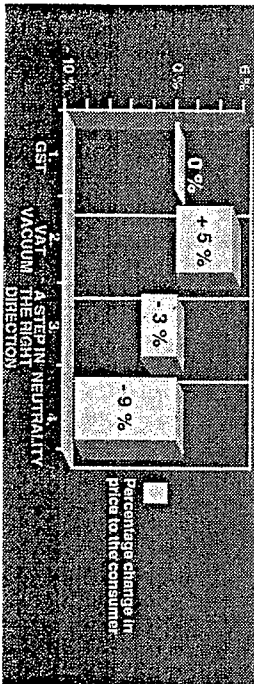
Ernst & Young tax partner Ken Walton points out businesses can now claim prices have to rise because of the fuel price rise. Distribution costs are a high part of manufacturing costs.

The Coopers Theon-SAICO presentation plus its hopes on competitive pressures rather than outside monitoring to enforce the passing on of savings.

This is backed up by a spokesman for one of the big food manufacturing concerns (say of being identified because of the political implications) who says that free market forces dictate

VAT - The Vital Difference

An Example



VAT's benefits... If businesses pass on the tax breaks, consumer prices could fall. This graph forms part of a presentation by Coopers Theon du Toit in association with SAICO

that any savings in the cost of manufacture will ultimately manifest itself in the final price structure.

However, he adds, "It must be made clear, however, that for free market forces to operate correctly in the food chain, they must encompass all aspects of production from farm to supermarket and a measure of control must be found in so far as the spiralling wages issue is concerned."

Another food group, Premier Food Industries, believes VAT's immediate effect on its prices will be negligible. If the fuel price increase is not factored in.

However, a spokesman says Premier will not adjust its prices for the fuel price increase even though its business relies heavily on fuel. This represents a willingness to keep a cap on prices. On the input tax credits on capital equipment, it is stressed that the benefit will take about two to three years to flow through the system.

Scapulas will point out competition in many areas, for example food, in South Africa is just not strong enough to force businesses to pass on savings. Competition has not kept down already sagging food prices.

The Co-ordinating Committee on VAT, representing a wide range of organisations, includ-

ing the African National Congress and Congress of South African Trade Unions, is one such group of sceptics.

"There are already very strong signs that the expected savings will not be passed on to consumers by industry, and that in fact the price of many goods has already been increased. VAT which cannot possibly control abuses."

The government could have avoided part of the fuss by introducing VAT at 10 percent in the first place.

The now-discarded 12 percent rate (and the subsequent raising of excise duties on booze, tobacco and luxury goods) was necessitated by granting the total input tax credit on capital goods immediately, instead of phasing it in.

Vatcom suggested phasing in to discourage businesses from deferring the purchase of capital goods, as the Co-ordinating Committee on VAT has reminded.

The counter argument, and one which prevailed on the government, was that the introduction of tax credits in one fell swoop would be a significant cost-reducing measure, and could lead to a reduction in the inflation rate.

The forthcoming inflation figures will show whether the decision was the right one — assuming VAT isn't postponed.

... in fact they may drop by 9 percent

W/M 22 : 6/9-12/9/91

By REG RUMNEY
THE Value-Added Tax theory as presented by Coopers Theon du Toit and SAICO is that VAT could result in a nine percent reduction in the price to the consumer.

Retail prices should be lower — not only because the VAT rate is a full three percentage points lower than General Sales Tax.

Prices should come down because the business community has been given a massive money injection in the form of tax savings.

So the prices should go down, if VAT works the way it should, and businesses pass on those savings. If prices surge it means that businesses are pocketing the big tax concession government has made.

The government decided to allow businesses under VAT to get back the tax they pay on capital goods such as machinery and "intermediate goods" — consumables such as metal, paper etc. The decision to allow businesses this "rebate" meant, originally, that government had to introduce VAT at a rate higher than the 10 percent originally suggested by Vatcom. The rate had to be higher to make up the huge loss in tax income.

So business costs should come down. In examples, the Coopers-SAICO team showed that by passing on none of the savings a typical firm could increase its net profit by around 12 percent.

The team admitted there would be cash-flow implications, however, which could for some firms make the picture less rosy, particularly for small suppliers kept on a rope by bigger customers while waiting to pay VAT input tax. The team pegged its hopes for savings being passed on to competitive pressures.

If the savings are ignored, the presentation concluds, there is a real prospect of business decline or even failure, a step in the right direction where VAT does no more than GST means a firm may lack competitive capability. However, using the benefits of VAT to give lower prices — or keep them stable while competitors raise theirs — could give a competitive edge which need not cost one cent.

FOCUS: Auction sales beat inflation but make sure you know the rules

Bid for a bargain — and no VAT

TIMES are tough, value-added tax is about to make it all worse and how can a consumer beat any of this, particularly one trying, say, to furnish a home, or add to one?

Before shelving plans until the Consumer Price Index drops and taxes are ended for good, think of auctions — a way to beat both inflation and VAT, provided the consumer knows how the game works.

A sale by auction is basically the same as any other sale covered by the law of contract: an offer to buy the goods is made and when that is agreed to, there is a sale — a binding contract enforceable by law.

In the case of an auction, the offer is made by the bidder raising an arm (or wiggling the nose and nodding the head) and the deal is done when the hammer falls. The deal is between the owner of the goods and the bidder; the auctioneer is merely the agent and will get a commission, usually a percentage of the final price.

It is the ultimate *voetstoots* sale: what the consumer sees and bids on is what he or she gets, flaws and all, unless the auctioneer has stated something to the contrary.

Customers should be able to examine the goods before an auction sale, because the moment the hand goes up the assumption is that the bidder is buying knowledgeably.

The procedure should be governed by the conditions of sale laid down by the auctioneer and should be clearly displayed to all prospective bidders.

The auctioneer is able to set almost any conditions he likes (provided they are lawful) but the bidder must be aware of them in order to fulfil the basic requirement in South African consumer law: "Let the buyer beware". If the buyer suddenly discovers a whole set of conditions of which he or she was not able to be aware at the time of the

CRITICAL CONSUMER

Pat Sidley



deal, the buyer would have a good case to cancel the contract.

Some of the most common conditions include a requirement for cash or bank guaranteed cheques to be paid over then and there. Most will also require that the goods be removed immediately.

The VAT position should make auctions attractive to many. According to the West Gate auctioneers in Sandton, VAT will not be charged on second-hand furniture, only on the commission. So consumers intending to buy on auction should paying less than they would under General Sales Tax, as the 13 percent GST was added to the final sale. For those intending to resell the goods, the position is different, but for ordinary buyers, there is a small tax break.

Consumers should carefully investigate before rolling up to a house sale on a weekend.

Many auctioneers buy job lots of goods and sell them by auction. They are not acting as agents, but as the sellers themselves.

Such ownership can encourage unscrupulous auctioneers to drive up the price artificially and offer bad goods at high prices. There is not much a consumer can do about this unless a crime is actually committed — and it seldom is. Duping consumers is only a crime if it can be called fraud or theft.

At an auction sale at West Gate in Sandton this week, the auction process seemed to work in a way which would benefit consumers looking for bargains (and hoping to

avoid VAT). Items of furniture and household goods were sold for prices ranging from R2 to R2 500. Only those where the owners had said they would not accept less than a certain amount (a "reserve") were not sold when the bidding failed to go high. But consumers would have had to examine the goods beforehand to know how to bid.

Stephan Welz's organisation will inform its bidders when an item on the catalogue is owned by the company or one of its directors. The majority of auctioneers will not.

There is not much an auctioneer can do about a consumer who hasn't the funds to cover his or her bids.

However, there are differing ways of finding out whether the bidders can come up with the money. A Welz spokesperson said the auctioneer will despatch someone to ask the bidder quietly to have a chat about money, if there is some reason for uncertainty.

At West Gate the position appears slightly more crude. All of the black bidders, except those who were known to Donald Martin, the owner and auctioneer, were asked loudly if they had the "mali" (*imali* is money) and could produce it. None of the white bidders were subjected to the same indignity.

Martin said bluntly that black bidders are "a nightmare" as they will often bid with no money, put down a small deposit and then disappear. Auctioneers are not warehouses, he says, and they cannot store goods.

However, there were several black buyers who were regular customers who resold the goods in the township.

For all of that, his appeared to be a genuine auction sale with many bargains.

Not all auctions offer bargains — they are often the place where the market value of goods are set, and sometimes inflated. But for sales of ordinary second-hand furniture, they offer the chance of a real bargain to hard-pressed consumers.

ON THE SOUTHERN TIP

SAP ID. It's unprintable

Pressure still on over VAT

By REG RUMNEY

THE Congress of South African Trade Unions-led lobby group has won from government an agreement to reconsider aspects of VAT.

But the government has reiterated its stand that delaying VAT now would harm the economy.

A statement released by the government this week says a working group composed of experts appointed by the government and by the Co-ordinating Committee on VAT will look at matters such as technical problems in implementing VAT, the effects of delaying VAT, the effect on inflation, possible alternatives, and government revenue implications of VAT.

The committee has kept up its pressure to delay the implementation of VAT and have further changes made to the VAT system.

This is despite Finance Minister Baarend du Plessis having dropped the VAT rate to 10 percent and, among other things, exempted union dues and state and provincial hospitals.

The committee says a number of technical and administrative problems have not been addressed, and has urged that the implementation date be delayed.

The committee and Du Plessis will meet after September 16 to consider a report by the working group.

● See Page 17

VAT = drop in standard of living

Staff Reporter

THE standard of living of most South Africans will drop drastically and burgeoning township business will go into decline when the VAT system is implemented on October 1, a tax specialist said yesterday.

Chartered accountant Mr Hilmi Daniels said in an interview that the new 10% tax — which “few people understand” — heralds an era of “prejudice” to the small businessman and “advantage” to big business.

Adviser to the recently formed Western Cape Co-ordinating Committee on VAT, Mr Daniels said that in the more than 40 other countries where the tax operates, governments found it “necessary to make special provision in the VAT laws for the protection of small business”.

In South Africa “they (the government) are allowing market forces to operate”, but in other countries the

governments took steps such as price freezes, price and wage controls and profit-margin controls.

He said that in the past, small business had relied on creditors' money and GST revenues to provide additional cash flow, which was used by the proprietors. The advantage would now lie with the large companies who hold the VAT revenue and earn interest on the money, he said.

The immediate result would be an increase in township store prices. The consumer would get more value for money because it would generally be 10% cheaper, he said.

Mr Daniels said that within five years, VAT and the inflation aspects of the tax could be responsible for a 50% increase in our cost of living, because of indirect costs of electricity, telephones, consumables, professional advice and other expenses necessary for existence.

SABC sticks to 12 % VAT

Weekend Argus
Correspondent

JOHANNESBURG. — The SABC is to charge TV viewers 12 percent VAT on their licences and not the new reduced rate of 10 percent.

Explaining the mistake in 2.6 million television license statements due to reach subscribers by September 9, a spokesman said it was too late to change VAT from 12 to 10 percent for subscribers who paid after September 28.

Licence holders who paid on or before that date would pay the reduced fee of R133.93, but those who paid after September 28 must pay VAT calculated at the 12 percent ruling when the renewals were prepared.

The extra R2.64 paid for this year's licence "will be given back later".

R20

ARG 7/9/91

VAT COUNTDOWN

Car prices 'will not change'

PRETORIA. — Value Added Tax will not increase the retail price of cars, says Mr Georg Marais, Minister of Trade and Industry and Tourism.

The minister said: "Value added tax will increase the local content, as it is calculated, substantially, since the tax is considered to be local content.

General sales tax is not considered to be local content since it is levied at the retail level.

"This adjustment will not increase the retail price of vehicles as VAT is simply replacing GST. It does not therefore place any additional pressure on vehicle manufacturers to increase local content." — Sapa

Vatwatch watches labelling

Business staff

VATWATCH is monitoring retailers' use of dual price tags, which quote present and post-vat prices, and warned that both, full, after-tax prices should be displayed if comparisons are made.

"In one case brought to the

attention of Vatwatch, an item was price-tagged R95,99 excl GST and R107,51 incl VAT.

Vatwatch chairman Professor Louise Tager pointed out that this might give the impression that the present price is lower than the price under VAT, whereas in fact, the price with GST is R108,46.

VAT on TV screens

SOUTH Africa's public enemy number one, also known as Value Added Tax, took to the small screen yesterday in a 30-minute presentation prompted by Vatwatch and designed to convince business the new tax isn't all bad.

Commentators said most businesses are under the misconception that VAT will simply add 10 percent to their

costs, which they will have to recover in order to maintain their current profitability.

There was a sting in the tail for concerns which failed to understand the implications of VAT and treated it as an additional cost. At best, they would lose their competitive edge against firms which did their homework. At worst they risked going to the wall.

By TERRY BETTY

Vat delay for TBVC states sought

THE construction industry has asked the Government to delay the implementation of Vat in the TBVC states for six months. (22)

With only three weeks to go to Vat-day, Transkei, Bophuthatswana, Venda and Ciskei have yet to pass the required legislation. But they have started to send out Vat registration forms.

A Transkei Inland Revenue spokesman says the Vat Bill must still be "channelled through the corridors of the military council". S/TW

A Bophuthatswana official says its Bill has not had its third reading. (3.44)

Colin Mester, chairman of Concom, says many sub-contractors and suppliers in these states have not registered. This will make them uncompetitive because they will have to pay Vat on their inputs without being able to claim input credits. (320)

British

They will also be unable to issue Vat invoices which enable customers to claim input rebates.

Mr Mester says that because South Africa had a six-month lead after promulgation of the Vat Act, it is unfair to expect vendors in the TBVC states to get their act together in a few weeks.

Inland Revenue chief director, tax policy development, Trevor van Heerden, says if TBVC Vat systems are

not up and running in time, it is possible to backdate legislation to September 30. But this means vendors will have to charge as if they were including Vat in their prices.

But confusion will reign if the TBVC states do not change their tax laws by September 30 because the GST system will remain in place.

If this happens vendors will pay Vat on goods bought in SA and have to levy GST on top of this without qualifying for rebates.

Building Industries Federation of South Africa (Bifsa) economist Charles Martin, says such doubts have caused confusion for those involved in major projects in the TBVC states.

Dr Martin says: "It is difficult to tender for new contracts when there is uncertainty about tax."

The first TBVC registration forms were sent out last week. Bophuthatswana employed British experts to help implement its system and mailed forms before SA did.

VAT blow to bonds

320

By MAGGIE ROWLEY
Deputy Business Editor

SHOCK increases in both prime lending and mortgage rates have been announced by banks ahead of a new tax to be levied on financial institutions from September 31.

The increases, though marginal, have come at a time when hard-pressed consumers and home-buyers have been anxiously awaiting a long-expecte drop in interest rates and the more is certain to put disposable income under further pressure.

Leading the way, First National Bank announced yesterday that it would increase its prime lending rate by 0.25% to 20.25% from October 1. Its home loan rate will rise by 0.25% from October 7.

Amalgamated Banks of SA (Absa), Bankorp and Nedcor followed suit while Standard Bank is expected to make an announcement on Monday.

United Bank, whose prime rate has been lower than the rest of the industry, will

increase its prime lending rate from 19.75% to 20%.

Absa chief executive Mr Piet Badenhorst said the group's mortgage rate would also be increased by 0.25% with immediate effect for new loans and for Volkskas will increase on October 1. Allied and United increase rates will come into effect on November 1.

Offset new tax

Banks said the increases were intended to offset the cost of a new tax expected to be levied on financial institutions from October 1 in lieu of VAT from which they have been excluded.

Mr Nico Cypriotes, group economist of Standard Bank, said the government had indicated that it was likely to raise about R200 million via a new tax on the financial services industry over the second half of the current fiscal year which ends on March 31, 1992.

He said the prime rate increases followed repeated warnings by banks that they would have to pass on the costs of the increase, is minuscule. It is

the principle of the matter and it will be a blow to consumer confidence. The man in the street has had a gut full, feeling he has been hit from all sides."

Bankers said the increases announced yesterday would provide for only partial recovery of the effect of the tax and it would be necessary to recoup some of the cost through other measures.

An FNB spokesman said an attempt to spread the recovery of the cost as broadly as possible would also lead to a slight upward adjustment in the bank's deposit rates.

The rise in mortgage rates will deal another blow to the man in the street trying to ride out a sustained bout of punishingly high interest rates.

And Mr Peter King of the National Association of Homebuilders said many in the industry had already gone under and the new could "be the death knell" for others with margins already under heavy pressure.

"What are they trying to do, kill the

● Complaints against VAT pouring in — Page 5

10-11-91

P.T.O.

Turnover tax to be scrapped

320
CT 9/9/91

Own Correspondent

JOHANNESBURG. — Government is set to scrap plans for a turnover tax on banks' gross interest earnings and will replace it with a tax on their capital bases, banking sources said at the weekend.

The plan is said to have the support of the banking industry which has been lobbying for a modification of the turnover tax, which was expected to contribute R220m to government revenue.

In terms of the new plan, thrashed out at a meeting between banks and special advisor to the Department of Finance Japie Jacobs last week, a tax would now be levied on banks' capital in terms of the capital adequacy requirements of the Deposit-Taking Institutions Act.

The bottom line, commented one banker, was that government wanted R220m a year from the financial sector and did not care how it got it. If banks preferred the new plan then he was happy to go along with it.

The plan would see banks taxed in terms of their statutory capital-to-asset requirements.

They currently have to keep 4,5% of liquid assets against total assets. However, this is set for progressive increases up to 8% by January 1995.

The logistics of the plan still have to be finalised but bankers expect the tax to assume an 8% ratio immediately, a portion of which will go to the Receiver to make up the R220m.

This would ensure that banks with surplus capital are not penalised as only the statutory requirements would be taxed.

Proposals

While the new plan looks set to go ahead bankers say there are still technicalities to be ironed out. These would have to be negotiated before the end of the month when the levy will be implemented along with VAT.

The bankers went to Pretoria with three proposals which were all rejected. The first was that Reserve Bank governor Chris Stals drop the Bank rate by 1% and that prime remain at 20%.

The second was that the Bank rate be cut by 0,5% and prime be floated so as to allow banks a half

point increase in prime.

The third was that prime be floated allowing banks a 1% rise in prime with no change in the Bank rate.

However, Stals indicated he would not tamper with monetary policy to solve a fiscal issue. With the realisation that government and the Bank were not going to help maintain banks' margins, the compromise on the turnover tax was suggested.

Banks would find it easier to administer the extra cost of the new plan which would make outflows easily identifiable and less erratic than the turnover tax.

Also, turnover tax revenue would be largely dependent on prevailing interest rate levels. The 0,75% levy would yield more revenue than expected with high interest rates and less in a low interest rate environment.

Bankers warned, however, that the plan did little to resolve the dilemma of how they would recover the tax.

Banks were not prepared to bear the brunt of the R220m drain on their bottom line and would pass it on to the consumer in one form or another.

Govt set to scrap bank turnover tax and focus on capital

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ANDREW GILL

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Sufficient consultation on VAT, says minister

JOHANNESBURG. — The Value Added Tax Commission had since August last year received 1 100 written submissions and evidence from 120 organisations, which led to 112 changes to the draft bill on VAT, says Finance Minister Mr Barend du Plessis.

Speaking on the weekly television series to inform the public about VAT, Mr Du Plessis said Parliament had made a further 78 changes to the draft bill before finally approving VAT.

Mr Du Plessis said he was satisfied there had been sufficient consultation with interested groups and individuals on the implementation of VAT at the end of September.

He said he had been given special

powers by Parliament to continue consultations after the final legislation had been approved.

Despite the ongoing discussions concerning the implications of VAT, he said that the implementation of the tax could no longer be delayed.

Referring to the history of VAT, he said a year after the Margo Commission started its investigations into a new tax system for the country in 1984, it had indicated that VAT would be a suitable tax to replace GST.

Mr Du Plessis said that after further investigations the government had accepted the recommendations in 1987 and published a white paper on the proposals.

'Enough VAT consultation'

The Value Added Tax Commission had, since August last year, received 1 100 written submissions and evidence from 120 organisations which led to 112 changes to the draft Bill on VAT, Finance Minister Barend du Plessis said at the weekend.

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After further investigations, the Government had accepted the recommendations in 1987 and published a White Paper on the proposals. A final decision on implementing the tax had been taken in 1988. — Sapa.

Jan 9/9/91

Appeal for lower corporate tax rates

8/10 am 10/9/91.

(320)

SHARON WOOD

INVESTORS in new projects are significantly disadvantaged by SA's high inflation and corporate tax rates, says a recent report by stockbroking firm Davis Borkum Hare. The broking firm drew heavily on research by AECI, although the chemicals group did not authorise its publication.

The broking firm's report says that SA inflation and tax rates lead to cash margins on goods made in SA having to be significantly greater here than abroad if returns on new investments are to equal those in countries with less punitive tax regimes and lower inflation. The dilemma is that higher cash margins — defined as residual revenue left after all the cash costs of manufacturing have been met and which is used to increase working capital, pay tax and appropriate returns on capital — affect the price competitiveness of SA goods in export markets.

The study, which is being examined by government, says total tax burdens on new projects here are about two-and-a-half times those on comparable ventures in the UK or the Netherlands and as much as six times those in Taiwan. It suggests the corporate tax rate be cut to 35% if foreign investors are to be persuaded to invest

here in job-creating projects.

One example cited in the report indicates that an SA venture whose selling prices are competitive with others worldwide, and whose input costs are the same as those of foreign competitors, can generate an internal rate of return on investment of 4.5% against 10.2% in Taiwan, 8.0% in the UK and 7.4% in the US. Conversely, the cash margin on SA-made goods needs to be 60%, higher than on comparable Taiwanese products if comparable investment returns are to be generated. In contrast, the report says, Swedish investors invested in other countries because punitive taxes rendered domestic investment unattractive.

The report stresses the need for certainty and credibility in corporate taxation. It adds that if foreign investors are to be attracted to SA, certainty and credibility need to be endorsed by the present government and other parties investors believe may be in power in the future.

It suggests that the corporate tax rate be reduced to between 35% and 40% to facili-

□ To Page 2

Tax

8/10 am 10/9/91.

(320)

□ From Page 1

tate international competitiveness of new manufacturing ventures here, though it points out that reductions have to take into account the needs of government faced with heavy social spending commitments.

The study found that SA companies were more competitive in 1980 than they were at present because in 1980 SA had better investment incentives than in other countries, that SA's inflation rate was in line with those of its competitors and that SA's corporate tax rates were lower. In the intervening decade, foreign countries have switched the advantage and attracted new

international investment by cutting corporate tax rates and by curbing inflation. They also gained by the fact that SA reduced its investment incentives.

The study says the solution lies in reducing tax because inflation is being addressed and will be controlled over time.

□ In his 1990 Budget, Finance Minister Barend du Plessis announced plans to cut the corporate tax rate to 40% over the next five years. Recently he said that reaching that target might be delayed because VAT's initial rate had been cut to 10%.

Naamsa, government hold crucial VAT talks

MARC HASENFUSS

THE National Association of Automobile Manufacturers of SA (Naamsa) is due to meet with government today for critical talks on VAT-related changes to Phase VI of the local content programme.

The meeting will be attended by representatives of Naamsa, the Customs and Excise Department, the Department of Trade and Industry and the Board of Trade and Industry.

Vehicle manufacturers' final decisions on additional price hikes — due early next month — will depend on the outcome of the meeting.

Some have indicated that the changes to Phase VI would result in an 8% increase in new car prices instead of the average 4% quarterly increase.

The Department of Trade and Industry increased the local content programme's target from 70% to 78% because VAT would substantially increase local content levels. (VAT is considered to be local content.)

Naamsa anticipated the increase but is to argue against the retention of the 2.5% ad valorem duty on vehicles.

The ad valorem was intended as a tem-

porary arrangement and was due to be scrapped in September.

The duty was initially introduced to compensate for the loss of state revenue after the better-than-expected performance notched up by the motor industry.

The shortfall in government coffers is estimated at R250m.

Trade, Industry and Tourism Minister Org Marais said recently that the Board of Trade and Industry had recommended the withdrawal of the duty.

Replacement

The recommendation had, however, not been implemented due to the loss in state revenue.

Marais said that the adjustment of local content targets would not increase the retail price of vehicles as VAT was simply replacing GST.

"It does not, therefore, place any additional pressure on vehicle manufacturers to increase local content," Marais said.

VAT

Promotional Feature

ARI JACOBSON

THE switch from a general sales tax (GST) to a value added tax (VAT) scheduled for October 1 has created a certain amount of uncertainty — and encouraged the wrath of the poor.

Both methods are indirect ways of collecting taxes and are linked to the amount the consumer spends. But there are noticeable differences between the new and the old tax.

GST is a last-stage tax (on the consumer) and incorporates a smaller basket of taxable goods and services. Basic foodstuffs (besides brown bread and maize meal) will now be taxed as will medical services, in particular, and all types of services in general.

However, lobbying from pressure groups including trade unions and the ANC, may well see a turnaround in taxes that would worsen the position of the needy.

Multi-stage

VAT is taxable at many stages and with the additions into the tax net, is considered a broader based tax.

The problem with GST, according to the authorities, was that as the tax was incurred at the final stage in the process from production to consumer purchase there was plenty of potential for tax avoidance.

With value added taxes the multi-stage process enhances the potential for maximising the tax collected.

Changes in tax system create some uncertainty

To use a simple illustration: a piece of wood sold to a manufacturer carries the necessary 10% tax. The manufacturer passes this on to the retailer — but as the name implies — only pays tax on the value-added portion (that is, where production has added value to the raw material). At different stages a small portion of the tax is obtained from each component in the distribution.

With GST, tax was collected solely at the last stage of the process — from the end-user. The introduction of VAT should reduce the amount of tax escaping the net, with policing at each stage in the distribution chain.

The problem, though, is that increased surveillance means additional administrative expenses.

Another cause for concern with GST was that the tax on capital goods, which was incorporated into the manufacturing of a product, was taxed again when the product reached the hands of the consumer — a double tax.

Tax experts have argued that the most efficient system would be the application of a more "refined GST". This, they have said, would be a single-stage tax, but with fewer exemptions.

How it's going to affect consumers

LIKE most South Africans, you probably want to know more about the new tax system called VAT that the government is introducing to replace GST on September 30, 1991.

As part of Woolworths' commitment to customer service, we've placed great emphasis on informing you about VAT. Effort has gone into training staff on the correct application of VAT. And you'll be pleased to know that we will not accept VAT as a reason for price increases.

In fact we see it as a potential area for cost savings to industry and commerce, which will give you, the customer, better value for money.

What is value added tax?

VAT, like GST, is an indirect tax which is paid ultimately by the final consumer. The main difference lies in the way it's collected.

How does the VAT system work?

Essentially, all businesses charge tax to their customers and pay tax to their suppliers.

The difference between these two amounts of tax is then paid over to the Receiver of Revenue.

How will VAT affect prices?

The price you see is the price you pay, unlike GST, which was added on at the till. Therefore the prices advertised or shown on tickets by the retailer must include VAT. The price can be shown in two ways: Price including VAT or, price excluding VAT plus the amount of VAT giving a total price.

How will VAT affect you?

The good news is that all the goods and services which currently attract 13% GST will only attract 10% VAT. So you save 3% on purchases like clothing, footwear, toiletries, cosmetics, furniture and most foods. However, certain foods and services which don't currently attract GST will, from September 30, 1991, attract 10% VAT.

These are the goods and services that will not cost you more as a result of VAT.

- Mielie meal and brown bread.
- Petrol.

- International travel.
- Exports of goods and services.

Financial services supplied by banks, building societies, stockbrokers, life assurance companies and pension, provident, retirement annuity and medical aid funds.

These are the goods and services that will cost you more from September 30, 1991.

Foods:

- Bread (except brown bread).
- Milk.
- Fresh and frozen fish, meat, poultry, fruit and vegetables.
- Rice.
- Bacon and Kassler cuts.

Services:

Professional services supplied by doctors, dentists, lawyers, accountants, architects and engineers.

Administrative, advisory, management and technical services supplied by any business enterprise.

Services of commission agents, eg estate agents.

Services provided by sporting, social and re-

creational clubs.

All forms of entertainment for which a fee is charged.

All short term insurance cover eg personal or property.

Certain services of local authorities, eg water and electricity.

Woolworths' stance on VAT.

In order to make our stance as positive as possible, all efforts to save money for the customer will be taken. We will do everything we can to contain future price increases by taking advantage of the opportunities afforded by VAT.

And once the cost of change-over has been absorbed we will pass on to you any benefits arising from cost reductions that come with the introduction of the VAT system.

We'll refund customer returns bought before September 30, 1991 with the 13% GST they paid. (So please make sure you keep your till slips.) And we will make sure our supplier prices are negotiated excl of VAT so that our prices do not include a VAT mark-up.

RECORDING FOR VAT

We will look at your systems and adjust them to provide for VAT. If required, we will record monthly for you.

PHONE MANDY
419 3520

Cosatu mass action against VAT in W Tvl

By MZIMASI NGUDLE

COSATU's Western Transvaal region will embark on a programme of mass action from Monday to September 30 in an effort to compel the Government to postpone the implementation date of VAT.

A regional congress attended by 400 delegates discussed a range of issues including VAT, the National Peace Accord as well as trade union unity.

The congress called on finance minister Mr du Plessis to postpone VAT so that effective negotiations with Cosatu could be made.

Workers will demonstrate in factories, mines and shops. Pickets at the office of the receiver of revenue or manpower department will be held in all Cosatu locals in the western Transvaal.

On September 21 there will be protest marches in Vereeniging, Sasolburg, Klerksdorp, Parys, Carletonville and Lichtenburg.

A meeting of regional shop stewards council on September 22 will assess the protest and decide on further action. *Sowetan 10/9/91*

Law could stymie banks' tax plans

SHARON WOOD

TECHNICAL problems could stymie the banking sector's proposals for tax to be levied on capital requirements rather than on gross interest turnover, Inland Revenue director of legal drafting Ian Meiklejohn said yesterday.

"The empowering legislation says there should be a tax on interest, and I am therefore not sure it is technically possible to tax capital requirements," he said.

Government has not yet decided whether to adopt the banking sector's proposal and Meiklejohn said he was not sure when a decision would be taken.

He said a tax rate on capital requirements would be pitched to raise the same R200m as was expected from the proposed 0.75% turnover tax. 810²² 117171

Meiklejohn said as far as he was aware the capital tax proposal had come from the banks themselves, after three proposals had been turned down by government.

A banking source said yesterday that taxing capital requirements was the most equitable system suggested up to now and would not disrupt the

banking system.

There was no certainty that the proposal would be implemented as discussed at this stage. (320)

Analysts believe the proposal could favour some players, especially those with large mortgage loan books. Mortgage lending is based on lower capital requirements than most other forms of lending.

They also believe taxing capital requirements would lead the banks to favour mortgage lending over other new loans. Under the proposed system mortgage financing would raise less tax because of lower capital requirements.

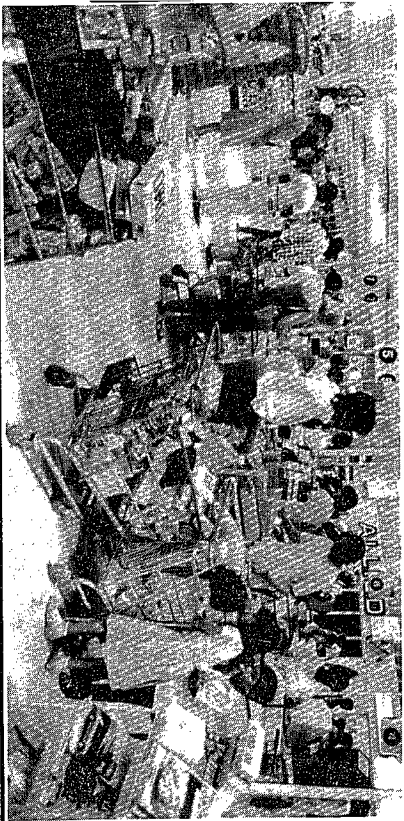
How to get value from VAT

South Africa faces a challenge

Southern

11/9/91

(320)



VAT-DAY, the date on which Value Added Tax will be introduced, is only weeks away. Many businesses are already geared up for the changeover. Its deadline: VAT comes to South Africa on Monday, September 30.

Two other things are certain: the rate, 10%, and the fact that many more items will carry VAT than carried GST.

Few other VAT issues are so clear cut. The public remain confused about many aspects of the new system.

People resent all taxes and fear any changes to taxation mean additional tax.

What are the facts?

Experts differ on some matters, but there is broad agreement that VAT is a better tax system than the old GST system. International agencies like the World Bank recommend it. (One of its criteria for international loans is an efficient tax system in the country to receive funding).

Countries that used to have GST are going over to VAT. Nearly 50 countries

VATWATICH, points out some price should come down in the wake of VAT. It's her job to help consumers get a fair deal out of VAT.

Internationally, the experience is the VAT has an anti-inflationary effect on the consumer price index. This form of tax helps keep the lid on inflation and therefore can help ordinary people make ends meet.

One reason for this was that the alternative GST system forced businesses to push up their prices to recover the GST they had to pay.

Businesses found themselves paying GST on items like delivery vehicles, machinery, shop fitting and advertising. All of which added to their cost structure. These additional costs were worked into the price of the goods produced to

Your VAT questions answered

Q: Will VAT be added on as an extra charge at shop tills?

A: NO! The price you see on the goods or on the shelf is the price you pay. VAT is included in the price. This is also true of advertising and quotes for services. The price that is given is THE price, with the tax included.

Q: How many rates of VAT are there?

A: Just two. The standard rate is 10 percent. Then there is the zero rate (nothing at all) on those items which are exempt from VAT.

Q: Do I pay GST and VAT?

A: NO! VAT replaces GST. VAT (like GST) is an indirect tax. The direct tax many of us pay — income tax —

remains in place and is not affected by the changeover to VAT, although considerable income tax relief has already been given, not only in the lowering of tax rates, but also the big improvement of married couples no longer being taxed on their combined income.

Q: Is there VAT on medical services?

A: It depends where you go. Private clinics and private doctors and dentists obviously make profits from their services. Tax therefore applies. The needy, the main users of State, provin-

cial and municipal medical services will pay NO VAT on these services and medicines. It should be noted that 90% of these health services to the needy are subsidised by Government.

Q: Do I, as an individual, have to register for VAT?

A: NO! Only businesses with turnovers of more than R150 000 a year have to register at their local tax office. They must register by August 31. Businesses which fail to register have to personally pay the VAT which they failed to collect from customers.

Q: But what about when I carry out a little private business — for instance, selling my son's windmills for a weekend for R1 200?

A: Private transactions involving used or second-hand goods are NOT taxed. So, transactions carried out by an ordinary family are exempt. This is a major point of difference with GST. The old tax had to be paid when individuals engaged in the sale of goods. This system falls away with the introduction of VAT.

Q: Do I have to pay VAT when I sell my house?

A: NO! This is another form of private transaction, and so does not attract VAT. Nor does a buyer who is purchasing a home from a private seller have to pay VAT. But if you buy a new home from a COMPANY — a builder or developer — you will have to pay VAT. This is a transaction with a business, not an individual selling his or her own property. So VAT applies.

Q: What if I use an estate agent when selling my house? Is VAT payable then?

A: VAT is payable only on the estate agent's commission; NOT on the total value of the sale. And it is also only payable if the agent or his/her company is registered for VAT purposes. (Remember, only businesses with turnovers of more than R150 000 a year HAVE to be registered for VAT.)

Q: What about my bond or my rent? A: VAT does not apply to bond repayments or rent. Nor does VAT apply to sectional title or body corporate levies.

Under VAT the tax which businesses pay on machinery, tools, equipment and certain other purchases will be refunded. This is a R6 billion a year saving to business.

This boost will help shorten the recession. There is obvious value in that.

But what about the effect on the average family?

Professor Louise Tager, chairman of

the business, the consumer, the price that had been inflated to take account of GST on business costs AND paid GST again when he or she bought the business's products.

Thankfully, VAT breaks the GST or-GST effect as all businesses can subtract VAT paid on items that the use to run their business from VAT collected on sales.

Businesses will have leaner cost structures and the benefit can be passed on to consumers. In other words, a automatic 10% price rise on existing prices need not be inevitable when VAT comes in. A lower rise — OR DROP IN PRICE — would indicate the firm was trying hard to pass on savings to ordinary people.

Vigilant consumers can ensure the receive value from Value Added Tax by being very watchful of price rise and by challenging unwarranted price increases.

What about scrapping tax rather than paying it?

VAT is being introduced to replace GST. But why change? In fact, why pay tax at all? *Sowetan*

No tax at all seems ideal. But is it? Without tax, governments have no money to pay for health, welfare and education services. Our old folk get no state pensions. Our cities, roads and harbours decay. *11/9/91*

Foreign loans are not the answer. You have to repay them, with interest. We have to pay our own way as a nation ... and one way is through tax.

Flood relief and famine relief have to be paid for. Those helicopter pilots and navy divers who did such a great

job rescuing passengers from the Oceanos have to be paid, trained and equipped. The money has to come from somewhere. *(320)*

You, the taxpayer, played a part in making that miracle possible.

FAIR AND EFFICIENT

It is important that the tax systems we adopt be as efficient and fair as possible. Efficient - so we get in the money we need. Fair - so every South African makes a contribution to the nation's future.

An eminent economist like Dr Azar Jamine of Econometrix has calculated

• Cont. p13

• From p12

that a goal like full electrification would cost R1,4 billion a year. A total assault on housing backlogs would require R5 billion a year.

It doesn't matter what national goals or priorities are set - money will be needed to finance the efforts. Therefore, a fair, efficient tax system is a 'must' - no matter which party is in power. *Sowetan 11/9/91*

Some of those taxes have to be on spending. Currently about a third of the South African Budget is accounted for by taxes on spending. Without this contribution, taxes on income would become punitive.

VAT, like GST, is a tax on spending. But international experience shows VAT is fairer and more efficient than GST.

NO TAX ON TAX

The VAT system allows businesses to claim back the VAT they pay on

business premises and equipment and the material they buy to turn into goods for the consumer. So prices are not increased because of tax, only to be taxed again later, as happens with GST - the so called GST on GST scenario.

LESS EVASION *(320)*

Some unscrupulous businesses also found it relatively easy to evade GST or engage in other tax abuses.

VAT creates what the experts call 'a clear audit trail' - allowing the taxman to check exactly who paid what tax when. They can track what cost items come into a business and what added value is created and passed on by the business.

Substantial international VAT monitoring experience has been built up. The International Monetary Fund and the European Community passed on a lot of this information to South Africa. The result is a computerised system

that helps officials spot the evaders and their tricks.

Therefore, abuses should be massively reduced and ordinary taxpayers will not end up giving a disguised 'subsidy' to tax tricksters.

In addition, better VAT information will help to uncover other forms of evasion, in particular income tax evasion.

A BROADER SPREAD

VAT is also levied on a broader range of goods and services. There were many exclusions and special cases with GST. So the system was expensive to administer and many items escaped the tax net.

In addition, VAT spreads the tax load more evenly over both rich and poor.

A poor family's spending is dominated by everyday purchases. These were just about all taxed under the GST system.

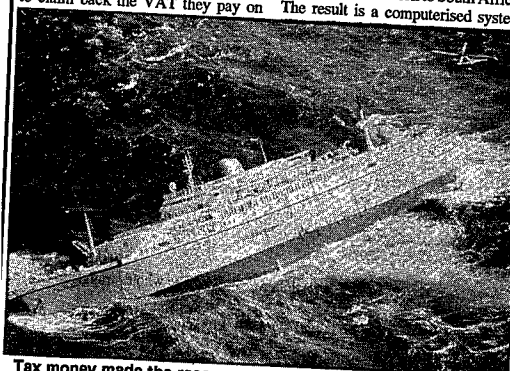
But a rich family's budget often extends into sophisticated service areas - like lessons from the golf pro, or fees for accountancy services, or fees for an architect to draw up plans for a 'designer home'.

Sophisticated services such as these escaped GST. This meant the rich man's lifestyle was less subject to tax than the poor man's. And that is not fair.

The point is proved in a simple, basic area such as light and heat. The poor family paid GST on their candles, coal and paraffin. The rich family paid no tax, however, on electricity.

VAT taxes the services, too.

VAT, then, is a fairer, more efficient tax. GST comes off poorly in just about any comparison. It has to go.



Tax money made the rescue operation of the Oceanos possible.

SATV 'cuts' fee after row

Cr 11/9/91

(320)

Own Correspondent

JOHANNESBURG. — The SABC has responded to consumer pressure by agreeing to cut TV licence fees in line with the reduction of the VAT rate to 10%.

The decision to accept licence fees of R147, instead of R150, from September 30 follows discussions with Vatwatch yesterday.

Vatwatch chairman Professor Louise Tager said in a statement after the meeting that this was a reversal of an earlier announcement stating the SABC could not reduce the VAT payable from 12% to 10% for technical and administrative reasons.

'Crucial'

Viewers could now ignore statements showing that R150, which included the original rate of 12%, was payable. Those who had already paid their licences would receive a credit which would be carried over to the next year, the SABC said yesterday.

The amounts involved may be small, but the principle is crucial," said Professor Tager.

"Every business and organisation that charges VAT on its products and services has an obligation to the public to ensure that the recently announced reduction in the VAT rate is passed on to consumers."

The VAT watchdog's next target would be food and grocery wholesalers and retailers.

Professor Tager said she also planned to discuss the implementation of VAT with other sectors such as the dental, car manufacturing and estate agency sectors.

Sept 11/9/19.
VAT will not
increase clay
brick prices

Finance Staff

The introduction of VAT will not increase clay brick prices and in turn will not influence prices of building and construction work, according to the executive director of the Clay Brick Association, Leon De Bruin.

He was responding to recent claims made by the National Association of Home Builders that the cost of a new home could increase by between 5 and 8 percent as a result of VAT.

"Preliminary calculations on hand indicate that in most cases VAT will not affect the price of clay bricks.

"In fact one of the Association's members claims a small decrease in their brick prices upon the introduction of VAT.

"Calculations indicate that savings do occur because most brick makers mine their own clay".

Substitute brick products such as cement brick and blocks could increase as a result of VAT said Mr De Bruin.

SABC concedes on licence discount

By Paula Fray
Consumer Reporter

The SABC backed down on a decision not to pass on the 2 percent reduction in VAT on 1991/92 licence fees yesterday after talks with the consumer watchdog body, Vatwatch.

The corporation is now prepared to accept licence payments after September 30 of R147, despite R150 being shown on statements sent to viewers.

Those who pay before September 28 will escape VAT.

Important signal

The SABC had said that for technical and administrative reasons it could not reduce VAT on licences from 12 percent to 10 percent, but that adjustments would be made next year.

The decision to charge only 10 percent is seen as a coup for the consumer body.



Vatwatch chairman Professor Louise Tager said that by recalculating the VAT rate on licences, the SABC was sending an important signal to commerce and industry.

"Large organisations ought to set an example to smaller businesses and discourage anyone from using weak arguments as a smokescreen that prevents consumers from enjoying cost benefits from VAT."

● A 45-minute television programme, developed to counter public ignorance about the effect of VAT on prices, is being screened on TV1 this month.

According to Vatwatch, which will monitor price trends before and after the introduction of VAT, the programme explains why the new tax need not cause a general rise in prices.

Produced by a leading firm of tax consultants, the programme will be screened each Tuesday and Wednesday at 9.15 am. The final programme will be shown on September 25.

A Vatwatch spokesman said the presentation had been developed to counter public ignorance about VAT's cost effects.

"Consumers must not fall into the trap of believing that business costs, and therefore prices, will rise as a result of VAT," he said.

Fall away

"Businesses registered as 'vendors' in terms of VAT will obtain a full tax credit for their payments. In this way, VAT will not be a cost borne by the business."

"In fact, tax that business used to pay on a wide range of items will fall away under VAT."

"This major saving which the business sector will begin to enjoy on September 30 ought to be passed on to consumers."

SABC backs ⁽³²⁰⁾ down over VAT ^{Att 11/9/91} on TV licences

The Argus Correspondent

JOHANNESBURG. — The SABC has backed down on a decision not to pass on the recent two percent reduction in VAT on 1991/92 licence fees.

The decision followed talks with the consumer watchdog body, Vatwatch, yesterday.

VAT will be implemented on September 30.

The corporation is now prepared to receive licence payments after September 30 of R147 — despite R150 being shown on the statement mailed to viewers. Viewers who pay their licence fees before September 28 need not pay VAT.

Today's decision follows an announcement by the SABC that for technical and administrative reasons it could not reduce the VAT payable on licences from 12 to 10 percent. Adjustments would be made for next year, the SABC said.

The decision to charge only 10 percent VAT is seen as a coup for Vatwatch which has called a meeting with leading grocery and food manufacturers, wholesalers and retailers tomorrow.

The recalculation of costs and prices, following the recent two percent drop in the VAT rate to 10 percent, is on the agenda.

Vatwatch chairman Professor Louise Tager said the organisation welcomed the change.

"The amounts involved may be small, but the principle is crucial: every business and organisation that charges VAT on its products and services has an obligation to the public to ensure that the recently announced reduction in the VAT rate gets passed on to consumers," Professor Tager said.

Professor Tager said by recalculating the VAT rate on TV licences the SABC was sending an important signal to commerce and industry.

"Large organisations ought to set an example to smaller businesses and discourage anyone from using weak arguments as a smokescreen that prevents consumers from enjoying cost benefits resulting from VAT."

Professor Tager said Vatwatch was appealing to the business sector and other organisations registered as VAT vendors to introduce the new tax efficiently and correctly in order to derive, and pass on to consumers, the cost savings inherent in the VAT system.

Last-minute rush to beat VAT rise

THERE will be a last-minute rush into residential property to beat the introduction of VAT, followed by a boost in prices for existing housing, according to predictions by experts.

"As the September 30 deadline approaches, we are seeing an upturn in the tempo of inquiries as awareness grows that savings of about seven to 10 percent on residential property prices will be possible if the sale goes through in

By JOSHUA RABOROKO

time," says Camdon's director, Mr Bryn Hossack.

The seven percent Hossack alludes to is in respect of the taxation, for the first time, of the contractor's services, after September 30. Under the old GST system, only the raw materials were taxable.

The re-sale of secondhand homes will increase in sympathy with the increased cost of constructing new homes due to VAT,

he predicts.

"While an existing home obviously does not have the VAT factor built in as it were, the general effect of VAT will boost housing prices on to another level.

"The prices of existing homes will be caught up in the spiral although they will still maintain their traditional lower price gap relative to new homes.

Based on the 12 percent VAT rate on the labour and profit factor in new-house construction, the additional

tax due on a R100 000 house, on which about R40 000 is building materials, would be R7 200.

All homes sold by a developer or by a registered enterprise will become "Vatable", points out Hossack, irrespective of whether the sale is part of an enterprise's mainstream business or not.

He said every purchaser of property from a developer will be charged with VAT, irrespective of the nature of the property.

The newly-built property bought from a developer will therefore be more expensive and re-sale properties sold by enterprises will also be Vatable.

The good news is that private second-hand residential property sales will not be taxed.

"There may well be a breathing space before re-sale prices begin to move upwards. But they will rise in due course in sympathy with the increased cost of new construction brought about by taxation of labour, materials and profit.

"The market price of second-hand private residences will increase, the only question being the timing of that increase," he added.

"For new homes, any contract signed before September 30 escapes VAT, provided the property is complete in every respect.

"For existing home, my own guess would be that buyers will begin to see the spin-off effects on prices by the end of the year."

Prospective property owners would therefore be well advised to go ahead with their plans before VAT is introduced, he added.

For those who already own property, the introduction of VAT will, in due course, effectively give them a seven percent or so "bonus" on the value of their property, courtesy of the Government.



The value of existing homes will rise by at least 7 percent when VAT is introduced later this month.

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Croeser calls for unified tax system

320
13 (1000) 12/9/91
GERALD REILLY

PRETORIA — A single tax administration and collection system serving central, regional and local governments would have to be part of any new dispensation, Finance Department director-general Gerhard Croeser said yesterday.

He told a conference on the future of local government organised by Unisa that even with a limited devolution of power, regional and local governments would be unable to finance all expenditure from their own revenues.

Formulae

Revenue sharing between local, regional and central governments would therefore be necessary.

Croeser said it might become essential to appoint an independent, possibly judicial, body to decide on sharing formulae.

In the past, financial relations between the different levels of government were often dealt with on an ad hoc basis, resulting in a fragmented and uncoordinated system that hampered planning at all levels.

Croeser said local authority leaders were uncertain and disturbed about the financial burden existing white local authorities would have to bear after the creation of integrated municipalities.

However, he said the increased burden resulting from integrating local authorities would not be un-

manageably great.

In a new constitutional dispensation, a new structure for inter-governmental relations would have to be developed. This would include the financing of local government.

Croeser said a recent survey had found that existing sources of local government income were not always optimally exploited and there was considerable room for increasing revenue.

This could include a scaling down of service standards and services, particularly in white local authorities, to enable the financing of basic and necessary services in bordering black communities.

For instance, he said, property taxes for all white local authorities in the four years after 1984 increased by an average of 11.9% a year for residential properties and 13.3% for business and industrial properties, while the increase in the CPI amounted to an average of 15.9%.

The local authorities could have earned an additional R200m if rates had been raised to keep pace with the CPI. The same reasoning applied to service revenues.

The present government structure was relatively centralised with 59% of general government spending at central level, 29% at regional level and 12% at local level.

Medical fees 'up 8 pc after VAT'

Staff Reporter

320 AUG 12/91

DOCTORS' fees are expected to increase by eight percent when value-added tax comes into effect at the end of the month, according to the Medical Association of South Africa.

The chairman of the Federal Council of Masa, Dr Bernard Mandell, said adjustment was made by taking into account that a portion of medical practice was already subject to GST and other input costs were reclaimable from the Receiver of Revenue.

Masa had carefully weighed the impact of VAT on medical practice with a view to minimising the cost to patients.

Dr Mandell said Masa was still worried that the government had not seen its way clear to zero-rate all medical services.

He said: "Whereas Masa appreciates that patients treated in the public sector will no longer be required to pay VAT, we are extremely disappointed and concerned that this relief has not been passed on to patients in the private sector.

"We have warned the government that many poorer patients presently treated in the private sector will not be able to cope with additional cost."

This would inevitably increase the burden on State health care.

Du Plessis faces Friday 13th 'VATmare'

By Henry Ludski

South 12/9 - 18/9/91

FRIDAY the 13th's unlucky undertones might prove more than faithful for the government's controversial Value Added Tax (VAT) plans.

It could be the day Finance Minister Barend du Plessis' worst "VATmare" comes true.

Friday is the deadline for a "negotiated settlement" between a special working committee of government financial experts and representatives of trade unions and community-based pressure groups.

If they fail to reach an accord, Du Plessis faces an all-out battle with the community-based organisations and

trade unions — the VAT Coordinating Committee — who are demanding that VAT be postponed.

Representatives of all South Africa's major trade unions will meet in Johannesburg on Friday in readiness for the VAT war.

The working committee report is scheduled to be presented to Du Plessis next Monday and all indications are that it could be the harbinger of ill tidings for him.

Said trade unionist Mr Bernie Farnoff, chairperson of the VAT Coordinating Committee and a representative on the working committee: "We are meeting on Thursday and Friday and if we can't reach a negoti-

all-out war against VAT.

"There has been a strong public response to VAT and our people have already been mobilised. I don't believe it will be too difficult to muster support for this campaign," Farnoff said.

He said that the VAT Coordinating Committee, which represents a broad grouping of pressure groups including trade unions, the ANC, PAC, welfare groups and the Housewives' League, have already planned protest meetings throughout the country. The first is expected to take place next week.

He said that a national VAT summit was planned for September 23 as a follow-up to the one held last month. Although the government is said to have adopted a more "open" approach

to consumer resistance to VAT, there is little confidence that Du Plessis will be easily shifted from his categorical 'no' to postponing VAT.

Neil Coleman, publicity secretary of the Cosatu, said: "Du Plessis has said categorically that the introduction of VAT is not going to be delayed so why has he allowed a working committee to be formed?"

The VAT Coordinating Committee is represented on the working committee by Cosatu general secretary Jay Naidoo, legal expert Denis Davis, tax lawyer Henry Vorster and economist Azar Jamine.

Itskaidophobia, the fear of the number 13, could take on a whole new meaning for Du Plessis this Friday.

(320)

Food sector to pass on VAT benefits

LESLEY LAMBERT

VATWATCH achieved another victory yesterday when representatives of all sectors of the food industry agreed to support its campaign to pass cost benefits of the new tax on to consumers.

This follows the SABC's decision, after discussions with Vatwatch on Tuesday, to reduce TV licence fees in line with the reduction in the VAT rate to 10%.

A hundred representatives of the food and grocery sectors agreed at a meeting with Vatwatch to pass on savings estimated at R6bn. *B1Dun 13/9/91.*

But, in another development yesterday, Vatwatch came under strong attack from the VAT Co-ordinating Committee which claimed it was "propagating" the new tax and called on organisations participating in it to withdraw.

The committee, established by organisations such as Cosatu and the ANC, which are opposed to aspects of VAT, said two Vatwatch participants had withdrawn while the National Civics Co-ordinating Committee had suspended a series of workshops with the VAT watchdog.

Responding to the attack, Vatwatch chairman Prof Louise Tager said: "Vatwatch was never founded to defend or explain VAT but simply to ensure that if and when VAT is introduced, consumers get a fair deal."

At yesterday's meeting with the food industry, many of the companies repre-

□ To Page 2

VAT

B1Dun 13/9/91.
sented agreed to sign a Vatwatch pledge to pass on savings in the form of lower prices or slower price increases. They also agreed to maintain pressure for the exemption of more basic foodstuffs to relieve the poor. Among those that signed the pledge were Game, Spar, Metro Cash & Carry, Score Supermarkets, Fedfood, Premier Food, I & J, Unilever and Blue Ribbon Bakeries.

Unilever chairman Nigel Clayton said cost reductions from the removal of GST on advertising and other intermediate costs would be passed on provided retailers and wholesalers did not increase their profit margins.

Retailers undertook to do their "level best" to bring prices down.

But while all participants were unani-

(320)
mous in their intentions to address VAT's impact on prices, they said there were factors that would limit their ability to make the new tax deflationary.

Inflation, recent fuel price increases and statutory food price increases would reduce the savings from input credits, Game MD Clive Weil said yesterday.

He said retailers were also concerned about the lack of any clear signals to show that suppliers intended reducing prices.

Premier Food financial director Mike Renwick said while Premier would do all it could to reduce the impact of VAT, input credits would affect only a fraction of its sales, limiting the scope of its ability to pass on benefits.

● Comment: Page 8

□ From Page 1

Watchdog body termed ineffective

By Paula Fray
Consumer Reporter

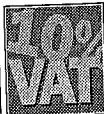
The working group established between the Government and the Co-ordinating Committee on VAT meets today as plans for country-wide protests get under way, according to a statement issued by the committee yesterday.

The Co-ordinating Committee on VAT has also called on all organisations taking part in Vatwatch, a body set up to monitor abuses of the new tax system, to withdraw from the watchdog body. The committee said Vatwatch was an "ineffective mechanism for controlling price abuse".

Defend

"In the present context Vatwatch serves to propagate VAT rather than be a watchdog," the committee said.

Civic Association of the Southern Transvaal representative Sam Ntuli and Andrew Ball from Labour Research Services have withdrawn from Vatwatch, while the National Civics Co-ordinating Committee has suspended a programme of



workshops with Vatwatch until its national body has met.

Vatwatch chairman Professor Louise Tager emphasised that the organisation had consumers' interests at heart.

"Vatwatch was never formed to defend or explain VAT, but only to ensure that if or when VAT was introduced, consumers would get a fair deal," Professor Tager said.

The joint working group, consisting of representatives from the Department of Finance and the VAT committee, is meeting to investigate the postponement of VAT, the effect of VAT on the cost of living, and alternatives to VAT. The group is due to report back to the Minister of Finance and the VAT committee by Monday.

Meanwhile, a wide range of protest actions scheduled to start next week are being planned by the co-ordinating committee and its component organisations, according to the committee.

Public meetings will be held in Johannesburg and Durban on

Thursday, and four separate public meetings have been planned in Cape Town from September 17 to 26.

Cosatu is also planning a number of pickets and marches. Marches are planned for Johannesburg and Bloemfontein on Wednesday. These depend on whether permission is granted.

Daily lunch-hour pickets are planned at the Receiver of Revenue offices in Vereeniging. Permission has also been applied for for marches in six western Transvaal towns on September 21.

Petitions

According to the committee, thousands of people are still signing petitions. The Society for Dispensing Family Practitioners has collected 330 000 signatures, 130 000 of which have been delivered to the Minister of Finance. The Citizens Against VAT petition campaign has collected 10 000 so far.

Several more organisations have joined the Co-ordinating Committee on VAT since last week. The latest organisations to join include the PAC, the National Council for the Aged, the Consumer React Campaign, Citizens Against VAT and 11 health organisations in Natal.

Food and grocery companies pledge to pass tax benefits to consumers

ERICA

Consumer Reporter

(220)

ates to adopt the Vatwatch pledge.

Some 100 representatives of the food and grocery industries yesterday supported a plea by Vatwatch to pass VAT cost benefits on to the consumer.

The meeting, convened by Vatwatch, considered the effects of VAT on consumer prices, and the representatives were asked to sign a "Vatwatch pledge".

In terms of the pledge, companies promised to:

- Encourage suppliers to pass cost benefits derived from VAT along the commercial chain.
- Pass on to customers the same benefits — and encourage them in turn to do the same with their customers.
- Ensure that pricing policies reflect the beneficial effects of VAT, to the ultimate benefit of the consumer.
- Encourage all business asso-

ciates to adopt the Vatwatch pledge.

Several companies have already signed the pledge.

"The elimination of input tax as a business cost could amount to an enormous saving for commerce and industry," Vatwatch chairman Professor Louise Tager told the meeting.

"The passing on of this saving to consumers could amount to the most meaningful contribution yet in the fight against inflation."

Savings

Unilever chairman Nigel Clayton said cost reductions from the removal of GST on advertising, consumables and other intermediate purchases did not increase their profit margins.

Unilever would pass on these savings, despite having spent R1 million on appropriate sys-

tems to handle VAT, he said.

Pick 'n Pay chairman Raymond Ackerman said his group would do its "level best" to bring prices down.

He appealed to the Government, however, to consider allowing "add-on" pricing where the tax component was shown, primarily for administrative reasons — a call echoed by OK Bazaars.

Professor Tager said the Vatwatch pledge was significant as it amounted to a public commitment by business to consumers.

"The imminent introduction of VAT has brought the business/consumer relationship to a crucial stage. Either business and consumers will take hands, face the VAT challenge constructively and optimise its benefits to the full, or an unbridgeable rift could develop between the two parties," Professor Tager said.

TOWNSHIP

VAT meeting

1319-1919/91

■ The Value Added Tax Co-ordinating Committee, spearheaded by Cosatu, is to meet Finance Minister Barend du Plessis on Tuesday on the VAT issue.

It is expected that the bilateral working group set up to consider the implications of delaying VAT and related matters will have reported by then, and its findings will form the main subject of the meeting. (320)

Reports from Weekly Mail Staff

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Entertainment's no fun under VAT

Value Added Tax on a pinema ticket is not too complicated but what do you do when you entertain business guests on a company credit card?

DAVID CLEGG looks at the logistics of VAT on entertainment

VALUE Added Tax on entertainment expenditure is one of the most awkward provisions of the new tax system.

A VAT input credit is denied on "goods or services supplied for the purposes of entertainment". The definition of entertainment includes food (whether in the form of unprepared food or meals), refreshments, accommodation, entertainment and hospitality of all kinds. The only exceptions to the rule are:

● The entertainment applies to an employee (of that company) away from home on business overnight.

● The charge for entertainment forms part of a composite fee for some other services, such as meals on South African Airways or at a seminar.

● The entertainment is supplied by Local Authorities at public amenities and by other enterprises which regularly supply entertainment.

There are a range of difficulties in the area of entertainment, especially those relating to normal business entertainment.

Firstly, it does not matter how genuine the business entertainment may be — there is no VAT credit.

Secondly, not only direct entertainment costs, but also indirect costs may be disallowed from credit.

For example, not only does the sugar, tea and milk for "morning tea" not qualify for credit, neither does the cost of cups, saucers, spoons or teapots.

Accounting systems, therefore, need to be able to highlight these non-qualifying categories so that they are not accidentally included in tax credit claims in returns.

In identifying direct entertainment expenditure on which VAT credits can be claimed, the following points need to be borne in mind.

● Where an employee is away overnight, he may well entertain out of town clients or associates. Although the entertainment costs relating to him are creditable, those relating to his dinner or lunch guest will not be. Correctly apportioned tax invoices relating to these costs will be impossible, unless a clear record is kept. The tax invoice provided by a restaurant or hotel cannot be expected to split this out and the employee must make an appropriate division at the time, before submitting the documents to his accounting department. Many restaurants will not regularly issue tax invoices, and out-of-town employees should remember always to ask for such an invoice to be posted to them within the 21 days provided, on paying the normal bill. It is unlikely many restaurants will prepare an invoice immediately.

● When an organisation hosts a meeting of personnel from around the country and puts on a lunch, theatre evening or other entertainment, it must remember that only the expenses relating to the visiting employees are creditable, not the costs for the local employees also attending the same functions.

● An "employee away from home overnight" is one's own employee. The credit will not apply to employees from other group companies who may be attending the meeting or conference.

Say, for example, the group management company sends someone to assist your company in a project for two weeks and you pay the hotel bill and other entertainment expenses. No credit can be claimed. So it makes sense for head office to pay its own accommodation and entertainment expenses, claim credit and charge a management fee relating to the overall services which will, in turn, be subject to VAT and a tax credit in your hands. Significant sums can be saved in this way.

Accommodation forms part of "entertainment" expenses. Just as in the preceding example, paying the hotel and other expenses of a visiting consultant may make good business sense, but is not VAT effective.

● The accommodation and entertainment expenses incurred by partners of a professional practice away from home overnight are not, under existing law, subject to credit because they are not "employees". Although a partnership is deemed to be an enterprise entity separate from its members, this does not extend to deeming an employment relationship to exist. It is possible the law may be amended.

● David Clegg is a partner of Ernst & Young

Where you'll be paying Vat

Food	Maize meal and brown bread are zero-rated**.
Transport	Public transport by bus, taxi or train is exempt*.
Medical	Payments to state and provincial hospitals and clinics are exempt. Payment to medical practitioners and for medical services provided by the private sector subject to VAT. Medical aid schemes exempt from VAT.
Education	Registered educational institutions are exempt*, including private schools.
Insurance	Life insurance is exempt*, but short term insurance is taxed.
Property	There is no tax when the transaction is between two individuals. However, tax is payable when a registered vendor is involved. Transitional relief will be granted.
Accommodation	Residential rentals are exempt* but not hotel or boarding house rentals.
Entertainment	Entrance fees to theatres, cinemas, zoos, circuses, sports grounds are taxable.
Professional	The fees charged by accountants and lawyers are taxed provided annual income exceeds R150 000.
Construction	A service by an enterprise registered for VAT is taxable. But these registered vendors may claim tax credits, therefore reducing costs if savings are passed on to the consumer.
Welfare Services	Non-exempt, that is they can claim back tax paid on goods and services they buy. If they charge even a nominal amount for their services this is subject to VAT.
Legal Gambling	Horse racing betting is taxable.
Rates	Water, electricity and refuse collection is taxable.
Postal Services	Telephone accounts and postage will be taxed.
Precious Coins	Coins obtained as collector's items are taxable but Kruggerands and other legal tender are zero-rated**.
Second-hand goods	Not taxable if sold by private individual. Taxable if sold by a dealer.
Imports	Imports from the "independent" homelands, Transkei, Bophuthatswana, Venda and Ciskei, are not taxable if the import is to be used to make a taxable supply. It is taxable if it is to be used to make non-taxable supplies, for example, exempt goods. Imports from other countries are taxable. A service by a non-resident to a South African resident is taxable if the imported service is used to make non-taxable supplies. For example, the service of a foreign reinsurer to a local life insurer is taxable but a similar service rendered to a short-term insurer, service is not taxable.
Exports	Zero-rated** to countries other than TBVC states.
Subscription fees	Membership fees of clubs or associations are taxable.
Fringe benefits	Non-taxable services, for example low interest loans, are subject to VAT, but provision of taxable services, such as foreign travel, is not taxed. Although employer bears the cost, it may be passed on to the employee.
Death	Coffins, wreaths, undertakers, and burial sites are taxable.
Unions	Union dues and employee organisation contributions such as federations are now exempt*.
Mortgage bonds	Not subject to VAT.

* EXEMPT:

** ZERO-RATED:

Consumer pays no VAT but enterprise selling exempt goods can't claim tax credits on goods and services it buys

Consumer pays no tax and enterprise selling exempt goods can claim tax credits on goods and services it buys

The taxing questions of the future

320

W.M. 13/9-19/9/91

TAX is an important element in judging the merits of various vehicles for investment, including those which make provision for retirement. In the fluid economic circumstances of South Africa now, it is also an area of uncertainty.

What tax regime will exist in the "new" South Africa? What view might a future government take on the tax breaks available with certain investments? The tax regime will be affected not only by political pressures for redistribution, but by world trends.

There isn't really any way of predicting with absolute accuracy what will happen — but there are a few pointers.

Judging from what has been written and said so far, the African National Congress favours a progressive tax system (the more you earn, the more you pay) which penalises the rich to give to the poor — rather than a move towards a flat rate. Along with this, it favours a range of new taxes aimed at the middle and upper classes. While the world trend militates against top tax rates being moved up too high, there is precedent for taxes such as a capital gains tax.

A capital gains tax will change the way people look at hard assets as investments.

Buying one's own house, for instance, has been considered a good investment for two reasons. One is that money which would otherwise have vanished in rent is converted over time into a capital investment. The other is that the profit on resale is a capital gain and so it is not taxed.

Subsidised mortgage payments, now tax neutral, have also made housing attractive and distorted the market.

Buying houses speculatively for future resale and profit has, on the other hand, been risky, and renting hasn't been highly profitable (except, one suspects, that small-time landlords have tended not to declare the income from their properties).

A capital gains tax would strengthen a trend away from bigger houses towards smaller ones, or make renting more attractive, particularly if it went hand in hand with progressive property taxes.

It would take the shine off a range of hard assets, from Kruggerands to Persian carpets.

A future government might also look anew at the tax breaks available on vehicles such as retirement annuities, on the grounds that they favour the rich rather than the poor, who rely on company pensions and provident funds.

Now, contributions to retirement annuities, as to pension funds, are tax deductible up to certain defined limits.

Those who have pinned their retirement hopes on annuities are probably a minority, but any substantial change will be strenuously resisted by that minority of individuals who have already invested in them, on the grounds of the unfairness of the move.

It would also be argued that the more the state encourages people to provide for their own old age, the fewer the burdens on the state's coffers through social pensions.

Removing the benefits of retirement annuities would cause more people to take out life insurance which includes a portion of investment.

The life insurance or contractual saving industry is likely to come under pressure to divert some of the billions it handles towards "productive" investment rather than pushing up the prices of blue-chip

How the 'new' South Africa is taxed could affect your savings and retirement plans. **REG RUMNEY** looks at the best ways to protect your money

shares on the Johannesburg Stock Exchange. This may take the form of channeling a percentage of the funds handled by insurers towards socially desirable investments.

Any tax moves that might affect the money invested by the holders of life insurance policies and by pension fund members will be resisted by the insurers, and presumably by the numerous policy holders themselves.

The life insurance industry has already come under fire from some in the banks and building societies (now treated equally as "Deposit Taking Institutions") for receiving unfair tax advantage.

The life insurance industry's argument has been that life insurers are merely the trustees of the policy holders' funds, and they shouldn't be taxed any more than they are already.

Whether the present government has accepted that argument entirely is moot. However, the pressure seems to be off the life insurers for the moment.

In an assurance to the last Budget, special economic adviser Japie Jacobs exonerated contractual savings institutions from many of the charges that had been laid against them. He found "there is no evidence that their funds are utilised unproductively, that personal saving is metamorphosed into consumption spending (apart from pension payments used in this way), or that their activities harm the financial market".

It remains to be seen whether a future government will allow dividends paid by companies to remain tax free. This now favours unit trusts, a good portion of whose payout derives from dividends, and so making them taxable will detract from this investment to some extent.

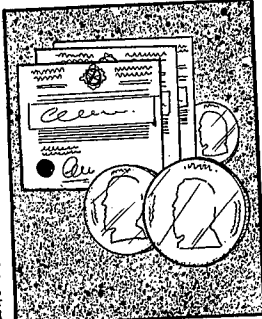
What else will happen? The world fashion has been to promote tax "neutrality" by cutting down on tax incentives, repairing holes in the tax net, as well as lowering personal income tax.

But as Hofmeyr van der Merwe senior partner Henry Vorster argued at a recent seminar, the need for fiscal neutrality is not universally accepted and is not easy to achieve.

He noted the Eighties had seen the best efforts of politicians and tax administrators to eliminate distortions and to simplify the income tax framework. "The results... are deeply disappointing and the difficulties in the way of real fiscal neutrality virtually intractable."

This is not to say any future government will not, eventually anyway, be swayed by world trends. But it does show that cleaning up all the distortions of the tax system won't happen overnight — and some new ones may well be introduced. Similarly, South Africa is following a world trend in being on the way to a top marginal tax rate of 40 percent — but it's not there yet and there's no guarantee the marginal rate will not be raised again.

Whatever happens to the tax regime in future, the key to successful financial planning is to keep a close eye on changes in the tax structure and take advantage of them wherever possible.



By
AUDREY D'ANGELO
Business Editor

VAT nets lost millions

'No indemnity' (320) for GST evaders

CT 14/9/91

SOME business people who evaded paying GST are being caught when they register for value added tax (VAT) — and now face bills running into millions of rands.

The Minister of Finance, Barend du Plessis, said in Cape Town yesterday that the Government would have no choice but to crack down on such people and insist on back payment of GST, in fairness to other taxpayers.

"They will not be dealt with harshly," he said after speaking at a conference at the Cape Sun. "But we cannot give indemnity to people who, by tax evasion, have harmed other taxpayers."

"There is a perception that it was all right for them to keep money out of the coffers of the State. But by doing so they have made the taxpayer's burden heavier."

But it seems likely that people who register for VAT in Cape Town at present will have no questions asked about their failure to pay GST in the past.

The Receiver of Revenue in Cape Town, Ernst Conradie, said: "We have had no directive at this stage to chase people up for back payment of GST. And my staff are so busy with preparations for VAT, and with giving ad-

vice about it and holding seminars to explain it, that I don't think they would have the time."

Wolfgang Thomas, GM of the Small Business Development Corporation (SBDC) in the Western Cape, advised all business people to register for VAT, even if they were exempt because their turnover was less than R150 000 a year. Otherwise they would have to bear the full cost of the VAT payments they had made and would not be able to claim a tax rebate for inputs.

Thomas said he agreed that back payment of GST should be made by people owing very large sums. But he thought there should be a ceiling below which the authorities could turn a blind eye. It would otherwise be counterproductive because some people would stay out of the system.

Thomas said he thought it wrong that the Receiver of Revenue could refuse to register some very small businesses for VAT. "I think the department is afraid

its computers will get clogged up with details of all these people.

"But they will not be able to carry on business if they cannot recover the higher cost of inputs."

The campaign to encourage major companies to subcontract work out to new entrepreneurs could be endangered by VAT if the subcontractors do not register. Some major companies have announced that they will give work only to firms which can provide them with a tax certificate enabling them to reclaim a portion of their inputs.

To overcome this difficulty a delegation including representatives of the SBDC and SA Chamber of Business (Saco) has asked the Minister of Finance for a change in the regulations enabling the major company to claim for the VAT portion of its inputs even when the subcontractor is not registered but has passed on costs incurred as a result of the tax.

This is one of the matters being considered by the working committee now

discussing possible changes to the VAT regulations.

Keith Foster, chairman of the Johannesburg-based Sunmystle Group — a consortium of small businesses — said: "Unless the VAT regulations are changed the introduction will stop the growing practice for big business to subcontract work to small business."

"To claim that this can be avoided by the subcontractor registering for VAT is simply silly. A lot of these people are barely literate and could never manage the paperwork."

"Many of them are one-man or two-men businesses and could not employ anyone to deal with VAT for them."

But Wolfgang Thomas dismissed this suggestion as nonsense — it is not all that difficult to understand the basics of VAT and the SBDC can help to explain it.

"Europe has been through this process and small business people there have learned the basics."

"The VAT system makes it painful not to be registered. It is not in the interests of a small business to stay out of the system."

Thomas said only about 10% of small business supplied industry. "But this sector is growing rapidly."

The introduction of VAT will cause a lot of informal business to come into the formal sector."

Vat can push up property rentals

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ARC 14/9/91

VAT HOTLINE



David Clegg

THE following letter has been received by a reader from a property administrator and the reader queries whether it is correct as rentals are not subject to VAT.

"All property owners are, as of September 30 required to pay VAT (Value Added Tax) on the property administration fee charged by an Estate Agent. In terms of clause 3.2 of the lease agreement, the Lessor is entitled to recover this cost from the Lessee.

Please, therefore note that your rent will be increased from October 1, 1991 by one percent. Please adjust your monthly rental to include this amount.

If, for example, you are currently paying R1 000 per month rental, an additional R10 per month will be due by you as from October 1, 1991.

Answer:

Depending on the terms of the lease and the property administrator's charges, the letter is correct. Let me explain. Residential rentals are not subject to VAT and the landlord does not register for VAT. Because he is not registered, all his own suppliers —

including rent collection agencies, property administrators, lawyers, accountants, municipalities for refuse removal, etc. will charge him VAT which he cannot recover in any way. This additional cost reduces his profitability and must eventually be reflected in increased rents, just as all other costs must. So, for example, when property rates go up most leases have a clause which enables the landlord to pass that increased cost on to the tenant immediately rather than waiting for a new lease to be drawn.

Whether or not the VAT on rent collection or property administration charges can be passed on in terms of that clause, depends on the exact wording of the clause concerned. Both tenants and landlords should look very carefully at this to decide what their rights are.

So far as the actual increase mentioned in this letter is concerned, the one percent increase suggested may well be correct.

ARCT 14/19/91
320
Showdown looming over VAT

Weekend Argus Reporter

A SHOWDOWN is looming between the government and unions in the wake of widespread mass protests against Value Added Tax next week.

As VAT D-Day approaches, Cosatu and several community and other organisations are attempting to force the government to postpone implementation of the controversial tax system.

Spearheaded by Cosatu, the campaign against VAT is being organised by the Co-ordinating Committee on VAT with groups throughout the country planning mass meetings and marches to highlight discontent with the system.

A working group, established at a meeting between the co-ordinating committee and Minister of Manpower Mr. Eli Louw, was investigating the postponement of VAT, its effect on the cost of living, revenue requirements of the State and alternative tax systems, Cosatu said in a statement.

The working group would report its findings to Minister of Finance Mr. Bar-end du Plessis on Sunday.

Cosatu said petitions had been signed "in their thousands".

The co-ordinating committee accused VATWATCH of being an "ineffective mechanism for controlling price abuse" and served to propagate VAT, rather than be its watchdog.

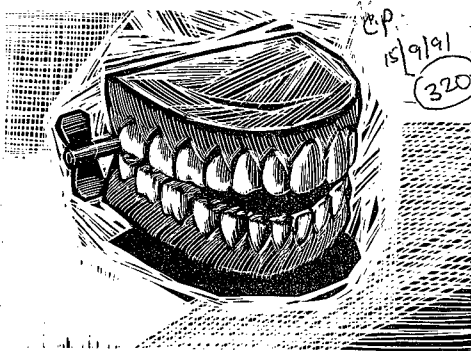
Western Cape co-ordinator Mr. Alan Roberts said four public meetings would take place next week in Claremont, Westridge, Guguletu and Woodstock.

The action would culminate in a mass march to the parliament buildings, he said.

"We are hoping the action, which will take place throughout the country, will lead to the postponement of VAT and that the State will take this seriously."

"Cosatu is not trying to get political mileage but against the manner in which VAT is being implemented and the problems associated with the implementation," Mr. Roberts said.

Cosatu was "in principle" not opposed to VAT and considered it to be a better tax system than GST, but only if it were implemented properly and carried the approval of the people whom it would affect.



IF THE PRICE OF YOUR TOOTHPASTE SUDDENLY MAKES YOUR TEETH CHATTER, CALL VATWATCH.

VATWATCH is here to make sure that VAT is implemented fairly. In order to do this,
we need you to be our eyes.

Starting today, take three products and make a note of their prices. Then check
them again next week. And the week after.

you discover a price suddenly shoots up, please don't hesitate to call VATWATCH.

TEL: (011) 484 3393



FAX: (011) 484 3395

IT PAYS TO GUARD AGAINST ANTI-VAT HYSTERIA

BUYER BEWARE! You could waste money rather than save money if you join in any ill-considered stampede to beat the big VAT rise.

Big VAT rises are **NOT** inevitable. Some prices will come down when VAT replaces the less efficient GST system.

This is not wishful thinking by some government official. This is the view of an independent expert — Professor Louise Tager, a former dean of the Wits Law faculty, now with the Law Review Project and chairman of the VAT watchdog body, VATWATCH.

Professor Tager has warned consumers **AGAINST** being enticed into a pre-VAT spending spree in the mistaken belief that 'everything's going to go up by 10 percent'.

The public should guard against panic buying.

Professor Tager has given some examples of projected cost reductions when VAT comes in.

The cost of advertising could reduce 11 percent, she said.

She quoted the opinion of a spokesman for the National Association of Automobile Manufacturers (Naamsa) who had estimated a motor industry saving of R80 million a year in the wake of VAT.

Professor Tager has also warned about misleading advertisements. She quoted a radio ad from a car dealership. The motor-trader was calling

on people to 'buy now — before VAT'. The implication was VAT would raise car prices.

Yet VAT on new cars will come in at 3 percent **LESS** than GST, and therefore it makes sense to delay a new car buy and pocket the saving.

And much less VAT will be levied on used cars bought from dealers, in contrast to the old system whereby GST was applicable on the full purchase price.

On private sales there is no VAT. So, with a second-hand purchase a saving of up to 13 percent is possible.

VATWATCH intervened and that commercial has now been dropped by the company concerned.

The bottomline is ... don't fall victim to anti-VAT hysteria. Think before you buy. Time your purchase. It may pay you to buy before VAT-Day. It may not. Seek advice if you're not sure.

VATWATCH — The consumer's friend on VAT-day



From left to right: Cynthia Chabell, Sally Motlana, Shella Lord and Ina Wilken, from the VATWATCH Committee.

CONSUMERS will have an ally when VAT comes in. An independent body called VATWATCH was launched in mid-July. Its job is to maximise the benefits of VAT for the public and watch out for abuses or tax dodges by businesses.

VATWATCH is headed by Professor Louise Tager, of the Law Review Project. Another leading member is Ms Sally Motlana, president of the Black Housewives' League.

In all, there are 10 members representing community and consumer groups nationwide.

VATWATCH has emphasised it is not in place to lead a witch hunt against business, but to increase consumer awareness of price trends and educate people in the ways the VAT system works.

Consumers can report suspected VAT abuses on the VAT hotline. The number is (011) 484-3392/3/4 Fax (011) 484-3395.

People can also write to VATWATCH, P O Box 47390, Parklands, 2121.

VATWATCH has also encouraged many newspapers and magazines to carry VAT columns. So you might also write to newspapers offering VAT consumer services.

If you come across price rises that seem suspiciously high and VAT is blamed, you can call VATWATCH or VAT-consumer desks that are being set up on newspapers. These will remain in place for many months after VAT-Day as a service to the public.

business premises and equipment and the material they buy to turn into goods for the consumer. So prices are not increased because of tax, only to be taxed again later, as happens with GST — the so called GST on GST scenario.

LESS EVASION

Some unscrupulous businesses also found it relatively easy to evade GST or engage in other tax abuses.

VAT creates what the experts call 'a clear audit trail' — allowing the taxman to check exactly who paid what tax when. They can track what cost items come into a business and what added value is created and passed on by the business.

Substantial international VAT monitoring experience has been built up. The International Monetary Fund and the European Community passed on a lot of this information to South Africa. The result is a computerised system

that helps officials spot the evaders and their tricks.

Therefore, abuses should be massively reduced and ordinary taxpayers will not end up giving a disguised 'subsidy' to tax tricksters.

In addition, better VAT information will help to uncover other forms of evasion, in particular income tax evasion.

A BROADER SPREAD

VAT is also levied on a broader range of goods and services. There were many exclusions and special cases with GST. So the system was expensive to administer and many items escaped the tax net.

In addition, VAT spreads the tax load more evenly over both rich and poor.

A poor family's spending is dominated by everyday purchases. These were just about all taxed under the GST system.

But a rich family's budget often extends into sophisticated service areas — like lessons from the golf pro, or fees for accountancy services, or fees for an architect to draw up plans for a 'designer home'.

Sophisticated services such as these escaped GST. This meant the rich man's lifestyle was less subject to tax than the poor man's. And that is not fair.

The point is proved in a simple, basic area such as light and heat. The poor family paid GST on their candles, coal and paraffin. The rich family paid no tax, however, on electricity.

VAT taxes the services, too.

VAT, then, is a fairer, more efficient tax. GST comes off poorly in just about any comparison. It has to go.



Tax money made the rescue operation of the Oceanos possible.

YOUR TAX CHECKLIST OF DO'S AND DON'TS

SOME confusion is probably inevitable when VAT comes in. The reason is it replaces GST — but will also cover items which GST never covered. Here is a quick, at-a-glance guide on items which DO or DON'T attract VAT. It's yours to cut out and keep. Items on which you pay VAT are on the left. Items on which you don't pay VAT are on the right.

VAT IS PAYABLE ON

Accountant's fees
Advocate's fees
Aerobic classes
Air fares (local)
Attorney's fees
Books
Building materials
Cars bought from businesses
Car hire
Cinema tickets
Cool drinks
Electricity
Escort agencies
Estate agents' fees
Food
Furniture
Game reserve entrance fees
Golf club membership fees
Hotel accommodation
Legal fees
Medicines
Motor and household insurance
New houses
Newspapers
Parking garage fees
Postage stamps
Private hospitals & doctors
Repairs
Restaurants
Sporting event entrance fees
Telephone accounts
Theatre tickets
Toll road fees
TV licences
Veterinary services
Zoo entrance fees

VAT NOT PAYABLE ON

Air fares (international)
Bank charges
Bond repayments
Brokerage on shares
Brown bread
Bus fares
Car licences
Crèches
Dog licences
Exports (other than to TBVC countries)
Free or low-cost accommodation supplied by employer
Hobbies
House subsidies
Interest paid on received
Life insurance
Maize meal
Medicine and Services at State & Provincial Hospitals & Clinics
Municipal rates
Nursery schools
Parking meters
Pension fund contributions
Petrol and diesel
Private sales (homes/cars etc.)
Provident fund contributions
Residential rents
Retirement annuity contributions
Revenue stamps
Salaries and wages
School fees
Sectional title levies
State subsidies to welfare organisations
Taxi fares
Trade union fees
Technikon fees
Traffic fines
Train fares
Unemployment Insurance Fund
University fees
Workmen's compensation

NOTE: Businesses with turnover of less than R150 000 a year need not register for VAT. They pay VAT on their purchases, but do not levy VAT on their sales. The VAT they paid is merely built into their prices.



Professor Tager

FW says VAT stays with no more ^{AA} zero ratings

The Argus Correspondent

JOHANNESBURG. — President De Klerk last night emphasised that he would not consider postponing the implementation of VAT or any more zero ratings.

This followed a three-hour meeting in Pretoria with a delegation from the Co-ordinating Committee on VAT, described as "long, difficult and arduous".

Mr De Klerk said most of the proposals made were similar to those already received and that "only limited scope" existed for considering them.

The government would look again at the proposals, he said, but cautioned against undue expectations.

Mr De Klerk said yesterday's discussions had taken place within the framework set out by him in a letter to the committee on September 21, in which he had made it clear he was not prepared to consider postponing the implementation of VAT.

He also reaffirmed the government's view that zero rating and exemptions were undesirable, but that the government was willing to consider suggestions for direct help for those adversely affected by VAT.

Cosatu general secretary Mr Jay Naidoo said there was hope the meeting would provide a solution to the impasse and would remove the possibility of mass action.

"We have put forward to the State President that to go ahead with the implementation of VAT in its present form would cause a crisis in the country," he said.

There was mounting concern about the effects of mass action from the Council of Churches, the Federation of Salaried Staff Associations and the Junior Chamber of Commerce and Industries.

Entertaining exceptions to the rules under VAT

by WILLIAM HAYME

ONE of the most awkward provisions of VAT legislation is the treatment of entertainment, which is not claimable as an input tax credit.

Entertainment's definition for VAT purposes includes refreshments, accommodation, entertainment and hospitality.

But, says Ernst & Young tax partner David Clegg, there are exceptions to this exception.

VAT paid on entertainment by an employee who is away from home overnight on business can be claimed by his company as an input tax credit. Similarly VAT paid on entertainment which forms part of a composite fee for some other service, such as meals at a seminar, or entertainment supplied by local authorities at public amenities, is refundable, says Clegg.

In most cases no input tax credit will be granted. Clegg says indirect entertainment costs may also be disqualified from credit.

For example, tea does not qualify for a credit, nor does the cost of cups, saucers, spoons, teapots and the like.

This makes it necessary for accounting systems to be able to highlight these non-qualifying categories so they are not accidentally included in tax credit claims in returns.

Employees away overnight may well entertain out-of-town clients or associates. Although entertainment costs relating to employees are creditable, those relating to their guests will not be, Clegg says.

Since the restaurant or hotel cannot be expected to split the tax invoice requested, it will be necessary for the employee to split it before submitting it to his accounting department.

It must also be remembered that the "employee away from home overnight" definition relates only to one's own employee.

If one company pays the entertainment bills for the employee of another company within the group, no credit will be claimable.

It may make business sense for a company to pay the bills for a head-office visitor, but it is not VAT effective, Clegg says.

Accommodation and entertainment expenses incurred by the partners of a professional practice away from home overnight are not, under existing law, subject to credit as they are not "employees".

"Although a partnership is deemed to be an enterprise entity separate from its members, this does not extend to deeming an employment relationship exists," he says.

NEWS IN BRIEF

Unions attack VAT

THREE trade union federations representing 43 unions, and 16 unaffiliated unions, met in Johannesburg on Saturday to discuss the implications of VAT.

The conveners, Cosatu and Nactu, said the meeting was a follow-up to the VAT summit on August 22. They said a second meeting would take place before the second Vat summit on September 23, so that unions could agree on a programme of action for submission to the summit.

Copy 16/9/91

Vendors in rush to *Star 16/9/91.* apply for new number

By Paula Fray

Special arrangements have been made at the Department of Inland Revenue to cater for the huge influx of applications for VAT vendors before the system is introduced on September 30.

The director of operational development at the office of the Commissioner of Inland Revenue, (Des Goosen, said special measures had been introduced and "within the next 10 days any backlog will be eliminated".

Mr Goosen was responding to a query from The Star after a concerned businessman said he had not yet received his VAT number.

"I called the department and was told there

was a huge backlog," the businessman said.

He was concerned that the company would not have a VAT number — needed to claim input tax credits and for the issuing of VAT invoices — by the time VAT is introduced in just more than two weeks' time.

Mr Goosen said the department had made "every effort to keep the processing up to date".

However, delays had been caused as a number of forms were incorrectly or inadequately filled in, he said.

At the end of June about 681 000 forms had been sent out to prospective

vendors at the threshold of R150 000 turnover a year.

However, initial response had been slow.

With only six weeks before VAT Day, a disappointing number of prospective vendors had not returned their registration forms.

By August 14 only 105 000 had registered; 198 000 returns reflected a status of no registration required and a further 47 000 were being looked at by the department.

Nearly 195 000 applications had already been received from various organisations, according to a statement issued by

the department last week.

While a final figure for compulsory registration was not yet available, Inland Revenue expected it would exceed 200 000.

It appeared that people had begun to realise the importance of registering for VAT, hence the recent large increase in applications for registration.

A spokesman for Inland Revenue said a flood of applications was still expected from persons or organisations waiting until the last minute to register.

The spokesman indicated that organisations which were not registered for VAT by September 30 would, as a result, not be able to enjoy the advantages of the new system, such as input tax credit.



New tax body focuses on Govt

Staff Reporter

320

An organisation aiming to unite taxpayers and hold the Government accountable for its (Govt) spending will be launched in Johannesburg this week.

The United Taxpayers' Front will hold its first meeting at the Linksfield Primary School at 7 pm on Thursday.

Among its aims are:

- To make the Government accountable for its spending.
- To create a channel for taxpayers to have their ideas considered.
- To create a platform for tax experts to offer total tax models for the country.

Open to all taxpayers, the meeting will also be attended by Yeoville MP Douglas Gibson and Councillor Jack Bloom.

Unions meet over tax strategy 320

By Paula Fray

Star 16/9/91

Three trade union federations representing 43 unions and 16 unaffiliated unions met in Johannesburg this weekend to discuss a united strategy for a programme of action on value added tax.

According to a statement issued by the Council of South African Trade Unions (Cosatu) and the National Council of Trade Unions (Nactu), which convened the meeting on Friday, the discussions follow the re-

cent VAT summit where the Co-ordinating Committee on VAT was elected to take forward negotiations on VAT's shortcomings.

A progress report was received and discussions included what would be done if negotiations with the Minister of Finance, Barend du Plessis, failed.

"All the unions were critical of the lack of concern by Mr du Plessis for the disastrous effect VAT will have on lower income groups and un-

employed," the statement said.

The unions once again supported a call for the postponement of the implementation of VAT as well as other demands.

These were:

- The zero-rating of basic foodstuffs, medical services and prescribed medicines, water and electricity and trade union subscriptions;
- The need for more effective measures to control price abuse and;
- That the poverty relief

programme had to be properly negotiated.

Delegates at the meeting also called for negotiations on the entire tax system following the conclusion of the VAT negotiations.

A programme of mass action was considered and this will be discussed.

According to the statement a second meeting all the union present will take place before the next VAT summit on September 23 in order to agree on a proposed programme of action.

Transnet raises rates to coincide with VAT

Staff Reporter



TRANSNET have announced rate rises which will come into effect on September 30 — the launch date for VAT.

Transnet announced increases in Spoornet rates of 8,9%, a net increase of 8,8% in Portnet's rates and 9,7% for Petronet's services, yesterday lashed out at the increases, saying the higher cost of transporting goods would further aggravate spiralling inflation.

Mr Albert Schultmaker, of Cape

Town Chamber of Commerce, said: "Any cost increases at present are damaging to the economy and fly in the face of government claims that VAT reduces costs."

"Increases in the costs of rail transport will particularly affect the Western Cape as it is the most remote area from the PWV."

Mr Schultmaker said increases in harbour charges would affect all imports, which would cost more.

"Export costs could also rise, making South African products less com-

petitive in world markets," he warned.

Mr Daan Kruger, assistant director of the SA Consumer Council in Pretoria, said the increased costs "would be passed on to the consumer." "The consumer is being confronted by a wide range of increases over a broad front and after VAT, he is going to be worse off."

However, he said, it was "heartening" that Transnet had kept the increases to less than the full VAT rate of 10%, which will come into effect from October 1.

The latest increase would not affect rail commuters, and he hoped there would not be further increases soon.

Mrs Sheila Batlle, chairman of the Cape Town branch of the Housewives' League, said any increases in road and harbour transport would have an adverse impact on the economy but expressed relief that the increases were below 10%.

Mr Ulrich Joubert, chief economist for Transnet, said only 15% of Transnet's input costs were affected by GST.

Don't delay new tax — Sacob

Vat is introduced," it said. tax system was negotiated, said Numsa officials.

The National Union of Metalworkers of SA yesterday staged a 30-minute demonstration through the industrial suburb of Rosslyn, outside Pretoria, to protest against a campaign to have VAT suspended until a new

In a statement yesterday, Sacob said it had urged Finance Minister Mr Barend du Plessis not to postpone the implementation of VAT.

"There are clear indications that there will be a significant revival in the ... economy when

JOHANNESBURG. — Any postponement in implementing value-added tax will exacerbate the current poor business conditions and delay any new upturn in the economy, says the SA Chamber of Business.

Cosatu said the pickets would continue until September 30. — Sapa

Govt may seek broader input on tax

GOVERNMENT's tax advisory committee may be restructured to enable greater input on revenue matters by labour organisations and opposition political groups.

Cosatu officials and VAT Co-ordinating Committee technical specialist Dennis Davis disclosed yesterday that the issue had been discussed by the joint working group set up with Finance Department tax specialists to investigate VAT problems.

"It seems they may agree to a long-term restructuring of the advisory committee," a Cosatu spokesman said.

Davis said: "There is a need to treat tax in the same way as labour law. Government is aware of this need to broaden the

ALAN FINE

process of consultation. There appears to be some flexibility, although it is not clear whether it is yet sufficient. (320)

He said some in government might, at this stage, be considering merely more consultation with groups like Cosatu and the ANC on tax matters. He believed the committee needed to be revamped to include people acceptable to such groups.

"The co-ordinating committee's approach is that government cannot manage tax and fiscal policy on its own. It needs to achieve consensus."

Last-ditch talks to break VAT deadlock

FINANCE Minister Barend du Plessis will meet the Cosatu-led Co-ordinating Committee on VAT today for last-ditch talks aimed at reaching consensus on the implementation of the tax, scheduled for September 30.

The joint working group, established two weeks ago, completed its work on Sunday, a day ahead of schedule, and has produced a document described by Dennis Davis, the co-ordinating committee's technical committee chairman, as a set of "very broad-based proposals".

He noted if sufficient measures to alleviate the effects of VAT could not be made

ALAN FINE

by September 30, the committee would like to see its introduction postponed.

Meanwhile, Cosatu affiliates have begun distributing to the MDs of hundreds of companies a letter signed by general secretary Jay Naidoo calling on business to support the call for VAT's introduction to be postponed.

A lack of satisfactory progress could mean a general strike and demands for a 5% across-the-board increase to negate the effects of VAT on workers' living stan-

dards, the letter says.

It calls on managements to express their concern to Du Plessis directly or through Saccola. A Saccola source confirmed that a number of companies had raised the matter with the organisation. Saccola had initially decided not to participate in the VAT debate because its affiliates had done so individually. This may be reviewed.

Premier Group chairman Peter Wrighton yesterday added his voice in an urgent appeal to government to postpone VAT's implementation and to widen the

□ To Page 2

VAT

range of zero-rated staple foodstuffs. Similar pleas were made recently by Pick 'n Pay chairman Raymond Ackerman.

Davis, director of Wits University's Centre for Applied Legal Studies who represented the committee in the working group, said the package devised by the working group was to be reviewed last night by the committee.

It is understood Du Plessis met his chief working group representative yesterday afternoon. Finance Department officials were unwilling to discuss the matter in detail before today's meeting.

The package did not represent a consensus between the Finance Department and the co-ordinating committee, Davis said. Rather, it was a set of tentative proposals and contingencies. He said government officials had been "very co-operative".

He was unwilling to go into detail. However, the co-ordinating committee had made proposals aimed at alleviating the effects of VAT on the poor, workers and small business. These related particularly to poverty relief, medical services and the perceived inability of Vatwatch to ensure that price cuts justified by the conversion from GST were made.

Regarding the stand on postponing VAT if sufficient measures to alleviate its effects were not taken in time, Davis said the committee had noted government's fear that postponement would delay the economic upswing by causing business to postpone new capital investments, because of the capital input credit system that is part of VAT.

The committee was therefore willing to consider interim measures to remedy this problem. The possibility of GST exemptions on intermediate capital goods had been discussed. However, Finance Department officials had said this would raise extremely difficult administrative and revenue problems. The committee would be flexible on any alternative suggestions.

A Cosatu official said yesterday the union and the co-ordinating committee were not looking for inordinate delays in the implementation of VAT: "We just want enough time to sort out the problems."

MARCIA KLEIN reports that Premier's Wrighton said the timing of VAT was "particularly insensitive as the country is on the threshold of negotiations for a new and democratic SA. This is a moment when further consultation is absolutely necessary, especially for (introducing) a tax system which requires general support."

He urged government to consider a postponement and to investigate further possibilities of zero-rating.

Sacob has, however, issued an urgent message to Du Plessis urging government not to postpone VAT. It said in a statement any postponement "would exacerbate the current poor business conditions and delay the start of any new upturn in the economy". This would severely affect employment levels.

"There are clear indications that there will be a significant revival in the level of economic activity in the economy when VAT is introduced."

□ From Page 1

Move for revenue consensus?

Own Correspondent

JOHANNESBURG.

The government's tax advisory committee may be restructured to include labour organisations and opposition political groups.

Cosatu officials and VAT Co-ordinating Committee technical specialist Mr Dennis Davis disclosed yesterday that the matter had been discussed in some detail by the joint working group set up with Finance Department tax specialists to investigate VAT problems.

The co-ordinating committee's approach is that the government cannot manage tax and fiscal policy on its own," said Mr Davis. "It needs to achieve consensus."

Barend meets on VAT

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Meanwhile, Cosatu affiliates have begun distributing to the MDs of hundreds of companies a letter signed by general secretary Jay Naidoo calling on business to support the call for VAT's introduction to be postponed.

A lack of satisfactory progress could mean a general strike and demands for a 5% across-the-board increase to negate the effects of VAT on workers' living standards, the letter says.

Premier Group chairman Peter Wrighton yesterday added his voice in an urgent appeal to government to postpone VAT's implementation and to widen the range of zero-rated staple foodstuffs. Similar pleas were made recently by Pick 'n Pay chairman Raymond Ackerman.

(32) CT 17/9/91

Business urges Barend to go ahead with VAT date ⁽³²⁰⁾

By Paula Fray ^{Star} 17/9/91
Consumer Reporter

On the eve of country-wide protests against the implementation of Value Added Tax the South African Chamber of Business has urged the Minister of Finance not to postpone the introduction of the new tax.

VAT comes into effect on September 30.

The Congress of South African Trade Unions plans to take the controversial issue to the streets tomorrow to urge government to delay the implementation of the system until effective negotiations have taken place on the tax.

Pickets were held at the Vereeniging and

Klerksdorp Receiver of Revenue offices yesterday while countrywide protest meetings have also been planned.

In a statement the Coordinating Committee on VAT said the pickets would continue until September 30, the date when the controversial tax would be implemented.

However, Sacob said yesterday any postponement in the implementation of VAT would exacerbate the current poor business conditions and delay the start of any new economic upturn.

"This could, in turn, have a severe impact on employment levels."

The organisation said it had urged Finance Minister Barend du Pless-

is not to postpone the implementation of VAT.

"There are clear indications that there will be a significant revival in the level of economic activity in the economy when VAT is introduced."

Furthermore, Sacob said, the private and public sectors had already invested large sums in the new tax system and postponement would be "an enormous national waste".

Sacob also appealed to big business not to refrain from purchasing from smaller firms that were not registered as VAT vendors who would not furnish VAT invoices.

● Help keep check on rises — Page 7

Staff Reporter

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One of the organisers, Mr Mo Mohammed, said they will also demand the provision of jobs for all and the suspension of VAT.

"If VAT is implemented on September 30, we will embark on country-

The march will start at Keizergracht (District 6).

The organisation also demands the lowering of prices, the implementation of price control, work for all, and a constituent assembly.

Mr Mohammed said his union will picket in Adderly Street at lunch-time from September 19 - 30 to protest against VAT.

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Vatwatch plea for watchdog help

The Argus Correspondent

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JOHANNESBURG. — Less than two weeks before value added tax is introduced on September 30, Vatwatch has reiterated a call for consumers to help monitor prices before and after the new tax system takes effect.

Consumer Union chairman and Vatwatch representative Anna Boshoff appealed to consumers to monitor the prices of at least three items.

"This will heighten consumer awareness of prices before and after VAT — it will make consumers their own watchdogs," said Mrs Boshoff.

"If there is any unfair increase in prices, Vatwatch can investigate and consumers can decide for themselves

whether they will continue to support the retailer."

Vatwatch chairman Professor Louise Tager said feedback from consumers monitoring prices constituted the bulk of calls and letters received countrywide.

During the first week of September, Vatwatch received 400 consumer reports — of which 270 were about suspected VAT-related price increases.

● Readers who want to monitor prices during the next few weeks need only select three items bought regularly. Jot down the price this week, next week and then after value added tax has been introduced. If there are any unrealistic price increases, report it to Vatwatch at (011)484 3392.

SO IT GOES



ARNOLD
BENJAMIN



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ARG 17/9/91

VATever you need to know — and 10 percent more

YOUR questions on VAT answered. All you needed to know — and a good bit more — about a more complicated tax for a more complicated South Africa.

Q: One gets the immediate impression that VAT is a more difficult tax to understand and administer than GST. Is one correct? — Perplexed, Bellville.

A: Dear Perplexed: It depends. Take your manufacturer of ordinary industrial widgets. In the normal way he adds to his cost his profit plus 10 percent for added value, then sells to a distributor who adds 10 percent for his trouble, before contracting with a middleman who adds 10 percent in handling charges and then sells the widgets to a retailer who marks up 10 percent added value and perhaps another 10 percent for old times' sake when selling to the end user.

As soon as all these additions approach 100 percent, highly trained inspectors rush in and try to recover the lot for the State before the various suppliers try to absorb it under the costs of introducing VAT.

If all goes to plan you may well end up paying less income tax around 1997. I hope all this is as clear to you as it is to me.

Q: My teenage son, aged 14, claims I should raise his allowance because of VAT and has in fact already submitted an invoice for October including a 10 percent VAT supplement. How should I handle this situation? — Concerned, Muizenberg.

A: Dear Concerned: Try appealing to his better nature. If he has none, which sounds quite possible, threaten to report him to the Receiver of Revenue, the Minister, Vatwatch, Vatcom, the VAT Working Group, Vat 69 (the Pope's telephone number) and/or the ANC's Taxation Desk. If necessary, suggest you might have to declare his barmitzvah present money as taxable income.

Q: On paying a plumber's bill recently, I was surprised to see an extra 25 percent charge for "Tax". When I queried this, he told me it comprised 13 percent GST plus

12 percent VAT (he did not seem to know that the latter had since been dropped to 10 percent).

When I asked about the propriety of charging both kinds of tax, he told me it was just his little joke and said he would send a revised bill. What should I do?

A: Be careful that he doesn't try to hit you with Entertainment Tax for the joke.

Q: Is insurance liable to VAT?

A: Remarkably enough, no. However, you might like to have the name of a broker I know who's offering a special policy to insure you against VAT.

Q: The two acronyms one sees mostly in the news these days, besides ANC and AWB, are VAT and Aids. Is there by any chance some connection? During Jannie Smuts's time we got on very well without any of these. — Sick of It All, Sea Point.

A: Dear Sick: Extensive research has so far uncovered no evidence of a conspiracy, but stick around. Anything is possible these days. Above all, don't consult a doctor about the way you are feeling because he will certainly charge you VAT. When desperate, try using the Afrikaans acronym, BTW, which sometimes sounds less threatening.

Q: I note that an official list of things on which VAT is payable includes escort agencies, legal fees, aerobics classes, municipal rates, local air fares and toll roads while the zero-rated list includes dog licences, hobbies, international air fares, parking meters, petrol and traffic fines. What lifestyle changes does this suggest?

A: Spend less money on escorts and aerobics and more time in your car, on your hobbies or with your dog. If you must travel, buy a round-the-world ticket to VAT-free countries. Avoid lawyers in any case.

Q: Although nearly everyone says VAT will add to inflation, the government says it will bring it down. Should one believe them?

Q: Ha, ha. Or Ha, ha, ha (including VAT).

Govt won't let up on VAT

Own Correspondent

JOHANNESBURG. — The Minister of Finance, Mr Barend du Plessis, will neither postpone VAT nor zero-rate basic goods and services, in spite of strong pressure from unions, political organisations and business.

However, he has agreed to subsidise milk powder, soap and crushed mealies by 10% for at least one year as a further measure to alleviate the impact of the new tax on the poor. There was a possibility that dry beans and lentils would also be subsidised if South Africa did not have to import these items this year, he said.

Mr Du Plessis's decision, announced after a three-hour meeting with the joint VAT working group yesterday afternoon, is likely to be rejected by the Cosatu-led VAT Co-ordinating Committee, which will respond at a news conference this morning.

**2,5%
TAX ON
LUXURY
GOODS**

See PAGE 2

His stand follows last-minute efforts by the committee and leading businessmen to convince the government that it was necessary to postpone the tax or amend it to provide greater relief for the poor.

A senior spokesman for the committee said it would request an urgent meeting with President FW de Klerk and increase pressure on the private sector to support its demands.

If there was no satisfactory progress, the committee would decide at a report-back meeting on Monday on the action it would take, he said.

Cosatu has already warned that an unsatisfactory response to the committee's proposals could result in a general strike and demands for a 5% across-the-board increase to compensate for the effects of VAT on workers' living standards.

Mr Du Plessis told the working group yesterday that R30 million had been allocated to a

From page 1

VAT

short-term nutrition programme implemented by the Health Department and that local authorities and the SA Defence Force would be brought in to assist with the programme.

The co-ordinating committee spokesman said the use of local authorities and the SADF would be politically unacceptable to the communities at which the relief programme was aimed.

It is understood that the working group, established by the co-ordinating committee and government, failed to reach agreement on certain key arguments at their report-back meeting on Sunday.

A technical committee representing the co-ordinating committee called for the postponement of VAT to enable wider consultation and ensure that the new tax was fair.

Failing postponement, the technical committee said there would have to be substantial immediate relief to compensate for the impact of the tax on the poor.

It proposed an interim zero-rating of GST-exempt foodstuffs, the exemption of medical services and prescribed medicines, a phased-in input tax credit and a representative tax advisory committee.

Government representatives argued that to zero-rate GST-exempt foods would cost about R3,36bn and was unaffordable. A poverty-relief programme was a better means of assisting the poor.

To page 2

● VAT suspense creates spending bottleneck — Page 12

VAT 'could harm small businesses'

SMALL business could be devastated by the implementation of VAT, Free Market Foundation executive director Leon Louw said yesterday.

Speaking at a tax conference in Johannesburg, Louw said if government allowed small business to supply imputed input credits to bigger business it would solve the problem. But if not, small suppliers would lose their businesses.

Companies with turnovers of less than R150 000 a year do not qualify as VAT vendors, therefore firms supplied by them cannot get input credits.

Many businesses had already sent letters to their suppliers saying if they did not qualify as a vendor, trade with them would be terminated, said Jacob chief economist Ben van Rensburg.

Anglo American group tax consultant Marius van Blerck said: "VAT is not going to prejudice small businesses and will, in fact, benefit them because they will not have to bear indirect tax in the same way as the number of suppliers who have less turnover than R150 000 is very small."

He added that small business could easily apply for registration.

Van Rensburg disagreed, saying the registration forms were very difficult to complete and were beyond the capability of small businesses.

But he said he was not sure whether small business would be disadvantaged to the extent believed because most of them were consumer-oriented.

Those dealing with other businesses would suffer, he added.

University of Western Cape economics professor Lebo Looko said small businesses were vociferous about how they would be disadvantaged by VAT.

The solution was fairly simple: deemed or imputed input credits would level the playing fields.

SHARON WOOD

Speakers at the conference complained about the way government had handled the implementation of VAT and the uncertainty it had created.

Van Blerck said it did not make sense to drop VAT to 10% and forgo the planned reduction in corporate tax rates when retailers in opposition to VAT tended to focus on its effect on basic foodstuffs.

Government rather should have followed the fairly widespread practice in other countries of imposing a standard rate of about 15% and subject a reasonably wide range of basic foodstuffs to VAT at a special low rate of about 5%.

"There is every likelihood that this is a system that will generate VAT revenues at least 40% higher than our current system," he said.

Meanwhile, LINDA ENSOR, reports from Cape Town that the Cape Town Chamber of Commerce, in a letter to Finance Minister Barend Du Plessis, has planned for urgent action to remove VAT from a range of basic foodstuffs, to increase the amount allocated for the relief of the poor and for a special aid programme.

And in a statement it opposed the postponement of VAT as proposed by the ANC and Cosatu, saying that the costs of doing so would be considerable.

In the letter to Du Plessis, chamber vice-president Herbert Hirsch criticised some of the provisions of VAT and the manner of implementation which he said were unhelpful in this time of "difficult transition".

He said the "almost meaningless" provision of R220m for the relief of the poor must be increased by at least five times and that an efficient and fair special aid programme must be in place and functioning by the time VAT was introduced.



Free Market Foundation executive director Leon Louw, left, and Hofmeyr van der Merwe senior partner Henry Vorster at yesterday's Free Market Foundation conference in Johannesburg.

SAB sends mission to overseas banks

MARCIA KLEIN

TOP SA Breweries (SAB) executives are leaving for Europe later this week on a financial public relations visit.

Group financial director Selwyn MacFarlane said the SAB delegation, headed by executive chairman Meyer Kahn, would visit major banks in an attempt "to re-open critical contacts with the German and Austrian business communities".

The delegation, which also includes MacFarlane and group financial manager Ian Somerville, will be giving major presentations in Berlin, Frankfurt, Munich and Vienna. The visit was aimed at

Australia 'first level'

CANBERRA — Australia is set to the first level of sanctions against a spokesman for Foreign Minister Gareth Evans said yesterday. Australia would support such vote at the Commonwealth Heads of Government meeting next month in Harare, he said.

Australia includes in the phase cultural and scientific exchanges, direct air links and restrictions.

"The idea would be to lift the

VAT suspense creates spending bottleneck

By ARI JACOBSON

THE introduction of VAT has created a bottleneck in the spending pattern of consumers.

Kessel Feinstein tax partner Godfrey Shev was more explicit when he said the expectations were of a tremendous surge in purchases once the new indirect tax becomes law.

Citing by example — on a recent visit to Johannesburg Shev said he had seen an upmarket motor retailer with some 300 vehicles waiting "in storage" until the Vat D-day.

This view was supported by a local furniture manufacturer who said he had literally hundreds of orders,

which would wait-out the switch.

Shev said the philosophy was simple: "The 3% difference between GST (13%) and VAT (10%) is preferred in the pocket of the consumer, rather than in the coffers of the receiver".

He went on to add that those products requiring large outlays of capital expenditure would be also forestalled — with the ensuing impact on capital formation.

He said the fear at the moment was the rumour circulating that the introduction of VAT may be held off until January — with all potential spending being withdrawn from the economy until that time.

Syffrets Cape Times

(320) CT 18/9/91
DAILY LISTING

Staple food subsidies to soften blow

Barend turns down demand to delay VAT

320

LESLEY LAMBERT

FINANCE Minister Barend du Plessis will neither postpone VAT nor zero-rate basic goods and services, in spite of strong pressure from unions, political organisations and business.

However, he has agreed to subsidise milk powder, sump and crushed mielies by 10% for at least one year as a further measure to alleviate the impact of the new tax on the poor.

There was a possibility dry beans and lentils would also be subsidised if SA did not have to import these items this year.

Du Plessis' decision, announced after a three-hour meeting with the joint VAT working group yesterday afternoon, is likely to be rejected by the Cosatu-lead VAT Co-ordinating Committee, which will respond at a news conference this morning.

His stand follows last-minute efforts by the committee and leading businessmen to convince government that it was necessary to postpone the tax or amend it to provide greater relief for the poor.

A senior spokesman for the committee said it would request an urgent meeting with President F W de Klerk and increase pressure on the private sector to support its demands.

If there was no satisfactory progress, the committee would decide at a report-back meeting on Monday on the course of action it would pursue, he said.

Cosatu has already warned that an unsatisfactory response to the committee's proposals could result in a general strike and demands for a 5% across-the-board increase to compensate for the effects of VAT on workers' living standards.

"The co-ordinating committee went out of its way to accommodate government by

making compromise proposals. But it was clear that the Finance Minister was not prepared to negotiate," the spokesman said after the meeting.

Du Plessis announced a package of relief measures last month, including a reduction in the VAT rate from 12% to 10%. He told the working group yesterday that R30m had been allocated to a short-term nutrition programme implemented by the Health Department and that local authorities and the SADF would be brought in to assist with the programme.

The co-ordinating committee spokesman said the use of local authorities and the SADF would be politically unacceptable to the communities at which the relief programme was aimed.

It is understood the working group, established by the co-ordinating committee and government, failed to reach agreement on certain key arguments at their report-back meeting on Sunday.

A technical committee representing the co-ordinating committee called for the postponement of VAT to enable wider consultation and ensure the new tax was fair.

Failing postponement, the technical committee said there would have to be substantial immediate relief to compensate for the impact of the tax on the poor. It proposed an interim zero-rating of GST-exempt foodstuffs, the exemption of medical services and prescribed medicines, a phased-in input tax credit and a representative tax advisory committee.

Government representatives argued that to zero-rate GST-exempt foods would cost about R3,36bn and was unaffordable.

□ To Page 2

VAT *delay* 18/9/91

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□ From Page 1

They said a poverty relief programme was a better means of targeting assistance to the poor and that VAT would result in lower prices and a more active economy.

A postponement of VAT would erode confidence in VAT ever being implemented, they argued. It would also delay the purchase of capital goods, discourage foreign investment and result in a major cost to business.

The technical committee argued that implementation costs would not be lost if there was an undertaking to implement the tax next year. Retention of GST would mean more revenue for government and a generous write-off of compliance costs wasted by business could be introduced.

The technical committee concluded that government's main reasons for introducing VAT were to reduce the cost of capital, by excluding capital goods from the tax

net, and to enable the economy to reflate without increasing prices.

The co-ordinating committee argued, however, that "inadequate" monitoring measures, coupled with the recession and the concentrated structure of the manufacturing sector, would prevent the full benefits of VAT being passed on to consumers. It had been estimated that the input credit system would cost revenue R6bn. With a broader-based, more efficient VAT system collecting about R4bn in additional revenue, there would be a shortfall of about R2bn compared with GST.

"It is highly doubtful that enough of the R6bn input tax credit will be passed on to the consumer to alleviate or compensate for the additional R4bn burden, particularly in the short term," it argued.

● See Page 3

Excise tax on 'luxury' goods to be increased

Star 18/9/91
Consumer Reporter

Details of the increases in excise duties on "luxury" goods to offset the recent 2 percent drop in the Value Added Tax rate were announced by the Department of Finance yesterday.

Goods on which excise duties will be increased or introduced include tobacco products, alcoholic beverages, soft drinks, television sets, radios, motor vehicles, unfortified wine, and sorghum beer and powder.

The prices of these goods are not expected to rise as the duty increase offsets the drop in the indirect tax rate.

The present rate of duty on computers and other office machines will not be increased. These goods will, as capital goods, not be subject to VAT and their prices "should decrease" by at least 13 percent as from September 30, Deputy Minister of Finance Japie van Wyk said.

Mr van Wyk said it had been decided to add just the excise duty on all excisable goods so that levels including GST will remain unchanged.



It was decided, in respect of tobacco products, alcoholic beverages and soft drinks, to introduce an additional *ad valorem* excise duty which should be at least 3 percent

The *ad valorem* excise in the case of TV sets, radios and vehicles would also be increased by 2.5 percent.

An excise duty of 2.5 percent has been introduced on natural (unfortified) wine and other fermented beverages.

In view of the high nutritional value of sorghum beer an excise duty of only 1 percent was being introduced.

Sorghum powder would, however, be subject to an excise duty of 2.5 percent.

Deadlock in VAT talks, but Govt to subsidise some foodstuffs

Government faces a groundswell of resistance against the implementation of value added tax on September 30 after talks between Finance Minister Bernard du Plessis and the Co-ordinating Committee on VAT ended in deadlock last night.

Mr du Plessis told the committee the implementation of VAT would not be postponed.

However, the Government, instead of zero-rating foodstuffs, was prepared to subsidise staple, staple rice and powdered milk at 10 percent for at least one year, he said. Dry beans and lentils would also be considered for subsidisation.

"According to the best available information, the subsidisation of these food items will negate any negative effect VAT will have on low income families," Mr du Plessis said.

But the Co-ordinating Committee on VAT has labelled the Minister's poverty relief programme as "completely inadequate".

The committee has called for a zero rating on food, medicines, medical services, electricity and water as well as trade union subscriptions.

Amendments to the VAT

ment to delay the start of the new system until effective negotiations have taken place.

A Cosatu spokesman said a march would start at noon today at the corner of Plein and Wanderers streets.

In a statement issued last night, Cosatu and the National Congress of Trade Unions said groundswell opposition to the arbitrary implementation of VAT had given rise to widespread protest.

Luxuries tax rise

VAT

by the experts

By George!



"First I vat your money — that's VAT. Then I vat your watch — that's VATWATCH!"

20 (320) ARG 18/9/91

Wave of protest mounts

Staff Reporters,
Own Correspondent

THE government faces a groundswell of opposition against VAT, due to be implemented in less than a fortnight, after talks between the Finance Minister and the Co-ordinating Committee on VAT ended in deadlock last night.

Finance Minister Barend du Plessis told the committee VAT would not be postponed.

Instead of zero-rating food-stuffs, said Mr Du Plessis, the government was prepared to subsidise samp, mielie rice and powdered milk, at 10 percent for at least a year, he said. Dry beans and lentils might also be subsidised.

"According to the best available information, the subsidisation of these food items will negate any negative effect VAT will have on low income families," Mr Du Plessis said.

But the Co-ordinating Committee on VAT has labelled the Minister's poverty relief programme "completely inadequate".

In Johannesburg today anti-VAT protestors will take to the streets in a march organised by Cosatu.

Regional secretary Amos Masondo said permission had been granted for a march which would start at noon in central Johannesburg.

More marches, a general strike and mass stayaways are also possible.

A programme of action, decided on by the co-ordinating committee on VAT, takes place this week throughout the country to demonstrate resistance to the tax.

The action is being supported by a range of consumer, medical, relief aid and trade union bodies.

● The African National Congress want taxation with representation, says Professor Albie Sachs, a member of the movement's national executive committee. The ANC was not against taxes — every country needed taxes to build schools, hospitals and roads, he told an anti-VAT meeting in Claremont last night.

"That's going to happen when we have a real non-racial and non-sexist democracy in South Africa."

Last night's meeting, organised by the Western Cape VAT Action Committee, drew about 60 people. Organisers said 600 posters advertising the meeting and displayed in Cape Town had been removed.

Cape Times

THURSDAY, SEPTEMBER 19 1991

VAT furore

FINANCE Minister Barend du Plessis's latest variations on VAT will do little to calm the widespread protest building up against implementation of the tax at the end of the month. Instead, the Minister is confirming the impression that sleight of hand and *ad hoc* change are key features of the new system, which still favours business at the expense of the man in the street or out in the country.

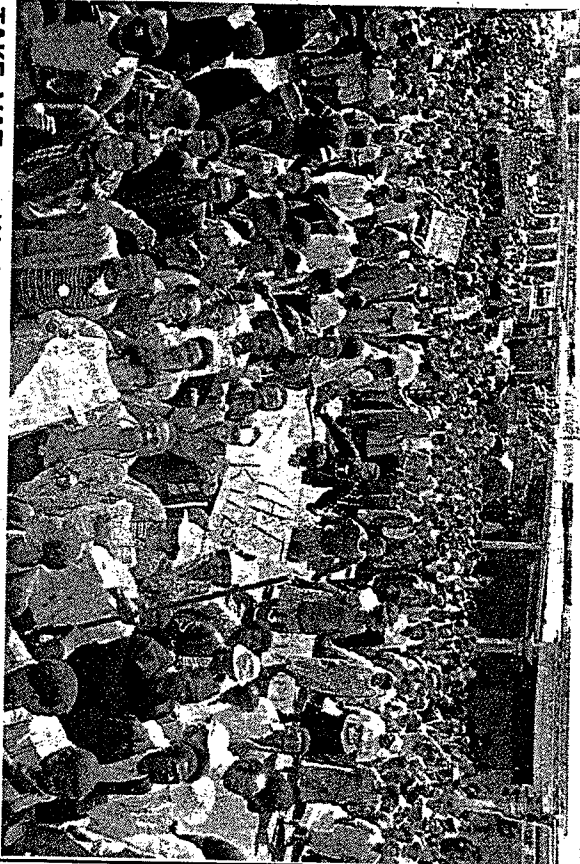
Last month's gesture was a drop in the VAT rate from 12% to 10%, but the petrol price was immediately loaded by an additional 13c a litre. The impact on inflation is expected to be about the same as leaving the VAT rate unchanged and, of course, the petrol impost will hit the poor hardest. Now government also intends to recoup losses from the rate reduction by extracting an additional R300-million in excise duty on everything from tobacco and booze (including nutritious sorghum beer) to TVs and radios. It simultaneously plans to subsidize milk powder, samp, and crushed mealies by 10% for at least a year, in a particularly weak response to calls for the zero-rating of basic foods and services. Why not just zero rate the items in the first place?

With the perfect knowledge of hindsight it is not too surprising that the authorities are still pegging their hopes on cosmetic changes to the tax mechanism in order to maintain high indirect tax revenue, albeit to support social spending, rather than simply reducing the tax burden on the poor. Yet it must also be borne in mind that VAT is a superior tax to GST and Mr Du Plessis can cite International Monetary Fund experts who are convinced that its base must be maintained at the widest level possible.

The big question now is simply whether genuine concessions, such as zero rating previously GST-exempt foods and relaxing the tax on essential services, would not restore badly needed credibility and compassion to the increasingly unpopular tax. Even at this late stage the answer lies in listening to the people and trimming less productive expenditure.

(320) CT19/9/91

A true world



TAKE VAT . . . Workers march through Johannesburg yesterday, protesting the imminent introduction of VAT. Cosatu also threatened to launch a crippling general strike. **Report — Page 2. (320)** Picture: AP

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Every single one of us is affected by the new Value Added Tax (VAT) as from Monday, 30 September 1991, it will also be Spoomer's responsibility to recover this tax. The good news is that Spoomer has managed a saving of 1% on rates of container traffic (CX) and truck loads (TX). This will be passed on to you.

You probably have some queries about VAT and how it concerns you as our client. So we'd like to answer as many of these questions as possible.

WHO MUST PAY VAT?

All clients that use our goods, pipeline and road transport services will have to pay Value Added Tax. This includes government departments. Remember, even if you despatch goods that are exempted from VAT, you still have to pay VAT on the transport service that is rendered.

ON WHAT SPOORNET SERVICES MUST VAT BE PAID?

All the services of Spoorrenet: CX (Container Traffic), PX (Package Express), TX (Truckroads), Autonet (Road Transport) and Petronet (Pipeline) are affected. The only exception is Passenger Services.

WHEN WILL VAT BE CHARGED?

Whenever a transport service is rendered, VAT will be charged on the transport charges. However, this is only applicable to domestic transportation.

For example, where railings is R18 and VAT R1.80, a cash receipt for R19.80 will be issued but no tax invoice:

Where railings is R20 and VAT R2.00, a cash receipt for R22.00 will be issued as well as a tax invoice for R2.00.

- *Railage debited against a credit account*

The credit account statement will be amended to make provision for the category VAT, i.e. Z = Zero Rated or N = Non-vatable; the registration number and the amount of VAT raised per transaction.

This means that no tax invoices will be issued for the different transactions. All required information will be reflected on the credit account statement. See example:

WHAT ABOUT CLAIMS

When you want to submit a claim for lost or damaged goods, Spooneriet will handle it as in the past. The only difference is that a refund of VAT charged on railrage can also be included. You will only receive this refund if you have paid the freight costs. The claim payment will of course include VAT in future.

WHAT ABOUT ADJUSTMENTS

Occasionally it may be necessary to make an adjustment on your credit account. An overcharge/undercharge may occur on one of the transactions and as in the past, the necessary credit/debit will be passed by means of an adjustment document. However, since VAT was charged on the original rail charges, that amount must also be adjusted by means of an additional credit/debit.

ON WHICH RAIL CHARGES MUST VAT BE PAID

All rail charges including miscellaneous charges are subject to VAT. When you approach Spooner for a tariff quotation, it will include VAT as from 30 September 1991. *It is therefore extremely important to remember the date of dispatch of the consignment.* The VAT amount will be reflected separately on your credit account statements.

This arrangement has been approved by the Department of Inland Revenue but we at Spooner are thoroughly aware of the impact Value Added Tax will have on your business and wish to give you all possible support. Should you require more information, please do not hesitate to contact your nearest station or Marketing Office.

THE ACCOUNTANT	9300RNET	BSSTUBEDBYMAGAZ
PIET VERBIELEN	Weekly Statement and Tax Invoice	PO BOX 12502, 1000
PIET VERBIELEN	Credit Account 0549	POSTBUS 12502, 1000
WOODSTOCK		AMSTERDAM, THE NETHERLANDS
9915	V.A.T. Registration Certificate Number 3456789012	TEL. (020) 9940 2026

For week 6 October 1991 to 12 October 1991

[illegible]

Spoornet Headquarters: Johannesburg (011) 774-31457. **Regional Managers:** Cape Town (021) 218-3986; Kimberley (053) 288-2917; Port Elizabeth (041) 520-2021; East London (0431) 44-2534; Bloemfontein (051) 408-2986; Durban (031) 361-2509; Johannesburg (011) 774-3659; Pretoria (010) 315-3354; Sandhurst (021) 218-3986; Empangeni (03531) 2-14200 - **Automat:** Cape Town (021) 218-3668; Port Elizabeth (041) 520-7545; Bloemfontein (051) 408-2194; Durban (031) 361-3520; Pretoria (012) 315-2460 - **Petronet:** Durban (031) 364-7255, 364-6255.

✓ SPOORNET
THE RIGHT SERVICE. RIGHT THERE.

N 1984 the SA government brought blacks into the unified taxation system together with other population groups. This resulted in one-man, one-taxpayer, but excluded the more eagerly awaited one-man, one-vote.

Despite a public outcry of 'No taxation without representation', this did not lead to a tax revolt. The reason may have been that blacks were integrated into the system to a limited extent only. Each year the minimum level of income at which tax becomes payable has been raised, excluding from tax liability the majority of black wage-earners. The motives for this are mixed — including administrative problems, political considerations, and possibly fairness.

Coincidentally, the Margo Commission was also established in 1984. Its main recommendations included the exemption of dividends from the income tax net, reduction of estate duty and donation tax, separate taxation of husband and wife, reduction of corporate and individual income tax rates, and movement from direct to indirect taxation.

In response government has abolished tax on dividends, reduced estate duty and donation tax to 15%, almost separated husband and wife in the tax formula, begun gradually reducing corporate and individual tax rates, and moving from direct to indirect tax by introducing a more broadly based indirect tax — VAT.

It has delighted rich people who galloped to the bank with tax-free dividend cheques. But what was in it for the poor?

Margo also recommended the introduction of comprehensive business tax. It failed to win acceptance and plans to implement it were scrapped.

One was inclined to expect that, with the scrapping of comprehensive business tax practically all the major recommendations of the Margo Commission would become defunct. But this was not to be.

Instead government opted for the second choice — broadly based VAT.

VAT entered into the SA economic structure via the back door, so to speak. Now it has become a controversial tax system. Many people — voters and voteless — are expressing anger at the way VAT is to be implemented at the end of the month. The

Oppressive system is the fuel of black opposition to VAT

MATSHERU MATSHERU

(320)

medicines and other goods and services that will affect the poor.

The government's reduction of the VAT rate from 12% to 10% has not helped much. Many people believe Finance Minister Barrow du Plessis made a mistake by increasing the fuel price when reducing the VAT rate.

Now a visible resistance to VAT in particular, especially on the part of the voteless community, is growing. The state is finding it difficult to secure a satisfactory tax obedience from the black business community too. For example, black businessmen refuse to deduct tax from their employees' wages, and they are also reluctant to register for VAT.

This failure of tax resistance and lack of obedience to the law does not exist in a vacuum. It is the result of the country's political and economic history.

For a start, tax and VAT in particular is perceived with a political eye. The issue is you cannot tax people without giving them the vote as well. Therefore blacks view the payment of any taxes as inconsistent with democratic principles.

Secondly, a direct relationship is perceived in the relationship between the payment of tax and the utilisation of tax monies.

Many black people perceive that the tax they pay is being used by the government to buy guns and other dangerous weapons to kill them and for the furtherance of the apartheid system. They also feel there is no link between tax and their interests.

ened this perception of tax being used to oppress the voteless black majority.

A third perception among many blacks is that the replacement of GST with VAT is nothing but a sinister motive employed by the ruling — and hence wealthy — classes to transfer a greater proportion of the tax burden on to the shoulders of the

poor. The feeling is that, as blacks are more numerous, VAT is being employed to milk them. In general it is believed the Margo Commission made recommendations favouring the rich (whites), showing little concern for poor black people.

Fourthly, it is widely believed that indirect taxes — whether GST or VAT — are unfair. The argument is that indirect taxes are calculated at a fixed rate, and do not take into account the ability to pay — a regressive tax structure, a system which redistributes wealth from the poor to the rich. Income tax, which does the opposite, is seen as more appropriate.

This may not be good news to the rich who argue that income tax rates are too high.

I agree that excessive income tax rates can be a demotivating factor to increased productivity and output. However, for the sake of redressing the economic imbalance in favour of the poor, greater reliance should be made on direct rather than indirect taxes.

This does not mean we should not have indirect taxes at all. They have a place in SA's economic structure. And this greater reliance on income tax could be phased out over, say, a period of five to 10 years so as to give the voteless, poor majority some breathing space. Wealthy taxpayers must accept this, not as revenge for the years of oppression but as a 'well-timed' attitude.

The fifth perception is that government cannot be seen to be intro-

politics such as new taxes when constitutional negotiations are about to start. The belief is that government is trying to pre-empt any new tax policy that a new government may follow in a post-apartheid era. But then black people need to begin to see a direct link between the tax they pay and the application of those funds in the direct development of their communities.

Sixth, if government is that hard pressed to introduce VAT, it should at least negotiate its implementation. Had Du Plessis swallowed his political pride and consulted properly with representatives of the masses he could have given VAT a much wider political credibility and acceptance for it. But, by going alone, he missed the chance.

All this shows that the root of the problem we now face with VAT much older and deeper than the introduction of VAT itself.

Unfortunately, the solution to the VAT problem will have to take into account these older and deeper issues. The poor feel that the implementation of VAT should not overlook these economic and political problems as they still affect the voteless communities very much.

Granted, there may be a difference between perception and reality. Nevertheless, those perceptions must be acknowledged.

Major political organisations such as the ANC and the PAC have expressed the desire to put greater reliance on direct taxes. So, we must see more of wealth taxes such as a capital transfer and capital gains tax in the future. This makes political sense. The danger to be avoided is to ensure that it is not done in such a way that it frightens the rich into fleeing.

Du Plessis had a number of options to resolve the issue amicably. The implementation of VAT as it stands now may lead to a tax revolt. It is better to change through negotiation than to change under pressure.

Although some have criticised the timing of VAT, I do not believe this is a major issue. The main issue is in the absence of consultation. It is a pity that what appears to be a better indirect tax system for SA, now an issue in the future, is facing rejection. Had Du Plessis negotiated, together with the voteless, a more mutually acceptable approach to VAT.

Matsheru is an independent tax



VAT: Cosatu threatens mass strike

(320) ET 19/9/91
Own Correspondent

JOHANNESBURG. — Tensions over the imminent introduction of Value Added Tax (VAT) continued to mount yesterday, with the Congress of South African Trade Unions (Cosatu) threatening to launch a crippling general strike.

There were also warnings of widespread resistance and a "national disaster" if the tax was introduced in its present form on September 30.

Cosatu general-secretary Mr Jay Naidoo predicted that VAT could become Finance Minister Mr Barend du

Plessis's poll tax — the measure which led to the downfall of Mrs Margaret Thatcher in Britain.

The warnings followed a meeting between the Co-ordinating Committee on VAT and the ANC, Cosatu and some 90 other organisations — and Mr Du Plessis in Pretoria on Tuesday.

Yesterday, tens-of-thousands of Cosatu supporters marched through Johannesburg and Bloemfontein threatening strike action if VAT was implemented.

The committee said yesterday the meeting with Mr Du Plessis had ended in deadlock, with the minister refus-

ing to consider further zero-ratings or exemptions and any delays in implementation.

The committee will now seek an urgent meeting with President F W de Klerk.

They will hold a VAT summit on Monday, where "a programme of action, including mass action, will be discussed".

Mr Naidoo later said that Cosatu believed it had sufficient power to pressure employers into stopping pay-as-you-earn tax deductions.

"We are going to engage in spontaneous industrial actions which will culminate in a general strike."

The committee had put a number of "compromise proposals" to Mr Du Plessis during Tuesday's meeting, but all were rejected.

It proposed that basic foods, medical services, medicines, electricity and water not be covered by VAT for six months, to allow for proper negotiation. This would also allow for the introduction of a poverty relief programme which could "avoid the catastrophic results on the very poor of VAT as it is now structured".



TAX PROTEST ... Demonstrators protested in Johannesburg yesterday against VAT, to be imposed on September 30. Several minor concessions have been made by the government, including proposing to subsidise some basic foods for a year.

VAT to be levied on postal services

(320) ET 19/9/91

Staff Reporter

VAT is to be levied on postal services — the charge for standard mail will increase by 8% for standard mail, from 25c to 27c.

Postal services spokesman Mr André Joubert said yesterday it had been decided to lower the unwieldy 10% VAT rate of 2½c for standard mail, rather than raise it to 3c.

Mr Joubert said that an excess in the Post Office budget made possible a general VAT rate of 8,77%, making the price of standard mail slightly more than 27c. However, this was lowered to 27c.

Rental

According to Sapa, however, VAT will be charged on all postal services, whereas under the GST system only about 10% of Post Office expenditure was subject to taxation.

● Another blow for the public under VAT is that Telkom SA will increase telephone rentals by R2 to R26 a month for automatic exchange connections, and to R27 a month for party lines.

Telephone call charges will increase from 15c to 16½c, while the installation fee for telephones will rise from R155 to R170.

VAT might lift inflation

By Gerald Reilly

PRETORIA — VAT's introduction and the recent fuel price increase could push the inflation rate as high as 16% or 17% in October, a study by the Stellenbosch Bureau for Economic Research has found. (320)

Bureau economist C.J. de Jager said a recent study showed the major causes of inflation could remain in place for years. (428)

VAT would be an additional aggravating factor.

The inflation rate would probably remain about 15% for September, while VAT was likely to add an extra percentage point and push the rate as high as 16% to 17% in October if the effect of the fuel price hike was taken into account. (3)

VAT would add almost five percentage points to the CPI's food component and was likely to worsen unrest.

However, he said the inflation rate could drop to about 13% by October 1992.

VAT could be govt's downfall ³²⁰ Cosatu

THE Cosatu-led VAT Co-ordinating Committee has renewed its threat to launch an economy-crippling mass action campaign, including a national strike and tax boycotts, if government does not address its concerns about VAT.

Responding yesterday to Finance Minister Barend du Plessis' refusal to postpone VAT or zero-rate more goods and services, the committee threatened to make implementation of the new tax as much of a political disaster as poll tax was for the Thatcher government.

In a last-ditch effort to negotiate a compromise, however, the committee would

LESLEY LAMBERT

request an urgent meeting with President F W de Klerk, Sacob and the Afrikaner Handelsinstituut, Cosatu general secretary Jay Naidoo said.

If the outcome of these meetings was unsatisfactory, it would decide on further action at a VAT summit on Monday, he said. ^{10am 19/9/91}

Naidoo said the committee's 93 affiliates, including Cosatu, the ANC and Nactu, would consider launching a programme of sustained mass action if government pushed ahead with the tax in its present

form on September 30.

"We told the Finance Minister on Tuesday that just as the British public warned Thatcher about poll tax, government will not succeed with a tax which is against the will of the people," he said.

Proposals for the mass action included a national general strike and the boycotting of VAT and other taxes, such as income tax. Yesterday, thousands of workers joined protest marches in Johannesburg and Bloemfontein.

When asked how Cosatu intended to boycott the payment of income tax, Naidoo

□ To Page 2

VAT ^{10am 19/9/91} ³²⁰ □ From Page 1

said he believed the trade union movement had "sufficient power to pressure employers to halt PAYE deductions". Medical associations such as the National Medical and Dental Association had spoken of not charging patients VAT, he said.

The committee's main objections to VAT are its effect on the poor and the "unilateral" manner in which it is being implemented.

Financial authorities responsible for the new tax are frustrated at the last-minute resistance campaign.

The authorities argue that leading trade union and political organisations were invited to discuss VAT with government. They were also invited to make proposals and to be represented on Vatcom, the committee appointed earlier this year to investigate amendments to the new tax. They refused the latter invitation.

Since VAT was first raised, major amendments have been made to VAT leg-

islation to accommodate proposals to Vatcom. In addition, Du Plessis used his discretionary powers to make concessions, such as the reduction of the rate to 10%, and a range of measures outside the tax system to compensate for the higher cost of food.

He increased state pensions by R10 a month from August and would place a 10% subsidy on certain basic foodstuffs which would, in effect, zero-rate them for a year. These two concessions would bring the total allocation for direct aid to R420m. Of the R220m originally allocated, R30m had been paid to welfare organisations providing targeted aid, a Finance spokesman said.

Economists argue that more concessions would destroy the integrity and viability of VAT, and a delay in implementation could jeopardise the economic upturn.

● See Pages 3 and 12

VAT may be just what's ³²⁰ needed to solve the problem

For some years now, labour brokers — bringing periodically required skilled and unskilled labour to contractors as large as Eskom and Sasol — have been a thorn in the flesh of Inland Revenue and Apso.

During the past year, a new regulatory organisation of their own failed to get off the ground and Apso had to step into the breach.

"Most of the brokers operate as CC's and collection of Site/PAYE as well as the tax due from the CC has been extremely difficult," explains Apso past president Syd Catton.

He heads the association's "GAP" committee for liaison with government, other associations,

and public relations.

"Legislation making the end-contractor liable at least for the Site/PAYE is on hold after contractors objected they could not oblige brokers to register — and unregistered brokers were bound to offer more competitive rates.

"It seems VAT may answer the problem, as no company will do business with even a CC which is not registered for the tax. Labour brokers will therefore come into the tax net, as Inland Revenue requires."

Labour brokers have been invited to become Apso members and a special committee drawn from among them is drawing up regulations for the industry.

The 15 th annual convention of the Association of Personnel Service Organisations (Apso) takes place in Midrand tomorrow and on Saturday.

This survey of the recruitment industry was written and compiled by Ron Schurink with the assistance of Apso.

Future tax system will collapse, warns Naidoo

VAT threat by Cosatu

By Paula Fray 3/19/19/91
Consumer Reporter

South Africa's largest trade union group says the introduction of value added tax will lead to the collapse of the entire tax system.

The warning came from Cosatu secretary-general Jeyaraj Naidoo after tens of thousands of people had marched through Johannesburg and Bloemfontein to protest against the implementation of VAT.

Speaking on Radio 702's "Vattine", Mr Naidoo said: "It will be a national disaster if it goes ahead." General resistance would spread to PAYE tax.

Earlier, Cosatu assistant general secretary Sam Shilongo warned that if VAT was implemented without effective negotiation, the organisation would engage in spontaneous industrial actions which would culminate in a general strike.

Vatwatch chairman Professor Louise Tager said the compromise between the Government and the Co-ordinating Committee on VAT was "complicating the watch-body task."

The committee said yesterday that mass action, including tax resistance and a general strike, would be discussed at the second VAT summit on Monday. It would deem it to meet President de Klerk to point out that there was potential for either con-

The VAT committee, which represents 93 organizations, will also approach the South African Chamber of Commerce and the African Handelsinstituut. The statements follow a meeting with Finance Minister Barred du Plessis on Tuesday. When the said VAT would not be postponed nor

A large, dense crowd of people, many wearing hats and coats, gathered in front of a large, multi-story building. The crowd is diverse in age and appearance. The building has many windows and a prominent entrance. The scene is set in an urban environment.

Massed against VAT . . . protesters took to the streets to show their displeasure with the new tax system.

[illegible]

Still a bone of (320) contention

Star 19/9/91

Still a bone of contention between Apso and Inland Revenue are the higher rates of Site and PAYE demanded from contractors who place temporary workers — particularly temporary workers armoured in CC's (who now tally many thousands).

"The higher rates now laid down for contractors hiring out temporaries are unfair," says Apso president John Dawkins.

"We are trying to get a standard percentage rate of deduction accepted."

"New legislation is on the way to cover the matter, and we have been assured that it will not be retrospective."

Further complications of employing a CC are highlighted by past president Syd Catton.

"In the new era of industrial relations — and arbitration — the dice are loaded in favour of the employee, who gets free legal and other backing from the Department of Manpower."

War

on

VAT

320



Boyle 20/9/91

THE two major labour federa-
tions, Cosatu and Nactu, have
urged the State President to inter-
vene in the war over Value Added
Tax as 'warnings of a national
strike grew louder yesterday.'

This comes just a week before the imple-
mentation date of September 30.

BY THEMBA MOLEFE

In the meantime, a black tax expert, Mr
Mashem Mashem, said yesterday that
"taxation without representation" was fuel-
ling black opposition to VAT and may lead
to page 2

P.T.O.

Talkback topic

A MAJOR row is brewing over the introduction of Value
Added Tax on September 30.
Do you understand this complicated indirect tax which
will replace GST?

Is it fair to now pay tax for services rendered, for instance
on consultation fees charged by your doctor?
Do you think the Government is unwise to introduce such
far-reaching tax reforms on the eve of negotiations over a
new constitution?

Phone DJ Tim Modise between 5pm and 6pm today and
share your opinion with the nation on the *Sowetan* Radio
Talkback Show. Is 714-4063. Listen to the programme
on medium wave 576 KHz

IE PARKERS



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Anger over VAT grows

From Page 1

to a tax revolt because of poor consultation.

The VAT Co-ordinating Committee, representing 93 organisations, including Cosatu and Nactu, yesterday said it had asked Finance Minister Barend du Plessis to arrange an urgent meeting with President FW de Klerk.

Du Plessis has refused to postpone the implementation of VAT.

The Office of the State President said a request for a meeting had not been received.

In a last-minute plea to Du Plessis, the Cape Town Chamber of Commerce has urged that basic foodstuffs be removed from the scope of VAT and that the R220 million set aside for poverty relief be increased.

National strike

Both Cosatu and Nactu have indicated that a joint four-day national strike was being discussed by the federations and other non-aligned trade unions.

Cosatu general-secretary Mr Jay Naidoo has warned that VAT would lead to a "tax revolt", saying resistance would spread to income tax.

He said the meeting with De Klerk, hopefully by Monday, would determine whether the workers should go ahead with industrial action and said VAT should be postponed until consensus was reached on the zero-rating of basic foodstuffs.

Nactu general-secretary Mr Cunningham Ngcukana scoffed at the Government's pledge to set aside R220 million for poverty relief.

"This is an insult to our people. It is absolutely silly that the Government can only subsidise foodstuffs such as eggs, meat, fresh vegetables and cheese instead of zero-rating them," Ngcukana said.

Negotiate

He said Nactu was agreeable with Cosatu on the possibility of a strike "because Du Plessis is not prepared to negotiate" and why it was imperative that De Klerk should intervene.

Writing in *Business Day* yesterday, Matscheru said: "Du Plessis had a number of options to resolve the issue amicably."

"The implementation of VAT as it stands now may lead to a tax revolt. It is better to change through negotiation than to change under pressure," Matscheru said.

In a statement on Wednesday, the independent but Government-funded Vatwatch group, said the impasse between the Government and the VAT Co-ordinating Committee was complicating the task of Vatwatch.

Barend: People are for VAT

JOHANNESBURG. — The government could not be held solely responsible for job creation, Finance Minister Mr Barend du Plessis said yesterday.

He said the government was not turning its back on the unemployed. Instead, the government accepted it had to contribute to the creation of "an atmosphere where there will be investment and job creation" (320)

CT 20/9/91
The solution to unemployment was economic growth, he said.

Asked about the threats of mass action on VAT if the government went ahead with the tax, Mr Du Plessis said he did not think it would get the sympathy of the people, as VAT was a good tax.

It had already brought down the price of cement, he added. — Sapa

Govt may lose on spirits and beer despite excise

320 MICHAEL FRIDJHON

GOVERNMENT could lose up to 1% of beer and spirits revenues through the lower VAT rate, irrespective of the newly imposed luxury goods excise.

The 2.5% ad valorem excise which will be imposed on various luxury goods from September 30 may fall to make up the revenue shortfall of the move from a 13% GST to a 10% VAT.

While most liquor producers — except wine farmers — are delighted, the regulations have been greeted with some scepticism. A new tax whose rate is insufficient to make up an unintended revenue rebate is not seen as permanent.

Experts believe that an ad valorem levy set as low as 2.5% is merely the thin edge of the wedge.

Within six months, they predict, the rate will be increased, ostensibly to cover the shortfall and soon the fiscus will have another indirect tax for the milking.

The additional excise is to be calculated on the in-bond or excise-free value of the goods, and not on the duty paid wholesale price.

This means the new excise will affect different products to varying degrees.

The most efficient scenario, from the revenue point of view, — applies on products like natural wine, which have been excise free until now.

In terms of the new arrangement, a wine leaving the producers' cellars at R100 a case will cost the retailer, R102.50 plus 10% VAT.

Previously the same product would have been costed into stock at R100 plus 13% GST.

Products like scotch, brandy and beer carry customs and excise duties worth as much as 40% of the wholesale selling price. The new ad valorem excise is only to be calculated on the excise-free portion, which may be as low as 60% of the present wholesale price.

VAT row
(22) 21/7/91
'could hurt
negotiations'

JOHANNESBURG. — A breakdown in consensus during negotiations on VAT between the finance ministry and consumer groups could have a ripple effect on negotiations, ANC secretary-general Mr Cyril Ramaphosa warned yesterday.

He said it was incomprehensible that the finance ministry could have sought confrontation on VAT, when so many people had argued that socio-economic consensus could greatly help negotiations.

Meanwhile, the president of the South African Agricultural Union, Mr Nico Kotze, yesterday appealed to the government not to postpone the introduction of VAT.

He said the union accepted that VAT was on balance a better taxation system and that it also contained certain benefits for agriculture.

— Sapa

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The curious case of claiming on insurance

INSURANCE premiums for short-term insurance — fire, theft, and accident insurance — will be subject to VAT.

From the insurer's point of view, this is no problem provided he is registered for VAT as the VAT element will qualify for credit (even if it is motor car insurance).

But it becomes an extra cost for private individuals and unregistered entities.

All that is fairly straightforward, but what is curious is the treatment of the insurance claim, says tax consultant David Clegg.

Imagine the situation of the white-coated individual who walks into your office and walks out with a word processor — but doesn't take it to the repair shop.

If one sees this as an "involuntary supply" of your equipment to a thief, then there is a sort of perverse logic to the thought that the insurance proceeds are the payment for that supply and should be subject to VAT! And indeed, that is what happens.

The actual receipt of insurance proceeds is deemed to be inclusive of VAT and the recipient must therefore include that amount in his VAT return and pay over VAT.

The vital point in this is that provided you have insured your stock, plant, buildings and other insurables for replacement cost — including VAT — it produces a neutral result.

For example, if the word processor costs R2 200 to replace and that was the insured value, then assuming there is no excess the insurance proceeds will be R2 200.

From this, one must deduct the VAT element — R200 — and pay it to the Receiver, leaving a net amount of R2 000 with which to buy a replacement machine.

The cost of the replacement from the computer shop is again R2 200 which, after VAT credit, gives a net cost of the same R2 000 that you have available.

The simple rule to come out of all of this is that you must be properly insured at replacement cost including VAT as of September 30.

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Aged will have to dig deeper into pockets

The Argus Correspondent

PRETORIA. — Services rendered by homes for the aged will not be exempt from VAT and pensioners will have to dig deeper into their wallets to cover increased boarding costs.

But several millions of rands were pre-allocated in March this year to increase subsidies of old-age homes and homes for the disabled.

This should alleviate the financial hardship of pensioners living in subsidised homes.

Mr Trevor van Heerden of the Department of Finance said an across-the-board pension increase of R10 was also made during the current financial year, and this should compensate for the increase of pensioner's lodging costs.

"This applies to 2.4 million pensioners in South Africa, and was beneficial to a much larger number of pensioners than those residing in homes for the aged," he said.

Mr Van Heerden said he was not aware of any proposals to further increase the subsidies of old-age homes to compensate for VAT.

A spokesman for the Department of Health Services and Welfare said the majority of old-age homes are substantially subsidised by government.

Pensioners' boarding costs at homes for the aged are subsidised on a sliding scale of two thirds of their income, she said, adding that elderly people who had no previous income could apply for old age pensions from government.

The concessionary tariffs on post and telecommunication services that apply to social and certain other pensioners will also be adjusted.

No delay, but Barend makes some concessions

THE Minister of Finance, Mr Barend du Plessis, emphasised this week that the imposition of VAT will not be delayed.

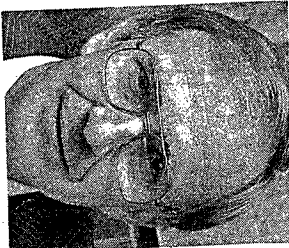
But he is making several concessions including proposals to subsidise various basic foods for at least a year.

The new tax has been strongly criticised by mainly trade union groupings. They have demanded a zero-rating for basic foods, medical services, medicines, water and lights and trade union subscriptions.

But Mr Du Plessis said in a statement that instead of giving food a zero-rating, the government was prepared to subsidise certain foods at 10 percent of the retail price for at least a year.

The foods included milk powder — both full-cream and skim — and crushed wheat. Subsidies could also be considered for dried beans and lentils, depending on their availability.

"According to the best available information, the subsidising of these foods will negate any negative effects that VAT



Minister Du Plessis

will have on low-income families," Mr Du Plessis said.

The government would also make arrangements to ensure the subsidies were passed on to consumers, and were not re-injected through price increases.

The minister also offered additional finance to the vatschog body, Vatschog, to carry out its job of educating South Africans about the new tax. — Sapa.

'Be ready' to live smarter, more frugally

THE introduction of VAT will add fuel to the already raging fire that is melting the purchasing power of South Africans, says Mr Martin Mchuanani, personal financial planning manager of Price Waterhouse Meyer.

"VAT is going to add considerable pain to the scorching effects of high inflation, high personal taxation and fiscal drag," he said.

"Companies have been planning for and learning about VAT for several months, but most individuals have done nothing."

"Regardless of their incomes, all South Africans should budget for VAT and be prepared to live smarter or more frugally."

The drain on disposable incomes will be felt through telephone accounts, short-term insurance premiums, electricity, water and sewerage charges, fruit and medical services.

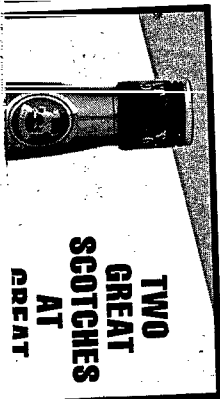
The simple exercise of adding 12 percent to July's costs for items to be covered by VAT would enable people to ascertain the approximate effect on their October budgets excluding inflation, he said.

"People who are already living to the hilt of their incomes will have to cut back somewhere," he said.

ARE YOU READY FOR VAT?

For expert advice and assistance in modifying your accounting systems

CONTACT:



TWO GREAT SCOTCHES AT GREAT



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Aug 20/91

What's in store for the small business

THIS year's national small business week will take place from September 28 to October 5 and will include a panel discussion on VAT.

The Cape Town Chamber of Commerce will host the discussion entitled *VAT and the Small Business* as part of its contribution to the week's programme.

The programme will focus on the expected problems and remedies that small businesses might have in adapting to VAT.

The panel discussion will be led by Mr Bob Wood, Chairman of Sacob's Taxation Committee and past president of Assocom.

Others on the panel will be Mr Des Kruger, a director of Deloitte Haskins & Sells and adviser on GST and VAT to the Margo Commission; Mr Clive Robson, assistant director of the Department of Inland Revenue; Mr David Clegg, chairman of the chamber's taxation committee and a tax specialist with Ernst & Young; and Mr Graham Cochrane, tax specialist with Price Waterhouse.

The discussion will be held on Wednesday October 2 and will cost R80 for members and R95 for non-members.

For information ☎ 021-23 2323 (Leigh James).

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VAT a 'real saving' ³²⁰ for man in the street

ARC 20/9/91

VAT will result in real savings to the man in the street, and the concessions announced this week go some way to addressing some of VATCOM's fundamental criticism of the new tax, say the Cape Town Chamber of Commerce.

"The chamber is convinced that VAT is a better system than GST," according to a statement from the chamber.

"The savings can be expected to apply from Day 1, and should accelerate as the greater efficiencies of the system work through to the consumer."

The costs of postponing the implementation would be enormous, and the chamber has criticised last-minute ANC and Cosatu calls for a suspension of the tax.

The government had embarked on a lengthy and comprehensive consultative process, which included the appointment of a widely based VATCOM and the publication of a Draft Bill in June 1990.

"Regrettably" the government had at first chosen to depart from a number of fundamental recommendations of VATCOM including the rate of VAT and the number of items zero-rated.

The government originally rated VAT at 12 percent and zero-rated only brown bread and mealie meal. VATCOM recommended that rice, milk powder, bread and maize products also be exempted.

The government also failed to structure a credible poverty safety net and in the circumstances it was understandable that considerable pressure had been mounted by the ANC/Cosatu alliance and others to seek relief for the poor.

The recent changes addressed several of these criticisms. The government had reduced the VAT rate from 12 percent to 10 percent, and also introduced a package of additional concessions above the R220 million voted for special aid programmes in the budget.

Reports compiled by the
Business Staff of The Argus.

A minefield for entertainers...

ONE of the most awkward provisions in the VAT legislation is that relating to "entertainment expenditure".

The definition includes food (unprepared or as meals), refreshments, accommodation, entertainment and hospitality of all kinds. Input credit is denied in respect of "goods or services supplied for the purposes of entertainment".

Exceptions are allowed when...



The curious case of ³²⁰ claiming on insurance

ARC 20/9/91

INSURANCE premiums for short-term insurance — fire, theft, and accident insurance — will be subject to VAT.

From the insurer's point of view, this is no problem provided he is registered for VAT as the VAT element will qualify for credit (even if it is motor car insurance).

But it becomes an extra cost for private individuals and unregistered entities.

All that is fairly straightforward, but what is curious is the treatment of the insurance claim, says tax consultant David Clegg.

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The vital point in this is that provided you have insured your stock, plant, buildings and other insurables for replacement cost — including VAT — it produces a neutral result.

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The simple rule to come out of all of this is that you must be properly insured at replacement cost including VAT as of September 30.

Buying a house?

Some facts . . .



ARG 20/9/91

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HOME-BUYERS are confused by changes in the VAT system and how these will impact on property dealings.

A spokesman for Pam Golding Properties explained some of the ramifications.

Question: If I buy a house after September 30, will I have to pay VAT on the purchase price?

Answer: It depends on who is selling the home. If you buy from a private individual who is selling his own house, no VAT is payable.

If you buy a house in a new development from the developer, he will be obliged to add VAT to the selling price. This is because he will be a registered vendor, selling you the house in the course of his enterprise.

Question: If I do have to pay VAT on the purchase price of the house, will I also have to pay transfer duty?

Answer: No. Sales of property subject to VAT will be exempt from transfer duty. If, however, you buy from a private individual and therefore don't have to pay VAT, normal transfer duty will be payable. There will be no VAT payable on the transfer duty.

Question: Will VAT be payable on the agent's commission and conveyancing charges?

Answer: Yes. Both the estate agent and the attorney are supplying a service in the course of their enterprise and VAT must be charged on the cost of those services. The rule is commission plus 12 percent.

Question: Will I have to pay VAT if I buy a sectional title unit?

Answer: The answer here again depends on who you buy it from. Transactions subject to VAT are "the taxable supplies of goods or services by any vendor in the course of furtherance of his enterprise".

Thus if you buy a sectional title unit from the man in the street who has sectionalised the block in order to sell off the units, he clearly falls within the scope of the above definition — you will have to pay VAT.

The definition of "goods" includes land and improvements, sectional title units, shares in share block companies and time-share interests.

Cosatu to send letter of protest

DENNIS CRUYWAGEN
Political Staff

EMPLOYERS are to get a letter from the Congress of South African Trade Unions today urging them to take a stand on Value Added Tax, said Mr Sallie Manie, chairman of the SA Municipal Workers Union.

He said: "We want employers to show their dissatisfaction."

"We're giving them a chance. Apart from strike action, we'll put in a demand for an across the board increase of five per cent to combat VAT if it is implemented," he told an anti-VAT meeting in Mitchell's Plain last night.

On a night in which tough demands were issued, he warned that Cosatu would call a general strike if the government did not listen.

The ANC is demanding a price freeze before VAT comes into operation.

Mr Ebrahim Rasool, chairman of the movement's Surrey Estate branch, said: "The ANC demands that all prices are frozen before VAT is introduced. We don't want VAT on basic foodstuffs and healthcare."

He demanded that the relief for the poor as announced by

VAT

by the experts

Argus chart

VAT affects everyone, and everyone needs to understand how this new tax system works.

All is explained, in understandable terms, in the "Understanding VAT" chart in The Argus today.

In addition to the chart there is a special eight-page section which discusses several intricate aspects of the system; and a two-page VAT update in the business section.

It's for business people; it's for everyone to understand.

All the questions you need answered are in The Argus today.

Health Minister Mrs Rina Ventor be implemented now.

Pan Africanist Congress representative Mr Peter Roman said the movement would support mass action aimed at "disturbing the government about VAT".

It's coming for ³⁷⁰ _{Aug 20/9/91} sure — and this is what it means

CAPE accounting firm BDO Spencer Steward have effectively summarised the proposed changes to the VAT system in their latest bulletin.

VAT will not be shelved as overseas experience has proved that it is a superior system to GST, and September 30 is still the kick-off date.

The government has avoided a proliferation of "zero ratings" — tax concessions which, they believe, would render VAT ineffective.

The rate has been reduced from 12 percent to 10 percent. A VAT rate of 13.3 percent would yield the same revenue as GST.

The government has turned to the fuel levy and taxation on luxury items to make up the loss, and also effectively redistribute wealth.

State and provincial hospitals and state and local authority clinics will no longer be classified as "enterprises". This means that these hospitals will not be required to charge VAT on the medicines they supply or the services they provide.

Reports compiled by the Business Staff of The Argus.

They will, however, remain liable for the payment of VAT on their inputs.

Before the announcement, medical aid contributions were exempt from VAT. Certain medical aids do make other forms of supply which would have attracted VAT. The effect of the proposed amendment is to make all of the activities of these funds exempt.

Medical goods and services supplied by private clinics, medical practitioners and the pharmaceutical industry will still attract VAT.

Contributions to genuine trade unions and employee organisations will now be exempt from VAT.

Further transitional measures have been introduced to provide relief and eliminate a measure of double taxation with regard to housing.

A complex set of rules has been introduced, which provides for certain exemptions and variable rates of VAT of

3 percent, 6 percent and 10 percent.

Some supplies from local authorities are taxable (eg electricity) and some exempt (eg property rates).

This has caused great administrative problems. The minister has undertaken to make a further announcement at some stage.

All denominations of gold coins, including Krugerrands, and any other coins designated legal tender will be taxed at the zero rate.

The lowering of the VAT rate will be partly compensated for by an increase in duties on liquor, tobacco, motor vehicles, TV sets among other items not yet disclosed.

The price of petrol was increased on August 23 by 13c a litre and that of diesel by 8c a litre.

An analysis of the revised 1992 budget reveals that the proposed amendments will result in an increase of R510 million to the deficit.

This could place at risk the government's objective of reducing the individual and company tax rates over the next three years.

VAT

Time's running out

With only 10 days to go before value-added tax takes effect, all systems are not go. While the ANC wants V-Day postponed — it claims VAT wasn't negotiated — business is bickering about how to balance its books.

Last week, in a meeting closed to the press, Vatwatch chairman Louise Tager called retailers and manufacturers together in a last-ditch effort to settle their differences on VAT's implementation.

The meeting ended with at least two major issues unresolved. On the one hand, the large retailers want VAT added at the till rather than have the 10% tax added to the price tags. On the other, however, retailers can't decide whether invoicing on the supply level (between manufacturers, suppliers and retailers) should be inclusive (summary invoicing) or exclusive (detailed invoicing).

The VAT Act is silent on the question of invoicing and doesn't differentiate between the various levels of merchandising. Pick 'n Pay and Shoprite want inclusive or summary invoicing at the supply level — they say it's easier to administer and negotiate this way — but Vatwatch says this method can lead to confusion and abuse because retailers could push up prices and hide costs. To this end Tager is seeking legislation to enforce exclusive or detailed invoicing between suppliers. Meanwhile, certain retailers are threatening to do their own thing.

Government double standards?

Says Pick 'n Pay financial director Chris Hurst: "If VAT is to be add-in at the consumer level, then it must also be inclusive at the supply level, otherwise government stands guilty of practising double standards. If we have to sell inclusive, then we want to buy inclusive."

Tager is adamant: "It might work for Pick 'n Pay because all of its invoicing becomes inclusive. But smaller retailers get different types of invoicing. Vatwatch is firmly opposed to the inclusive method of invoicing because of the risk of a cascading effect — the inherent risk that VAT could be charged on VAT." Backing her is the Groceries Manufacturers' Association, whose Jeremy Hele says: "We are happy to achieve standardisation among our customers because it's difficult to run three or four systems. We need to simplify things."

Deloitte Pim Goldby partner Willem Cronje feels that business could handle either system. He believes inclusive invoicing leaves greater room for error. "Detailed or exclusive invoicing gives more information — it detects VAT, says how much it is and gives a final figure. Inclusive invoicing merely depicts a final figure. One shouldn't leave room for doubt."

Cronje says there will be a natural gravitation towards exclusive or detailed invoicing and doesn't believe government needs to intervene. He says businesses should be left to

decide what system they want when it becomes clear what system will work. He believes government doesn't yet know enough to legislate and probably needs to look overseas for precedents.

In many ways the invoicing debacle is a protest against government's decision to make VAT add-in on the shelves as opposed to add-on at the tills. Pick 'n Pay's Hurst concedes that his company will willingly accept exclusive invoicing if government relents and makes VAT add-on at the till. The fear among retailers is that add-in VAT will have a negative impact on their marketing.

Says Pick 'n Pay's Raymond Ackerman: "The add-in system will result in a psychosis of inflation — everyone will think prices are going up even though the cost of certain items will in fact drop. An add-on system, on the other hand, would be cheaper and easier to administer — prices don't have to be altered every time VAT is increased." Illustrating this point, Ackerman points out that his competitors were happy to accept the add-in system until government dropped the VAT rate from 12% to 10% and retailers had to remark all their goods. Ackerman also believes that VAT would be more visible this way. "Government wouldn't be able to hide behind invisible figures and blame inflation on business."

Tager, however, believes that the add-in system will be more popular with consumers. "Vatwatch realises that business faces complex administrative procedures in marking prices and changing them as VAT inevitably changes, but the consumer doesn't want to face two prices at the till — an added-in price is easier to understand."

Says Deloitte's Cronje: "Making VAT add-on would be a fatal error because government has sold the concept of VAT as an inclusive price — the price you see is the price you pay." Cronje believes shoppers know that VAT will be introduced and won't blame retailers for every price hike. "In any case, the immediate, visible hike will be a one-off shock to consumers. Thereafter, the new system will be better." ■

In the wake of the Inkathagate scandal, the government faces a new crisis of legitimacy over Value-Added Tax which could force it to the wall.

The warning that VAT could be the government's Waterloo, as the poll tax severely damaged the Conservative Party in Britain, was sounded by Congress of South African Trade Unions general secretary Jay Naidoo. It came amid mounting popular resistance to the new tax, including protest marches this week by thousands of workers in Johannesburg and Bloemfontein and pickets in Vereeniging, Klerksdorp, Rosslyn and Brits.

Trade unions representing close to two million workers and a national federation of civic bodies are girding their loins for battle on the issue.

A final decision about the next wave of mass action will be taken at the second VAT summit on Monday. But Cosatu, which leads an anti-VAT coalition of 93 civic, union and welfare bodies, has warned that a general strike and rent and tax boycotts could flow from it.

Included in this would be a boycott of PAYE, and labour has strongly hinted that it will put the squeeze on employers to halt PAYE deductions. Demands for a five percent increase to offset the anticipated inflationary effect of VAT are already feeding into pay negotiations.

In addition, the deadlock between anti-VAT campaigners and the state is likely to bedevil negotiations aimed at ending electricity boycotts and restructuring local government.

The VAT crisis escalated sharply this week when, at talks in Pretoria, Finance Minister Barred du Plessis rejected compromise demands by the Cosatu-led Co-ordinating Committee on VAT for a six-month delay in the levying of the new tax on basic foods, medicines, medical services, electricity and water. This would be to allow for further negotiations.

The current VAT system, which takes effect on September 30, exempts only brown bread, maize meal, bus and rail transport, rented accommodation and certain municipal services. A wide range of formerly GST-exempt foods and services will be taxable, raising fears of a rise in the cost of living of up to five percent for the very poor.

At the talks, Du Plessis offered subsidies to the tune of R50-million on foods consumed by the very poor, SADF assistance in running a poverty relief programme and additional powers for Vatwatch to monitor company costs.

Rejecting his counter-proposals, the committee said it would seek direct talks with President FW de Klerk and the South African Chamber of Business and Afrikaner Handelsinstituut, which it accused of giving "unconditional support" to the government.

Last Friday Cosatu, the National Council of Trade Unions and the Confederation of Metal and Building Unions, a key representative of white skilled labour, agreed to call for the postponement of VAT and negotiations on three key short-term demands.

These were the zero-rating of basic foods, medical services and prescribed medicines, water and electricity and trade union subscriptions, effective measures to control price abuse and a negotiated poverty relief programme.

They also urged talks on the entire tax system in the longer term.

Cosatu's campaigns co-ordinator, Lisa Seftel, believes the threat of a national strike is not an empty one, but admits that the success of such action will depend on massive mobilisation.

She said the campaign was likely to cover a

also planned for Poigietrusus in the Northern Transvaal.

The Cape Town-based Western Cape Action Group against VAT has gathered a large group of organisations under its banner and will, in the next two weeks conduct an intensive campaign against the tax, says publicity officer Rosie Campbell.

The African National Congress, Cosatu, Pan Africanist Congress, Azanian People's Organisation, Workers' Organisation for Socialist Action and a variety of community and service organisations sit on the Co-ordinating Committee on VAT.

The National Interim Civics Committee also said it would join the anti-VAT campaign. Its members were planning marches and would call for new rent boycotts as a measure if no significant gains are made on the VAT committee s.

At a press conference on Wednesday, the National Medical and Dental Association said its members might boycott the tax by not charging patients VAT.

A petition circulated by concerned sectors of the medical profession had collected 330 000 signatures protesting against the implementation of VAT on medical services, a spokesman said.

● More on the VAT controversy: Pages 14, 19.

Barend heads for VATerloo

320

trigger industrial conflict. The federation will hammer out a programme of action around VAT at a special central executive committee meeting next weekend.

Meanwhile, the blue chip Premier Group broke ranks with the mass of employers by throwing its weight behind the campaign for VAT's postponement.

Premier chairman Peter Wright made an "urgent appeal to government to reconsider the imposition of VAT when the country is on the threshold of negotiations for a new and democratic South Africa.

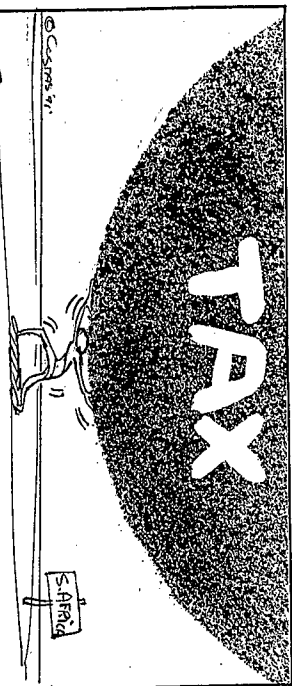
"This is a moment when further consultation is absolutely necessary, especially for the introduction of a new tax system which requires general support," Irving and Johnson has also made calls for further negotiations on VAT. In Durban, a coalition of organisations will hold a picket this weekend, while a march is

The government's determination to introduce Value-Added Tax in 10 days' time could lead to protests on the scale of those which greeted Margaret Thatcher's hated poll tax in Britain, reports **FERIAL HAFJAJEE**

range of issues, including calls for interim government and broader opposition to taxes under the banner of "no taxation without representation".

Seftel also pointed out that after Cosatu's July national congress and the call for no taxation without representation, workers had made demands that employers stop deducting PAYE. Tax specialist Chris Frame commented that employers were legally obliged to deduct PAYE. Demands for an end to the practice could

SA's tax burden: Enough already



HERE is little scope to increase taxes in South Africa, according to South African Fiscal Think Tank chairman Martinus van Blerck.

The reason, Van Blerck remarks in a paper on international tax trends delivered at a seminar this week, is that South Africa is effectively one of the most highly taxed nations in the world in all categories of tax, with the notable exception of social security taxes.

Van Blerck looks at both the overall tax burden and the distribution of tax in South Africa and abroad, using International Monetary Fund, SA Reserve Bank and Receiver of Revenue statistics.

The overall tax burden is measured by taking the amount of tax central government receives as a percentage of the measure of national activity, gross domestic product (GDP).

In South Africa, central government revenue as a percent of GDP was 24.6 percent in 1987 — up from 21.4 percent in 1975.

The corresponding average for industrialised countries in 1987 was 27.4 percent; the figure for developing countries in Africa was 21.6 percent.

South Africa is more of a developing than an industrialised country, though it is ahead of many other African states.

Even more extreme is the disparity between South Africa and the rest of the world in the areas of direct tax on income, profit and capital gains.

In South Africa in 1987 central government got 51.2 percent of its tax from this source. The average for the world was 37.2 percent.

Van Blerck comments that the high direct tax burden doesn't include a capital gains tax. So the imposition in South Africa of a capital gains tax will have to be accompanied by a substantial drop in income tax or the combined burden will be too great.

So what scope is there for raising taxes? Van Blerck argues this can only happen if there is

higher economic growth.

Turning to the distribution of tax, Van Blerck expands on the shift in the tax burden from companies to individuals.

This shift, he says, needs to be examined in context.

Firstly, part of the shift has resulted from external factors, namely the softening of a wide range of mineral prices since 1985 which has seen the profitability of the mining sector decline dramatically.

Secondly, despite the shift, the corporate tax burden in South Africa is, relative to the individual burden, still high by OECD standards. In 1987 in the OECD countries personal tax generated on average four times as much as corporate

tax, in South Africa in 1987 personal tax only generated about 50 percent more than corporate tax.

South Africa is most out of line with most other countries when it comes to social security taxes — basically a form of compulsory national insurance.

In South Africa social security tax means essentially the Unemployment Insurance Fund, and stood at two percent of central government revenue compared with the world total of 28.1 percent.

South Africa's social security tax figure is close to the average for developing countries in Africa, at 1.8 percent. But since it is better developed than most countries on the continent, it should arguably have a higher proportion of such tax.

Van Blerck also surveyed tax trends between 1980 and 1990 in 40 countries chosen at random. The average rate of corporate tax in those countries dropped from 45.80 percent in 1980 to 40.36 percent in 1990. Of those countries, 13 have dropped their rates by more than 10 percentage points and only three have raised their rates by five points or more.

The average rate of individual tax in the world dropped far more dramatically from 1980 to 1990, from 62.71 percent to 47.71 percent. Planned further reductions could push the average below 45 percent by 1992, says Van Blerck.

Fully 24 countries dropped their rates by more than 10 percentage points in this period, led by Tanzania with a stunning 55 point reduction. Only one country, Zimbabwe, raised individual tax rates, and this may soon be reversed.

A further statistic which indicates the extraordinary nature of individual tax reform is that 21 of the 40 countries surveyed imposed maximum tax rates of over 60 percent in 1980, but only four did do in 1990 and of these, one (Sweden) will shortly be reducing its rate to 50 percent (down from 86 percent in 1980).



TWO OPPOSING VIEWS ON WHETHER THE ANTI-VAT LOBBY HAS A FAIR CASE

VAT victory — But most tax-payers still can't vote. This headline, from the latest Labour Research Service publication, points nicely the underlying motive for the union-African National Congress opposition to Value-Added Tax.

It refers to the reduction of the VAT rate to 10 percent, and other concessions.

The "no taxation without representation" theme is a valid one, and a neat stick to chase the government further in the direction of an interim government. But it should be stripped out of the host of other real and imagined problems with and opposition to the implementation of VAT.

It is politically unfair to lump the perceived illegitimacy of the government with, say, the supposed unpreparedness of the business sector in handling

Unions seize on VAT as a blunt political weapon ...

Wed 20/9 - 26/9/91 (320)

VAT, or VAT's presumed discomfiting of the building industry.

The circus that the implementation of VAT has become is due in no small part to the union movement conflating a political issue with technical ones — as well as crisis management by the government.

Take, for instance, the leader of South Africa's largest union grouping in a television debate with Finance Minister Barend du Plessis simultaneously admitting VAT is in principle a good tax, and calling for its delay and a host of exceptions which will make it less efficient.

We're a week from VAT Day and the controversy still rages. We asked two writers to argue the case for and against, starting with VAT enthusiasts.

REG RUMNEY

The Congress of South African Trade Unions is in favour of extending the social services net, yet it promotes militant action against a tax which will raise desperately needed revenue to fund those services. All

this on the grounds of a lack of consultation, even though the Finance Ministry has agreed in negotiation with the Cosatu-led Co-ordinating Committee on VAT.

Just as amusing is Cosatu finding itself in bed with interest groups such as the Estate Agents Board and the dispensing doctors with whom it normally has next to nothing in common.

On the government side we have Du Plessis fiddling with VAT in a way which only gave the impression of weakness to friends and foe alike, and did not serve to stave off union resistance.

The danger behind the circus-like antics has been that a future tax would be irreparably damaged in pursuit of a political demand which could be attached to almost any except the most technical legal changes. This Du Plessis seems to have realised.

The stragglers of Cosatu's bedfellows goes beyond irony. For example, it now by implication subscribes to the zero-rating of all medical services — public and private.

Doctors in campaigning for zero-rating want a better deal under VAT than they had under GST: zero-rating means, for instance, that a radiologist can claim back all the tax he has paid on expensive medical equipment. Exemption would be the same as the GST system. Now, he charges no GST on his services but he still gets no tax back. And why should doctors get tax back, when others don't? Surely they should be pressed to pass on to patients those savings they will have then get even more?

Again, why should food producers be favoured by zero-rating when clothes producers are not? And so on.

But concede for a moment Cosatu has the right to lead the fray in the battle of specific interest groups to serve their own interests. What validity do Cosatu's general objections to the implementation of VAT on September 30 have?

The union movement has argued that the poor will suffer most from VAT. The argument is that the poor spend more on food than on anything else, and that the taxing of VAT will cause not only hardship but starvation.

The government has countered that tax relief for the poor is a clumsy instrument: the rich benefit as much if not more than the poor. Better than to give direct food aid in the form of handouts, say, than tax breaks.

To this Cosatu's Jay Naidoo has argued variously that the R220-million or so advanced so far for poor relief is not enough, and that the aid structures cannot disperse the money.

Those critically concerned should rather insist that aid be speeded up than VAT delayed. The Co-ordinating Committee on VAT need not have reversed subsidisation as an alternative. Crucially, the Cosatu-led grouping has argued that savings available to business under VAT will boost corporate profits rather than be passed on to the consumer.

Higher corporate profits mean more money is available for tax-payers. Another line of thought (not necessarily Cosatu's) is that VAT, as a broader indirect tax, forms part of a trend towards shifting tax from companies to individuals.

And herein lies an economic misunderstanding. The distinction between the tax business pays and the tax individuals pay is somewhat artificial.

What's good for business, in a competitive economy, is in global terms good for the individuals who work for businesses.

If you work for the government it doesn't matter who pays the tax, of course.

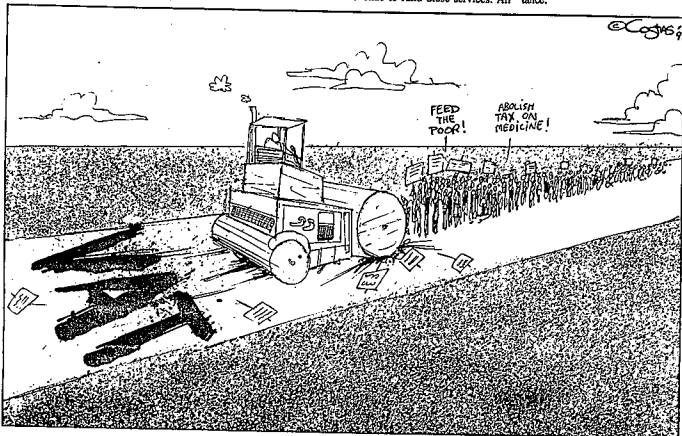
Many unionists are employed by the private sector, it is in their interest that business flourishes.

Where we should be concerned about the relationship between VAT and profitability is in its inflationary effect. Business profitability should not be at the expense of the country, in pushing up inflation.

And here Cosatu and those who have linked up with it to push their own interests have contributed to a self-defeating and self-fulfilling cynicism about VAT. The more people who believe the benefits of VAT won't be passed on, the more likely it is to happen.

This is sad and it serves the community at large. VAT could have galvanised consumers into actively protesting about price rises instead of passively accepting them.

That opportunity has been wasted, and instead a host of ad hoc exemptions have been made to VAT, which is supposed to work better because it doesn't allow exceptions.



It's the tax of the technocrats

NO one — not even the Congress of South African Trade Unions — denies that Value-Added Tax is a technically superior instrument to General Sales Tax, particularly at higher levels of taxation.

But South Africa's proposed VAT system appears to be the work of technocrats with little understanding of its broader economic and political ramifications.

In the short-term, it is widely accepted that VAT will be inflationary — particularly as it has now been coupled with a fuel price hike. The "working group" of government representatives and VAT critics is understood to have agreed that it will bring a three to four percent increase in the cost of living for low-income groups.

It is the poor who will be worst hit — those starting up to R16 000 a year shell out a third of their income on food. Most essential foodstuffs were GST-exempt and will now be taxed, as will medicines and medical services.

The government has effectively conceded this by pledging R220-million for poverty relief. This is almost certainly inadequate — Watson identified 16-million South Africans currently below the minimum living level, who would each receive R2.25 a month in relief — but the quantum is not the issue.

How will the "needs" be identified, and the money allocated? Through registered welfare organisations, says

Value-Added Tax may be a better taxation system but it is the poorest that will be hardest hit, responds

DREW FORREST

the government — but welfare bodies themselves say they will not cope. The government has also hinted it may use the discredited black local authorities, a political non-starter.

One study does indeed show that VAT's long-term impact on 63 percent of user countries has been non-inflationary. But these were mainly in a normal growth cycle, stresses Cosatu adviser Professor Dennis Davis, of the Centre for Applied Legal Studies at the University of the Witwatersrand.

In countries with major inflationary expectations, such as South Africa, the effect had largely been to fuel inflation.

What of the savings to manufacturing industry through the removal of indirect taxes on machinery — will these not be passed on to the consumer? In a recessionary environment they will almost certainly be used to buttress profits, the unions believe.

Significantly, two major food producers last week equivocated on the issue, one saying it would pass on lower costs "provided retailers and wholesalers do not increase their profit margins", the other stressing that input credits on machinery would offset only a fraction of its sales tax.

It is worth pointing out that many

countries have coupled the introduction of VAT with price freezes or price commissions. Our government has so much faith in the business community that it shrinks from statutory control. One may reasonably doubt another claim advanced for the swift introduction of VAT: that a delay will further impede "substantial" local and foreign investment. No hard evidence has been adduced for this, and many other factors — including business confidence and South Africa's political stability — clearly have a role.

Why do South Africa only one of three countries worldwide to levy VAT on medical services, the others being New Zealand and Morocco? The fact is that we have taken New Zealand as our model — a social democracy with a developed welfare safety net, developed welfare organisations and an advanced infrastructure.

It is suggested that the unions have no rational motive for opposing VAT, and are merely using it as a blunt weapon to assail the legitimacy of the National Party government. It is hard to believe that Operation Hunger and the National Council for the Aged, which also sit on the Cosatu-led Co-ordinating Committee on VAT, have this agenda. And insofar as the unions are genuinely concerned about the impact on the poor, the claim is false — but there is a kernel of truth to it.

Why should labour not demand a bilateral approach to taxation? The government's record is hardly inspiring

— Finance Minister Barend du Plessis' recent cut in the VAT rate had all the hallmarks of political panic. Public information has been scanty: the government has still not issued its interpretative manual on the tax, nor a single explanatory video. South Korea produced 80.

The fact is that through VAT, the government is embarking on a major restructuring of the economy, without negotiating with labour or what will soon be South Africa's dominant political force, the African National Congress.

Through input tax credits, it will take capital goods out of the tax system, handing manufacturers a R6-billion bonanza, while some R4-billion will be clawed back from the consumer through the broader-based VAT. In effect, manufacturers will be encouraged to mechanise — with the resultant impact on jobs — at the expense of the consumer.

Leaving aside the effect on government revenue — most other countries have phased in input tax credits — the measure is politically foolhardy. What if an ANC-led government merely scraps the new tax?

The unions have not rejected VAT as such. But because they fear it will further depress the needy, they want it postponed. If necessary subject to a time limit, or the zero-rating of essential foods and services.

In the longer term, they want the negotiation of the tax system as part of a comprehensive programme of economic reconstruction.

Two-tier VAT system is the answer

THE government should not have dropped the Value-Added Tax rate to 10 percent.

Instead it should raise the rate to 15 percent and tax a wide range of basic foodstuffs at a special lower rate of about 5 percent.

This is the simple solution, according to South African Fiscal Think Tank chairman Marius Van Blerck, to the VAT conundrum, since most opposition to VAT tends to focus on its effect on basic foodstuffs.

It is also the fairly widespread practice adopted in other countries.

"There is every likelihood that this system will generate VAT revenues at least 40 percent higher than our current system."

Van Blerck reckons that removing problems with VAT is essential for another important part of tax reform, reducing the corporate tax rate to 40 percent.

He notes the government has expressed it no doubt that it can continue the process of reducing the corporate tax rate from its present 48 percent, after cutting it from 50 percent earlier this year. Hence his solution. (320)

In accordant with worldwide trends, South Africa has seen a systematic removal of tax deductions in the last decade, resulting in an increase in the tax base.

"However, at the same time we have experienced an increase in corporate tax rates... This aberration could not have occurred at a worse time for South Africa, given the simultaneous sanctions campaign, the descent into inflation and the softening of a wide range of mineral prices, and it has undoubtedly contributed to the low rate of gross domestic fixed investment in the country since 1985."

Taxing question on capital gains

ONE of the thorniest questions often faced by investors concerns tax on profits made in the share market or from any other investment.

Judging from the amount of queries I receive in this regard, it seems that there is a lot of confusion surrounding the subject.

As a rule, there isn't any form of capital gains tax in South Africa, but I'm willing to bet my last Kruggerand that we will have some kind of capital gains tax within five years, covering everything from property deals to Kruggerands.

Currently, whether or not a capital gain attracts tax centres around the intention of the investor when the investment was originally made.

If they are made over a short period of time the Receiver could designate them as a "trading profit" which would make them taxable.

In a celebrated case in the Special Income Tax Court several years ago a private investor appealed against the decision of the Receiver to tax him on the profits made on the resale of his Kruggerands, bought some years previously.

He argued that his original intention when buying the Kruggerands was that they should be a long-term investment.

However, a deterioration of his health forced him to sell some of the coins to pay for his medical expenses. His argument was accepted.

Mining houses

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

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

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

The small investor, however, is going to find it extremely difficult to persuade the Receiver that a number of

Money Matters

MAGNUS HEYSTEK



over a short space of time will be anything but speculation. Under these circumstances it would be better to play fair and provide him with a full list of all share transactions and pay the tax required.

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

Tax-deductible

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

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

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

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

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

When it comes to fixed-income investments, the matter is clear-cut. Apart from the first R2 000 which is tax-free, all other interest income is fully taxable at marginal rates of tax.

And as we all know, fixed-interest investments don't

Complaints over VAT pouring in to Vatwatch

By PETER DENNEHY

HUNDREDS of consumers have been complaining to Vatwatch of businesses using the impending introduction of VAT to put up their prices and turn a quick profit.

Reports of "VAT abuse" from all over the country have been pouring into the Vatwatch office in Johannesburg, says the consumer-protection organisation.

Vatwatch said 624 calls had been received in two weeks, mostly from consumers upset over price increases "justified" by those who imposed them as being due to the imminent introduction of VAT.

Mr Pierre de la Rey, a spokesman for Vatwatch, said no prices were really going up yet as a result of VAT. After the end of this month, only items at present GST-exempt ought to rise in overall price, he said.

"If prices are going up now, it is incorrect to blame it on VAT," he said. "It may be due to the increase in the petrol price, or to price rises of other components, but not to VAT."

Prices of most goods ought to fall from the end of this month, and not just by the difference between GST at 13% and VAT at 10%, he said.

Savings

"Businesses pay GST on their advertising bills, their delivery trucks or bikes, and their workers' overalls and cleaning materials, for example," he said. "These fall away with VAT, so businesses ought to save on many costs."

He said businesses were entitled to put stickers indicating what their VAT prices would be on goods already, but unfortunately some cases had been reported of checkout counter workers erring by taking these as the prices before GST, and then adding GST on to them.

Among the complaints that have come in to Vatwatch are the following:

- Items in some "major supermarket chains" had risen 20% to 34%;
- Some breakfast cereals were up by 27%, soft drinks by 19% and washing powders by 57%;
- Municipal fees complained about on the Reef rose by 22% on average, holiday accommodation by 33% and pharmaceutical products by 41%;
- One Reef municipality increased electricity and water fees by 57% in July and a spokesman attributed this to VAT;
- A butcher said he was charging VAT already "to let people get used to the idea and alleviate the shock of September 30";
- A short-term insurance company announced that premiums would increase by 44% next month "due to VAT".

JOHANNESBURG. — Six percent is the maximum rate acceptable for Value Added Tax in view of the new taxation system's broad base, says the Housewives' League of SA.

The League's president, Mrs Lynn Morris, said this to the Minister of Finance, Mr Barond du Plessis, at a recent meeting.

Mrs Morris also expressed concern at the meeting that the loss of GST exemptions on basic foods would cause tremendous hardship for many.

"On tax of 10%, the additional expenses for a family on food, toiletries and cleaning materials would be R30 to R80, depending on the kinds of food bought," she said.

The announcement that certain basic foods would be subsidised was welcomed, "but we need to know how the scheme will operate and what the safeguards will be".

"We also welcomed the exemption of state hospitals, but feel that those forced to use

10% tax 'will cause hardship' for many'

private hospitals and clinics will see little benefit."

The League further called for a tax exemption on prescription drugs, and if they could not be zero-rated, said life-supporting drugs should.

Consumers should in any case look forward to a three percent reduction in medicines when the 10% VAT rate was implemented in place of the 13% rate of GST. — Sapa

NEW TAX PROMISES TO PUSH MORE SOUTH AFRICANS INTO UNEMPLOYMENT

VAT BLOW TO JOBS

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MAY 21/1991

Bond rate up — blame it on VAT

**Weekend Angus
Correspondent**

LEADING commercial banks and building societies have announced increases in bond and prime rates of 0.25 percentage points to coincide with the introduction of VAT.

And the institutions indicated they were considering lower interest rates on savings. The banks' move came as embattled bond buyers and businesses were pinning their hopes on a cut of about one percent in interest rates by year-end.

However, a cut in rates has become more unlikely with VAT set to lift consumer prices — because higher interest rates are essential to control inflation.

The latest increase pushes up bond repayments by R144 million a month, according to an estimate by RMB's chief economist, Mr. J. J. van der Merwe.

TOM HOOD

Weekend Angus Reporter

VALUE Added Tax — to be enforced in two weeks — threatens to push as many as a million more people into unemployment in the next 12 months.

And it is predicted that hundreds of small businesses face hard times. School leavers and returning exiles will fail to find jobs as a result of the new tax system.

This bombshell forecast was dropped last night by Mr. Theo Rudman, director of the Cape-based Self-Employment Institute and an expert on the effects of VAT.

He said that accounting firms had reported this week that hundreds of small businesses have failed to register for VAT because their turnover is below the required minimum of R150 000 a year.

Some applied to be registered, however, but could not afford the R2000 a year, and they had to collect input credits if they were registered as vendors.

Mr. Rudman, an authority on training for small businesses, said a number of big companies were taking a tough stance with small suppliers and sub-contractors who had not registered.

A big mining company, for example, sent a letter to suppliers saying they were required to be registered as vendors for VAT, because the company would not deal with the unregistered.

One reason for this, he said, was because the companies would need two systems for these suppliers — one for those who could not claim input credits.



**TWEDE
NUWE
JAI
SAY**

READERS

DON'T mess with on Tweede Nuwejaai. Angus readers have voted in an overwhelming show of approval to retain the Cape's traditional but evidently doomed post-New Year holiday.

The 140-year-old tradition of Tweede Nuwejaai is set to end from next year terms of the Business Act of 1991.

Out of 289 calls who responded to the invitation to cast their votes for or against, a mere seven were in favour of scrapping the holiday. Some cited that

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A big mining company, for example, sent a letter to suppliers saying they were required to be registered as vendors for VAT, because the company would not deal with the unregistered.

The reason was because the companies would need two systems — for those who could and those who could not claim input credits.

"The prices of their goods will go up if they cannot claim inputs from people who are unregistered," said Mr Rudman.

"Clearly, if they have not registered, small firms may be discriminated against from a policy of not buying from a business with turnover of less than R150 000."

In reality, big business should be supportive of small firms by paying them more quickly than usual. In practice, some major companies delayed payments in the knowledge the small fry could not afford to sue for payment.

If the small firms lost orders, some would go out of business and others would have to retrench staff.

If only 20 percent of the people employed in small businesses were retrenched as a result, that could amount to 650 000 in the next 12 months.

"We can expect to have 350 000 school leavers at the year-end. Only 40 percent obtained jobs last year and this year only 20 percent might find employment."

The number of returning exiles could be as many as 80 000 and they would be in the same position as retrenched people; they had played a part in the liberation struggle and expected to obtain work.

"Big companies should be doing all it can to support small business. They will be in trouble if there is another million unemployed in the next 12 months."

● About 20 000 jobs in the clothing industry — most of them in the Western Cape — are at risk and many small firms could be put out of business by new tariff proposals, says Mr Aaron Searl, president-elect of the National Clothing Federation.

Higher tariffs would push up the price of imported clothes, yarns and fabrics.

The duties will add about 30 percent to shop prices and send South African clothing beyond the reach of the average consumer, according to federation calculations.

COME
French sk
image of
new R15-

Man dec

JOHAN SCHRÖN
Weekend Argus Rep

THREE people died and seriously injured in two crashes on the West Coast Bloubergstrand.

A man was decapitate other occupants of a car the vehicle collided head diesel tanker at 2 am on 5

Two passengers in the also seriously injured.

A Parow man was tra car after hitting a bakk near Eerste Steen, Bloube

The driver of the bakk broken leg and other inju

Vatwatch offices frantic as callers clamour for help

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1991/21/24

PAULA FRAY

Weekend Argus
Correspondent

JOHANNESBURG. — Files arranged in a neat row on the floor and phones ringing non-stop mark the "frantic" atmosphere of the Vatwatch offices.

More than 300 callers have asked the watchdog body for help each week since it was launched in July.

From September 4 to 11, there were 264 responses to Vatwatch — 69 requests for information and 203 complaints.

In the two weeks before, Vatwatch received 624 reports from consumers — most of whom were alarmed at unusual price increases they blamed on the imminent introduction of value added tax. Of these, 266 were for more information on VAT. Several of these requests were from businesses.

In a normal working day more than 60 calls are recorded — callers who can be helped on the spot often are not detailed for follow-up.

The International Executive Service Corps has undertaken to investigate each problem without charge. Members of the Vatwatch committee and chairman Professor Louise Tager also deal with complaints while a retired executive works part-time with them.

Until now, conditions have been basic. Filing waited on the floor — a filing cabinet was brought in during our visit. Furniture was waiting to be placed in the spartan offices.

More phones and more manpower was needed, said a worker.

Professor Tager said the budget for the organisation

was small in the beginning, although the advertising budget was more substantial.

This week, Finance Minister Mr Barend du Plessis offered Vatwatch more funds.

Professor Tager said more help was needed. The organisation's manpower had increased since its launch and more people, particularly professionals, were going to be hired.

"We need more help in running the office, otherwise we can't reach the consumer and the consumer can't reach us," said Professor Tager.

The organisation started out with two workers in July — this has increased to five.

Calls began immediately after Vatwatch moved into the Parktown premises, even although Vatwatch has a toll-free number in Pretoria. They range from simple queries to complaints needing serious investigation. Callers range from business people to pensioners — all needing help.

There are lighter moments. A schoolgirl recently called "Fatwatch" to ask which slimming method the organisation used — her mind obviously on weightier matters than VAT.

However, consumers have reported several incidents of shopkeepers already charging VAT — as early as August — and of charging GST and VAT simultaneously.

In one instance, a butcher explained he had begun charging VAT "to let people get used to the idea and alleviate the shock of September 30".

In another case, a dentist was reported as having charged a R100 "VAT deposit".

Rail, post tariffs should now cost businesses less

The Argus Correspondent

DURBAN. — Rail, harbour and fuel pipeline rates and post and telecommunications tariffs will cost businesses less under VAT — and not more as had been announced in the past two days.

Business consultant Mr Kevin Fagan said the two organisations had done a disservice to the economy by failing to fully explain the effect of VAT on their charges — that of a cost reduction to business.

Transnet has announced that rail freight rates would rise 8,9 percent from September 30, harbour charges 8,8 percent and Petronet's fuel pipeline service by 9,7 percent.

Postmaster-General Johan de Villiers said post and telecommunications tariffs would rise by 8,7 percent on average from the end of the month.

Mr Fagan calculated that the cost to business organisa-

tions — which comprised the bulk of Transnet's customers — should, in fact, come down between 0,9 percent and 1,7 percent under VAT.

"What has happened is that these organisations — and indeed a great many businesses — are looking at VAT as a cost issue, which it is not.

"When looking at business pricing and profitability, one must forget that VAT exists — it simply confuses the issue.

"Organisations registered as vendors under VAT will recover all the VAT they pay from the tax system. They do not need to raise prices to recover it from their customers."

Businesses which raised their prices in the belief that

VAT would cost them more, said Mr Fagan, might find their returns given an initial boost when they combined wider profit margins with VAT refunds from the Receiver.

But they would soon lose market share to those companies which understood the new tax and passed on the benefits to customers.

"This is a price sensitive economy in the business-to-business environment. If one business puts their prices up while a competitor puts his down, it's not hard to see who is going to corner the market.

"This is the concept that (Minister of Finance) Barend du Plessis has been trying to explain but no one believes him."



House prices set to rise 6% because of VAT

AR 21/9/91



JEREMY REES

Weekend Argus Correspondent

TAXATION and inflation in South Africa are throttling investors and the noose will tighten even more with the introduction of Value Added Tax (VAT) on September 30.

But these factors make property investments that much more viable.

Experts agree the South African property market is grossly undervalued in world terms even in cases where prices have risen dramatically in the past year or two.

The residential property market has unique opportunities with the prospect of the redistribution of wealth in the new South Africa and the inevitability that large numbers of presently poorer people will soon be able to enter the housing market at some level.

A pressing demand for residential property in former white areas is likely to be unleashed as blacks are promoted to senior posts in the government and private sectors and be-

come eligible for subsidised loans.

This will take time, but meanwhile property prices will be pushed up from the lowest price ranges as the demand grows.

The negative factors of the current violence and crime in the country and the uncertain political future are unlikely to affect property values in the long term.

The potential of residential property is reflected in the current sectional title property market in Cape Town, Durban and Johannesburg where flats are being snapped up as fast as they are put on the market.

As far as houses are concerned, one problem is affordability as the average cost of a house in the former white areas is assessed by United at about R125 000.

And a Cape Town builder estimates that the cost of building materials is rising by 1.5 percent each month — which is adding to the cost of new homes. When VAT takes full effect the cost of new homes is estimated to rise by at least six percent.



Dangerous to generalise with this VAT ⁽³²⁰⁾

ARG 21/9/91

John Abrahams of Grassy Park asks whether VAT is payable on a club subscription which falls due and is paid before September 30

It depends on the nature of the club. If the subscriptions are not currently subject to sales tax (this is for most clubs and similar associations) then there is NO VAT due even though the subscription period runs into next year. At least, that is the correct answer for somebody who is already a member and simply renewing his subscription. Not completely clear from the legislation, if we are dealing with a new member's first subscription, the Revenue department argues that VAT must be charged on a proportionate part of the subscription which relates to the post-September 30 period — this is because the normal exemption only applies where the person paying is doing so "customarily and regularly in advance". If he has only just joined the club, it cannot yet be regular!

Where the subscriptions are already subject to sales tax (as in the case of gyms) and are payable in advance, sales tax at 13 percent applies and there is no adjustment for the post-VAT period.

A similar rule applies to subscriptions for magazines and similar contracts with South African suppliers. One of the difficulties with this is that where a GST-able prepayment has been made, the publisher of, say, journals who prints them after September 30 in order to deliver under the subscription is not entitled to claim input tax credit on the printing costs related to those subscriptions (even though under the sales tax system he would have been entitled to an exemption on his inputs).

It seems that this result cannot have been intended but there is as yet, no indication from the Revenue department that the law will be rectified in time. As a general comment, the rules governing the VAT and GST treatment of transactions which take place on both sides of September 1991, are very complicated and it is dangerous to generalise. It is even more dangerous to take rules applying to one situation and to transplant them onto another. Small differences in the facts can lead to significant technical differences and tax effects and advice should always be taken.

A topic which has created some interest is the sale of an enterprise on a going concern — what are the VAT implementations?

Where an enterprise or any part "capable of separate operation" is sold as a going concern to a VAT registered purchaser the purchase price is zero rated. Unlike the position under GST there is no requirement that all the assets be transferred although logically it would usually be the case. What is of greater concern is whether the purchaser must continue the business in exactly the same manner in order for the zero rating to apply. Under GST this was not necessary in practice but the better view, supported by UK case law on their equivalent VAT Act, indicates that the purchaser must literally step into the seller's shoes. So in the UK if a jobbing printer sells his business, machinery, staff etc to an organisation that simply uses the operation for its in-house printing needs, this would not be a zero rated sale and would be subject to VAT at 10 percent. It would also be subject to VAT credit in the hands of the purchaser but Revenue would have the benefit of the cash flow in its coffers.

Govt shrugs off VAT-haters

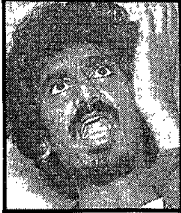
2/9/91
MAGNUS HEYSTEK

VAT goes ahead!

This was the message from reliable government sources yesterday as the public opposition to the introduction of VAT reached fever pitch.

Earlier this week on Radio 702 Jay Naidoo, general secretary of the Congress of South African Trade Unions (Cosatu), threatened country-wide strikes should the Government go-ahead with the introduction of VAT.

"The Government is mad if it goes ahead with VAT in the face of countrywide opposition. The country will be paralysed if it (the Government) does not adhere to the



JAY NAIDOO: Threatened strikes.

pleas to postpone VAT."

And the announcement yesterday by the banks that overdraft rates are to rise by 0,25 percent while deposit rates are to drop, will further serve to fuel the flames of public resentment.

The turnover tax, while strictly speaking not VAT, will, however, be

320
seen by the general public as a consequence of the introduction of VAT.

The decision by the banks to increase overdraft and mortgage rates is an effort by the banks to recoup an estimated R220 million that a turnover tax of 0,75 percent will collectively cost them.

The Co-ordinating Committee on VAT, a loosely-knit grouping of 92 organisations opposed to VAT, will be meeting again on Monday to discuss further steps after the Minister of Finance Barend du Plessis rejected proposals this week that the implementation of VAT be postponed.

The ANC yesterday said, although it accepted

the need for a consumption tax such as VAT, it called into question the timing of the introduction of the tax.

"VAT, as proposed, puts the burden of kick-starting the economy on the poor, the very people who have not benefited from the South African economy in the past," said secretary-general of the ANC Cyril Ramaphosa.

The SA Chamber of Business (Sacob) earlier this week urged the Department of Finance not to delay the implementation of VAT, saying that such a decision would exacerbate the current economic recession and delay the economic upswing.

Bond bombsh^{ell} for homeowners^{rs}

clp 22/9/91.

By DERRICK LUTHAYI and Sapa

AT a time when homeowners were expecting a drop in bond interest rates, South Africa's major financial houses have increased them – and, they say, VAT is to blame.

Shell-shocked consumers, already reeling from escalating living costs, and unscrupulous traders and professionals who have started exploiting VAT, now face higher bond repayments.

Vatwatch chairman Prof Louise Tager said consumers' inadequate knowledge of VAT and attempts to use it as a reason to increase prices were causes for concern. Vatwatch was following up all suspected cases of unjustifiable VAT-related price increases.

In one case, a butcher had begun charging VAT claiming he was letting people get used to the idea and was therefore alleviating the shock of its introduction on September 30.

Many other financial institutions are sitting on the sidelines before taking their decisions on what they will do with their prime and bond rates.

First National Bank said on Friday its rates would be increased by 0,25 percent as a result of the introduction of VAT-induced taxes and the newly formed Aamalgamated Banks of South Africa (Absa) also said it would be pushing its rates up by a similar percentage.

'Shrapnel' from VAT already taking its toll

FNB said the increase was as a result of the new tax to be levied on banks and other financial institutions in lieu of VAT.

FNB's senior general manager and chief financial officer, Viv Bartlett, said on Friday the move was a result of a squeeze on margins and the bank was forced to take steps to recover costs.

He said the prime lending rate would also be increased by 0,25 percent from October 1.

"In doing so we are mindful of further pressure on business and household incomes in the current economic circumstances. We stress, however, that this increase is well below the necessary level to ensure full recovery of this new tax.

"We regret that these steps have become necessary and trust they will be seen in the context of the direct impact of the introduction of VAT.

Absa said it had been decided to increase the prime lending rate of banks within the group by 0,25 percent across the board from the beginning of October.

In addition, interest rates on mortgage bonds would go up by 0,25 percent for Allied and United bonds at the beginning of November, and for Volkskas at the beginning of October.

Absa said: "These increases will only provide for a partial recovery and it will be necessary to recoup some of the cost through a reduction in the cost of funds and other measures."

Other major institutions did not react on Friday, but it was said most would probably follow the same path.

The bond market is intensively competitive and this could play a major role in the setting of rates in coming months.

Terrible

Meanwhile, the Consumer Council has reacted strongly to the upward rise in rates. Spokeswoman Ina Wilken said the consumer would be hard hit by the increase in both the prime lending rate and interest on home loans.

"I think it's a terrible decision. The Consumer Council requests all financial institutions to carefully take into consideration the plight of the consumer before following the example of First National Bank."

Meanwhile, Rand Merchant Bank economist Rudolph Gouws says a widespread tax revolt will have serious consequences for the South African economy.

Gouws was reacting to the statement by the Coordinating Committee on VAT (Cocom) that the implementation of VAT could lead to mass civil disobedience which could include resistance to all taxes.

"Of course one would need more details before a proper comment could be made, but depending on the percentage of taxpayers involved, such an exercise would have a severe impact on State finances if a large number participated."

Cocom had also warned that a number of medical practitioners – members of the National Medical and Dental Association (Namda) – would also refuse to pay VAT to the government.

Commenting on this, the director of Health Policy of the Medical Association of South Africa, Reg Magennis, said Masa did not encourage its members to defy the Income Tax Act.

"However, we do have great sympathy with Namda's viewpoint on VAT charged on medical services."

VAT in its present form will cost thousands of jobs in small businesses.

This is the view of the National Industrial Chamber (NIC), which represents emerging small manufacturers and service businesses.

It has joined the Cosatu-initiated Co-ordinating Committee on Vat to bring the effects of Vat on small business to the Cabinet's attention.

NIC executive member Ian Hetherington says: "A cost-benefit study in the UK showed that proportionally, it cost small businesses up to 30 times more than larger enterprise to comply with Vat. No similar study has been done here."

Complex

Mr Hetherington lists the main disadvantages of Vat:

- The Act is complex and difficult to understand.
- Penalties for non-compliance are draconian and could close some businesses.
- The threshold level for Vat registration is too low. Small enterprise have to register if their sales exceed R3 000 a week. Many hawkers, spaza owners, builders, taverners and backyard manufacturers will be hurt.
- Corporate customers cannot reclaim Vat on supplies from non-registered entrepreneurs although these businesses pay Vat on inputs.

Vat threatens jobs in small businesses

Several corporations say they will deal only with registered vendors. This is a blow to the sub-contracting bridge being built between big and small business.

● The UK cost-benefit study showed it could cost the Government up to 90p in the pound to collect Vat from small businesses. No estimates have been disclosed for SA.

Mr Hetherington proposes these solutions:

- Raise the annual turnover threshold for Vat registration from R150 000 to R500 000 a year.
- Compensate small business for compliance costs by a monthly cash rebate against verifiable claims on a sliding scale for owner-managed businesses only so that it falls away altogether

for those with taxable supplies of more than R5-million;
● Soften penalties for non-compliance.

He also proposes that goods and services bought by Vat-registered businesses from non-registered small ones (which do not levy Vat) should be deemed Vat deductible by the Receiver of Revenue.



KEN OWEN

ON SUNDAY

includes representatives of the ANC and Inkatha, and which has the power to co-opt other signatories of the peace accord.

The peace committee, in turn, nominates four of the five members of the national peace secretariat — the fifth member is drawn from the Department of Justice — and the secretariat takes decisions by consensus. "The State" is expected to provide the resources to enable the secretariat to function as an instrument of dispute resolution.

Similarly, the peace committee puts forward a list of nominees for the peace commission which must inquire into the causes of violence and it must establish sub-committees to deal with socio-economic reconstruction and development.

The political effects of this structure are two-fold.

On the one hand, members of the ANC and Inkatha have been put into a position to inquire into, if not directly supervise, the actions of the SADF and the SAP, and to do so while on the payroll of the state. On the other hand, the National Party has drawn both organisations into co-responsibility, not only for the control of violence, but for socio-economic reconstruction.

No sensible person expects the peace accord to bring violence to a

THE signing of the National Peace Accord has cleared the way for a multi-party conference to begin before the end of the year — late October or early November, I would guess — but it won't be smooth sailing.

First must come a test of strength, masquerading as a popular revolt over the introduction of value-added tax (VAT) at the end of this month. Essentially, the campaign against VAT is a trial run for a new set of political tactics: armed struggle has run its course; now comes mass mobilisation.

Those nice people who can't tell a peace accord from a love letter may be deeply distressed by the turmoil, and some may even think the accord itself has failed. The opposite is true: turmoil is a sign of success. The accord has shifted the struggle from the military arena to the political, and to that extent it represents a normalisation of South African society.

But *a latta continua*. Peace, if you like, is war by other means.

To understand the new phase of the struggle it is useful to look closely at some of the provisions of the peace accord that have but little public airing in particular the enforcement mechanisms. The central mechanism is the national peace committee that

sudden talk. There are simply too many weapons in the townships, many of them AK-47 assault rifles smuggled into the country often as a form of capital by refugees from Mozambique. The townships are too turbulent, and the 'lost generation' is too wild.

Simultaneously, sanctions are falling away, and the ANC needs to develop new tactics. Having gained a foothold in the joint administration of the country through the peace accord, the ANC's immediate aim must be to widen its role. Land allocations, educational reconstruction, housing, health, employment, and the general allocation of resources all become parts of the same battlefield.

However, in the view of the ANC, the government will not yield control

unless it comes under pressure. Bereft of both armed struggle and sanctions, the ANC has only one arrow left in its quiver: mass action, led by the trade unions, to bring the people into the streets, and to cripple the economy.

VAT thanks to the efforts of white middle class shoppers and petty vested interests, offers the perfect pretext. All taxes are unpopular, but VAT is particularly unpopular because it strikes at a black population that by and large, has come to believe that the whites, represented by the government, owe it reparations.

Actually, VAT is a good tax, likely (after a burst of opportunistic price increases) to prove less inflationary than GST, and likely to promote

economic development and job creation. But this is not easy to explain, especially not to illiterates, and anyway, black people don't see why they should pay any tax at all until they can vote.

The campaign is being conducted, as it was bound to be, in terms of the hardship which a tax on food and medicine will inflict on the poor. There is some truth in the assertions of hardship, of course, but in political terms that is irrelevant: the hardship of a general strike will be infinitely greater, and nobody bothers about that.

There is another point. For the ANC, a campaign against VAT holds a promise of drawing new classes of whites — poor, conservative, and non-political, rather than the usual human rights lobbies and politicised church groups — into a battle against the government. That would fulfil a principal strategic aim of widening its support base.

The stakes are high, very high. If the government can be forced to negotiate on taxes, as sportsmen must negotiate on tours and artists on concerts, the ANC will have established itself as an indispensable partner in the administration of the country. The effects of the peace accord would be extended to all areas of government, and magni-

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fied immeasurably. In effect, there might emerge something in the nature of an interim government, no matter what the National Party thinks of that idea.

However, the showdown comes at the worst possible time for the trade unions. With an army of unemployed standing on the sidelines, with retrenchments on every side and with recession at its worst, it is a brave working man who abandons his job to demonstrate in the streets.

THE mood among businessmen, many now fighting for mere survival, is tough, and the unions have not been notably successful in their wage negotiations this year. Besides, the political strains within the union movement, which were smothered during the days of revolutionary fervour, are coming to the surface, and the best union leaders are wholly occupied by national politics.

So brace yourself for a showdown. Neither tax revolt nor general strike is a gentle business, but the showdown had to come, sooner or later. It's just as well it comes so soon after the peace agreement, while enthusiasm for peace is still high. That enthusiasm, too, is about to be tested.

By TERRY BETTY

THERE seems to be a leak at an office of the Receiver of Revenue. (320)

Libor Corporate Services, a finance company in Bellville, appears to be privy to confidential details concerning loan levies — information only the Receiver and taxpayers' auditors normally have in the case of private companies and close corporations (CCs).

Libor has approached various businesses with full knowledge of the amounts of their loan levies and offered to buy them.

The members of a CC approached by Libor have shown Business Times a circular containing details of its levy. They cannot understand how it could have obtained this information as their CC is not a trading entity.

S/Times (Bum)
Concern

Inland Revenue director, legal drafting, Ian Meiklejohn says the information must have been leaked by an Inland Revenue employee. There is no legal means of acquiring it. 22/9/91

Libor joint managing director Willem van Oudtshoorn denies he received information from the Receiver's office. But he is unwilling to disclose his sources, merely saying he knows people in many places.

A member of the CC who spoke to Business Times says this is cause for concern be-

Leak at Receiver's office feared

cause other confidential information could be getting into the wrong hands.

Mr Van Oudtshoorn says Libor has been in touch with many businesses issued with loan levy certificates in 1988-89. The Receiver pays 15% interest biannually on such loans and will repay the capital amount on July 31, 1994.

Mr Van Oudtshoorn says he buys the loan levies at a yield ranging from 17% to 19.5%, depending on the size of the levy. He passes them to large institutions in lump sums at the market-related rate of 17%.

Such trade in loan levy certificates, which have many features in common with gilts, is legal.

Mr Van Oudtshoorn says his company has been dealing in levies for the past two years. His purchases in the last month alone amounted to R2.5-million. With an average two-point spread, this would yield a handsome profit.

VAT and YOUR BUSINESS

MANY small businesses are still confused about Vat. This article wraps up the fundamentals of the tax.

It 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 addi-

tional 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 16600, Hillbrow 2035.

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.

Nutshell review with a week to go

S Times (Sun) 22/9/91 320

ONLY a week is left to Vat Day. But many small businessmen are unaware of Vat's workings and the implications of Vat. Here is a round-up of some fundamentals.

Only a registered vendor can charge Vat on his outputs and claim refunds on his inputs. The non-registered vendor will have to pay Vat on his inputs and absorb it. He cannot charge Vat.

In this case the Vat paid will be allowed as an income-tax deduction if included as an overhead expense, or in the depreciation of a capital asset on which Vat was paid.

An enterprise with a turnover greater than R150 000 a year is compelled to register as a vendor. Voluntary registration is allowed if turnover is below that figure.

The vendor has to pay Vat to the Receiver 25 days after the reporting period. This will ease the cash flow of the business as it can use Revenue's money for this time.

Liability for Vat is the earlier of the date of invoice, delivery or any payment made on account.

A supplier must give a customer a tax invoice within 21 days of being asked to do so. It must include the vendor's registration number and the amount of Vat charged if it is not shown separately on the invoice.

Most vendors will be registered in category A or B, which means their annual turnover is below R30-million a year. They have to submit returns together with

their remittances every second month, category A being every odd month and B every even month.

Category C is for businesses whose turnover exceeds R30-million a year and requires monthly returns and Vat remittances. But where a vendor's annual turnover is below this he may apply for monthly registration.

This would be advisable where the vendor's input tax payments exceed the output tax receipts, such as an exporter whose supplies are zero rated.

Category D applies to farmers whose taxable supplies are not expected to exceed R1-million a year. Here the tax periods are every six months on the last day of February and August.

Sensitive

It is advisable for the businessman with turnover below R150 000 a year to register as a vendor if his customer base is primarily the business sector. This will make him more competitive because his customers can claim input credits. It also standardises customers' documentation procedures.

On the other hand, if customers are mostly consumers and the product is not price sensitive, the small business could get a marketing edge by advertising that it is Vat exempt.

Concession

But this could backfire when the businessman realises his turnover may exceed R150 000 and he has to register.

Small businesses have complained about the administrative hassle of keeping extra records and documents. There is also a negative cash flow when the business has to pay output tax to the Receiver before his debtors have paid him.

A concession for small businesses is that they may register on a cash basis if their turnover is less than R1-million a year. This means the vendor will have to pay the Receiver only Vat he has actually collected from customers. But it also means the vendor can claim from the Receiver only the Vat he has actually paid.

Barend adds VAT to fire

22/9/91
320
NOWHERE in the world has the introduction of a widely-based tax such as VAT gone smoothly. South Africa is no exception.

What is extremely irritating is that the government seems to be jumping around like a cat on a hot tin roof. Cosatu and others had hardly announced their opposition to the introduction of the new tax when the rate was cut by two percent to 10 percent. Certain new exemptions were introduced as well.

To the business world the reduction of two percent at this late stage was a costly irritation, because new and unfamiliar systems had to be changed. One large chain store group calculated the total cost of re-labelling every item in their hundreds of large stores at around R4-million.

Who will pay this extra amount? It will be John Citizen,

■ MONEY TALK ■

as the store group will obviously add a few cents to many items to recoup this loss. That is the way businessmen operate all over the world and no amount of appeals and threats by politicians will make them change their ways.

Last week further concessions were announced by the Finance Minister, which did not impress anyone.

This last-minute chopping and changing is creating an atmosphere of uncertainty and annoyance. The government should have made the lot of the poor easier right at the start.

On the other hand, one is not impressed by the actions of those opposed to VAT. They have only

now jumped on an issue that has been in the news for a long time.

The fact is the existing GST system has become totally inadequate. VAT is bringing a lot of unpleasantness in its wake, but promises to help get export performance out of the doldrums.

More important is the hope it will generate sufficient funds to tackle the country's huge socio-economic problems.

Those leaders threatening to exhort their followers to refuse to pay taxes in future should consider their actions carefully. They might be joined by the entire population, because all South Africans are sick and tired of paying sky-high taxes.

If a climate is created which ruins the tax system – as happened in a number of African countries – a new non-racial government will face a crisis.

By CHARLENE SMITH

UNIONS, united for the first time across race barriers, meet tomorrow to discuss a possible general strike against VAT.

The coalition, which includes white unions, will meet in Johannesburg to discuss strategies in anticipation of an expected meeting with businessmen and President FW de Klerk on VAT.

Unionists have warned they will bring as many as two million workers out on a three-day general strike if the government does not bow to their demands.

The unions want zero-rating for foodstuffs, a poverty relief programme, VAT exemption for medical services and prescribed medicines and a "representative tax advisory committee".

Mr De Klerk has acknowledged receiving a

Whites and blacks unite in massive anti-tax campaign

STimes 22/9/91 (320)

letter from the Co-ordinating Committee on VAT, which includes the unions, but has not made a commitment to meet with them yet.

The unions meeting tomorrow include Cosatu, Nactu, the Confederation of Metal and Building Unions (a white confederation) and 15 other independent unions.

A number of public sector unions will attend, including the Institute of Public Servants, the Public Servants' League and the Natal Provincial Administration Personnel Association.

A provisional date for a

proposed general strike could be set either at the meeting or late next week-end after central executive committees of the various trade union groupings have met.

Tomorrow's meeting will be followed later in the day by a mini-summit of the Co-ordinating Committee's 92 members, which include World Vision, Operation Hunger, trade unions, community groups, political organisations and Johannesburg Child Welfare.

A further meeting is planned for later in the week with the SA Employers Consultative Commit-

tee on Labour Affairs which represents the 60 major employers in the country. The SA Chamber of Business will not comment on union threats of a general strike prior to this meeting.

Mr Mahlomola Skhosana, first assistant general secretary of Nactu, said there was a lot of anger and frustration at "this regime taxing people who have not voted it into office. But the issue affects more than just the unions, it affects civic associations, too".

Mr Skhosana said the R100-million townships owe in rates was unlikely to be paid once consumers realised they would also be taxed on electricity and water consumption. "How do the authorities hope to get that money now?"

Support

Miss Lisa Seftel, Cosatu national campaigns coordinator said she believed the Government had under-estimated public anger over VAT.

"Our phones haven't stopped ringing with calls from consumers — and increasingly businessmen — who support us," she said.

ANC secretary-general Cyril Ramaphosa said the ANC was concerned that negotiations between the Finance Ministry and consumer and union groups had broken down.

He said although the ANC accepted "the need for a consumption tax such as VAT, it calls into question the timing of its introduction".

Unions in VAT strike

talks

17 companies will pass on VAT savings

320
CT 23/9/91

Own Correspondent

JOHANNESBURG. — Major retail chains and manufacturers yesterday pledged to pass on to customers any cost benefits derived from VAT.

They also promised that their pricing policies would fairly reflect these benefits.

In a separate statement, Woolworths announced that it would subsidise until October 13 the prices of basic foodstuffs previously exempt from GST.

Woolworths financial director Mr Ray Schur said more than 200 basic food items that were free of GST would be subsidised by Woolworths, effectively keeping the prices at pre-VAT levels.

The pledge by 17 companies — which included Pick 'n Pay, Checkers, Spar, Metro, Score, Game, Fedfood, Premier Food Industries and Unilever — arose from a meeting called

last week by Vatwatch.

Major companies were called on to adopt the pledge, which urged suppliers to pass on any cost benefits and retailers to pass these on to customers.

Vatwatch's Professor Louise Tager said the pledge was a message aimed at both consumers and business to make them aware of VAT savings.

"I am very concerned that the full implications of the system have not connected in the minds of the entire business section," she said.

She said that because of the savings businesses would enjoy, prices should not increase at all.

But some signatories said yesterday that expected savings would be minimal and they did not expect any significant savings to flow through. The huge figures projected as savings on input tax were largely hypothetical.

Militant ³²⁰ CT 23/9/91 medics to ignore VAT

JOHANNESBURG. — South Africa's dispensing practitioners yesterday added their voices to the outcry against the imposition of VAT on medical services, prescription medicines and essential food-stuffs.

At a militant meeting, held at a Jan Smuts Airport hotel and attended by hundreds of doctors, the Dispensing Family Practitioners' Association resolved to:

- Call on all members not to collect VAT or to pay VAT to the Receiver of Revenue.
- Call on the Medical Association of South Africa (Masa) and the National Medical and Dental Association (Namda) and other medical bodies to also make this call.
- Call on the public not to pay VAT to doctors.
- Call on medical aid schemes not to pay the 8% in lieu of VAT to doctors.
- If they do, to pay the 8% into a trust fund established by the association.

A number of doctors at the meeting criticised the Medical Association of South Africa for "lack of guidance". Masa's Dr Reg McGillis said Masa had never supported VAT on medical services. — Sapa

SOWETAN RADIO METRO

TALKBACK

Sowetan 23/9/91

Delay VAT, says Cosatu

COSATU general secretary Jay Naidoo has insisted on the Sowetan/Radio Metro Talkback Show that the Government should delay the implementation of Value Added Tax.

Naidoo said on Friday that the tax would cause massive social upheaval as it would anger many poor people.

He said Cosatu supported VAT in principle. However, the Government was being undemocratic in implementing the tax without broad consultation with

a representative spectrum of South Africans, Naidoo said.

He said opposition to the tax was composed of extremely divergent political parties and organisations including Cosatu and National Council of Trade Unions.

Naidoo said the tax only served the narrow interests of big business. Moreover, the Government was merely implementing proposals by the International Monetary Fund.

Naidoo threatened that

the union would embark on spontaneous industrial action unless the tax was delayed.

Replying to Stanza's question from Ennerdale as to why the tax should not be tried out first and checked for effects, he said: "It is dangerous, the Government has a track record of abusing taxpayers money."

Patrick from Berea said the tax was unfair as it would adversely affect the underpaid.

320

Doctors reject VAT on health

Star 23/9/91

320

By Paula Fray
Consumer Reporter

De Klerk urged to debate issue on TV

On the eve of a massive anti-VAT summit today, more than 300 angry doctors yesterday resolved to resist VAT on medical services and prescription medicines if the Government refused to zero-rate them.

One of the possible strategies the doctors put forward was to refuse to collect VAT on their services or pay the tax for those services to the Government — a proposal they will put to the Cosatu-led Co-ordinating Committee on VAT summit in Johannesburg today.

The summit, comprising representatives from 93 organisations, is meeting to formulate a plan of action against VAT, which comes into effect at midnight on Sunday.

The Dispensing Family Practitioners' Association (DFPA) meeting at the Jan Smuts Holiday Inn also called on State President de Klerk to debate openly on prime time television the morality of introducing VAT on medical services and prescription medicines.

The association also called on the Medical Association of SA, the National Medical and Dental Association and other medical bodies to support their stand.

In his opening address, Dr Joe Maelane said doctors rejected "the serious blunder made by so-called VAT experts" who included health in the VAT net.

filling of overcrowded State hospitals and the demise of more medical aid societies.

"We are not opposed to VAT, we are just saying the way it is being implemented is not good," Dr Rapiti said.

He said VAT could mean an extra R5 to the average patient for a consultation and up to R6 000 extra for a major operation.

● Most people still puzzled, angry — Page 2.

He appealed to Finance Minister Barend du Plessis to rescind his decision. "The Minister has erred and he must change," he said.

Western Cape chairman of the (DFPA), Dr R Rapiti, said New Zealand was the only other country to apply VAT on health.

"Tax on health care is an act of sheer financial desperation," said Dr Rapiti.

He predicted that VAT on medical services would lead to mass resignations from medical aid societies, the

Health care was there to sustain, prolong and increase the quality of life, he said, adding that medicines such as insulin were a matter of "life and death".

The Minister, he said, refused to debate on the morality of taxing health care as he had no argument.

Speaking on behalf of the Cosatu-led Co-ordinating Committee on Vat, National Medical and Dental Association representative Dr David Green was applauded when

he proposed that doctors boycott VAT.

Later it was unanimously resolved to call on Mr du Plessis to zero-rate medical services and prescription medicines or face a VAT revolt by doctors.

The doctors also decided to call on the public not to pay VAT on medicines and medical treatment, and to ask medical aid schemes not to pay the extra 8 percent as a result of VAT. Should medical aid schemes pay the VAT, it should be put into a trust fund.

The doctor's meeting followed a final plea from the Housewives League of South Africa for the zero-rating of medical services.

League President Lyn Morris said the league welcomed the exemption of State hospitals from VAT, but felt "those forced to use private hospitals and clinics will see little benefit".

The league also appealed for prescription drugs to be zero-rated — or at least, for life-supporting drugs such as insulin to be zero-rated.

The league pointed out that consumers should see a slight reduction in the cost of medicines from October when the tax dropped by 3 percent.

VAT WAR⁽³²⁶⁾ HOTS UP

ARL 23/1/11

The Angus Correspondent

JOHANNESBURG.— A high-powered summit against VAT is taking place today, while more than 300 angry doctors became the latest group to join the war against the new tax.

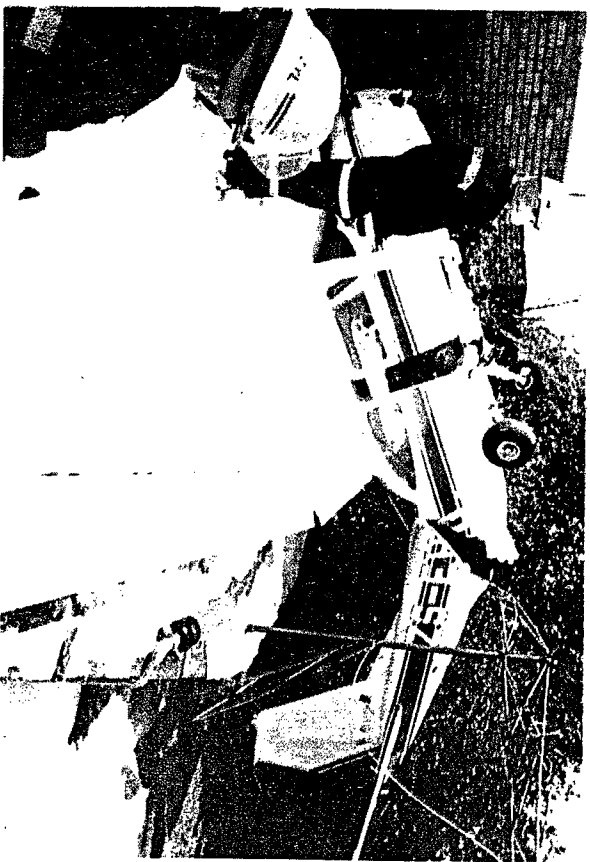
And the Housewives League today described an advertised pledge by 17 major supermarkets and manufacturers to pass on any VAT savings as a "drop in the ocean."

The doctors yesterday resolved to resist Value Added Tax on medical services and prescription medicines if the government refused to zero-rate them.

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GST is levied on prescription medicines at the moment.

They also called on the Medical Association of SA, the National Medical and Dental Association and other medical bodies to support their stand.

In his opening address, Dr Joe Maelane said doctors rejected "the serious blunder made by so-called VAT experts" who included health in the VAT net.

He appealed to the Mr Du Plessis to rescind his decision: "The minister has erred and he must change."

Western Cape chairman of the Dispensing Family Practitioners' Association Dr R Rapiti said New Zealand was the only other country to apply VAT on health.

He predicted that VAT on medical services would lead to mass resignations from medical aid societies, the filling of overcrowded state hospitals and the demise of more medical aid societies.

He said VAT could mean an extra R5 to the average patient for a consultation and up to R6 000 extra for a major operation.

Dr Rapiti urged his colleagues to "stand up and fight".

Speaking on behalf of the Cosatu-led Co-ordinating Committee on Vat, National Medical and Dental Association representative Dr David Green was applauded when he proposed that doctors boycott VAT.

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The doctors also decided to call on the public not to pay VAT on prescription medicines and medical services and to ask medical aid schemes not to pay the extra eight percent as a result of VAT. Should medical aid schemes pay the VAT,

VAT war hots up ³²⁰

(Cont from page 1)

it should be put into a trust fund.

The doctor's meeting followed a final plea from the Housewives League of South Africa for the zero-rating of medical services.

Today Cosatu dismissed the new tax monitoring committee Vatwatch as a body which was spending a lot of money on advertising while in reality promoting VAT and not protecting the public from abuses.

Describing a weekend pledge by 17 major food producers and retailers to pass on cost benefits to pass on cost benefits derived from VAT to their consumers as "last minute panic reaction", Cosatu spokesman Neil Coleman said the promises were laudable and reflected growing pressure by the public, but they offered no real guarantees to consumers.

Mr Coleman said: "What is needed is an organisation with teeth. Every other country which has introduced VAT has also had strong constraints to prevent abuse."

It is impossible to rely on the good faith of retailers and the Minister has been asked by Cosatu for the appointment of a council of experts with powers to enforce legal action against price abusers.



Idris Kaka ... "Good way to spread tax."



Mirriam Kubeke ... "I don't know what it is."



Diane Jordan ... "It stinks."



Daphne Adams ... "Not ready for it at all."



Dr A S Pienaar ... "It's a good tax."



Cathy Nettell ... "Post increase shock."



Obed Majali ... "VAT is too high."



Debbie le Roux ... "Everything going up."

VAT

By Paula Fray

320

still has most people puzzled and angry

SA

23/9/91

shocked that postage and telephone accounts had been raised because of the tax.

There is confusion, anger and acceptance and fears of price increases as South Africa draws closer to the introduction of value added tax (VAT) next week.

A street survey carried out by The Star found that consumers were still confused about how VAT would affect them.

At least one person was

Mrriam Kubeke expressed ignorance of the new system: "I don't know anything about VAT. I don't know what it is. I heard VAT is coming, but I don't know if prices are coming down or if they will charge it on top of present prices."

Diane Jordan, who works in Rosebank, was emphatic: "It stinks. I don't think anyone is really prepared for it. They should do away with PAYE and implement only VAT or GST."

GST, a number of people expressed dissatisfaction with the way it is being implemented.

"I think VAT is a good tax system, but should have been done in consultation with the people. Basic foodstuffs and essential services should be exempted," said Daphne Adams of Fleurhof.

"We have no existing social services in this country. The VAT burden will be too much."

It should be implemented with consultation ... the way Cosatu is more acceptable."

"I think it's a good system. It's actually recommended by all countries," said Dr A S Pienaar. Another shopper agreed: "It's a good tax."

Said Cathy Nettell of Johannesburg: "I think it should have been explained better. Quite honestly, I don't understand it ... I was shocked by all."

the postal increases."

Geraldine Scott was vague about the merits of the tax saying it was "okay". But she was emphatic that prices were certain to go up.

"I don't like it. It's just another tax without the taxpayer knowing what we are paying for. Are we sponsoring another homeland?" asked Daphne Adams.

"We're not ready for it at all."

Idris Kaka believed that VAT was a good way to spread the tax burden to all — but said it is going to push up prices.

"It's not going to get any better," he said.

"VAT is being implemented, yet personal tax is so high. There is going to be a certain amount of abuse of the system."

"There are no proper checks in place ... even with VATwatch. There must be control measures," said Shaheed Variawa.

Debbie le Roux agreed that prices would rise when VAT came into effect.

"Definitely, everything is going to go up."

B. A. said Obed Majali, there was nothing to be done as the Government had decided to go ahead.

"I don't want to pay VAT. It's too high. There should be no VAT on medical services and on food."

Rail, post rates go up but business costs will drop

By Des Parker

Star 23/9/91
DURBAN — Rail, harbour and fuel pipeline rates and post and telecommunications tariffs will cost businesses less under VAT — and not more as was claimed last week.

Durban business consultant Kevin Fagan said at the weekend the two organisations had done a disservice to the economy by failing to explain fully the effect of VAT on their charges — that of a cost reduction to business.

Freight rates

Transnet said last Tuesday that rail freight rates would rise 8,9 percent from September 30, harbour charges 8,8 percent and Petronet's fuel pipeline service by 9,7 percent.

Postmaster-General Johan de Villiers said post and telecommunications tariffs would rise

by 8,7 percent on average from the end of the month.

Mr Fagan calculated that the cost to business organisations — which comprised the bulk of Transnet's customers — should, in fact, come down between 0,9 percent and 1,7 percent under VAT.

Cost issue

"What has happened is that these organisations — and indeed a great many businesses — are looking at VAT as a cost issue, which it is not.

"When looking at business pricing and profitability, one must forget that VAT exists — it simply confuses the issue.

"Organisations registered as vendors under VAT will recover all the VAT they pay from the tax system. They do not need to raise prices to recover it from their customers."

Businesses which raised their prices in the belief that VAT would cost them more, said Mr Fagan, might find their returns given an initial boost when they combined wider profit margins with VAT refunds from the Receiver.

But they would soon lose market share to those companies which understood the new tax and passed on the benefits to customers.

Competitor

"This is a price sensitive economy in the business-to-business environment.

"If one business puts their prices up while a competitor puts his down, it's not hard to see who is going to corner the market.

"This is the concept that (Minister of Finance) Barend du Plessis has been trying to explain but no one believes him."

Groups warn Government over new tax

Southern 24/9/91 (320)
THE Government was yesterday warned that the war against Value Added Tax would be taken to the streets if it did not stop its implementation immediately.

This stand was taken by representatives of more than 50 political, business,

By IKE MOTSAPI

church, consumer and trade union organisations after a four-hour meeting in Johannesburg yesterday.

The meeting was held to

To page 2

Organisations warn Govt on new tax

Southern 24/9/91 (320)
From Page 1

formulate strategies for today's urgent meeting with State President FW de Klerk.

Dr Bernie Fanaroff, chairman of the VAT Coordinating Committee, said the meeting had resolved to:

Organise marches in all the industrial centres on September 30 - the day on which the tax system comes into effect;

Hold daily pickets in all the major cities around the country; and

Start to mobilise workers and people for a general strike on November 1.

He said the meeting rejected the Government's claim that the 10 percent VAT system would benefit the people.

"This is not true as shown by the recent announcements that bonds, railways, telephone and other services were going to be increased as a result of VAT.

"We demand that the Government stop implementing VAT. It must first consult with the people. We, however, know that the Government is not prepared to listen to the recommendations and views of other people.

"This makes a mockery of their intentions to engage in negotiations on matters that need consultation," Fanaroff said.

He said the meeting endorsed a resolution by doctors who said they would not collect VAT when charging patients.

The meeting had also asked the International Monetary Fund not to process a R30 million loan request made by the Government until the matter was resolved.

The African National Congress and the Pan Africanist Congress have been asked to join the South African Council of Churches and other church organisations in mobilising their members for the "war" against VAT.

Strike

Unions lead revolt on tax



by Pakistani children in folk dress in Islamabad yesterday at the start of poverty of millions of people. She is the first senior member of party rejoined the Commonwealth two years ago. Picture: AP

Own Correspondent

JOHANNESBURG. — A broad front of trade unions ranging from black nationalist groups to white public servants is threatening to paralyse South Africa with a general strike if the government refuses to soften VAT.

Cosatu national spokesman Mr Neil Coleman said yesterday that representatives from a range of union federations, including white right-wing unions and public servants' associations, met earlier in the day to discuss a response to the government's refusal to compromise on VAT.

He said the ball was now in the government's court. "Only they can avert a national crisis."

The unions would do everything in their power — from passive resistance and civil disobedience to mass action — to get their way, he said.

Representatives of the unions and President F W de Klerk will meet in Pretoria today to discuss the crisis.

The unions are demanding that all foodstuffs and medical supplies and services be exempted from the 10% value-added tax (VAT) to be introduced from next week.

If the government continues to reject their demands the unions plan to demand a 5% across-the-board increase for all salaries and wages. They intend backing this demand with a nationwide strike.

He said Cosatu was negotiating directly with Mr De Klerk on the issue, because workers across the spectrum had lost confidence in Finance Minister Mr Barend du Plessis.

"Minister Du Plessis has been completely intransigent on the VAT issue and so we have decided to go over his head and talk to the State President," he said.

Mr De Klerk is unlikely to postpone the implementation date. However, it is believed he may be prepared to receive re-

K'bosch land

Blue Route Centre

Bank was awarded against Mr Fuchs, million.

lication was with agreement was bought Mr Fuchs's, in the up-market nt, in Green Point

the Fernwood Prospect Roads in

Newlands, was zoned "R6 general residential", which allowed townhouses.

There are plans afoot to build 81 to 91 dwellings there, although the developer would be entitled to put up a maximum of 176 dwellings.

The land had had an R6 zoning since at least 1987, when plans for townhouses had been approved. The then developer, Stocks and Stocks, had put in roads, electricity, water and drainage.

There had been a public outcry, and the land had been expropriated by the government, apparently for the erection of houses for House of Representatives ministers.

From page 1

CAVE-TINES

Tax revolt

presentations on the zero-rating of other basic foods.

The ANC and Cosatu-led VAT Co-ordinating Committee yesterday indicated that its major members would be satisfied with nothing short of postponement and a commitment from the government to renegotiate the tax with all political, trade union and consumer organisations.

ANC secretary-general Mr Cyril Ramaphosa said the committee was poised for "real confrontation between government and the people". He said the conflict represented more than the implementation of a new tax system. It represented resistance to "the government's attempts to restructure the economy unilaterally during a period of transition".

Other political commentators agreed that the conflict went beyond a debate over the principles of VAT. But they ar-

Limit for small vendors increased

PRETORIA. — Finance Minister Mr Barend du Plessis has decided to increase the limit on the payment of Value-Added Tax (VAT) for small vendors, the department announced in a statement yesterday.

He said the decision was a result of representations made by the Medical Association of South Africa, the Pharmaceutical Society of South Africa, the Dental Association of South Africa and a number of organisations representing small businesses.

"It has been decided to increase the limit at which vendors may choose to account for VAT on a payments basis from annual taxable supplies of R1 million to R2,5 million," the statement said. — Sapa

gued that it was the latest frontier in the ANC and Cosatu's attempt to force the government to agree to an interim government.

The committee also said it would increase pressure on the private sector to support its stance on VAT. Cosatu is understood to have requested a meeting with employer federation Saccocia on Thursday.

The trade unions and Saccocia jointly agreed on amendments to labour law last year. One of the amendments was that the unions would explore all available avenues before calling a strike, a Saccocia spokesman said yesterday.

The VAT Co-ordinating Committee chairman, Mr Bernie Fanaroff, said the committee would also demand the disclosure at today's meeting of VAT calculations which the IMF had submitted to the government. He suggested that the government had agreed to implement the IMF proposals in exchange for approval of a "R30 billion" IMF loan.

The governor of the Reserve Bank, Dr Chris Stals, has indicated that R15m was the most South Africa could hope for once it qualified for IMF loans. It is understood that the country is not yet in a position to qualify for either IMF or World Bank loans.

Mr Du Plessis, who recently announced a range of concessions to relieve the impact of VAT on the very poor, yesterday responded an-

grily to Mr Fanaroff's claim.

He said it cast a "serious aspersions on the integrity of the IMF, its staff members concerned with South African affairs and the government. The allegation is so irresponsible, so obviously designed to incite and so indicative of a disturbing lack of grasp of both domestic and international fiscal and financial matters that it is not deserving of serious consideration or comment".

Mr Fanaroff said the committee's political, trade union, small business and consumer affiliates represented millions of South Africans who would be mobilised if a mass action programme were to be launched. But there was some doubt yesterday as to whether the more conservative affiliates would agree to strike and boycott actions.

The white unions who are supporting Cosatu, the Public Servants' Association and the Confederated Metal and Building Workers' Union, could not be reached for comment yesterday, but Mr Coleman said they would be at today's meeting with the president.

● The Federation of Salaried Staff Associations of South Africa (Fedsal), representing 250 000 salaried people, believes that a general strike to protest against the introduction of VAT would be counter-productive.

"The economy is already in a bad state and a comprehensive strike will damage the economy even further, resulting in more job losses," Fedsal general secretary Mr Piet Heymans said in a statement yesterday.

320 CT 24/9/91

Petrol price to stay the same

PRETORIA. — The price of petrol and diesel would not change when Value-Added Tax was implemented on September 30, said a statement by the National Energy Council here yesterday. And this was in spite of motorists paying between two and seven cents too little for a litre of petrol at times this year.

The fuel price was increased on August 23 when the Minister of Finance announced a tax hike of 10c a litre on petrol and 8c on diesel. At the same time it was decided to add another 3c to the price of petrol to reduce underrecovery on fuel.

According to the statement the extra 3c "will enable the equalisation fund to finance the remaining unit underrecovery on petrol over a longer period without implementing a further price increase". — Sapa

Crippling mass action threatened

Unions make final bid to shelve VAT

B1 Day 24/9/91 (320)
POLITICAL organisations and trade unions will meet President FW de Klerk today in a final effort to stop VAT's implementation on Monday. If De Klerk does not back down, SA may face crippling mass action.

This was agreed yesterday at a report-back meeting of the ANC and Cosatu-led VAT Co-ordinating Committee. Committee chairman Bernie Fanaroff said if the conflict which had arisen over the implementation of the new tax was not resolved at today's meeting, committee members would launch a programme of mass action.

This would include a national general strike, VAT boycotts in the medical and other sectors and marches and demonstrations in main centres. A meeting would be held next week to decide on the timing and duration of a general strike, if today's meeting was unsatisfactory, Fanaroff said.

B1 Day 24/9/91 (320)
BILLY PADDOCK reports that De Klerk is unlikely to postpone the implementation date. However, it is believed he may be prepared to receive representations on the zero-rating of other basic foods.

But the committee indicated at yesterday's meeting that its major members would be satisfied with nothing short of postponement and a commitment from government to renegotiate the tax with all political, trade union and consumer

LESLEY LAMBERT

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ANC secretary-general Cyril Ramaphosa said the committee was poised for "real confrontation between government and the people". He said the conflict represented more than the implementation of a new tax system. It represented resistance to "government's attempts to restructure the economy unilaterally during a period of transition".

Other political commentators agreed that the conflict went beyond a debate over the principles of VAT. But they argued it was the latest frontier in the ANC and Cosatu's attempt to force government to agree to an interim government.

The committee also said it would increase pressure on the private sector to support its stance on VAT. Cosatu is understood to have requested a meeting with employer federation Saccola on Thursday. The trade unions and Saccola jointly agreed on amendments to labour law last year. One of the amendments was that the unions would explore all available avenues before calling a strike, a Saccola spokesman said yesterday.

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□ To Page 2

VAT

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Finance Minister Barend du Plessis, who recently announced a range of concessions to relieve the impact of VAT on the very poor, yesterday responded angrily to Fanaroff's claim.

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(320) □ From Page 1
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● See Pages 3 and 8

NEWS IN BRIEF

VAT: farmers warned

LESS than half of SA farmers have registered as VAT vendors, says SA Agricultural Union vice-president Boet Fourie. (320) ~~See~~

Fourie, chairman of the SAAU's VAT committee, warned that non-registered farmers would have to pay VAT on their inputs and certain services but would not be able to claim repayments.

810049 24/9/91

Zambia is going through a political crisis due by the end of October

Anti-Vat lobby to meet FW

JOHANNESBURG. — The growing anti-VAT lobby meets President De Klerk today in a last-ditch effort to find consensus on the controversial tax.

Yesterday ANC secretary-general Mr Cyril Ramaphosa warned that the country was poised to see "real confrontation" between the people and government.

Organisations attending the second VAT summit here yesterday resolved that, should there be no consensus, a programme of national resistance to VAT would begin.

Earlier in the day a broad front of trade unions — including the country's two largest federations and traditional "white" unions — discussed the use of a national general strike should VAT demands not be met.

Co-ordinating Committee on VAT organiser Mr Bernie Fanaroff said the VAT summit agreed that the changes affected recently were not acceptable as they did not accommodate the demands of the summit.

US warning on Zaire travel

WASHINGTON. — The State Department has warned Amer-

Govt treating people with contempt - ANC

VAT issue goes to FW

(320)

By Paula Fry
Consumer Reporter

SAF 24 911
The growing anti-VAT lobby meets President de Klerk today in an effort to find consensus on the controversial tax.

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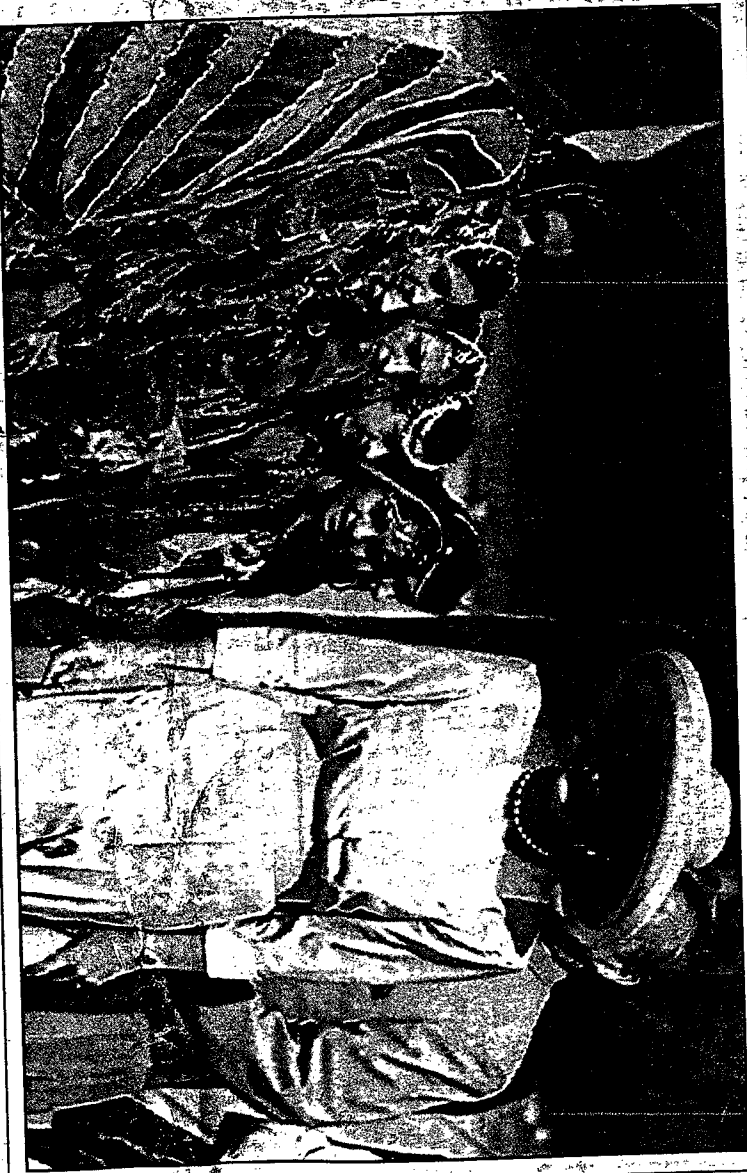
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● Informal sector under threat - Page 2

discussed the use of a national general strike should VAT demands not be met.

Coordinating Committee on VAT of Professor Berridge Fanaroff said the VAT summit agreed that the changes effected recently were not acceptable as they did not accommodate the demands of the summit.

These demands include a zero-rating of basic foodstuffs, medicines and private medical services as well as exemption of the VAT



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discussed the use of a national general strike should VAT demands not be met.

Co-ordinating Committee on VAT organiser Bernie Fanaroff said the VAT summit agreed that the changes effected recently were not acceptable, as they did not accommodate the demands of the summit.

These demands include a zero-rating of basic food-stuffs, medicines and private medical services as well as the postponement of the VAT implementation date until the shortcomings of the system were addressed.

A proposal from the medical sector that doctors should not collect tax nor patients pay VAT was accepted by the summit.

The summit also demanded that the International Monetary Fund should cease to meddle in South Africa's internal affairs. It called on the IMF not to process a R30 million loan while the VAT controversy raged.

It was agreed to initiate a mass mobilisation programme and a media campaign, consisting of pamphlets and stickers.

Proposals being taken back to constituents include:

- Marches in major industrial areas on Monday which will be backed by pickets and demonstrations organised by local groups.
- General mobilisation climaxing in a national general strike during the first week of November.

Mr Fanaroff said trade unions would meet next week to report back on these proposals.

Mr Ramaphosa said the country was "poised for real confrontation between the people and the Government", which had demonstrated its intransigence by refusing to listen to the demands of the people as a whole.

"The Government is trying to ram its will forcibly down our throats," he said.

He described the Government's approach as immoral, saying it was treating South Africans and the negotiation process with utter contempt.

"It is making a mockery of the negotiation process," Mr Ramaphosa said.

Cosatu general secretary Jay Naidoo said the Co-ordinating Committee on VAT was hopeful that today's meeting with Mr de Klerk could establish a framework in which proper negotiations could take place.

"We are committed to ensuring there is a negotiated settlement," Mr Naidoo said, adding that the ball was now in the Government's court.

VAT may cripple informal sector

By Paula Frey
Consumer Reporter

Urgent solutions are being sought as concern mounts over the effect of value added tax on small businessmen — expected to be hit especially hard when VAT is implemented. **Star 24/9/91**

Several companies have already said they will use only VAT-registered vendors.

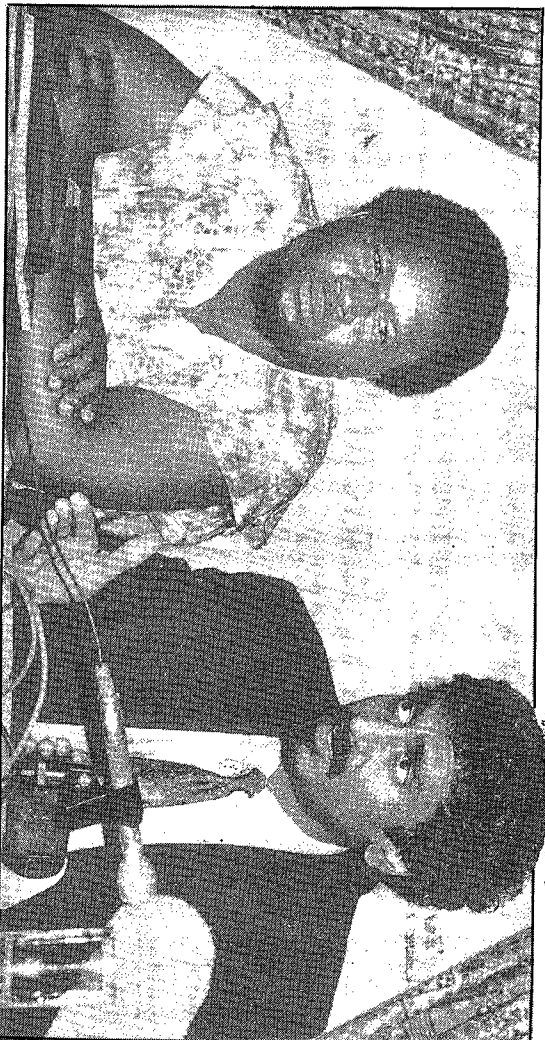
The Star has seen one memo that says: "We require all our suppliers to be registered vendors for VAT purposes in order for the company to be able to claim the input credit on purchases."

"We will therefore not deal with any suppliers who are not registered."

The Co-ordinating Committee on VAT has made an urgent call to the Government to amend the VAT Act to avoid prejudice to smaller entrepreneurs.

A recent Vatwatch statement expressing concern about the impact of VAT on small business was echoed by Free Market Foundation executive director Leon Louw, who said the compliance requirements of VAT were so costly and complex it would be disastrous for most small, informal and emerging enterprises.

Small Business Development Corporation (SBDC) MD Dr Ben Vosloo said the organisation was especially concerned about the effect VAT would have on businesses below the VAT threshold who supplied services



VAT resistance . . . Co-ordinating Committee on VAT representatives Tito Mboweni of the ANC and Cosatu secretary-general Jay Naidoo outline action to be taken in protest against the new tax.

and goods to bigger businesses.

"To be competitive they will have to register and be forced to keep extensive records and administrative systems. These requirements will place an added burden on particularly the semi-formal enterprise sector," Dr Vosloo said.

"However," said Dr Vosloo, "the SBDC also believes that more formal small and medium

enterprise (SME) sectors as far as avoidance of double taxation and improved accounting disciplines are concerned."

The organisation has invited SMEs to make use of its national Rebate Scheme where professional advice and assistance could be obtained.

So concerned is the National Industrial Chamber (NIC) that it has written to the State President for help.

NIC executive member Ian Hetherington said corporate customers could not reclaim VAT on supplies from the non-registered, emerging entrepreneur — although these entrepreneurs had to pay VAT on their inputs.

"Naturally businesses will want an invoice for input credit purposes. But to give an invoice, the small supplier must register and comply with the

regulations.

"Among others, they will have to keep the invoices for a minimum of five years and have a part-time book-keeper," Mr Hetherington said. The cost of this was estimated at at least R5,000 extra a year.

"We are talking about the home dressmaker, the catering woman supplying executive lunches, the back-yard welder making gates for factories."

Many councils sitting helpless

Star 24/9/91.
By Louise Burgers
Municipal Reporter

Many local authorities are sitting without official guidelines on exactly how to implement VAT — and some smaller municipalities do not have the resources to deal with the new tax.

Johannesburg deputy city treasurer Lucas Opperman said there was still confusion among local authorities on how to implement VAT.

"There is a fair measure of confusion, especially in smaller places. It has been a major nightmare changing our computer programmes.

"Some smaller councils will not be able to handle it."

Approved

Mr Opperman, who also chairs the Institute of Municipal Treasurers' VAT Committee, said official guidelines for local authorities on VAT still had to be approved by the Department of Finance.

He said that some local authorities did not have the resources to change everything over to deal with VAT, and had been told that they would have to do their accounts manually.

Last-minute meetings between municipal authorities are still taking place this week.

Mr Opperman could not say how many thousands of rands have had to be spent to change computer billing systems, accounting and stores systems,

and other departmental procedures.

"A major factor has been the time that officials have had to devote to applying and overseeing the implementation of VAT."

All major services provided by municipalities are subject to 10 percent VAT from September 30: electricity, gas, water, refuse removal and sewerage.

Mr Opperman said that for other services, municipalities now had to determine which were making a profit — and thus be subject to VAT.

Services which were heavily subsidised would be exempt. This meant the taxation of minor services would differ from one municipality to the next.

In Johannesburg, municipal parking garage tariffs, the sale of council housing stock, township development, and goods at the fresh produce market would now all be subject to VAT.

Charges for parking meters, swimming pools, caravan parks, and dog licences would be exempt.

A municipality which, for example, made a profit or broke even from its caravan park levies, would have to charge VAT.

In Johannesburg, October rates accounts will show VAT on refuse and sewerage. However, VAT on electricity, gas and water charges will be registered only on November accounts, as those services are billed in arrears.

FW gives promise on VAT proposals

So what?
23/9/91 (320)

By MONK NKOMO

PRESIDENT FW de Klerk yesterday promised to look into proposals against Value Added Tax and vowed to respond within the next 24 hours.

After a three-hour meeting in Pretoria with a delegation from the VAT Co-ordinating Committee, Cosatu's general secretary, Mr Jay Naidoo, said: "We had a long, difficult and arduous meeting with the State President."

He said De Klerk had promised to look into their proposals in an effort to reach consensus on VAT amid threats of a national strike by major labour organisations.

"The State President has promised to respond to our proposals within 24 hours," Naidoo said. A spokesman for the State President's Office said De Klerk was expected to issue a statement later.

VAT 'destroys informal sector'

IT appears as if the the "establishment" wants to destroy the growing informal sector through measures such as value-added tax, says businessman Dr Jan S Marais.

In a statement yesterday, Dr Marais said it was strange that in the "VAT war" no mention of note had been made regarding the practical accounting requirements of applying the tax.

"Have our brilliant planners, in their great wisdom, made sure that we have a sufficient number of accountants, bookkeepers and experienced clerks to apply VAT efficiently in the thousands and thousands of businesses having no real accounting systems?" he asked.

Dr Marais charged that while VAT might be scientific and fair in a sophisticated economy such as in Switzerland or Germany, it was "simply not practical" in South Africa at the present stage of development.

He further stressed what was needed were more people with jobs — and those with jobs working harder and more efficiently.

"Our millions who will never read or write must be harnessed to do the many things they can do without being able to read or write," Dr Marais said. — Sapa

Homebuilders urge further concessions

CT 25/7/91

Property Editor

THE National Association of Homebuilders is making urgent representations to the government to have further VAT concessions granted to the industry.

Johan Grotsius, executive director of the NAHB, said he would be meeting Dr Theo Alant, deputy minister of Finance and National Intelligence Service today, to push for an extension of the six month phasing in period awarded to the industry recently.

He said the NAHB would also be seeking a rationalisation of the phasing in formula to make it more practical.

"The present situation allows for dozens of permutations and is causing a major headache, particularly for sales staff."

Concessions announced by Minister of Finance Barend du Plessis in August include:

- Builders and homebuyers being given a choice of whether or not to pay VAT on homes still under construction but due for completion by the end of the year. However, if they opt not to charge VAT, then builders cannot claim input tax on work done after October 31.

If they go the VAT route, the tax will be levied at a rate of 3% on condition the work is completed by December 31 this year and sold by that date with builders being able to claim an input credit at the full 10% rate for work done in the last months of the year.

- If the dwelling is completed between January 1 and March 31 next year and is sold by March 31 it will be taxed at 6%.

Grotsius said as transfer duties still applied on all transactions at concessionary rates this does not amount to much.

"In addition, the fragmentation of the implementation of VAT into three month periods makes it extremely difficult to administer."

"The NAHB is advising members to send their final claims out before the end of December even if finishing work still had to be completed," he said.

Grotsius said they would also be seeking urgent clarification of the housing subsidy situation.

"We were promised that when VAT was in place the housing subsidy scheme would be addressed."

"It is imperative that the first time homebuyer's subsidy, which has a present cut-off point of R65,000 for both plot and dwelling, is adjusted upwards."

"We are making representations now to ensure that provision is made for this in the 1992/93 Budget," he said.

Sweeten
22/9/91

320

PRESIDENT FW de Klerk yesterday promised to look into proposals against Value Added Tax and vowed to respond within the next 24 hours. After a three-hour meeting...

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"The State President has promised to respond to our proposals within 24 hours," Naidoo said.

A spokesman for the State President's Office said De Klerk was expected to issue a statement later.

FW may zero-rate some foodstuffs

(320) CT 25/1/91

Own Correspondent

JOHANNESBURG. — In an 11th-hour bid to defuse the crisis that threatens to erupt over the implementation of VAT, President FW de Klerk yesterday agreed to consider proposals for additional relief measures.

But he reiterated the government's decision to go ahead with the implementation of VAT on Monday.

The ANC- and Cosatu-led VAT Coordinating Committee, which presented the proposals to Mr De Klerk, indicated that it would support the new tax if the State President accepted the proposals.

Cosatu secretary-general Mr Jay Naidoo said the main proposals were the zero-rating of more basic foodstuffs and all medical services and supplies, the negotiation of more adequate poverty relief programmes,

mechanisms to make water and electricity more affordable to disadvantaged communities and assistance for the small-business sector.

The committee agreed at a meeting on Monday to launch a programme of mass action, including a national general strike, if their concerns were not addressed.

In a letter in which Mr De Klerk responded to the committee's request for a meeting, he is understood to have warned that he would neither postpone nor zero-rate more goods and services.

A senior committee member who attended the meeting said Mr De Klerk indicated that he would consider zero-rating more foodstuffs, but appeared to take a firm stand against the zero-rating of private medical services.

● Businessman slams VAT — Page 2

September 25 1991

SOVETAN RADIO METRO

TALKBACK

Support for VAT⁽³²⁰⁾ protests

Staff Reporter

CALLERS to the *Sovetan*/Radio Metro Talkback show yesterday expressed their support for protests against Value Added Tax.

Most callers said the Government should show the world that it is willing to listen to the demands of the majority, particularly, the poor.

The topic was chosen amid the growing protests and threats of a national strike by labour federations to persuade the Government to drop its plans of introducing VAT on September 1.

Archie from Tembisa said the Government should remember what happened in England when poll tax was introduced.

"If the Government proceeds with its plans, the poor will have no option but to protest.

"We cannot afford to pay rent, but the Government expects us to pay tax on electricity, stamps and medicine."

Margaret from Meadowlands, a member of the Black Housewives League, argued that VAT was going to hit the poor more than the rich.

"VAT is going to be expensive to the poor. Paying tax on electricity, stamps, telephone and other food-stuffs will make us all poorer.

Hugh from Yeoville accused the Government of deciding on what it thought to be good for majority of the people.

"The Government has always, in the past, decided for us. This is nothing new, but we should stand up and protest.

"This time we should not let the Government win," Hugh said.

Car tax probe nets R35 000

By GUY OLIVER

(326)

CT 25/9/91

MORE THAN R35 000 has been recovered in an investigation by the Receiver of Revenue into suspect GST payments on motor vehicles following a Cape Times report which revealed a scam at the Receiver's offices.

Yesterday the receiver, Mr Ernst Conradie, said this amount had been recovered with only about one-fifth of the inquiry completed.

The Cape Times exposed a "discount" system at the Receiver of Revenue's Plein Street offices after a reporter posed as a member of the

public and paid a fraction of the required 13% sales tax on a car.

The internal investigation was launched at the offices at the end of July.

Mr Conradie said 532 cases had been identified and the money recovered represented 112 completed investigations.

● A Receiver of Revenue employee was arrested after a preliminary inquiry prompted by the report.

No charges have been put to the man, who is due to appear again in Cape Town Magistrate's Court tomorrow on allegations of fraud.

No putting off D-day for VAT

FW agrees to consider steps to swell relief

IN AN 11th-hour bid to defuse the crisis that threatens to erupt over the implementation of VAT, President F W de Klerk agreed yesterday to consider proposals for additional relief measures.

But he reiterated government's decision to go ahead with the implementation of VAT on Monday.

The ANC and Cosatu-led VAT Co-ordinating Committee, which presented the proposals to De Klerk in a last-ditch effort to postpone VAT or negotiate additional relief measures, indicated it would support the new tax if the President accepted the proposals.

Cosatu secretary-general Jay Naidoo said the main proposals were the zero-rating of more basic foodstuffs and all medical services and supplies, the negotiation of more adequate poverty relief programmes, mechanisms to make water and electricity more affordable to disadvantaged communities and assistance for the small business sector.

Other proposals, similar to those presented to Finance Minister Barend du Plessis last week, were also presented to De Klerk.

Naidoo said the delegation, which included ANC secretary-general Cyril Ramaphosa, committee chairman Bernie Fanaroff and representatives of other political, medical and consumer organisations, warned De Klerk that implementation of the tax in its current form would lead to a crisis.

The committee agreed at a meeting on Monday to launch a programme of mass action, including a national general strike,

LESLEY LAMBERT

if their concerns were not addressed.

Naidoo indicated that the committee would support the implementation of VAT if its proposals were accepted. "We believe that if there's acceptance of these proposals, our main concerns about VAT will have been removed," he said in a brief statement delivered after the meeting.

In a letter in which De Klerk responded to the committee's request for a meeting, he is understood to have warned that he would neither postpone nor zero-rate more goods and services.

In a statement issued after the three-hour meeting, De Klerk said: "All submissions and proposals by the co-ordinating committee, most of which were similar to those previously received from other sources, were duly noted. In view of the framework referred to in the letter, only limited scope for consideration of the submissions and proposals exist."

A senior committee member who attended the meeting said De Klerk indicated he would consider zero-rating more foodstuffs, but appeared to take a firm stand against the zero-rating of private medical services and supplies.

De Klerk appeared particularly emphatic that the poverty relief programmes should reach the communities at which they were targeted, the delegate said.

Government originally allocated R220m for direct assistance for the six months between the implementation of VAT and next year's Budget. A Finance Department spokesman said yesterday that an additional R500m was likely to be budgeted for direct assistance next year.

FW dashes 25/9/91 hopes of 320 VAT deal

By Paula Fray

President de Klerk made it clear last night that he would not consider postponing the implementation of VAT or any additional zero ratings.

His statement followed a three-hour meeting with a delegation from the Coordinating Committee on VAT in Pretoria, described by Co-satu general secretary as "long, difficult and arduous".

Mr de Klerk said most of the proposals were similar to those already received and that "only limited scope" existed for considering them.

The Government would look again at the proposals, he said, but cautioned against undue expectations.

Mr de Klerk said that yesterday's discussions had taken place within the framework set out by him in a letter to the committee on September 21 in which he had made it quite clear he was not prepared to consider postponing VAT.

In addition, he reaffirmed the Government's view that zero-rating and exemptions were undesirable, but that the Government was willing to consider suggestions for direct help for those adversely affected by VAT.

Mr Naidoo said they were hopeful the meeting would provide a solution to the impasse and would remove the possibility of mass action.

"We have put forward to the State President that to go ahead with the implementation of VAT in its present form would cause a crisis in the country," he said.

South African Council of Churches secretary-general Frank Chikane said the SACC had noted with "grave concern" the present deadlock between the Government and the VAT committee.

The Federation of Salaried Staff Associations of South Africa and the SA Junior Chamber of Commerce and Industries have come out against general strike action over VAT — labelling it "counter-productive".

Vat guidelines for industry

329
25/1/91

The imminent application of value added tax (VAT) on September 30 has spurred the property industry to issue guidelines.

Last week saw the publication by Ampros of a booklet on VAT and its implications for players in the market.

Though admittedly an administration hassle, most people associated with the property market have welcomed the introduction of VAT.

Summing up its major thrust, Laurence Kaplan of Werksmans says most sales of commercial or industrial property will be subject to VAT, as the seller would generally be a vendor as defined by the VAT Act.

A vendor is defined as a person or entity who or which conducts an enterprise with a turnover exceeding or likely to exceed R150 000 a year.

"Commercial or industrial property which has not been developed and which is sold by a person or entity not defined as a vendor by the VAT Act, will not be subject to VAT."

"If the purchase is a vendor as defined by the Act, however, he will be entitled to a notional input credit payable either by that credit being set off against his output taxes (for the tax period in question), or at latest, within 21 days of the submission of his VAT return for the tax period in question," he said.

It needs, to be said that the VAT system requires frequent submissions to the receiver by "vendors" of a return setting out their output taxes and input credits.

Mr Kaplan says it is important to note that where an industrial or commercial property is being sold through the sale of the close corporation or company owning it, no VAT will be payable on the sale of the shares (unless it is a shareblock), nor on the sale of the members' interests — or on the cession of the loan accounts, if applicable.

There will, however, as has always been the case, be a stamp duty of 1 percent of the consideration attributable to the shares.

Mr Kaplan highlights one of the major advantages of VAT for the property industry: "The effect of VAT is that whereas in the past, transfer duty of 5 percent would have been payable on the sale of a commercial or industrial property to a company or a close corporation, a transaction of that nature is now subject to VAT and is tax neutral from both the seller's and the purchaser's point of view.

"The reason for this is that the seller will pay 10 percent VAT on the purchase price which he will usually build into the purchase price, and thus collect from the purchaser, and the purchaser will obtain an input credit in respect of the transaction."

According to one real estate agent, the neutralisation of transfer duty in most commercial and industrial property deals is a great plus for the industry as there will be higher returns on commercial and industrial property.

Unions plan new VAT protest

325

DENNIS CRUYWAGEN
Staff Reporter

Aug 25/91

THE Congress of South African Trade Unions and its affiliates, who are meeting representatives of big business in Cape Town today, plan a protest march to Parliament next Monday in opposition to VAT.

The Cape chambers of commerce and industries and employer associations have been invited to today's meeting.

But Cosatu regional secretary Mr Allan Roberts said the labour federation had not been encouraged by the response from business organisations invited to the meeting.

"We'll be discussing VAT with them because we don't think they understand fully our opposition to the way it is being implemented. We know they will not back down on their support for VAT."

He said opposition to VAT was growing and there was a danger it could culminate in industrial action.

"We are the players in industry and we feel we must get together to discuss the issue. The agenda is open but we want to tell employers about our concerns about VAT."

Employers would also be told Cosatu would demand a 5 percent wage increase if last-minute changes were not made to VAT.

Seniors unite against VAT

SENIOR citizens are invited to voice their objections to the VAT system at a mass meeting being called by the Association of Retired Persons and Pensioners (ARP&P) and the South African Council for the Aged (SACA).

Mr. John Visser, national vice chairman of ARP&P will chair the meeting on October 8 in the Muizenberg Civic Centre at 10.30 am.

The two main speakers will be Mrs Kay Altman, director of ARP&P, and Mr Syd Eckley, director of SACA.

Areas of discussion include VAT on medicines and health services, VAT on basic foods, VAT on retirement houses, and VAT levies on welfare organisations including board and lodging in seniors' homes.

It is not too late to record your objections to the above and to submit amendments to the Act even though VAT takes effect on September 30," says a Press release from ARP&P.

"We had hoped that the Minister of Finance would have taken cognisance of the fact that thousands of senior citizens have objected to paying GST on medicines, and that thousands of petitions have been submitted over time.

"Living costs are sky-rocketing and inflation continues to rise. If you feel as strongly as we do about the whole situation attend this meeting — nothing is ever achieved by remaining silent," the organisation says.

VAT: Farmers face higher costs

Business Staff

322 Aug 25/91

MANY of South Africa's 60 000 farmers face the prospect of higher costs after September 30 because of their failure to register as VAT vendors.

And while the SA Agricultural Union does not believe this will translate into higher food prices for consumers — except where goods are sold directly to the public — the organisation is concerned at the extra burden it will place on many of its already hard-pressed members.

SAAU vice-president Boet Fourie said he was concerned many farmers had been swayed into not registering by "speculation concerning the administrative burden of the system, which is often depicted as a virtually insurmountable problem".

Johan Fourie, a senior economist with the union, said while there was a cost associated with administering VAT, "I do not believe there is a choice when you consider the cost of having to pay the tax without input credits on a number of inputs and services where GST was not previously charged.

It must be remembered that the government did take steps to soften the burden for farmers. Firstly, they gave farmers a six-month tax period instead of the two-month period for other registered vendors — this reduces the cost of administration.

"Secondly, farmers' main input costs will be zero-rated. This covers items like fertilisers and seed."

However, said Mr Pienaar, machinery and equipment would be subject to VAT. VAT-vendor farmers could reduce the effect on their cash-flow by timing purchases to coincide with the end of the tax period so that input credits were more promptly received.

Most produce prices were regulated, either by agricultural control boards or by international commodity agreements, giving un-registered farmers no leeway to raise prices to account for the increased cost of paying VAT.

Mr Fourie urged farmers who had not registered to analyse their operations to see whether they would not be more viable as VAT vendors.

BER warns on VAT ⁽³²⁰⁾ smokescreen

TOM HOOD
Business Editor

TRADERS using the new value-added tax system as a smokescreen to increase prices are more likely to fuel inflation than the technical application of VAT.

This is the belief of Dr Okkie Stuart, director of the Stellenbosch Bureau for Economic Research.

Should traders do this, then the inflation rate was almost certain to rise, he says.

This would in turn ensure that monetary policy remained restrictive and interest rates would stay high, with economic contraction continuing.

But if traders passed their cost reductions to the consumer, the inflation rate would drop, interest rates would fall and the probability of a new cyclical upturn would increase.

The government has gambled heavily on what they consider to be long-term benefits of VAT to the economy.

They might have chosen a better time to implement the new tax — to sell VAT to a highly sceptical and heavily taxed community will be extremely difficult.

"VAT could have a negative political impact as it may be seen as a tax that affects the poor rather than the affluent."

Writing in the quarterly newsletter of Lintas advertising group, Dr Stuart said it had been argued that the removal of double taxation should by itself cause certain prices to drop provided that businesses passed these cost reductions on to the consumer.

However, when GST was introduced in 1978 prices were held back until the new system became operative.

The public at large seemed to have accepted that VAT will lead to higher prices, said Dr Stuart.

Dr Stuart also warns that the smooth introduction and operation of VAT could be seriously hampered by lack of experienced staff in the public service and in industry.

Most companies will have to employ additional people and there is no doubt that VAT will put more pressure on the country's limited human resources.

Guidelines on VAT property sales issued

Sowetan 26/9/91 320

THE imminent application of Value Added Tax on September 30 has spurred the property industry to issue guidelines.

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Though admittedly an administration hassle, most people associated with the property market have welcomed the introduction of VAT.

Summing up its thrust, Mr Lawrence Kaplan of Werksmans says most sales of commercial or industrial property will be subjected to VAT, as the seller would generally be a vendor as defined by the VAT Act.

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"If the purchase is a vendor as defined by the Act, however, he will be entitled to a notional input credit payable either by that credit being set off against his output taxes (for the tax period in question), or at latest, within 21 days of the submission of his VAT return for the tax period in question," he said.

Sowetan Reporter

Kaplan says it is important to note that, where industrial or commercial property is being sold through the sales of the close corporation or company owning it, no VAT will be payable on the sale of the shares (unless it is a shareblock), nor on the sale of members' interests - or on the cessation of the loan accounts.

There will, however, as has always been the case, be a stamp duty of one percent of the consideration attributable to the shares.

Kaplan highlights one of the major advantages of VAT for the property industry.

"The effect of VAT is that whereas in the past, transfer duty of five percent would have been payable on the sale of a commercial or industrial property to a company or close corporation, a transaction of that nature is now subject to VAT and tax neutral both from the seller's and the purchaser's point of view.

The reason for this is that the seller will pay 10 percent VAT on the purchase price which he will usually build into the purchase price, and thus collect, and the purchaser, and purchaser, will obtain an input credit in respect of the transaction.

VAT concession for sugar cane growers

VAT relief in the form of a special 7% flat rate has been negotiated for small-scale sugar cane farmers by the SA Sugar Association (Sasa). *Box 26/9/91*

Most of the 35 000 small cane-growers would have suffered unfairly from the introduction of VAT, Sasa said yesterday.

However, flexibility in VAT legislation allowed the Commissioner of Inland Revenue to introduce a flat rate of dispensation calculated on the average cost of cane production, Sasa said.

(320)

PAUL ASH

The flat rate, which will apply to all growers who do not qualify for registration as vendors, will be set annually at a rate which will enable them to recover as input tax the VAT paid on purchases of farming equipment and supplies.

— The rate will be set at R3,64/ton until the beginning of the 1992/93 season.

The move means growers will not have to keep complicated records yet ensures they will remain in the VAT system.

Plea on company tax

PEPKOR group chairman Christo Wiese made an urgent appeal to government yesterday to lower company tax.

He was addressing the Cape Technikon's Alumni Society in Cape Town.

"SA's current company tax rate is simply too high to stimulate substantial investments in the manufacturing sector, which, through its successful entrance into international markets, will have to lead the SA economy on its road to recovery."

Wiese said the current tax rate also lowered the ability of SA manufacturers to compete successfully in export markets. (320 CT 26/9/91)

He said a recent study showed that a British manufacturer could place his product on the international market at 8% less than his local counterpart because of a more sympathetic tax system.

"It is like having to fight with one hand tied behind your back in a cut-throat world in which the competition is in any case gruelling." — Sapa

VAT correction

'Barend's VAT stew'

Business Staff

"FINANCE Minister Barend Du Plessis' ad hoc after dinner pronouncements on VAT at this late stage are becoming farcical to say the least—with a few days to go the bombardment with last minute announcements is causing confusion through the press, radio and official releases."

This was said by Coopers Theron Du Toit, tax partner Peter Maspero yesterday when he commented: "No wonder this commentary is open to widespread confusion and misunderstanding".

A report in this section of the Cape Times yesterday said the informal business sector would be largely eliminated from the VAT net because the cut-off for registration as a vendor had been raised from R1m to R2.5m. This is incorrect.

Maspero said that according to his understanding of the Minister's announcement the new higher threshold applied to a decision whether or not a vendor should elect to account for VAT on a payments basis.

"Registered vendors whose taxable supplies do not in fact exceed R2.5m in any of the twelve months before the completion of a tax period may account for VAT on a receipts and payments basis—that is in the period when VAT is actually collected and paid."

This means that vendors who sell on credit need not pay the VAT until they have actually received the money.

Maspero said that comments by businessman Jan S Marais on the inadvisability of switching to VAT at this stage remained pertinent "but unfortunately along with the pleas of many others will go unheeded by the government".

Now it's 'Grey Power' 320

Star 26/9/91

City Correspondent

DURBAN — October 8 will be "Grey Power" Day, the day when thousands of the country's grey-haired army of elderly people make their voices heard in protest against the "devastating" effects of VAT.

Eric Broad, national chairman of the Association of Retired Persons and Pensioners, said yesterday that on October 8 mass meetings would be held in Durban and other centres around the country to call for relief for the aged.

Mr Broad said a crowd of 1 000 to 2 000 was ex-

pected to attend a meeting at the Muizenberg Hall in Cape Town.

The association has sent a letter to President F W de Klerk pointing out those aspects of VAT which will hit the elderly and the poor.

Mr Broad said his association did not oppose the VAT system as such, but had asked that medical expenses and various basic foodstuffs be zero-rated.

The association also wanted similar relief for welfare organisations for the aged which would otherwise be forced to increase charges for their services.

He said the fact that the protest meetings would take place after

the introduction of VAT (September 30) was not serious as there was nothing to stop the Government making the necessary changes afterwards.

The timing of the meetings would also prevent the protest by the aged from becoming involved in current protests of a political nature.

Welfare organisations for the aged which will be hard hit by VAT are still hoping for a last-minute reprieve by the State.

Felix Fielding, chairman of Durban's Bill Buchanan Association for the Aged, has expressed alarm at the impact VAT will have on the

rent of many pensioners living in the association's board-and-lodging accommodation.

He has appealed to the families of these pensioners to help them financially.

Mr Fielding said if his association footed the extra bill for the 6,8 per cent VAT charge on the rentals, it would cost about R108 000.

"Unfortunately we just can't afford it," he said.

A large number of the residents receive a monthly social pension of little more than R300 and are at present left with only about R100 after paying their keep. When VAT comes into operation they will be left with only about R87.

Now some good news

about VAT

Consumer Reporter (320)

Good news for consumers is that some companies are taking bold steps to combat higher prices as a result of value added tax.

Ster-Kinekor yesterday announced price cuts of up to 30 percent on all but their prime-time cinema shows.

MD Philip McDonald said the introduction of VAT on September 30 will change the status quo of the cinema industry in South Africa. However, the company was determined to retain cinema as a value for money entertainment option.

Reduced admission costs for most shows will now be R6.50. The popular main evening performances at 7.45 pm or 8 pm will, however, rise from R9.20 to R10.

The prices are inclusive for VAT and represent a cut in the prices for pupils/students and adults.

The pensioners' ticket of R2.25 remains the same.

And, in a bid to help embattled consumers, Overvaal Resorts has said it will put aside more than R200 000 to absorb the VAT increase.

The introduction of VAT could mean as much as R5 more for an average family's entrance costs and this would further "erode the consumer's expendable income", the organisation said.

Overvaal is of the opinion that healthy family recreation remains a necessity and therefore decided to absorb the additional costs and not to reclaim it from the consumer, it said.

Existing fees for day visitors will remain unchanged.

Sapa reports that Southern Sun has announced a drop in its wine prices and that it will pass on only 8 percent VAT on accommodation to hotel guests.

Cape regional manager Heider Pereira said yesterday the group had also cut many of its food and bar prices.

- Month's grace given for VAT numbers — Page 10
- Now it's 'Grey Power'

— Page 13

PAC planning anti-VAT ³²⁰ march, strike

HENRIËTTE GELDENHUYS
Staff Reporter

THE PAC plans to organise a strike and a march to parliament on Monday in protest against the implementation of VAT and is demanding the right to vote.

Mr Macwerha Ntsodo, a member of the PAC's Western Cape regional office, said 26 PAC branches in the Western Cape, the National Council of Trade Unions, Nactu, and affiliated trade unions and civic organisations agreed to the strike at a meeting in Nyanga.

The march will start on the Parade at 10.30 am and end with the hand-over of a petition at parliament.

He called VAT a "rip-off that will result in the starvation of the poor" and said it could not be implemented before wealth had been redistributed.

The various groups were also going to ask the government to transfer power to a transitional authority with a clear mandate from all South Africans.

All South African and international liberation movements should approve of the transitional authority, Mr Ntsodo said.

Mr Ntsodo said no permission for the march had been applied for as "we won't ask permission from an illegitimate government".

Elderly rally in protest ³²⁰ against VAT ^{Aug 26/91}

The Argus Correspondent

DURBAN. — October 8 will be "Grey Power" Day, the day when thousands of the country's grey-haired army of elderly people make their voices heard in protest against the "devastating" effects which the VAT system will have on them.

Mr Vic Broad, national chairman of the Association of Retired Persons and Pensioners, said that on October 8 mass meetings would be held in Durban and other major centres around the country to call for relief for the aged. Full arrangements for the meetings would be announced later.

Mr Broad said that in Cape Town, a crowd of between 1 000 and 2 000 people was expected to attend a meeting in the Muizenberg Hall. Many people would be bussed to the meeting from outlying areas.

The association, meanwhile, has sent a letter to President De Klerk pointing out those aspects of VAT which will hit the elderly and the poor in particular.

Mr Broad said his association did not oppose the VAT system as such, but had asked that medical expenses and various basic foods should be zero-rated. The association also wanted similar relief for welfare organisations which would otherwise be forced to increase charges.



Feeling the VAT pinch

South Africa 26/9-2/10/91 320 (Business)

INTERNATIONAL EXPERIENCE has shown that Value Added Tax (VAT) is generally a "better" tax than sales tax, — but it is bad news for small businesses unless special concessions are made for them.

And although these concessions were supposed to have been made in South Africa, they have not, and many predict difficult times ahead for the small business/informal sector.

VAT is "better" because it is a more thorough way of collecting tax revenue, which can then be spent on social programmes and the like.

In short, it ensures, that everyone down the line in production and distribution pays their share of tax, theoretically minimising tax evasion — although many believe it will instead make it easier for companies with astute accountants to "steal twice as much" by falsifying accounts.

In addition, there are clear disadvantages for the small business or informal sector concern, reports leading Cape Town chartered accountant, Hilmi Daniels.

Under GST, small businesses only pay the tax due on a particular item when it was sold. In practice, many never collected or paid GST, and if they did, they hung onto it for as long as they could or simply pocketed it.

This helped with their cash flow — and was also a glaring example of how inefficient the GST system was as not all the tax money found its way back to the government.

Now, they have to pay VAT when they buy the item, even if it will take

some time to sell it. The VAT they pay for items will be known as their input tax and the VAT that they then charge their customers will be their output tax.

The difference between the two taxes must be paid every 60 days to the Receiver of Revenue and if the input tax is higher than the output tax, the difference will be refunded.

But, to get that refund, businesses have to be registered with the Receiver of Revenue — something many small/informal businesses have gone to great lengths to avoid.

Daniels, however, believes that it will be in the interests of small businesses to swallow this bitter pill — it will be the lesser evil in a case where they are definitely "damned if they do, and damned if they don't."

The reasons, he explained, are clear. Not only will small businesses find their cash flow squeezed by having to pay their input tax upfront, but they will also find that credit terms are not as easy as in the past, squeezing their margins even further.

This is because producers are also having to pay tax "upfront" — as soon as they buy the raw materials to make a particular item, for example. So they want to be paid by their buyers as soon as possible to improve their own cash flow.

These buyers are usually wholesalers, who, to protect their own cash flow, are already shortening their credit terms from between 30 and 90 days to 15 days and, in at least one case reported so far, demanding cash payments for orders worth less than R5 000.

Daniels said the net effect would be that small traders would not only have to pay more, but also pay it more quickly, and carry that cost until they could sell what they had bought.

To survive, they would have to increase their prices — and in these cost-

conscious days, this would just mean their customers would desert them for the cheaper supermarkets and chain stores, where bulk buying has always provided owners with special advantages the small store cannot match.

In this way, said Daniels, it was obvious that VAT actively worked against the interests of most small business.

To help overcome this particular side-effect of VAT, Daniels suggested that the government consider the system in New Zealand, where small businesses pay VAT only every six months instead of the every 60 days planned here.

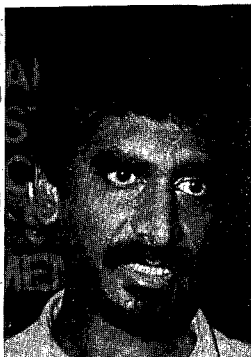
In Britain, small businesses only have to make small payments throughout the year, settling their tax bill at the end of the financial year.

Small businesses could, in theory, also keep their costs down by taking advantage of some of the tax breaks provided to business in general by VAT — but it is doubtful that they will be able to.

This is because most small business operators are not fluent in formal English or Afrikaans, are poorly educated and just don't have the spare cash to employ teams of accountants to ensure they get the best deal out of the new tax system.

They also do not have the cash reserves to take advantage of the capital allowances provided, such as not having to pay VAT on equipment or buildings bought for businesses.

Daniels said that if the government was serious about making VAT work fairly and equitably, it could have lowered the registration threshold to bring more firms under the VAT umbrella while setting VAT at a lower, more acceptable rate so that both consumers and business owners would not resent paying tax.



Cosatu's Jay Naidoo

Talks fail as V-day draws closer

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ELEVENTH-hour talks in Johannesburg this week aimed at diffusing the VAT crisis failed to produce immediate and concrete results.

The crisis now threatens to erupt into a countrywide strike.

However, in a move to placate protesters, State President FW de Klerk has agreed to consider last minute proposals put forward by some anti-VAT lobby groups during their three-hour meeting on Tuesday night.

But he stood firm on the government's decision to go ahead with the VAT implementation on Monday and warned people not to expect significant concessions.

In a statement after the meeting, Cosatu general secretary Jay Naidoo said the Co-ordinating Committee on VAT was demanding that some foodstuffs, medical supplies and services be exempted.

There should also be better poverty relief programmes, mechanisms to make water and electricity more affordable and assistance for the small business sector.

However, a source close to the Co-ordinating Committee said programmes involving, among other things, anti-VAT protest marches would go on as planned.

These are scheduled for Johannesburg, Pretoria, Vereeniging, Durban and Port Elizabeth. At least 10 marches are planned for the Eastern Cape region.

Protest marches

On Monday a broad front of trade unions, including the country's two largest federations and traditional "white" unions, as well as the ANC, discussed the use of a national general strike should VAT demands not be met.

Co-ordinating Committee organiser Mr. Bernie Fanaroff said the VAT summit agreed changes effected recently were unacceptable as they did not accommodate the demands.

A proposal from the medical sector that doctors should not collect tax and patients should not pay VAT was accepted by the summit.

The summit agreed that marches in major industrial areas be held on Monday, backed by pickets and demonstrations and a general mobilisation, climaxing in a general strike during the first week of November.

Meanwhile, Pick'n Pay boss Mr Raymond Ackerman expressed concern at the growing opposition to the implementation of VAT.

"I am trying to be a peace-maker at this important time," Ackerman said.

quarter because of higher exports of vehicles, transport equipment and pre-metals and stones. The value and volume of merchandise exports rose by 14.1 per cent in the first half of the year. At the end of June total gross gold and other foreign reserves amounted to Rs 8,7bn, equivalent to about seven weeks' imports of goods and services.

Anomalies emerge from VAT blur

By AUDREY D'ANGELO
Business Editor

"THE whole VAT thing has so many blurred areas that anomalies are suddenly emerging as it is almost upon us," Colin Boyes, executive director of the Cape Chamber of Industries (CCI), commented yesterday.

Among these are the discovery that VAT will have to be paid on General Export Incentive Scheme (GEIS) payments. The Department of Trade and Industry has asked the Ministry of Finance to change this and, according to the CCI, will in the meantime "compensate export claims to the full extent of the VAT by issuing a cheque for the VAT amount with promissory notes."

In spite of this the CCI is not in favour of any delay in implementing VAT. Its newsletter says that "mounting evidence shows that the economy has been marking time for the introduction of VAT on September 30."

Discussing the tax Boyes writes in the newsletter: "VAT will improve the cost performance of industry."

"But, more importantly, VAT paid on capital goods will be offset against output VAT and with the Minister of Finance's commitment to phasing out

the remaining surcharge on imported capital and intermediary goods when the 1992 Budget is delivered, additional cost savings will be made by manufacturing industry."

Boyes said yesterday he was concerned by suggestions that some large firms would not deal with suppliers who were not registered for VAT, because they would not be able to claim for inputs bought from these suppliers. "I sincerely hope that large firms will continue to deal with small suppliers who have not registered."

"This whole area is certainly one that the Government should look at more closely."

But, he continued, one of the reasons for changing to VAT was that under GST some people, who dealt only in cash, were making large profits on which they paid no income tax. Their profits would now come to light.

"The economy cannot function properly if some people who are making profits pay no tax at all while others carry the entire burden."

Accountant Godfrey Shev of Kessel, Feinstein said he did not believe the country could afford any postponement of VAT. "It would upset too much that is waiting to happen."

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Govt proposals 'not enough'

Deadlock in last-minute talks on VAT

B10ay 24/9/91 320

LESLEY LAMBERT

LAST-minute negotiations between government and the ANC and Cosatu-led VAT Co-ordinating Committee ended in a deadlock last night and there were indications that the parties were far from reaching a resolution.

The negotiations between Finance Minister Barend du Plessis and the committee, which were aimed at resolving the VAT crisis and averting potentially crippling mass action, started on Wednesday night and continued until late yesterday evening.

But, according to informed sources, the committee rejected a compromise offer by Du Plessis. It is understood that Du Plessis offered to zero-rate a limited number of additional basic foodstuffs on a phased-in basis. Proposals for the zero-rating of all medical services and supplies did not appear to have been on the agenda, while additional funds for direct assistance programmes would not be made available until next year's Budget, the sources said.

They said the offer fell far short of the committee's proposals to President F W de Klerk earlier this week. The committee proposed the zero-rating of more basic foods, and all medical services and supplies, the negotiation of more adequate poverty relief programmes, mechanisms to make water and electricity more affordable to disadvantaged communities and assistance for the small business sector.

While the negotiations were likely to continue today, the sources said they were concerned that the impasse would not be broken and that the committee would press ahead with its threats of mass action and a national general strike.

The negotiations followed De Klerk's commitment earlier this week to go ahead

with implementing the new tax on Monday, but, in the meantime, to consider demands for additional relief measures.

In another effort to avert a crisis, employer organisation Saccola met, the committee earlier in the afternoon. Saccola chairman Anton Roodt said they had discussed mechanisms for resolving the crisis. "We want to avoid an outcome that will place more pressure on an economy which is already underperforming. But it is also true that for a new tax to work, it must have widespread support."

Former Saccola head Bobby Godsell, who also attended the meeting, said the employer organisation hoped the negotiations between government and the committee would end in a "mutually acceptable resolution". He said Saccola had expressed the view that major social and economic upheaval was the last thing SA needed now and the implementation of VAT on Monday would help to "move the economy out of the recession and towards recovery".

Cosatu general secretary Jay Naidoo said before the meeting that the committee hoped to clarify the business sector's stand on VAT. "While there is an impression that business fully endorses the implementation of VAT, the committee has found that business is not unanimous in its view that VAT should be implemented in its current form."

The committee yesterday released details of a programme of protest action to be launched on Monday if VAT went ahead in its present form.

Making up . . . face painting at the Out of the Box Children's Festival which is on until October 5, at Windybrow Theatre. Booking is at Computicket for the three educational plays. Picture: Karen Fletcher.

Good news for policyholders

star 21/9/97
Consumer Reporter



The introduction of VAT on virtually all short-term insurance policies did not mean all premiums would rise by a full 10 percent, SA Insurance Association chief executive Rodney Schneeberger said yesterday.

Insurers would generally be able to absorb "at least half the potential increase", he said.

"SAIA wishes to reassure consumers that insurers will not take advantage of VAT to obtain additional premium increases," he said, cautioning this did not mean premiums would not rise in the coming months.

"Adverse claims ex-

perience arising from the unsettled state of the country and worsening crime makes a general increase in rates unavoidable," he said.

According to the SAIA, claims would be settled inclusive of VAT, and policyholders would have to set sums insured at levels that include VAT.

As the insured value of household contents and vehicles already includes GST, little change in sums insured may be necessary for the public.

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However, replacement costs of buildings — now subject to VAT whereas GST previously did not apply — could mean higher sums insured in homeowners' policies.

The SAIA has recommended that its member companies do not require an interim adjustment to sums insured in respect of policies current at September 30.

Insurers have been requested to "indemnify" policyholders against any impact of VAT in such "transitional" claims. However, all sums insured should obviously be reassessed at the next renewal date after VAT was introduced, the SAIA said.

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PRICES AND VAT

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Not everything should fall

It is not true to say, as some indignant VAT-watchers have done, that prices should fall in every case once VAT is implemented. Its impact on undertakings differs widely.

Professional partnerships, for instance, are going to require more capital to run their business — and this can be acquired only at a cost. They would be quite justified in taking this into account when setting fees.

Nor is there any moral imperative for those undertakings that will benefit by a switch from GST to VAT to lower prices. The Jesuits in Vatwatch might not like that but, if demand is sufficient to justify a price rise without the loss of business, then prices should go up.

For our part, we're offering readers a 2.8% advantage from Monday. ■

Anti-VAT demos set to go ahead

By Paula Fray and
Esmaré van der Merwe

Protests against VAT, including a national general strike, are set to go ahead as hopes of a consensus between the Government and the Co-ordination Committee on VAT faded last night.

An adamant Finance Minister Barend du Plessis said Government would not budge on VAT.

Speaking at the NP's Johannesburg regional conference before returning to another VAT meeting, Mr du Plessis

said: "I am really exhausted but we won't, a damn, give in."

He dismissed Cosatu's estimate that the cost of living would rise by between 3 and 5 percent with VAT. Government estimates were that the "worst case scenario" would mean a 1,6 percent rise in the cost of living of the poor — before taking food subsidies into account.

There were indications yesterday that the Government was willing to introduce subsidies on more foodstuffs.

A source close to the negotiators said: "Prospects of a resolution look gloomy. It looks as though the programme of action will begin."

Cosatu and the Co-ordinating Committee on VAT have planned national mass actions, including pickets and marches, for Monday.

A western Transvaal Cosatu spokesman said plans for a general strike during November were receiving mass support.

● Good news — Page 5

VAT's golden opportunities



Brian Kantor is professor of economics at the University of Cape Town.

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(320)

The appeal by potential investors for a special tax deal to promote projects that will add value to minerals has proved irresistible. In effect, the Receiver of Revenue will have made capital a free good for these favoured schemes.

The present values of the investment and other allowances provided for the projects, calculated by applying an after-tax rate of discount, are likely to exceed the sums invested in plant and machinery.

So much for the idea that capital is the scarce resource in SA and labour abundant. Good-bye also to the Margo Commission's vain hope of a neutral tax system. Neutral in the sense that resources would be directed by the signals provided by expected pre-tax returns, rather than by the negotiable difference between the before- and after-tax rewards of particular ventures. A corollary of the Margo position was that government favours were best provided on the expenditure side of the Budget.

The political attractions of the special tax deal, combined with the active involvement and special interests of the concerned officials and powerful lobbies (especially when they can point to extra exports, saving foreign exchange or providing more jobs), are bound to win every time. The beauty of such deals is that nobody is able to count the cost of the tax concession nor the jobs lost in other sectors of the economy.

The fact that other taxes will have to rise to compensate for the taxable income sacrificed by providing "free" capital, free that is of tax charge, is to the politician and his officials a free market economist's irrelevancies.

The important point to take (and perhaps,

after the twists and turns about the VAT rate and the substitution of an increased petrol tax for a lower VAT rate, it is a point South Africans will now find easier to take) is that all taxes, by whatever name we call them, constitute part of the costs of production that have to be recovered from consumers. Unless producers recover all their costs they will restrict production and prices will rise. And, if producers receive a tax concession, they will be encouraged to expand production until the prices of the goods and services they produce fall to the point where they simply cover all their costs, including the cost of capital, with the value of the tax concession fully accounted for.

It is for these reasons that one of the wiser adages in tax lore is that an old tax is a good tax. It is a good tax in that the influence of any tax cost or concession has long been included in the price of the good or service. Any new tax threatens this well established equilibrium.

For example, the supply of doctors and dentists has, over time, responded to the expected earnings of practitioners. Had sales tax been applied, medical services would have been more expensive, less treatment would have been demanded but there would have been fewer doctors, all other influences on the supply and demand for medics remaining the same. With VAT, SA doctors can expect to suffer somewhat as the demand for their services declines as well as the charges they are able to make. It will be of little comfort for them to be told that time will cure all and any decline in their earnings relative to those, for example, of accountants, will only persist until the number of practitioners adjusts.

However, by contrast, the suppliers of advertising services who were previously subject to sales tax, are enthusiastically awaiting their invoices being treated as an input for the calculation of value added. The demand for media space and media people is bound to increase. Spare a thought, too, for the proprietors of corner cafés whose greater contribution to VAT receipts, compared to sales tax returns, will be the difference be-

P.T.O.



tween running their own business and working for somebody else. Fewers corners will have cafés and those that do will not stay open as late.

Taking any long run view of the incidence of taxation leads to the conclusion that consumers pay all taxes and get the benefit of all tax concessions. The economic system revolves around the need to satisfy the returns required by owners of capital and labour, especially skilled labour, which moves easily between different sectors of an economy and also between competing tax regimes in response to superior or inferior rewards after taxation.

Given all the trauma of change, it may well be asked whether a change from one kind of tax to another, as for example from a sales to a value-added tax, is ever worth the political damage it causes. It would seem worth repeating that the major advantage of VAT, over sales taxes, is that the VAT system may be much more easily used to replace income taxes. Further increases in the sales tax rates would have brought diminishing receipts.

Moreover, by substituting for sales tax, the VAT will enable exporters to compete more easily and effectively in world markets. Sales tax costs cannot, as is the case with the local market, be passed on to buyers in export markets. Competitors there are not paying the same taxes.

Encouraging exports is vital, not because exports are a good thing in themselves but because they will help to earn the foreign exchange required to pay for imports of consumer goods.

The free availability of imported goods and services — cars, CDs etc, as well as the opportunity to watch sports and entertainment superstars, who command vast dollar rewards — improves the quality of life in SA.

By so doing imports help to retain and attract the services of internationally mobile managers and skilled workers, not to mention medical practitioners, at internationally competitive after-tax salaries. The better the quality of life, as well as the lower the level of taxation, the less you have to pay employees and so the more competitive producers will be in export markets.

It clearly helps to remain competitive in

export markets when exporters are not required to cost into their prices either onerous corporate taxes or more particularly sales taxes levied on their inputs of goods or services.

Thus, if exports are to be promoted, and hopefully for the sake of imports they will be, increases in the VAT rate will become inevitable as the heavy reliance placed on corporate taxes is reduced. More special deals will be the order of the day and the value of these tax concessions will have to be recovered elsewhere.

VAT makes such recoveries easier.

Also to be expected is a greater resort to social security taxes applied to employees. European countries rely much more than we do on a mixture of VAT and social security and less on the corporate income tax to generate revenues. Without these social security taxes, wage costs would be lower in Europe.

However, without the social security benefits provided by governments, labour would



be less freely available to European employers. Thus it is not only the corporate tax that influences the costs of production for export markets.

It would be much better if the SA corporate tax rate were substantially reduced, so doing away with much of the argument for special deals.

Indeed, there is an overwhelmingly strong economic argument for governments relying completely on consumption taxes, of which VAT is the best-known design, to replace income taxes levied on companies and individuals.

The chances of the public — and so the politicians — openly recognising that consumers anyway end up paying all taxes, as and when they buy goods and services, is not at all promising. The pretence of using the tax system to redistribute income will surely be kept up and the political attractions of special deals, which will be made at the expense of the corporate tax base, will be maintained.

Thus VAT can help SA to remain competitive in world markets by taking the heat off the corporate and income tax rates. Nevertheless, the total tax burden, relative to the benefits provided by government for the owners of capital and skills, will remain of absolute importance for the competitiveness of the economy. Corporate and personal income taxes are simply inferior forms of taxation best replaced by consumption taxes.

But what is even more important for the success of industry is that the overall tax burden, as reflected in the VAT rate and other forms of indirect taxation, should be held down. High rates of taxes on goods and services can drive away skilled labour just as income taxes can drive away savings and capital.

Achieving higher rates of economic growth will require that effective restraints be placed upon government spending. Economic success will require that higher tax rates, hopefully of the consumption variety, follow rather than attempt to lead the process of economic growth and attainment of higher income per head.

REACTIONS TO VAT

(320)

The decline of thought

The threats by Cosatu and other interest lobbies of demonstrations and a national strike will, if they take place, raise the potential for continued violence only weeks after the signing of the historic Peace Accord. The damage that this disruption will cause to life, limb and property far outweighs any deleterious consequences that might in the short term flow from the introduction of VAT.

Over the longer term almost everything about a broadly based indirect tax is economically and socially desirable. It taxes consumption and not savings; it applies equally to all; and it draws into the fiscus at a modest tax rate those small, informal undertakings that would otherwise avoid making any contribution to the public weal.

Those who object to the tax have had at least a year to formulate their case and present it to the committee especially convened for that purpose. From what Cosatu and the ANC have said so far, it is clear that they neither understand the economic implications of the tax, nor do they have a well-considered position on it. Their outrage now smacks of nothing but sheer political opportunism.

There seems little appreciation of what it would cost to delay VAT's implementation. Though it is only fair to say that the bureaucracy itself has been so administratively inept in preparing for the implementation of VAT that it too must be insensitive to the direct cost and indirect burden that it is about to foster.

To those who understand neither the economics of the tax nor the cost implications of its delay, a delayed introduction and the zero-rating of basic foods probably seems a very reasonable compromise. But it is not.

The cost implications of delay — the remarking of goods and changing of computerised accounting systems — is sufficiently widespread to have inflationary implications. The zero-rating of basic foods not only raises the problem of definition, but practice abroad suggests that the poor will benefit only marginally if at all. Cheap bread and meal invariably encourages farmers to seek them in greater quantity as livestock feed.

Fr 27/9/91.

Help for the poor to be effective and correctly targeted needs to be either in the form of direct subsidy or through incomes enhanced by greater economic growth, which within a year a VAT system will be militating towards.

As VAT is collected at each stage at which value is added, and is not collected entirely at the point of final sale, it is very difficult, if not impossible, to boycott. So if the unions plan to violate its integrity, they will have to resort to civil unrest.

The unions are more likely to achieve their ends if they offer a deal. An undertaking not to seek higher wages for two years would probably be sufficient to compensate business for the cost of a delayed VAT implementation and a narrower tax base. To threaten, instead, to bring havoc to the streets and lower profits from curtailed production is such a crude attempt at intimidation that it invites dogmatic retaliation.

If that is what the protest movement wants, then not only has it failed to identify its own interest, it demonstrates little respect for the Peace Accord. There is bound to be violence — mobs are impossible to control.

Probably at the root of it all is the thorough dislike most ordinary people have of paying taxes. The more one seems to pay, the more government interferes in one's life. But, of course, the other side of the coin is that without tax payments, government will provide less — fewer services and houses. If that is what Cosatu wants, we could go along with it. We're prepared to lead a demonstration for lower taxes and less government. But Cosatu does need to refocus and sharpen its argument if it wants to join in.

The introduction of VAT has very little to do with the restructuring of the economy, the lack of consultation over which appears to be Cosatu's chief gripe. But it has a great deal to do with a more equitable, streamlined and efficient taxation system. That is in everybody's interest.

The second VAT summit called for the IMF to stop interfering in the SA economy. If only it had been, we certainly wouldn't be in the economic pickle that we're in now. Inflation would have been down, output rising, jobs created — and ultimately incomes up. ■

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VAT on their supplies from then on, while their registrations will be backdated.

Revenue will shortly issue a practice note which includes a provision to deal with late registrations. This assists vendors who have submitted their registration forms before Monday's deadline but who have not been issued with a registration number by then.

Vendors in this category will be entitled to issue tax invoices, debit notes and credit notes — until October 31. These will constitute valid documents in terms of Sections 20 and 21 of the VAT Act.

Hattingh appeals to vendors to submit their applications as soon as possible.

Opinions differ dramatically about the extent to which applications for registration submitted in good time remain outstanding. One major accounting firm says a half or more of its clients' applications have not yet been processed.

On the other hand, Kessel Feinstein tax partner Ernest Mazansky says it is possible to process an application in one day at the Johannesburg Receiver's office, provided the application is handled in person by someone familiar with the workings of the VAT procedures there.

Coopers, Theron, du Toit, partner Bronwyn Allan says much of the fault at present appears to lie with the postal service, as many applications have been processed but notice of registration has not yet been received by the vendor. A telephone call is frequently all that is needed to establish that a number has been allocated.

There are an estimated 400 000 firms obliged to register for VAT in terms of the turnover threshold of R150 000 a year, so not quite 50% had registered at the time of going to press. There are specific queries about the willingness of black owners of small businesses to register. They may, for one of several reasons, prove reluctant to register: previous nonregistration for GST; nondeclaration of earnings for income tax purposes; and political attitudes.

The concession now announced should meet the difficulties of vendors who have

VAT — 1 FM 24/9/91

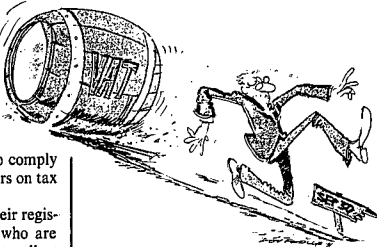
Last-minute relief (320)

Inland Revenue Commissioner Hannes Hattingh says 195 411 vendors were registered for VAT by Tuesday and had numbers allocated.

Applications are being received at the rate of 3 500 a day and Hattingh expects the tempo to increase in a last-minute rush to beat Monday's deadline. However, some forms received are incomplete or deficient, which has resulted in delays as the correct information has had to be obtained by staff at Revenue.

Special measures have been instituted to cope with the rush to ensure that vendors receive their registration numbers on submission of their applications. Hattingh says it should be possible for vendors who submit a form now to receive a registration number the same day. This will ensure that they are in a position to comply with the Act and quote their numbers on tax invoices where this is necessary.

Vendors who have not received their registration numbers by Monday, and who are required to register for VAT, must collect

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submitted themselves for registration but who, for whatever reason, still find themselves unregistered on Monday.

VAT — 2 FM 24/9/91

Bricks and mortar (320)

Among the recently announced VAT concessions is significant relief on the construction of dwellings which represent the stock-in-trade of contractors or vendors. VAT will be reduced to compensate for the fact that GST will already have been paid on the materials used for construction purposes, says Koos van Wyk, director of the tax department of Coopers Theron.

As a result:

- ☐ No VAT will be levied on dwellings completed by the contractor or vendor before September 30 1991 and unsold (that is, in stock) at that date, if the contract of sale is closed before March 31 1992;
- ☐ The VAT rate will be 3% where construction of a dwelling is in progress on September 30 and is completed after that date, but on or before December 31 1991 and the contract of sale is closed after August 21 1991 but on or before December 31 1991;
- ☐ The VAT rate will be 6%, where construction of a dwelling is in progress on September 30 1991 and completed in the period January 1 1992 to March 31 1992 and a contract of sale is closed after August 21 1991 but on or before 31 March 1992; and
- ☐ The sale of land for the erection of dwellings is subject to a VAT rate of only 6% if the contract of sale is closed after September 30 1991, but before March 31 1992.

Under existing legislation, any sale of a dwelling concluded before September 30 1991 is, in any event, not subject to VAT, irrespective of when occupation is given, payment is made or transfer is registered. This concession also extends to contracts of sale for dwellings where, at the time of con-

clusion, construction has not been completed (or started), unless the true legal nature of the agreement is a construction contract and a separate sale of land.

The new measure is intended to help developers or property speculators who will have completed and half-completed stocks of dwellings on hand at September 30 1991. The cost of these stocks will partly include GST paid and would have, nevertheless, been subject to VAT again, on the full sales value, on sales made after September 30 1991, had the relief not been given.

It should, however, be noted that while the concessions are granted, transfer duties remain payable. This means that where a 6% VAT rate applies, in the case of a company, a total levy of 11% (6% + 5% transfer duty) may become payable which exceeds the 10% standard VAT rate. Individuals on the other hand would have to pay a total levy approaching 9% (6% VAT + transfer duty at nearly 3%) in the same circumstances.

Though this relief is marginal in percentage terms, it might save a substantial amount in rand terms on a new dwelling being purchased after September 30 1991.

In certain circumstances it might also benefit parties to re-negotiate the contract price of transactions to take account of the implications of the new concessions. ■

A DEAL brokered by an outside tax expert could have dented the explosive Value-Added tax crisis two weeks ago — but was torpedoed by the high-handedness and inflexibility of Finance Minister Barend du Plessis.

Investigations into Du Plessis' handling of the unfolding VAT saga shed a harsh light on the minister's personal failings and reveal a consistent pattern of political miscalculation and mismanagement.

"In any normal country, he would have been fired by now," commented a business leader involved in last-ditch moves to head off an all-out war over the tax.

Sources said that following Du Plessis' September 3 meeting with the Coordinating Committee on Vat (CCV), tax lawyer Professor Henry Vorster brokered a meeting involving Varrach Chairman Louise Tager and a representative of the Finance Department, which hammered out a compromise deal broadly acceptable to both the committee and the department. Connected for confirmation, Vorster declined to comment.

The deal acknowledged that the implementation of VAT could not be delayed, but proposed the zero-rating of a broader basket of basic foodstuffs and strategic medicines for a six-month period to allow for the negotiation and introduction of poverty-relief programmes. This is substantially the compromise De Klerk is expected to announce today.

At his next meeting with the CCV, on September 17, Du Plessis refused to take the gap, insisting that no further zero-rating was possible, he delivered a lengthy lecture to the committee and the talks degenerated into political mudslinging.

"His manner was that of the school-yard bully," said one man present at the talks. "My impression is that he's an insecure man who's not on top of his job. Instead of weighing VAT on his merits, he politicised the issue." Added the ANC's Tito Mboweni, who also attended: "He was completely impossible."

Numerous sources confirm that progress was only made at this week's talks between the CCV and Du Plessis, once Du Plessis had left the meeting for another appointment. "Once placed under the microscope, we began to see the president's human side," was one comment.

It is understood that Du Plessis has

Stubborn Barend torpedoes attempts to end the VAT crisis

W/Wed 24/9 - 3/10/91

Barend du Plessis' 'schoolyard-bully' approach and political miscalculations scuppered a deal that could have defused the growing anger at the imposition of VAT. By DREW FORREST



Members of Acd-Up, an Aids organisation, protest against VAT on medical fees

Photo: JUSTIN SHOLK

hit flat in the cabinet from colleagues deeply concerned that his inflexible style has undermined the government's stated commitment to negotiation and that the VAT row could inflict major damage on the constitutional process and labour peace. There is strong speculation that his political career may be on the line.

At the second "VAT summit" this week, attended by 43 political, union, welfare and civic organisations, ANC secretary-general Cyril Ramaphosa warned that a continued hard line on VAT would undermine the government's negotiating bona fides and jeopardise constitutional talks.

Sources within the South African Chamber of Business confirmed that there are calls within business circles

for Du Plessis to step down. It is said that 100 top businessmen attending a dinner last week of the South African Fiscal Association, at which the minister was a guest speaker on VAT, pointedly omitted to applaud his address.

If De Klerk announces further changes to the tax today — and he is expected to do so in the wake of his talks this week with the CCV — it will be the fourth time in as many weeks that the system has been adjusted under pressure.

"Given that the tax is due to take effect on Monday, this suggests that the government has not done its homework," said the National Industrial Chamber's Ian Hebbempton, a member of the co-ordinating committee

team involved in the talks. Government failures on VAT were also thrown into harsh relief in the bilateral "working group", representing government and CCV experts, agreed to by Du Plessis at the September 3 talks. Its task was to weigh the likely effects of postponing VAT, among other issues.

Deliberations in the group revealed: ● The decision to cut the VAT rate from 12 to 10 percent and raise the petrol price by 13c a litre was made without the necessary statistics or economic model. "It was a complete thumbsuck. We were flabbergasted that such an enormous decision was based on such anecdotal evidence," said a working group member.

● Government claims that VAT would raise the cost of living of lower-income groups by only 1.5 percent were essentially based on International Monetary Fund statistics, without being adjusted for local conditions. The CCV estimated that the figure was nearer five percent.

● No statistics were available to back government claims that the postponement of VAT would have "catastrophic consequences".

● That although it had always been government policy to couple VAT with poverty-relief programmes, three weeks before the launch of the tax, no programmes for the poor had been planned or set in place. "Government members admitted this was an oversight," a source said. A Health Department representative told the working group that it lacked the infrastructure to distribute relief funds and that a system could not be set up by September 30.

In addition, it appears that as late as August, Du Plessis had no sense of the looming crisis over VAT and that the issue was left to lower-level officials.

Sources said that following the resolution on the tax at the Congress of South African Trade Unions' national congress, alarmed business leaders asked Manpower Minister Eli Louw to suggest to Du Plessis that he initiate dialogue with the labour movement.

Business sources this week slammed the almost total lack of government educational and information programmes to familiarise ordinary people and the business community of the mechanics of VAT — in contrast with the practice everywhere else in the world. Although the Value-Added Tax Act was silent or ambivalent on a host of questions, no government interpretive manual had yet been published.

"Thousands of business people are queuing up for rulings from Inland Revenue — some have been waiting since June," a source said.

"It's quite clear that the government wanted to get this thing in place before the start of constitutional negotiations. They realised that this was a highly regressive tax which would hit the poor and that once there were black faces in government, it was a dead letter."

CURRENT ISSUES



VAT: A better tax? For who?

New Nation (Learning 10)

320

27/9-3/10/91.

On the 1 October the government will introduce a new tax on consumers - and we will all be a little poorer. On the radio and TV we are told that VAT is "a better tax for a better South Africa". The government has spent R10 million on the advertising campaign. Lets try to understand what VAT actually is. What is the government saying about this tax? Why have the working class' organisations such as COSATU rejected VAT and threatened mass action?

Why has the state introduced VAT?

- The state gets its money from:
- direct taxes on the people and companies
- profits on state industries
- duty and surcharge on imports
- the financial transactions of the Reserve Bank.

Direct taxes consists of Income Tax which varies as a percentage of your wages and Company Tax which is related to the profits companies claim they make.

Since 1978 the state added General Sales Tax (GST) to the above list. This was in response to the growing decline in the financial reserves of the state. Initially GST was 4% but gradually it became 13% by 1989. GST is a tax on consumers and is a standard amount for all people. But South Africa has the greatest disparity in wealth between rich and poor in the world. Worse still, in many regions of South Africa at least half the people are unemployed. All of this means that the working class and the poorer people in general pay a greater proportion of their earnings to tax than the middle classes and the rich.

There were however a number of commodities for which we did not pay sales tax. These included a wide range of foodstuff such as bread, milk, meat, eggs and vegetables. This was some measure of relief for workers and the unemployed.

The crisis of state revenue has however worsened. And the massive debt the state owes to foreign banks threatens it with bankruptcy. In response the state is selling off its assets through privatisation, cutting social services and seeking other ways of getting money. Since GST was not providing enough revenue, the state looks towards VAT to address the problem.

The differences between VAT and GST

Vat is a tax added onto the price of all services and goods at every stage of their production when value "is added". For instance in the production of furniture, tax is

paid on every stage from the cutting down of the trees to the shaping of the wood into the furniture, to the transport of every component of the furniture and finally at the point of sale when the furniture is bought by the consumer. Unlike GST where tax is only paid at the points of sale, VAT must be paid whenever value is added.

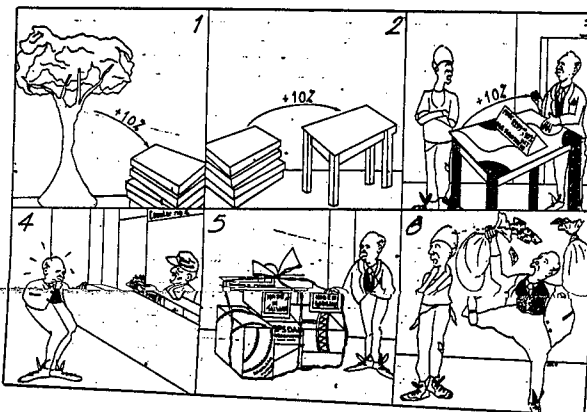
VAT is not paid on machinery (capital goods) which are used in production because they "do not add value" to products. Vat is paid on all services from medical services, to electricity and water.

The government also argues that VAT has been implemented in over 50 countries in the world and that in these countries it has proven to be a fair tax.

VAT in other countries

The first countries to use this tax system were Third World countries such as Morocco (1962), Columbia (1965) and Brazil (1967) where there were economic crises and lack of worker organisation at the time.

The application of VAT in the late 1960's



The bosses will be able to claim from the state the VAT they paid on commodities. They will also get machinery VAT-free while we will have to pay for the increased costs. No wonder they are so happy.

VAT will be charged on all food items with the exception of brown bread and mealie meal. At the time of writing, VAT, after initially being set at 12%, has been reduced to 10%.

The government's arguments in favour of VAT

In 1989 the government set up the Margo commission to investigate the tax system in South Africa. The commission argued that GST allowed too many people to get away with not paying sales tax and that VAT could solve this problem as well as allowing the government to receive enough revenue with a lower tax rate than GST.

There are two basic arguments that the government uses to argue in favour of VAT.

- (1) because the new tax covers all goods and services and no-one can escape tax on every transaction, the government argues that the tax is more fair.
 - (2) because tax is not paid on machinery (capital goods), VAT will allow the capitalists to save and thus the money (capital) can be used for more investment in new projects which can create jobs.
- Because the government also recognised that VAT would increase the tax burden of the working people it said that it would set VAT at a lower rate than GST (10% as opposed to 13%) and create a fund for the poor.

and 1970's in the major capitalist countries such as Germany and Britain showed how the ruling class of these countries had moved away from the welfare policies after the Second World War. Since that war most of the countries of Western Europe had been rebuilt by massive amounts of American capital and state spending on benefits to workers to combat the threat of Soviet expansion and the culture of socialism amongst workers. By the end of the 1960's the economies of the USA and most of Europe were in crisis and the relative peace between the ruling class and the workers broke down. The ruling classes of these countries began to attack the benefits won by workers since the Second World War. The greater taxation of consumers in so many other capitalist countries shows the extent to which the international working class has suffered blows and is not therefore a proof that VAT works for the benefit of all people.

The truth about VAT

In South Africa the application of VAT to every phase of value-addition to an item raises the possibility that the cost of production of all items will increase. In the case of our example of the furniture which we cited above this means that the final piece of furniture will have added to it the cost of paying VAT on the trees, the wood, the

boards etc. The state argues that this addition will not push up the cost of production because the capitalists can claim the payment of VAT on the intermediate items from the Department of Internal Revenue. But this leaves the whole system at the mercy of the companies who can argue that they need to hand over their increased production costs to the consumer. The fact that the state has had to set aside R68 million to administer VAT (including inspectors) shows how much potential VAT has to be exploited by the bosses.

One of the main reasons given by the state for VAT is that the savings on capital goods earned by capitalists can be used for new investment on job-creating schemes. The problem is that presently the capitalists in South Africa are making huge profits and yet are not investing in new projects in this country. There is nothing to suggest that the bosses will now use their extra savings to increase jobs in South Africa.

VAT and the attack on the living standards of the working class

We will now have to pay VAT for all food and services, including medical services and electricity bills. This was not the case with GST. At present almost half the inflation rate is caused by increases in the price of food. The working class spends at least 25% of its earnings on food so we can see that the effect of VAT on the living standards of working and unemployed people is devastating. The state's attempts to set up a special fund for the poor shows that even it realises how damaging VAT will be.

In response to the widespread outcry from almost all sections of the people the government has appeared to back down on VAT. It has dropped the rate from 12% to 10%; it has exempted state hospital medicines from VAT and it has increased the promised money for the poor from R220 million to R1 billion. This money they say will be spent on services such as health, education and hostel upgrading. Apart from the fact that the amount is insufficient to address any of the problems or that there is no guarantee that it will not be swallowed up in administration, the imposition of VAT affects every act of purchase, every need of the people, everyday and cannot be solved by a once-off handout.

Worse still, the government has wiped out the benefits of reducing VAT by increasing the price of the one commodity that affects all prices - petrol, and that by 13c a litre. This means a rise in the cost of all forms of transport, including a rise in fuel costs for agricultural services - which is sure to cause a further increase in the price of food.

VAT, even more so than GST, shows how much of the tax burden in South Africa has been shifted onto the shoulders of the working class and away from the rich.

Next week we will look at the responses of the people to the imposition of VAT.

RESOURCES



Rural Resources: Organisations and materials

New Nation (Learning N)

27/9-3/10/91

It can be very difficult to get resources for group discussion and workshops in rural villages or townships. It is also difficult to know which organisations to contact to help you with particular needs. This list can help you find information you need. It is not a complete list, so make sure you ask for more references when you write - and say clearly what you need to know!

Useful references:

Magazines

1. **Work in Progress**, PO Box 32716, Braamfontein, 2017: a magazine with articles on political developments, civics and youth
2. **Horizon**, PO Box 31604, Braamfontein 2017: the journal of the ANC Youth League (also contact local offices of ANC/ANCYL)
3. **Mayibuye**, PO Box 61884, Marshalltown, 2307 (also contact local ANC/ANCYL offices)
4. **Language Projects Review**, PO Box 378, Salt River, 7925: a magazine with useful discussions on language issues and development
6. **Speak**, PO Box 45213, Mayfair, 2108: a magazine on issues concerning women's rights, including debate on traditional practices and beliefs
7. **New Ground**, a Journal of Development and the Environment, Environmental and Development Agency (EDA), PO Box 322, Newtown, 2113: a magazine which puts environmental and development issues in political perspective

Documents

8. **History Workshop**, University of the Witwatersrand, PO Wits, 2051: publications which will put you in touch with the latest historical research on rural struggles
9. "A case for rural development": available from Rural Advice Centre, PO Box 358, Johannesburg, 2000: a booklet which includes some useful information on rural areas in South Africa, and arguments for rural development
10. **ANC Land Commission**, PO Box 61884, Marshalltown, 2107: publications and policy discussion documents on land issues
11. **The Urban Foundation**, PO Box 1198, Johannesburg, 2000: the UF's Resource Centre has policy discussion documents on urban-rural development issues, eg. "Policies for a New Urban Future", including "Rural Development: Towards and new framework"
12. **Development Bank of Southern Africa**, PO Box 1234, Halfway House, 1685: a useful source of (critical) government reports on Bantustans and development, including a magazine "Development Southern Africa"

Organisations and Resource Centres

Resource centres

13. **Environmental and Development Agency (EDA)**, PO Box 322, Newtown, 2113: EDA's resource centre has a list of useful articles, magazines and books on environmental and V:F7 development struggles in South Africa and other countries
14. **Transformation Resource Centre**, PO Box 1388, Maseru 100, Lesotho: helpful information on development issues in Southern Africa, including a newsletter "Work for Justice".

Civic resources

15. **PLANACT**, PO Box 93540, Bellevue, 2143: a resource organisation for civics in the Transvaal, and has information on civic issues in its Resource Centre
16. **Development Action Group (DAG)**, PO Box 15873, Vlaeberg, 8018/101 Lower Main Road, Observatory, 7925: gives help to civics in the Southern/ Northern/ Western Cape.

Legal resources

17. **Legal Resources Centre (LRC Publications)**, 71 Ecumenical Centre, 20 St Andrews Street, Durban, 4001: information, including an excellent book, "A handbook for public interest lawyers", on topics such as Legislative Authorities in African Areas (ie. tribal authorities), African Marriages with Emphasis on Women's Rights, Pensions, Unemployment Insurance Law, Education, etc., in fact an excellent resource for community workers!
18. **Legal Education Action Project (LEAP)**, Institute of Criminology, University of Cape Town, Private Bag, Rondebosch, 7700: a handbook "Working for Justice", which includes a list of advice centres, advice centre forums, para-legal resources, public interest lawyers, etc
19. **Black Sash**, 5 Long Street, Mowbray, 7700 (attention Mark Seftel): distributors of a handbook "Your Guide to farmworkers and the law" (published by the Rural Legal Services Project, PO Box 5227, Cape Town, 8000)

Network (Natal)

20. **Natal Rural Forum**, Suite 301/3 Metal Industries House, Ordinance Road, Durban 4001: a network of rural service organisations concerned with land and education in the Natal coastal region

Land issues

21. **National Land Committee**, PO Box 16858, Doornfontein, 2028: a network of organisations working on land and development issues such as farmworkers, forced removals, etc... Its affiliates are:
 - a. **Grahamstown Rural Committee**, 10 Hayton's Building, 94 High Street, Grahamstown, 6140: publications on rural, land and local government issues
 - b. **Farmworkers Resource and Research Project**, PO Box 114, PO Wits, 2050: information, advice and training for advice centre workers on farmworker issues
 - c. **Association for Rural Advancement (AFRA)**, PO Box 2517, Pietermaritzburg, 2000
 - d. **Transvaal Rural Action Committee (TRAC)**, PO Box 2827, Johannesburg, 2000
 - e. **Surplus People's Project (Western Cape)**, PO Box 468, Athlone, 7760
 - f. **Southern Cape Land Committee**, PO Box 9015, George, 6530
 - g. **Eastern Cape Land Committee**, Room 311/7 Capitol Building, 545 Main Street, North End, 6096
 - h. **OFS Rural Committee (OFRUC)**, PO Box 7702, Bloemfontein, 9300

Suggestion

Once you have read the articles in this Rural Focus series, form a **group** to discuss some of the issues raised. If you need more information on some of the topics, study the lists of resources provided in the series and write to the organisations for more information. If you cannot find



the information you need in the lists provided, write to **Learning Nation**, P.O. Box 11350, Johannesburg, 2000.

When you feel you have enough information, or have received more information from organisations, organise a workshop for members of your church group, youth organisation or civic.

We have provided you with some ideas about how to organise a workshop on the Skills Page in this edition of Learning Nation.

Some questions for discussion

In the "Rural Focus" series we have analysed some of the social, political and economic forces which are changing the face of rural South Africa. But there are still many questions to be answered:

- * What is the future of rural areas, particularly after Bantustans have been buried forever?
- * What kind of government policies - in local government, education, health, and so on - will offer the people who live in isolated rural areas a secure future?
- * How can we build civic organisations to advance the struggles of ordinary people in rural areas?
- * What is the role of traditional leaders (Chiefs), beliefs and practices in the process of rural transformation and development?

Readers are welcome to send their views to **Learning Nation**, PO Box 11350, Johannesburg, 2000.

Co-operation on VAT aids unity efforts



MOVES to unite the Congress of South African Trade Unions and the National Council of Trade Unions have received a major leg-up from the current campaign against Value-Added Tax.

The two federations, for many years ideological foes and organising rivals, jointly convened last week's union summit on the new tax and have collaborated closely in the Co-ordinating Committee on VAT. Nactu has also decided to join Cosatu and other unions in any mass protest action mounted on the VAT issue.

"We've had their active and whole-hearted co-operation, which never happened during the Labour Relations Act campaign," said a Cosatu source.

The watershed seems to have been the speech by Nactu general secretary Cunningham Ngcukana — historically seen as an Africanist "hawk" — at Cosatu's July conference. In this he argued for a single union federation and convening of a summit on trade union unity "without delay".

Sources believe that the 250 000-strong Nactu may be under both local and international pressure to sink its

The campaign against Value-Added Tax has had an unexpected spin-off: closer ties between the two largest union federations, which may result in unity, reports **DREW FORREST**

differences with Cosatu.

In an interview, Ngcukana revealed that the Cosatu and Nactu leaderships had held talks on September 13 at which the unity issue had been addressed. Other subjects for discussion had been the Patriotic Front, the peace initiative and worker rights.

The federations were working towards a permanent committee to facilitate co-operation, on which both leaderships would sit, he said. Before this, Cosatu and Nactu affiliates in the same sectors would meet to address "the question of friction on the ground", he added.

Ngcukana said that to lay the foundations for unity, Nactu had established steering committees to facilitate the merger of its own affiliates in six sectors. The federation has resolved to expel affiliates refusing to merge by March 31 next year.

Unity would also be an issue at a union summit on worker rights, to which

Cunningham Ngcukana ... watershed speech at Cosatu's conference independent worker bodies would also be invited, scheduled for early next year.

Asked why current conditions favoured unity, Ngcukana said the worker movement was reaching maturity and that political conditions were changing.

He said that politics remained an obstacle to unity; Nactu would not be making specific demands on the issue. While Cosatu is allied with the African National Congress, Nactu is officially non-aligned but has in practice been linked to the Black Consciousness Movement and the Pan Africanist Congress.

Another key hurdle to be crossed is unity in the chemical sector, where Nactu's largest and best organised union operates. Historically under the sway of militant Africanists, this has consistently stonewalled unity overtures by Cosatu's Chemical Workers' Industrial Union.

Gold mines cost-cutting drive pays dividends

Weekly Mail Reporter

LESS than seven percent of goldminers now risk losing their jobs — down from 22 percent in the second quarter of last year — partly as a result of a cost-cutting drive in the industry.

This means that some 30 000 miners were employed on mines at risk at the end of June, as against 100 000 at the

same time last year. Over the same period, the total work force fell from 483 000 000 to 426 000.

The Chamber of Mines' latest newsletter traces "a marked improvement in the health" of the industry both to an improvement in working revenues and the containment of working cost increases to an "absolute minimum", as

the gold sector comes to grips with the cost crisis hitting profits in the past three years.

Although the dollar gold price had remained trapped within a narrow trading range, of between \$350 and \$372 an ounce, a 6.6 percent depreciation of the rand against the dollar had been a major factor in raising rand revenues.

Cosatu profits from tax campaign

By DREW FORREST

THE protracted furor over VAT may have been highly damaging to the government — but it has enormously strengthened the hand of the Congress of South African Trade Unions (Cosatu).

Beneath the surface of the anti-VAT campaign lies a multi-layered union agenda linked to the developing drama of political transition in South Africa.

This is not to suggest the Machiavellian exploitation of an emotive tax issue for other ends: concern about the impact of VAT on workers' pockets initially triggered the campaign and remains central to it.

This emerges clearly from a resolution passed at the June congress of the South African Clothing and Textile Workers Union, the first Cosatu affiliate to adopt policy on VAT. The motion simply calls for the lifting of the tax on basic foodstuffs and other necessities and resistance to the taxation of union dues — there is no hint of a wider agenda.

But as the campaign gathered steam, drawing in an undreamt-of gamut of political, civic, labour and welfare bodies, and as the government lurched from one panic-stricken concession to another, it presented other openings.

"Taxes have always been powerful mobilising totems," said one unionist. "The government is on the

run, and the temptation is to keep chasing."

Sources indicate that a leading force in the union drive has been the National Union of Metalworkers (Numsa), perhaps the Cosatu union pushing hardest for negotiations on economic reform. "The VAT campaign is part of Numsa's masterplan for a South African social democracy," said a unionist. "They're saying to the state: If you don't negotiate, if you don't have a tripartite system for setting policy, you're going to have trouble."

Cosatu's campaigns co-ordinator, Lisa Sefitel, links VAT to the government's ill-starred privatisation thrust — describing it as "another bid to restructure the economy, to ensure the maintenance of white privilege when whites no longer hold power". The perception that through VAT the state is trying to sabotage a future democratic government has fuelled worker anger over the tax, she says.

The emergence of a multi-faceted anti-VAT coalition spearheaded by Cosatu has presented the federation with yet another opportunity: that of consolidating itself as a major political player in advance of constitutional talks.

Cosatu general secretary Jay Naidoo is known to feel that VAT has enabled the federation to broker a broad alliance, embracing many organisations outside the labour field,

in a way that no previous union campaign has done. This has given Cosatu a new profile: as championing the interests of society at large, not merely the sectional interests of its members, comments textile unionist Ebrahim Patel.

Indirectly it also promotes "civil society" — a major Cosatu concern. "It encourages ordinary people to look to the unions to defend their interests, not just parliament," Patel adds.

There are some on the left of the union movement who would push the VAT campaign to the last ditch, hoping to undermine the state's ability to tax — with control of the security forces, the key pillar of government. "Some militant organisers see it as a way of enforcing demands for interim rule," said one union man.

This is very much a minority view: if De Klerk gives ground, the likelihood is that a deal will be struck and both the day of action next Monday and the threatened general strike in early November will be postponed. Indeed, some unionists argue that Cosatu should have claimed victory and retired from the field when the VAT rate was cut to 10 percent.

The decision to pursue the demands undoubtedly sprang from a sense that there was a real potential for mass protest action on the VAT issue.

● To Page 8

Cosatu profits from campaign

Unionists admit that the worker response to stayaway calls this year has been "patchy" and that the most recent endeavour — last week's two-day stoppage over the Reef violence — had been a dismal failure.

But at this week's VAT summit, labour camouflaged itself a month in which to mobilise its constituency for a general strike, reckoning that the inflationary impact of VAT would heighten national outrage. "The violence has simmered on for months, and people have lost any belief in their ability to control it," Patel said. "But VAT is a novelty — it's been a huge talking-point in our factories."

Although unionists concede a national VAT stayaway would probably fail if called now, there are ominous signs of a groundswell on the issue. The conservative town of Carletonville was rendered "almost ungovernable" at the weekend by VAT protests, according to reports, while permanent picketers have been mounted in such unlikely centres as Lichtenburg.

Even if the unions are not put to the test on their strike threat, VAT has been a windfall for them. It has raised Cosatu's political profile, promoted unity with its smaller rival, the National Council of Trade Unions, forged new links with non-labour organisations and cast the federation as a crusader on an issue of vital concern to all South Africans.

More importantly, by forcing a series of climb-downs by the state, it may have permanently changed the balance of power in the country. On any measure affecting the mass of South Africans, the government will now think twice before it legislates without negotiating.

320 CT 28/9/91

VAT: Protest march for city

Staff Reporter

THE labour movement has targeted Monday for a protest march through the city to mark the implementation of VAT.

At least nine other marches and several pickets have been planned in other cities and towns by Cosatu or by civic organisations, most of them starting at noon on Monday.

Mr Alan Roberts, Cosatu's Western Cape regional secretary, said the VAT system had been "dictated to us by the International Monetary Fund".

The government was trying to impose it without taking proper account of the views of representative organisations, he said.

Mr Salie Manie of the the SA Municipal Workers' Union said workers were particularly concerned about tax being imposed on things that had previously been tax-free — mainly fresh food, medical expenses, and services such as electricity.

Pamphlets have been circulating in the townships calling for a stayaway on Monday, but Cosatu has "distanced itself from the bogus pamphlets".

● Sapa reports that the PAC intends to host countrywide picket demonstrations on Saturday in protest against the introduction of VAT.

Retailers braced for tax scramble

(320) CT 38/9/91

Staff Reporters

SUPERMARKETS are poised for a last-minute scramble for tax-free foodstuffs ahead of the implementation of VAT on Monday.

Mr Alan Baxter, Pick 'n Pay's general manager of food, said sales of GST-free items which will be subject to VAT had soared by at least 30% since August. Demand for some lines had been so great they had run out of stock.

"But we have increased stock levels of these items by about 25% for this weekend as we expect a major rush ahead of 'D-Day'."

The chain's "no name" brands would be "price-frozen" until the end of the year.

Checkers managing director Mr Sergio Martinello said the chain had negotiated with its suppliers to freeze prices until the end of October.

Shoprite managing director Mr Whitey Basson said that while there had been an upturn in the sales of GST-free basic foodstuffs, it has probably not been as dramatic as our competitors operating in the upper end of the market.

"This is due to the profile of our market which does not have that much unused disposable income to stockpile groceries," he said. "I feel very sorry for our customers, many of whom live from week to week and day to day. It is a case of the rich being able to afford the savings while poorer people can't."

Mr Syd Muller, managing director of Woolworths, said they had not yet noticed a marked increase in sales.

The chain had run an advertising campaign announcing that it would extend the period of implementing VAT, and the rush might happen later, he said.

● The price of sugar is to be reduced by R6 a ton when VAT comes into effect on Monday, the South African Sugar Association said yesterday.

However, the association said the sugar industry did not determine the retail price to consumers.

**No price increase for
your favourite papers**

FINANCE STAFF

THE COVER price of the Saturday Star and all other newspapers of the Argus group will be kept at current levels until March next year.

The savings created by the changeover to VAT partly makes this possible. By introducing VAT, the Argus group will have successfully avoided an increase in cover prices for an average of 18 months.

Peter McLain, chief executive of Argus Newspapers Ltd, says: "Although initially the Argus group expected the cost of printing and distributing our newspapers, we will resist these pressures by absorbing all cost increases for a minimum period of five months after the introduction of VAT. After that time we will be free to adjust our prices to objectives. Firstly we will be passing on the savings we derive from VAT and, secondly, by holding our prices, we will be helping in the fight against inflation."

Marches, demos, strikes threatened

VAT: Resistance intensifies today

6/2/81
PAULA FRAY

COUNTRYWIDE resistance to the implementation of value-added tax is set to intensify today after the failure of eleven-hour negotiations.

The Pan Africanist Congress will stage demonstrations in all major cities in protest at the introduction of VAT.

The new tax will be greeted by marches in all the major cities on Monday — including a march to the Department of Finance at Pretoria.

A national general strike and other mass protests are also likely.

The South African Dispensing Practitioners' steering committee on VAT will meet at Lesid Clinic in Swetso tonight to plan how to confront the tax.

Doctors from around the country have sent in suggestions of action to be considered at the meeting.

The Co-ordinating Committee on VAT, ANC representative, Tito Mowwen, said the situation was so bad that he had decided to appeal to ANC President Nelson Mandela to intervene.

On the eve of the tax switch-over, calls and letters were flooding VAT switch-over centres. The organisation said yesterday. Five additional telephone lines had been in use for the past few days. Requests for help.

Stores across the country are bracing for a last-minute rush on GST-free items as well as a hectic change to the new tax on Monday.

Pick 'n Pay has set up a R1.5 million fund to cushion lower-income



ONE ON THE MISSER: Sandy shows SPCA assistant superintendent Samantha Zish her appreciation.

• Photograph: JOHN HOGG

Gun fight, car chase leads to arsenal Adopting a pet now



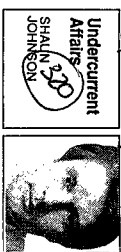
VAT's timing bodes ill

In two days' time, unless the sky falls in (which is not impossible given the inclement political weather), we South Africans will wake up VATable. Value will henceforth be added to our Tax, and all we can be certain of is that said value will not be accruing to our goodselves. It is not a day to which many are looking forward: Barend du Plessis and Jay Naidoo will agree on that much at least.

Like the Minister of Finance before me, I am not ashamed to say I do not wholly understand VAT. In fact I am prepared to concede that I do not even halfily, or quarterily, understand VAT. But I have long had a powerful premonition — along with most of the population — that it is going to make me poorer.

Premontion became reality this week. I received a letter from my insurers (whom I will not name on the generous assumption that all other insurers are indulging in similarly Pectostiffan correspondence and it would not be fair to single out my lot), and it was an infuriating letter.

The massive began reasonably enough. Like many policyholders, you might well be worried



about the effect VAT will have on your budget, wrote the managing director in a personal letter to me and several million others. It went downhill from there on.

"You probably expect your premiums to increase by 10 percent," said the MD. In point of fact, nothing of the kind had so much as crossed my mind. I had given no thought whatsoever to the possibility that my already bloated premiums might rise one iota. For this reason, Mr MD's next sentence left me cold. "The good news," he announced breathlessly, "is that the increase will be much less. In fact, the most your increase will be is approximately half of that."

What was I supposed to say? Yipped? The reasoning was rather like that of the guy who goes to a sale and buys a hi-fi at 50 percent off, thus convincing himself that he's just made himself a thousand rand — whereas of course

he's just jettisoned another grand. We can safely assume that MDs all over the country are working out ways of wrapping the cloud-bursts they have in store for us in similar silver linings. I do not wish them well in their efforts.

But the controversial introduction of VAT raises a more important and broader issue than just our contracting individual bank balances, of course. VAT may well be a better system than GST, but the way the Government has gone about implementing it has ensured that there can be no rational debate.

Why the unseemly rush? Why, having been told for years about the qualities of GST, are we suddenly informed that it is an unmitigated disaster? The result of old-fashioned Nationalist high-handedness is that a tax which, given the chance, all major parties might jointly have concluded to be the best available, could now spark social upheaval on a dangerous scale.

Why could it not have waited until some form of transitional unity government was in place — or even until we had a new constitution? What Pretoria has succeeded in doing is to create in

the minds of millions of black South Africans the impression that VAT is "the white man's tax", another last-minute, devious way of robbing the poor and setting the rich. This is not the case, but it is the perception, and perceptions are extraordinarily important in these uncertain, inflammable times of transition.

The unhappy imposition of this tax — and it is to be hoped that it is not more damaging than that — drives home the urgent need for the working out of transitional arrangements (or call them what you will) which will allow for socio-political initiatives to be undertaken with broad support. The lesson applies to practically every area of contemporary South African life: it is a simple fact that almost anything the white Government initiates on its own will lead to acrimony, not progress.

From fighting crime to building houses, the potential would be immeasurably higher if Nelson Mandela and others were seen to be taking joint responsibility with F.W. de Klerk.

The multilateral peace accord has shown how things should be done in the newly-new South Africa, and we must learn from it.

'Statutory controls and policing essential'

VAT: Cosatu demands crackdown on abuses

Spew 28/9/91

(320) (1000)

AS talks between Government and the Co-ordinating Committee on VAT remained deadlocked last night, there were last-minute calls for stringent legislative protection for consumers.

Congress of South African Trade Unions spokesman Neil Coleman demanded an effective Government crackdown on unwar-
ranted price increases and other abuses of the new tax system.

Mr Coleman said protection of the public against exploitation and abuses of the system could only be achieved by means of statutory control and policing, as had happened elsewhere. He said Valwatch —

set up to monitor the introduction of VAT and to handle complaints from the public — was "a toothless bulldog" with no power to stop abuses. Mr Coleman said the need for statutory controls to eliminate abuses was just one reason why the campaigners were calling for a posthume of the new tax.

Prosecute

Valwatch chairman Professor Louise Tager confirmed that Valwatch could not prosecute abusers of the system.

But she warned it was "very likely" that Valwatch would expose businesses which refused the comfort. Its power was that it had public exposure, she said.

Professor Tager said Valwatch's small staff

STAFF REPORTERS

could hardly cope with all calls received. The office began with three telephones, one fax machine and three people answering calls. It now had six people answering calls and 10 phoning businesses.

More than 300 businesses have been approached by Valwatch in investigating reports of unjustified VAT-related price increases. Some had claimed both GST and VAT had been added to prices accidentally.

Finance Minister Barred du Plessis had dismissed Cosatu's estimate that the cost of living would increase by between 3 and 5 percent after the implementation of VAT.

Government estimates were that the "worst-case scenario" was a 1.6 percent increase in the cost of living of the poor — before taking food subsidies into account. He said the consumer price index in countries which had implemented VAT had "barely moved".

He said one of the reasons the introduction of VAT could not be postponed was that many foreign investors had indicated that they would set up shop in South Africa and VAT had been added to prices accidentally.

Mr du Plessis said the country was well-placed for a "firm" economic upswing but that the results would not be noticeable before next year. However, Co-ordinat-

ing Committee on VAT organiser Bernie Farnoff said claims that VAT would bring an economic upturn were "completely unproven". The committee has condemned the poverty relief programme as "hopelessly inadequate".

No details

Committee members said the Government could not give details, leading them to surmise that the poverty relief programme would never happen.

According to Cosatu general secretary Jay Naidoo, the Government offered to zero-rate for a period of four months staple meals, rice, milk, pickles and bully beef as well as oil and interest.

Mr Farnoff said South Africa and the TBVC states were unprepared for the new tax. He said there was administrative chaos at departments involved in administering VAT. The TBVC states were unprepared for Monday's change-over and local administrators did not know how to administer the tax. Late this week the Department of Inland Revenue gave VAT vendors who had not received their numbers a last-minute breathing space. In a statement issued on Thursday it said any vendor who had submitted his registration form prior to September 30th could, until October 31st, issue tax invoices, debit notes and credit notes pending the receipt of such registration numbers.



● SCEPTICAL: The Molemas fear that VAT will make it difficult for them to buy a house.

● Photograph: HERBERT MABUZA

Attitudes to tax often depend on financial position

ALTHOUGH even the children are talking about VAT, many adults have only a vague understanding of what effect it will have on their house-

hold budgets. The fear of the unknown is greatest among lower income groups, where some are afraid that their already over-

MUSA MAPISA stretched budgets will not be able to cope. Higher earners face new costs as well, but they remain confident that they will manage. For them the worst effects will be some cutting back on luxuries.

The Saturday Star interviewed two families to represent the higher income group. A similar sized family from Alexandra represented the middle income group.



WELL INFORMED: At a push the Deweys may give up M-Net.

● Photograph: HERBERT MABUZA

Alex family wary of new tax

ANDERSON Molema is a cash controller, his wife Evelyn a computer operator. Their joint income is about R3 000 a month after tax.

Together with their two boys, aged nine and seven, they live in a neatly furnished two-bedroomed Alexandra flat.

They are very sceptical of the new tax system and fear it will make it more difficult for them to buy a house.

All the information they had on VAT was what they had been able to glean from the newspapers.

Mr Molema felt VAT

was a bad tax because it would adversely affect the lifestyles of many people.

"We for instance are somehow forced to live beyond our means. During some months when things are difficult we have to skip repayments on certain items," Mrs Molema said.

Without any increase or bonus during the past five years, Mrs Molema foresees even more difficult times, especially with taxation on basic foods and medicines.

"Because our incomes cannot adequately meet our needs, we include

only necessities in our monthly budget. If the situation gets worse we will have to give up the telephone service and resort to public transport, which is very unsatisfactory these days."

The monthly household budget of the Molema family is as follows:

Net salary	R2 900
Income expenditure:	
Food	R500
Rent	R100
Telephone	R60
Transport	R200
Education	R292
Other	R200
Insurance	R170
Hire purchase	R400
Total expenditure:	R1 922

'Some luxuries may have to go'

THE Dewey family lives in Northcliff. Doug is an accountant. His wife is presently not employed.

Their house is modern and spacious with a well-tended garden.

Because of his profession, Mr Dewey is well informed about VAT and so are his children.

Six-year-old Richard said: "I know VAT means added tax." Eight-year-old Bronwen reckoned that "VAT will be bad for poor people".

Mr Dewey said: "If it came to a push we would consider cutting down on entertainment, especially

Mr Dewey, who has a gross monthly income of about R11 000, with a housing subsidy of R1 400 and a car allowance of R2 200, calculates the VAT burden on his household budget will be between R150 and R200 a month.

He added it would be a better tax system than GST although its benefits would only be realised in the medium- rather than short-term.

He said consumers could benefit from the 3 percent reduction on tax but was concerned

about the Government's poor efforts to educate the public about VAT.

On the other hand, he said VATCON should be given more power to monitor the situation and prevent abuse. The Dewey monthly household budget is as follows:

Salary (gross)	R11 000
Income expenditure:	
Food	R1 200
Transport	R280
Bond	R2 400
Car	R1 800
Insurance	R500
Education	R900
Entertaining	R200
Health	R200
Domestic salaries	R500
Total expenditure:	R7 960

VAT ⁽³²⁰⁾ anger grows

PAULA FRAY

Weekend Argus
Reporter

COUNTRYWIDE resistance to the implementation of value-added tax intensifies today after the failure of 11th-hour negotiations yesterday.

The Pan Africanist Congress will host demonstrations in all major cities in protest against the introduction of VAT.

The tax will be greeted by marches in all the major cities on Monday — including a march to the Department of Finance in Pretoria.

A national general strike and mass protests are also likely.

The South African Dispensing Practitioners' steering committee on VAT will meet in Soweto tonight to plan how to confront the tax.

Doctors from around the country were sending in suggestions of action to be considered at the meeting.

The group's chairman, Dr Joe Maelane, said doctors were not happy with the outcome of the meeting between government and the Co-ordinating Committee on VAT.

"We feel the Cabinet ministers were misinformed by the so-called VAT specialist and have therefore deduced the wrong conclusions which will have serious effects

Resistance to VAT grows

From page 1

on our patients," Dr Maelane said.

Mr Tito Mboweni, the ANC representative on the Co-ordinating Committee on VAT, said the situation was so bad the group would appeal to ANC president Mr Nelson Mandela to intervene.

On the eve of the tax implementation calls and letters were flooding Vatwatch offices at unprecedented levels, the organisation said.

Five additional telephone lines were installed to keep up with the requests for help.

The expected rush by shoppers to beat the VAT-deadline did not take place yesterday.

However, stores countrywide are braced for a last-minute rush on GST-free items as well as a hectic weekend changeover for the new tax on Monday.

Pick'n Pay has set up a R1,5-million fund to cushion lower-income groups from the impact of VAT on basic foods for the next three weeks.

Mr Alan Baxter, national foods general manager for the chain, said VAT, particularly on tax-free foods, would hit the spending power of the poorest.

"It is inconceivable that government is proceeding with VAT, especially on basic foods, at a time when economic deprivation in South Africa is so severe," he said.

"VAT negatively affects poorer people and this can only exacerbate existing tension among the unemployed, homeless and those for whom this 'broader-based tax' has little real relevance," he said.

PAC secretary-general Mr Benny Alexander

said the government had acted immorally in introducing systematic changes to tax while claiming to leave the creation of a new order to negotiations.

"A new tax system should have waited until a new democratic government was elected," he said.

"VAT will only serve to make the poor poorer. In the light of widespread poverty and unemployment, the introduction of VAT portrays an insensitive attitude on the part of the government."

Cosatu said a march and not a stayaway, as advocated in a pamphlet distributed in Cape Town, would be held in the city on Monday.

Cosatu and the SA Clothing and Textile Workers' Union called on their members to ignore pamphlets calling for a stayaway.

Turn to page 3

Watch the VAT-cats: Monday's V-Day!

(320)
Aug 28/91

FRANS ESTERHUYSE
Weekend Argus Political
Correspondent

CALLS are mounting from the anti-VAT lobby for an effective government crackdown on unwarranted price increases and other abuses as V-Day approaches.

And right in the firing line is the "toothless" Vatwatch system.

The proposal is that machinery be set up to investigate offences and prosecute offenders who have hitherto been free to jump on to the bandwagon of unjustified price increases.

Cosatu spokesman Mr Neil Coleman told Weekend Argus on the eve of V-Day for VAT that effective protection of the public against exploitation and abuses of the system could only be achieved by way of statutory control and effective policing as had been done in other countries.

He said the existing Vatwatch body — set up to monitor the introduction

of VAT and to handle complaints from the public — was "a toothless bulldog" which had no power to take effective action to stop abuses.

What was needed was a strong statutory body with powers to monitor and investigate price increases, legislation to set up the machinery needed for strict control, and a public education programme to ensure that members of the public know their rights.

Mr Coleman said the need for effective statutory controls to eliminate abuses was one of the reasons why the anti-VAT campaigners were calling for a postponement of the introduction of the tax system scheduled for Monday.

South Africa was clearly unprepared for VAT. Other countries where this tax system had been introduced had extensive social security networks, which South Africa lacked.

In spite of the advantages of social security in the VAT countries, most of them still deemed it necessary to

have strict statutory controls and to act against abuses.

"All we have is Vatwatch which claims publicity is more effective than laws in this matter. This seems to be a simplistic approach and the popular perception is that Vatwatch is there to popularise and promote VAT."

"We think that to expose business abuses of VAT is very well and must happen, but there must be a body with teeth to fight against unjustified price increases."

Mr Coleman argues that when a member of the public finds prices have suddenly shot up, there is no way for him or her to know who is going on. The shopkeeper may not be responsible for the increase, which may have started with the suppliers or manufacturers, or anywhere else along the line.

Vatwatch chairman Professor Louis Tager — former dean of the law faculty at the University of the Wit-

watersrand — confirmed that Vatwatch did not have statutory powers and, therefore, could not prosecute abusers of the system.

She told Weekend Argus she thought public exposure in the Press was "most effective."

Asked whether this had been done, she said it could be "very dangerous to splash names all over newspapers, but we would do it, if necessary."

Professor Tager said Vatwatch had a small staff at its Johannesburg office and could hardly cope with all the calls received.

She emphasised that Vatwatch was not a permanent body and had not been set up to promote, defend or endorse the VAT system.

● The South African Sugar Association said on Friday it would reduce the industry price of sugar by R8 a ton when VAT comes into effect on Monday.

Real estate VAT gloom pooh-pooled

(320)
R 124 28/9/1

Weekend Argus Business Staff

INTRODUCTION of VAT on September 30 won't take the fizz out of the bubbling residential property market, says Keith Wakefield, chairman of Wakefields.

He says many commentators have been spreading gloom in the run-up to VAT, hoping to score extra sales by scaring buyers into quick decisions. The Durban-based group, which now extends to the Western Cape and Transvaal, sees continuing and strong demand for homes in all its branch areas and is gearing up for heavy activity once the market has overcome the fear of VAT.

Mr Wakefield says: "VAT will certainly increase costs for home-buyers and sellers but the real impact will be far less dramatic than some people have tried to make out."

It is much less of a threat to the market than the 0.25 percent increase in bond rates to cover the new tax burden on financial institutions.

He says: "The accompanying example — based on a R100 000 home and a bond of R80 000 — shows that the effect of VAT on simple property sales will be minimal. In this case it reduces the seller's net price by R600 and increases the buyer's costs by R198."

"I do not believe that VAT will give the existing homes market anything more than a minor hic-

cup in the next couple of weeks as buyers and sellers get over their uncertainties."

Mr Wakefield says some sellers may increase their asking prices marginally in a bid to offset the cost of VAT. But he warns serious sellers ultimately have to accept what buyers are willing to pay. Market forces will put a brake on unrealistic price increases.

"Buyers, on the other hand, may show little concern for small VAT-induced increases. If they are planning to capitalise their costs into their bonds anyway, the VAT element will have virtually no impact on monthly repayments."

"The new homes market, where VAT is payable on the full purchase price, could have been severely hit. But the recent announcement of various concessions over the next six months will soften the blow considerably for both developers and their buyers."

"In a few months' time, when VAT has become accepted — especially in areas which were exempt from GST — the cost of the new tax will not be an issue."

Mr Wakefield says, despite some local exceptions, the overall homes market has been a lot more buoyant for a long period than many observers expected. And it would take much tougher measures than VAT to slow the tempo significantly.

"With the repeal of the Group Areas Act and similar legislation and the massive backlog of housing at the low end of the affordability scale, there is tremendous scope for upward social movement in South Africa. This will underpin the top end of the property market for many years to come."

Example: Buyer purchases a home from seller for R100 000. Buyer gets 20-year bond of R80 000.

Purchase price	R100 000
Less Agent's commission (6%)	R 6 000
Seller's net price	R 94 000
VAT total R600	R 34 400

Buyer

Transfer duty (1% on first R30 000 of purchase price, 3% on balance)	R2 400
Attorneys' conveying fees	R 100
Plus VAT (10% on attorney's tariff)	R 10
Bond registration: attorneys' fees	R 10
Plus VAT (10% on attorney's tariff)	R 10
Stamp duty	R 80
Purchase's total costs R4 738	R160
VAT total R198	
Monthly bond repayments of 20% over 20 years:	
R80 000 (covering all capitalised costs)	R1 360
	R1 444



The executive of the VAT Co-ordinating Committee at a press conference this week where anti-VAT demonstrations were announced. From left are Ian Herrington, Dr. David Green, Bernie Fanaroff, Jay Naidoo, Ezrom Matambuye and Tito Mboveni.

VAT 'a nail in our coffins'

Comment by STAN MHLONGO
a diabetic (1987/2/19/91)

A SENSE of hopeless desperation came over me as I digested Finance Minister Barred du Plessis' statement that there was no way he would delay the implementation of VAT. I am not into politics, but the Minister left me with no option but to join the queue of protesters.

You see, I am a type-2 diabetic, which makes me insulin-dependent. By ignoring the calls to zero-rate

medical services, the government seems to have signed the death warrant for me and thousands more all over the country who can barely afford medical costs as it is.

The Government's explanation that VAT has brought down taxation from 13 percent to 10 percent has brought us, the less healthy and the unemployed, further hardship.

To me (a diabetic person) and thousands of other people of poor health, VAT will certainly be the final nail in our coffins.

Students to join protests

By LULAMA LUTI

STUDENTS at tertiary institutions throughout the country have been asked to join in anti-VAT protest action scheduled for major centres tomorrow.

In a statement released to City Press yesterday, president of the South African Students Congress Robinson Ramaite said his organisation would support any actions by the trade unions to oppose the introduction of VAT. Ramaite said students would be affected directly by VAT as

it would probably lead to an increase of fees.

He said VAT would also be passed on to students in the form of higher book prices and more expensive services like photocopying.

Higher fees would lead to a further reduction in the number of students seeking higher education, Ramaite said.

The implementation of VAT was badly timed and it would jeopardise negotiations for a democratic South Africa, he said.

320

■ Strikes and protests can still be averted, urge Cosatu leaders

VAT COUNTDOWN

320

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...cket at the Market Square in
...the offices of the Receiver of

the Vereniging show grounds to the local office of the Receiver of Rev

Lichtenburg, Potgieters
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lovely Miss South Africa Diana Tilden-Davis with Georgian dancers Temur
Tetvadze
Picture: DAVID SANDISON

FW, Mandela fail to avert VAT crisis

29/9/91 320

By CHARLENE SMITH

LAST-MINUTE talks between President FW de Klerk and ANC president Nelson Mandela to avert a VAT showdown, ended in deadlock late last night.

In a statement issued at 11pm, Finance Minister Barend du Plessis said the ANC had rejected a new government offer to zero-rate certain foodstuffs as an interim measure.

The proposal was rejected by Mr Mandela as "inadequate", said Mr Du Plessis.

The government would nevertheless go ahead with its plan to zero-rate additional basic food items and will issue a further statement today.

Following talks lasting more than four hours in Pretoria, Mr Du Plessis said it was clear that the ANC and the Co-ordinat-

ing Committee on VAT were not prepared to consider a meaningful compromise on their demands.

If the government were to accede to the demands, it would mean massive increases in other forms of taxation, or that the government would have to borrow considerable amounts in the capital market, with an inevitable rise in interest rates and budget deficits, said Mr Du Plessis.

"Against this background, it would be irresponsible for the government to agree to these demands. Mr Mandela has been advised accordingly," the statement added.

The talks came after the Congress of South African

Trade Unions earlier in the day called for a three-day general strike to protest against the introduction of VAT.

The general strike is being planned for November and Cosatu officials believe more than three million workers will participate.

A similar strike in 1988 against amendments to the Labour Relations Act cost the economy R500-million, according to the SA Employers' Consultative Committee on Labour Affairs.

Early this week Mr Du Plessis offered to place a four-month zero-rating on brown bread, maize meal, samp, mealie-rice, powder milk, canned pilchards and canned and dried beans. This was rejected.

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day," said F
Sonnekus.

"We just d
quality at th
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How TML will pass on to readers benefits of VAT

SITimes 29/9/91.
Sunday Times Reporter

TIMES MEDIA LTD, publishers of the Sunday Times and other newspapers and magazines, has decided to pass on to consumers the benefits of VAT, wherever practicable.

TML managing director Stephen Mulholland said yesterday the company fully endorsed the Vatwatch Pledge and would urge suppliers to pass their VAT-derived costs and savings on and would in turn pass on to customers of TML any costs savings derived from VAT.

The aim is to make the switch from GST to VAT as neutral as possible for the company, and to ensure that the customers get all the benefits. As a result, the price of the Sunday Times will drop from R2,50 to R2,45 and TML magazine prices will also be reduced. Lower-priced newspapers will remain unchanged.

TML will absorb the recent petrol price increase and the additional cost of VAT on copies of the Sunday Times sold in the TBVC states where GST has not hitherto been levied. For the Sunday Times, the higher costs and the price cut balance out so there is neither gain nor loss to the company.

Business Day will still cost R1, the Eastern Province Herald 70c, the Evening Post 60c and Weekend Post R1,50. TML's increased benefit from the change to VAT on these newspapers varies from 1c to 3c.

One reason for keeping these prices

constant is the problem of coinage. A reduction in price of odd cents is impractical for street sellers.

However, TML has decided to absorb the cost of VAT on the "delivery charge" portion of subscription prices. This weighs heavily on publications that have many subscribers so that, in some cases, the lost to TML is greater than the gain on street sales.

Magazines published by TML are all reduced in price because coinage is not a problem for publications sold in bookshops or supermarkets. The Financial Mail drops from R4 to R3,89; Leadership from R15 to R14,60; The Executive from R7,91 to R7,70; Wlel from R3,39 to R3,30; Computaform from R4 to R3,89; and Computaform as Race Cards from R2,50 to R2,43.

Vatwatch committee chairman Louise Tager said the TML reductions were an immediate and concrete demonstration of the company's support for the Vatwatch Pledge.

It was of crucial importance, she said, that business supported Vatwatch's principles and showed that VAT could become a factor in the struggle against inflation.

"I congratulate TML on taking the decision to reduce prices where practicable," she said.

● Argus newspapers announced yesterday they would not be passing on the VAT savings to their readers. Their prices will remain unchanged.

Protests to
go ahead
despite
new deal

Mass action over VAT

Boedem
30/9/91 (320)



NATIONWIDE demon-
strations and marches
against VAT are sched-
uled to take place today
despite the Government's
decision to zero-rate a
number of foodstuffs for a
limited period.

A statement issued by the Min-
istry of Finance yesterday said the
reason to zero-rate other food-
stuffs was to give VAT relief to
the poor and unemployed until the

By NIKOPANE MAKOBANE
and Sapa

food and nutrition development
programme becomes fully opera-
tional and the cost-reducing ben-
efits of VAT have filtered
through to the consumer.

The Co-ordinating Committee on
VAT said yesterday, as part of the
massive anti-VAT protest action, a

To Page 2

P.T.O.



Health professionals to support VAT protests

Sowetan 30/9/91

THE SA Dispensing Practitioners have decided not to charge Vat for medical services and dispensed medicines, and to close all medical practices for one to two days to register protest.

The chairman of the SADP, Dr P J Maelane, said his organisation had appealed at a meeting in Soweto to patients to use public services during the closure, and apologised for the inconvenience. He did not say when the planned closure would take place.

He said the SADP also resolved to ask all health professionals to support the

campaign "in the public interest", as well as to appeal to medical aid societies association, Rams, and other independent medical schemes not to increase subscriptions because of Vat.

Campaign

Maelane said practices would display signs informing patients that they would not be collecting Vat.

"We also appeal to the SA Medical and Dental Council to support our campaign on moral and ethical grounds," he said. - *Sapa*

Prices may go up by 30% — Vatwatch

CT. 30/9/91
JOHANNESBURG. — A VAT watchdog body predicted yesterday that consumer prices will shoot up by 30% if the current price trend is not checked in the next 12 months.

Vatwatch yesterday released results of a three-month nationwide survey that monitored 112 outlets. It found that prices in townships had gone up by 6.7% during August. Township residents paid high prices for goods from township stores.

Professor Louise Tager, chairwoman of Vatwatch, said that if price increase trends were to continue, consumer prices would go up 30% in 12 months. "This underscores the need for both consumers and businesses to combat inflation," she said.

Vatwatch is conducting another market research project to find if there will be any shift in prices immediately after VAT. — Sapa

VAT ³²⁰ste

Govt goes on despite protests

VAT comes into effect today in the face of massive resistance from opposition political organisations, trade unions and sectors of the business community.

The government and the ANC-led anti-VAT alliance failed to negotiate a settlement during a series of weekend meetings and the alliance gave the go-ahead for a programme of mass action today.

This will include marches in all major centres, pickets and a possible boycott of VAT by 500 doctors.

Proposals for a two-day national stayaway in the first week of November and a boycott of all taxes will be discussed at a meeting tomorrow week, alliance spokesmen said yesterday.

In a final compromise offer on Saturday, the government said it was prepared to zero-rate fresh meat, poultry and vegetables for a period of one or two months. It proposed that these concessions be funded by the poverty-relief programme.

But the alliance rejected the offer because the concession period was too short and the funding proposal unacceptable. Instead it demanded the zero-rating of basic foodstuffs, medicines, electricity and water for 12 months.

Mr Nelson Mandela, who met President F W de Klerk on Saturday, said at a news conference in Johannesburg yesterday that a showdown with the government over VAT could affect negotiations in other areas, and then there could be no guarantee what would happen.

He had hoped for a resolution which would enable him to call off the mass action and prevent its adverse effect on the economy.

Mr Mandela said attempts would be made to ensure that negotiations remained on course, but if no co-operation was received, the ANC could not continue to believe in negotiations.

"I'm not an economist, but it seems

to me that the economy is beginning to bottom out, with the possibility of an upswing. A conflict at this stage will affect the economy adversely."

Mr Mandela said he had nothing against VAT, which he believed was a better tax than GST, but it was unacceptable that it was introduced without the consent of the majority. In its present form the new tax would be a severe strain on the living conditions of the people.

Speaking at the same press conference, Cosatu general secretary Mr Jay

Inside

**● FOODS ZERO-RATED FOR 6mths
● PRICES MAY GO UP BY 30%**

See PAGE 3

Naidoo warned that the trade unions were ready for confrontation with the government in spite of the recession. He said the "intransigent" attitude of the government on VAT would provoke a massive campaign of civil disobedience.

The concessions which were finally approved by government, but not the alliance, broaden the range of zero-rated foodstuffs and increase the total value of food concessions to R850m a year. The poverty-relief programme will spend at least R220m by the end of this financial year and a further R500m will be provided in the next financial year.

Marches in protest at VAT have been arranged in most major cities today.

In Cape Town, unions have arranged for free trains to be laid on after 12 noon today on all the major railway lines to transport people to an anti-VAT protest in the city centre.

Mr Joe Williams of the SA Clothing

To page 3

From page 1

and Textile Workers' Union said arrangements had been made between Cosatu and Nactu and the SA Computer Corporation for these trains ³²⁰

Mr Brian Lotter, a spokesman for the Computer Corporation, confirmed this, saying that "money has been paid for this purpose".

The march is expected to start soon after 1pm from an assembly point off Keizersgracht in District Six ^{CT 30/9/91}

Union leaders have held talks with the Chambers of Commerce and Industry, Cape Town City Council, the CPA, the Clothing Manufacturers' Association, the Steel and Engineering Industries Federation of SA (Seifsa) and others, most of whom have indicated that they would be tolerant of workers who take time off to march.

Union leaders said several employers would adopt a "no work, no pay, no recriminations" attitude.

Meanwhile, financial authorities and the business community have been working round the clock to prepare for the implementation of the new tax system, and consumers stocked up on items that will become taxable today.

While the financial authorities attended to last-minute registration applications and rulings, supermarkets repurchased goods which were zero-rated at the last minute.

Inland Revenue tax director Mr Trevor van Heerden said the tax department had issued about 600 000 registration forms and processed about 210 000 registrations.

The Vat Co-ordinating Committee has argued that VAT could increase by between 3% and 4% the cost of living for people earning below R9 000 a year. But Finance Minister Mr Barend du Plessis insisted that with the latest concessions the cost of living would rise by 1,6% at most.



Most goods which were subject to GST should cost less today, provided the vendors pass on the 3% decline in the tax.

If there is an increase in the cost of living, it will come about as a result of the broader tax base but should decline once the benefits of input tax credits start flowing through.

Economists say the authorities are relying on the business sector to provide conclusive evidence that VAT will not be an inflationary tax. By doing so, they may be able to avert potentially damaging industrial action. Sacob has estimated in the past that a one-day national stayaway could cost the economy R500m. — Own Correspondent

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Malherbe sells out of sagging Pennypinchers

By AUDREY D'ANGELO
Business Editor

FASIE MALHERBE — founder of Pennypinchers Holdings (Pepin) — has resigned as CE and has sold his 26% interest in the group to First National Corporate and Investment Bank.

Malherbe built the business up from one shop in Lansdowne to a DIY and building supplies empire with more than 50 outlets.

Pepin has been hard-hit by the recession, stiff competition and the costs of restructuring. It ended the six months to June with an attributable loss of R4.5m. The bank is acting in concert with PG Bison, the largest manufacturer and distributor of board and laminate products in SA, which owns 47% of Pepin.

Malherbe will stay on as non-executive chairman. He said at the weekend he would devote more time to "my growing interests in property development, where I believe I can apply my particular skills."

No new CE has yet been appointed. Financial director, Percy Bishop said the business would be run by "the existing

management team of regional operations directors and myself, with the assistance of PG Bison."

Bishop said Pepin would retain its separate entity and not become part of PG Bison. He said that PG Bison had not increased its shareholding in earlier economic downturns. Pepin appeared recession-proof, profiting from an increased interest in DIY in difficult times.

Bishop explained: "We were a smaller operation then and it was possible to be more flexible. A smaller company can adjust more quickly to changing circumstances."

Bishop pointed out that the recession had been an exceptionally long one and the building industry had been among the hardest hit.

Results released yesterday show turnover rose to R119.7m compared with R96m in the first six months of 1990. Group operating loss was R4 389 000 before tax of R170 000.

The loss at share level was 19.06c a share compared with earnings of 10.69c a share a year earlier. No interim dividend will be

paid.

The directors say the restructuring of Pepin — which is being rationalised into specialised retail and wholesale divisions — is nearing completion. They forecast an improved performance in the current six months and a return to profitability next year.

Discussing the past six months, they say that margins were squeezed because of stiff competition, the need for the restructuring, closing unprofitable branches and refurbishing others also had "an adverse impact."

Subsidiary Pennypinchers Boards (Pepinboard) which is in the process of being delisted, lifted turnover to R22m (R26.3m) in the six months to June. But attributable loss was R464 000 compared with a profit of R610 000. The loss at share level was 3.69c. No dividend will be paid. Net asset value per share was 45.4c on June 30 compared with 52.7c a year earlier.

The directors say margins were under severe pressure during the year and a number of unviable branches were sold.

VAT notes

Business Start 320

VENDORS who have not yet received a VAT registration number must still charge VAT on supplies made by them from today — and may issue a tax invoice without a VAT number until October 31, says Rosemary Lewis, tax manager of Arthur Andersen & Co.

The invoice will be a valid VAT document and the use of rubber stamps to print supplier's VAT registration numbers and the words "tax invoice" will be permitted. It should be stamped and dated **CT3614** (1).

Other VAT practice notes issued by the Department of Finance last week include:

● **Alternatives to the Tax Invoice:** Where transactions consisting of a number of progressive taxable supplies are made to a written contract the supplier is not required to issue tax invoices for each supply made. Alternatives to the tax invoice include:

- **Self-invoicing:** Self-invoicing will only be granted where an effective self-invoicing system has traditionally been followed.
- **Price Lists:** The exclusive price system is permitted until March 31 next year and on price tickets until October 31 this year.
- **Trade Price Lists:** Where a supplier issues a price list used in respect of the supply of goods or services to other registered vendors, the prices may be reflected on an exclusive basis provided that the price list states that 10% VAT must be added.

More foods zero-rated for 6mths

CT 20/9/91 (320)

THE government yesterday approved the zero-rating of more foodstuffs. The concessions, comprising a six-month zero-rating of more foodstuffs and the zero-rating of others which had been scheduled for exemption or subsidisation, followed unsuccessful negotiations with the ANC and Co-ordinated anti-VAT alliance.

The latest list of food zero-ratings includes samp, mealie-rice, whole meal for human consumption, dry beans, including soya beans, lentils, fresh milk, canned pilchards for human consumption and powdered milk and blends.

The meal and brown bread will continue to be zero-rated.

It will be provided for the continuation of the programme in the 1992/93 financial year.

In a statement yesterday, Mr Du Plessis said the additional concessions were aimed at providing further relief to the poor and unemployed until the poverty-relief programme became fully operational.

Mr Du Plessis urged organisations which provided assistance to the needy to take part in the programme. Du Plessis apologised to the business sector for the extra cost and effort of the last-minute concessions.

ANC secretary-general Mr Cyril Ramaphosa said yesterday that the government was committed to the programme.

Mr Ackerman believes further negotiation will take place during this six-month period.

"We hope that at a later stage the tax exemption will flow over into products of which those newly listed are the basic ingredient," he said.

With the late government exemptions, supermarkets yesterday remarked prices on the newly zero-rated items. Although only eight basic products were announced tax-free yesterday, more than 100 were affected when the different rates of the concessionary rates were taken into consideration.

Meanwhile, local shoppers rushed into supermarkets at the weekend, cleaning shelves out of fresh meat and chicken, untaxed under GST.

Supermarket managing director Raymond Ackerman expressed joy at yesterday's announcement that eight basic foodstuffs were to be exempted from taxation for the next six months.

"This news, this coming as a wonderful surprise and we welcome it as a blow to the government."

ment had refused to provide details of the poverty-relief programme. He said the ANC believed that an adequate programme did not yet exist and was unlikely to be established in the medium term.

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"This news, this coming as a wonderful surprise and we welcome it as a blow to the government."

VAT will add to admin pressure

5/10/91
THE importance of credit managers has been enhanced with the introduction of VAT.

The new tax will impose extra admin burdens on every sector of SA's economy and while the focus is on training to implement computerised and other systems, the nuts and bolts of VAT need the resources of a credit manager and team.

A long-standing member of UICM and a pioneer in the executive temp business, PAG says there will be an increase in business over the months to come because too many organisations are not prepared for VAT.

30/9/91
PAG MD Penny Ferrow says her company has held regular VAT seminars for clients and customers as well as training for credit assignees to ensure they are prepared for VAT.

"There's no escaping that VAT needs a great amount of reconciliation, with close co-operation between debtors and creditors departments.

"The credit manager and his team will be at the forefront in coping with this extra work and ensuring there are no problems."

Ferrow says there are pitfalls in not being prepared.

320
"Overpayment of, output taxes or not taking full advantage of input taxes will cost companies a fortune and in far too many cases companies will have to pay penalties."

She says the demand for qualified credit managers and experienced credit staff has remained consistent through 1991 despite the impact of the recession, which has adversely affected many other professions.

"With the amount of extra work needed in implementing VAT, we forecast an increase in demand for qualified people."

Threat of stayaways, mass action

Crisis looms as VAT is implemented

320

By day 30/9/91

VAT was introduced today in the face of massive resistance from opposition political organisations, trade unions and certain sectors of the business community.

Government and the ANC-led anti-VAT alliance failed to negotiate a settlement during a series of weekend meetings and the alliance gave the go-ahead for a programme of mass action today. This would include marches, pickets and a possible boycott of VAT by 500 doctors.

Proposals for a two-day national stayaway in the first week of November and a boycott of all taxes would be discussed at a meeting on October 8, alliance spokesmen said yesterday.

In a final compromise offer on Saturday, government said it was prepared to zero-rate fresh meat, poultry and vegetables for a period of one or two months. It proposed that these concessions be funded by the poverty relief programme.

But the alliance rejected the offer because the concession period was too short and the funding proposal unacceptable. Instead it demanded the zero-rating of basic foodstuffs, medicines, electricity and water for 12 months.

ANC president Nelson Mandela, who met President F W De Klerk on Saturday, said at a news conference yesterday he had hoped for a resolution which would enable him to call off the mass action and prevent its adverse effect on the economy.

The concessions which were finally approved by government, but not the alliance, broaden the range of zero-rated food-

LESLEY LAMBERT

stuffs and increase the total value of food concessions to R850m a year. The poverty relief programme will spend at least R220m until the end of this financial year and a further R500m will be provided next financial year.

Financial authorities and the business community worked around the clock to prepare for the implementation of the new tax system and consumers stocked up on items which would become taxable today.

While the financial authorities attended to last-minute registration applications and rulings, supermarkets repriced goods which were zero-rated at the last minute.

Inland Revenue tax director Trevor van Heerden said the tax department had issued about 600 000 registration forms and processed about 210 000 registrations.

The Vat Co-ordinating Committee has argued that VAT could increase by between 3% and 4% the cost of living for people earning below R9 000 a year. But Finance Minister Barend du Plessis insisted that with the latest concessions the cost of living would rise by 3,6% at most.

Most goods which were subject to GST should cost less today, provided the vendors pass on the three percentage point decline in the tax.

If there is an increase in the cost of living, it will come about as a result of the broader tax base but should decline once the benefits of input tax credits start flowing through.

□ To Page 2

VAT

By day 30/9/91

A number of sectors, such as the supermarket, cement and sugar sectors, have undertaken to pass on whatever benefits they can and Vatwatch is monitoring others to see that they follow suit.

Economists say the authorities are relying on the business sector to provide conclusive evidence that VAT will not be an inflationary tax. By doing so, they may be able to avert potentially damaging industrial action. Sacob has estimated in the past that a one-day national stayaway could cost the economy R500m.

VERA VON LIERES reports that the co-ordinating committee last week announced that the mass action would start

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□ From Page 1

today with a march on the Finance Department's offices in Pretoria.

Other marches are expected to be held in Johannesburg, East London, Cape Town, Paarl, Upington, Worcester, Johannesburg and Vereeniging, the committee said. A march is also planned for Potgietersrus if permission is obtained.

In Port Elizabeth, organisations including small businesses, churches, and trade unions are expected to stage a picket outside the offices of the Receiver of Revenue.

Lunchtime pickets will be staged outside Receiver's offices in Durban, Klerksdorp and Welkom.

R200m saving for consumers as govt zero-rates more foods

B10Cay 30/9/91

LESLIE LAMBERT

GOVERNMENT approved the zero-rating of more foods yesterday, on the eve of the implementation of VAT.

The concessions, comprising a six-month zero-rating of more foodstuffs and the zero-rating of others which had been scheduled for exemption or subsidisation, followed unsuccessful negotiations with the ANC and Cosatu-led anti-VAT alliance.

The latest list of food zero-ratings includes samp, mealie-rice, whole mealies for human consumption, dry beans, including soya beans, lentils, fresh milk, canned pilchards for human consumption and powdered milk and blends. These concessions will result in a total saving to con-

sumers of the items of R200m.

Bully beef and offal, two items included in an earlier compromise offer, appear to have been excluded from the final offer after the anti-VAT alliance branded them as "racist and paternalistic" offers.

Maize meal and brown bread will continue to be zero-rated on a permanent basis and this will represent a R500m saving to consumers each year.

The financial authorities were unable to accommodate requests by the United Municipal Executive for a zero-rating rather than exemption of municipal prop-

erty fees. Finance Minister Barend du Plessis said yesterday.

Other concessions which have already been announced include a R10 monthly increase in all state pensions from October, which will cost the state R150m until the end of the financial year.

The poverty relief programme will spend at least R220m until the end of the financial year and a further R500m will be provided for the continuation of the programme in the 1992/93 financial year.

In a statement issued yesterday, Du Plessis said the additional concessions were aimed at providing further relief to

(320)

the poor and unemployed until the poverty relief programme became fully operational and the benefits of VAT filtered through. Du Plessis urged organisations which provided assistance to the needy to take part in the programme.

ANC secretary-general Cyril Ramaphosa said yesterday government had refused to provide details of the poverty relief programme. He said the ANC believed that an adequate programme did not yet exist and was unlikely to be established in the medium term.

Du Plessis apologised to the business sector for the extra cost and effort of the last-minute concessions.

Consumer prices could rocket

Consumer Reporter

A pre-VAT price survey by Vatwatch found an "alarming" countrywide average increase of 2,6 percent in August, with the highest costs increase in black communities, the watchdog body said yesterday.

Vatwatch chairman Professor Louise Tager warned that if the price trends identified continued unchecked, consumer prices might end up 30 percent higher over a 12-month period.

Independent retailers in black townships increased prices by an average of 6,7 percent during the five-week period since the last week of July. Cape Town and the East Rand were the only areas where consumer

prices decreased.

The nationwide market research project was launched in July. A third survey, to determine price trends after the introduction of VAT, is under way.

Professor Tager said the objective with the first surveys was to determine trends in the pre-VAT period; the next survey should show whether any significant shift had occurred immediately after the introduction of VAT.

The pre-VAT price increases were as follows:

- A 6,7 percent price increase at independent retailers in black towns.
- A 5,6 percent increase in larger rural towns.
- A 2,2 percent increase in black homelands.

● A 1,8 percent price increase in metropolitan areas.

In Cape Town, prices on average decreased by 0,2 percent and on the East Rand by 1,5 percent.

In the major metropolitan areas, the Maritzburg-Durban area saw the highest rise (5,1 percent) and Pretoria the lowest (0,3 percent). In Johannesburg, prices increased by 2,8 percent.



Professor Tager.

Professor Tager hoped that whatever aid measures were forthcoming from the Government would be implemented speedily and effectively.

Negotiations at risk – Mandela

V-day

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Outcry at VAT's birth

Star 30/9/91

By Paula Fray
Consumer Reporter

The urgent intervention of ANC leader Nelson Mandela at the weekend failed to resolve the VAT crisis, and countrywide protests to mark the introduction of the new tax will go ahead today.

And yesterday Mr Mandela warned that a showdown



ANC objects . . . say Ramaphosa and Mandela.

on VAT could affect negotiations in other areas.

On Saturday, SA Dispensing Practitioners members decided to close their practices for two days to protest against VAT on medical services. The doctors stressed they would not collect VAT.

Mr Mandela met President de Klerk and Government officials on Saturday at a meeting at which the Coordinating Committee on VAT (CCV) put a compromise proposal to the Government to zero-rate basic foodstuffs, medicines, electricity and water for a year.

Yesterday the Ministry of Finance announced a six-month zero-rating of eight foods – including samp, mealie rice and powdered milk – which were initially going to be subsidised for a year.

Cosatu general secretary Jay Naidoo said the Government's concession was totally inadequate.

"What it does show is that the Government's approach to the implementation of VAT is ad hoc and ill-conceived and can only institutionalise poverty in South Africa. We call on them to

sit down and negotiate a settlement with the CCV."

Speaking in Johannesburg yesterday, Mr Mandela said: "If the Government does not co-operate, they must not expect us to continue with negotiations."

"On principle we have nothing against VAT. In fact we believe VAT is a better tax base than GST. But to introduce a new tax base without consulting with the people in the majority . . . is something we consider to be unacceptable," he said.

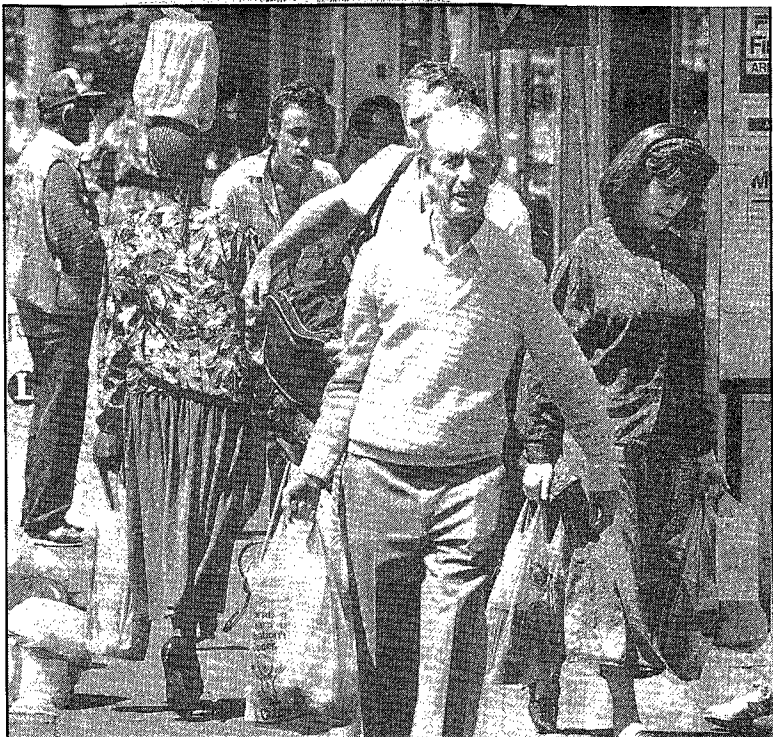
Mr Naidoo said trade unions were ready to challenge the Government on the way in which VAT was being implemented. A two-day national strike had been proposed for the first week in November, and this would be discussed at a trade union summit on October 8.

However, the door for negotiation still remained open, he said.

The ANC said the CCV – representing 104 organisations – had put forward very reasonable proposals which were rejected by the

● To Page 2 ■

P.T.O.



Stocking up . . . consumers, apprehensive about the effect of VAT on the cost of living, yesterday rushed to buy items expected to increase in price.

Picture: Stephen Davimes

National outcry marks first day of VAT

● From Page 1
Government.

The CCV said marches would take place in major cities and industrial areas today.

The main march, in Pretoria, will start at the corner of Brown and Van der Walt streets and move to the Department of Finance offices.

Commenting on the dispensing doctors' decision to stop work for two

days, SA Dispensing Practitioners chairman Dr Joe Maelane said yesterday they would refer patients to public clinics and hospitals.

"... and the Government will see for themselves how many poor people use private practices."

He said the dates of the planned two-day closure would be announced later.

The doctors reaffirmed their decision not to charge VAT on medical services and dispensed medicines. Practices would also display signs informing patients that they would not be collecting VAT, Dr Maelane said.

"We are flabbergasted by this unfair, rigid, undemocratic attitude of the Government regarding the application of

VAT on the health of the disadvantaged and the community at large."

Speaking at the national conference of Health Inspectors Association of Southern Africa yesterday, ANC national executive committee member Alfred Nzo said medical care would become expensive and inaccessible to the overwhelming majority of the black community.

Star 30/9/91.

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VAT: Day 1

320' 30/9/91

10 food items you won't pay tax on

ITEMS on which consumers will not pay VAT are:

- Brown bread
- Mielie meal
- Mielie rice
- Whole mielies
- Samp
- Powdered milk
- Fresh milk
- Dry beans (including soya beans)
- Lentils
- Canned pichards

Staff Reporters

TODAY is VAT-day... the day when general sales tax is replaced by the controversial value added tax.

Trade unions are taking a tough stand against VAT and will discuss a two-day national strike, proposed for the first week in November, at a trade union summit on October 8.

VAT is due to be opposed by worker action, including calls by the Pan Africanist Congress for a stay-away and a march to parliament today, and Cosatu members are planning protest marches to Receivers of Revenue across South Africa.

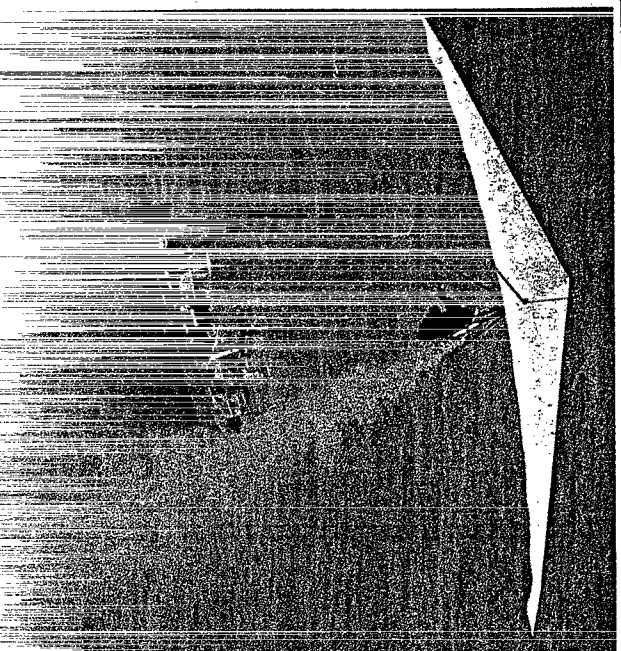
Calls for a stay-away in Cape Town appeared to have fallen on deaf ears as workers went to work today.

Shoppers went into a last-minute spending pre-VAT spree at the weekend. But government's decision yesterday to zero-rate more basic foods, such as whole meal, dry beans, lentils, fresh milk, canned pichards and powdered milk for six months, appears to have confused retailers.

Last-ditch attempts by ANC president Mr. Nelson Mandela to resolve the VAT crisis failed. He warned yesterday that a showdown on VAT could affect negotiations in other areas.

Mr. Mandela met President De Klerk and government officials on Saturday. At the meeting the Coordinating Committee on VAT (CCV) put a compromise proposal to the government to zero-rate basic foodstuffs, medicines, electricity and water for a year.

Mr. Mandela said in Johannesburg yesterday: "If the government does not co-operate, they must not expect us to continue with negotiations."



INSIDE

Win a minibus worth R57 000 — two new clues today: page 2

Modutu asks leader of opposition to form crisis government: page 2

Thousands cheer as Savimbi goes home to Luanda after 16 years: page 3

Soccer unity: 'Lets get on with it': page 20

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day.

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"On principle we have nothing against VAT. In fact, we believe VAT is a better tax base than GST. But to introduce a new tax base without consulting the people in the majority is something we consider to be unacceptable."

Calls ignored

In Pretoria ANC secretary-general Mr Cyril Ramaphosa and Congress of South African Trade Unions (Cosatu) general secretary Mr Jay Naidoo will lead a march on Finance Minister Barend du Plessis' office today.

In Cape Town the Pan Africanist Congress has called for a stay-away and announced plans to march to parliament.

But thousands of workers in the townships failed to heed a stay-away calls.

Although a few shops were closed in Khayelitsha today, the stay-away seemed to have flopped as trains, buses and taxis ran normally.

In Nyanga terminus, the largest and busiest in the townships, hundreds of commuters boarded buses and taxis.

Mr Alan Lighton, executive director of the Chamber of Commerce, said he had no knowledge of an organised stayaway protest against VAT today.

He said: "Cosatu did indicate they were holding discussions with the government and that they proposed to hold a march if talks were not satisfactory."

People who wanted to take time off work to take part in the march, would negotiate with their individual employers, he said.

A City Tramways spokesperson said: "We had a noticeable drop in the number of passengers carried from Khayelitsha, Nyanga and Guguletu. The number of our employees not arriving for work is normal for the end of the month."

According to a Spoornet spokesperson less than 5 percent of employees did not come to work today. She said it was "nothing extraordinary and could not be described as a stayaway".

Cosatu said today it has not called for a stay-away, but would march to the Receiver of Revenue to hand over a petition against VAT.

The South African Clothing and Textile Workers' Union also said it had not called for a stay-away, and called on workers to ignore a pamphlet advocating a stay-away for today.

At its regional conference at the weekend, the ANC adopted a resolution demanding that VAT be suspended and resolved to engage in a "programme of mass action in the Western Cape", said assistant secretary Mr Willie Hofmeyr.

30% 1 foreca

The Argus Correspondent

JOHANNESBURG. - VAT price survey by found an "alarming" wide average price increase of 2,6 percent in August, the highest impact in bluntness.

The Vatwatch professor Louise warned that if the trend continued unchecked, summer prices might be 10 percent higher over the year.

Independent research showed black townships had the highest price increases by an average of 3,5 percent during the five years viewed, while Cape Town and the East Rand were the areas where prices fell.

The nationwide research project began this year. Another survey will determine price trends after the introduction of VAT.

The pre-VAT price index was:

- A 6,7 percent increase at independent black towns;

- A 5,6 percent increase in larger rural towns;

- A 2,2 percent increase in black "homelands";

- A 1,8 percent increase in metropolitan areas.

Ups and downs as new era dawns

By Paula Fray
Consumer Reporter

Star 30/9/91. (320)

Today is VAT-day.

After a hectic week-end of last-minute shopping, and final touches for the tax change-over, stores countrywide should now be ready for the new scheme.

VAT, like GST, is an indirect tax which is ultimately paid by the final consumer. Now that VAT has been implemented, "the price you see is the price you pay".

The good news is that some items on which you paid 13 percent GST should cost less with VAT at 10 percent.

There should be savings on clothing, footwear, toiletries, cosmetics and certain foods.

But the Government has increased excise duties on some "luxury" goods to offset a decrease in revenue, so these goods — including televisions, radios, vehicles and tobacco — should not change in price.

The bad news is that items previously tax exempt — such as meat, fruit, vegetables and rice — will now attract VAT.

Items on which the consumer will not pay VAT are zero-rated meal, meat and brown bread.

Some products — sump, powdered milk, mealie rice, whole meal, dried beans, lentils, fresh milk and canned pickleds — will be zero-rated until March 1992.

The price of petrol and diesel will not change, but this is cold comfort after the recent fuel price increases.

As VAT is charged on goods and services, certain of them — including private medical services, electricity, water, refuse removal, sewerage and gas — could cost more. Even television licences and subscriptions for M-Net will increase.

The recent announcement of a drop in the cost of some cinema tickets will be good news for those with tight budgets.

Concerned consumers can still play an active role in ensuring that the new tax system is not used to introduce unnecessary price increases.

Vatwatch, a watchdog body set up to monitor price trends, will take up any complaints. Vatwatch can be contacted at (011) 484-3392/3.

A pact on economics is among three essentials for power-sharing, writes Hermann

The row on VAT has its uses

for 30/9/91

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30/9/91

THE tumultuous transition process of South Africa, punctuated by controversies such as the one over VAT, is not a mere sideshow before the serious negotiations begin. In fact, the present transition process will largely shape the new political system that will replace the apartheid order.

If South Africa's transition had been driven by a revolutionary party, we would have ended up with a one-party state. Had it been conducted by a narrow oligarchy, a form of pseudo-democracy would have been the outcome.

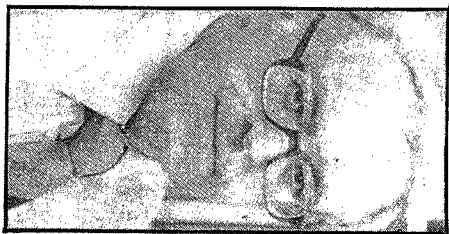
We are not taking either of these courses. What the country has witnessed over the past 20 months is an incumbent ruling group holding most of the levers of control engaged in the politics of compromise with its mass-based challengers.

The outcome of such a transition process is almost inevitably a power-sharing democracy. This means that South Africa will not see the replacement of one set of political leaders by another but one that will transform the relations among the existing elite factions, above all the ANC, NP and

IFP leadership cadres. All parties will be part of the broad system of future government (although some may be relegated to a regional role), because none of the three major parties can be excluded without inviting serious trouble.

A power-sharing democracy is almost certain to have a strong corporatist flavour in that trade unions, organised business and the churches will wield a significant, ongoing influence. In South Africa their status in the new political game has been underlined by their prominent role in the establishment of the National Peace Accord.

Finally, the Inkathagati and VAT controversies have helped to ensure that our future system will be an open and robust one. Secret pacts between political leaders have been a prominent feature in many other societies that have recently undergone the transition from authoritarianism to democracy. Secret pacts may be an opportune way of addressing a crisis that threatens to blow up but they also tend to degenerate into compromises or cover-ups which may do fatal harm to the long-term health of a democracy.



The author... Professor Hermann Gilmore.

By all accounts the South African transition is a much more open process than any of its counterparts. This may well turn out

enjoys no consent. It is no use for either side to set itself up as the better democrats. The Government must find a broader tax base in order to redistribute, but its actions smack of technocratic insensitivity. Its opposition, on the other hand, is guilty of populism. If responsibility for it asks for more services without suggesting realistic acceptable alternative taxes.

to be a good education in democratic practice — something all the major parties are seriously in need of.

However, this does not mean the future of democracy is assured in South Africa, only that if we get a democracy it will be of the power-sharing variant. To get such a democracy South Africa will need three major foundation pacts.

The first one is the military pact. The peace accord, if supplemented by a Defence Force code of conduct, may become exactly that. If all parties can come to see the army as the ultimate guarantor of the constitution, the prospects for a democracy will be greatly strengthened.

The second pact, the political one, is still some way from being concluded. Yet political convergence rather than the opposite seems to be the trend. The debate on SABC's "Agenda" television programme between Messrs Ramaphosa and De Beer and Dr Stoffel van der Merwe highlighted the possibilities for compromise. The ANC seemed to be flexible on the idea of a multiparty Cabinet, while the NP may not be dead stuck on a multimember Pres-

dency (an Executive Cabinet may be a better prospect).

Whatever the current differences, the essential requirement is a firm pact enshrining the principle that no single party is strong enough to govern South Africa alone.

The pact that will be the most difficult to conclude will be the economic one — as the current controversy over VAT shows. Here, too, the decision taken in the present period will necessarily affect the relationship between the political democracy and economic outcomes in a future system.

The choices the VAT controversy poses are not easy ones. Within a basic democratic set of demands there exist severe tensions. The hardest one is that between effectiveness and consent. The new democracies in Eastern Europe enjoy mass consent at the moment, but unless these governments follow efficient economic policies that produce growth and prosperity the enthusiasm for democracy will soon wane.

The same is true for South Africa. In the VAT controversy the Government has staked all on the effectiveness of the tax while the mass-based opposition claims it

mand that parties refrain from succumbing to the temptations of outbidding.

Without an economic pact, South Africa enters the post-apartheid era at its own peril. By hammering this point home, the VAT controversy is serving a most useful function. □

Professor Gilmore teaches politics at the University of Cape Town.

TAXATION — 1991

OCTOBER.

8 OCT 1991

Showdown

Marchers held as violence erupts

over VAT

Southern
11/16/91

320



SAYING IT ALL: This anti-VAT protester's message was loud and clear during a march by trade unionists to the Receiver of Revenue's offices in Johannesburg. Pic: JOE MOLEFFE

THOUSANDS of workers throughout the country took to the streets yesterday to protest against the implementation of Value Added Tax.

In Cape Town a march by about 10 000 people ended in chaos when some of the marchers pelted police with bottles during a con-

Sowetan Reporters and Sapa

frontation near Parliament.

According to the police, 75 Pan Africanist Congress supporters were arrested along the Grand Parade shortly before the organisation's march was due to start.

To page 2

Thousands protest against VAT

ident and the chief robber Barend du Plessis that they must take their VAT and trek."

In East London about 1 000 people marched through the city centre to protest against VAT.

Dr Bernie Fanaroff, chairman of the Coordinating Committee on

VAT, told Sowetan the protest was a victory for the workers.

of the National Council of
Trade Unions, Mr Amos
Masondo of the Congress
of South African Trade

Unions, Mr Essop Pahad of the SA Communist Party, and Ms Dipuo Peters of the ANC Youth League, were

among the leaders who presented a memorandum to a Government official.

Kasrils said: "VAT is robbing the poor. We are saving to the State Presi-

dent Mr Nelson Mandela, told people marching on Minister of Finance Mr

Barend du Plessis' office: "We cannot understand why an outgoing government can unilaterally im-

plement VAT and pass other immoral laws on the majority of the people.”

In Johannesburg, Mr Popo Molefe, Mr Ronnie Kasrils, both of the ANC,

From Page 4

Earlier during the two-hour march, marshals battled in vain to control groups of youths who had

paced ahead and repeatedly confronted police, chanting the PAC slogan: "One set-

In Pretoria, Mrs Winnie Mandela, wife of African

SPE
ADVE



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each**

DE V

Violence as PAC

⁽³²⁰⁾
B/DAW 'hijacks' march

DAVE LOURENS 11/10/91

TENS of thousands of protesters took part in anti-VAT marches and pickets in 15 towns and cities yesterday.

A Cosatu and ANC march in Cape Town degenerated into chaos after it was allegedly "hijacked" by PAC supporters.

Sapa reports that a section of the 10 000-strong crowd broke away, chanting the PAC slogan "one settler, one bullet", and pelted police with bottles. Police said a group of schoolchildren had been attacked and robbed.

Marshals said it appeared PAC members tried to hijack the march after a PAC protest failed to get off the ground. Police arrested 75 PAC supporters at the Grand Parade before the protest.

Cosatu information officer Neil Coleman strongly condemned violence at the Cape Town march, saying criminal elements had used it to attack people.

About 6 000 people marched in Johannesburg and 5 000 in Pretoria. Both marches were peaceful.

Yesterday's marches and pickets were the kick-off to a sustained nationwide campaign of mass action, which Cosatu has threatened could culminate in a national strike in November.

Marchers in most centres delivered to Receiver of Revenue offices a memorandum addressed to President F W de Klerk.

□ To Page 2

Violence

^{B109W}
11/10/91
It said the unilateral introduction of VAT could seriously jeopardise the process of negotiation and would bring hardship and suffering to millions.

It called for the zero-rating of all basic foods, water and electricity, as well as medical services and medical supplies.

The SA Black Taxi Association dis-

tanced itself from anti-VAT protests.

GERALD REILLY reports that the Federation of Transnet Trade Unions and the Federation of Salaried Staff Associations, representing 400 000, workers said they were totally opposed to anti-VAT strikes.

● Picture: Page 3

□ From Page 1

Personal tax, VAT on Nat agenda

Sowetan

1/10/91

320

Political Staff

THE National Party's constitutional proposals will be one of the main points of discussion at the party's provincial congress in the Strand next week.

State President FW de Klerk will open the congress in the DF Malan Centre at the University of Stellenbosch on Monday.

The congress will continue in the Strand's civic centre on Tuesday and Wednesday.

For the first time people of colour, including MPs of the House of Representatives, will be attending the congress as delegates.

"Build a nation" will be the theme of the congress.

Problems concerning VAT and its effect on agriculture and medical services, income tax, squatting and the high crime rate feature in resolutions to be discussed.

The Government will be asked to give urgent attention to the possibility of lowering personal income tax in order to stimulate growth in the economy. One resolution also asks for VAT on medical services to be abolished.

Consumers due R6bn in benefits

VAT to spark capital goods buying spree

YESTERDAY'S introduction of VAT is expected to open the floodgates for a buying spree in capital goods.

Commerce and industry have been holding back on capital purchases since government announced that businesses would get a full and immediate input credit for tax paid on capital and intermediate goods after VAT was introduced. This created pent-up demand.

"VAT will definitely trigger purchases on capital goods," Inland Revenue tax director Trevor van Heerden said yesterday.

While the renewal of capital goods purchases would revitalise beleaguered suppliers, Van Heerden said the refunding of tax paid on the purchases would enable commerce and industry to start passing on the real benefits of VAT in the form of lower prices.

The input tax credits on capital and intermediate goods are expected to save commerce and industry an estimated R6bn a year, which should be passed on to consumers.

Vatwatch chairman Prof Louise Tager urged the business sector to start passing on these and other benefits of the new system. "When businesses purchase goods and services from their suppliers now, they must not cost VAT into prices.

"VAT is an input tax which must be recovered and every link in the commercial chain must ensure that it does not become a cost to business. If it does, the tax will be inflationary and consumers will end up paying more under VAT than before and not less," she said yesterday.

LESLEY LAMBERT
and MARCIA KLEIN

Most goods which were subject to GST should have cost less yesterday, provided the vendors passed on the three percentage point decline in the tax rate. The effect of this on consumers' monthly costs will, however, be offset by the broader base of the new tax which captures many more goods.

Nevertheless, major expenses such as municipal rates, pension and retirement fund contributions, medical aid contributions, private home and car sales, bus, taxi and train fares, rentals and state hospitals and clinics are not subject to VAT. Nor is brown bread or maize meal, while about eight basic foods have been zero-rated for six months to relieve the poor.

In most cases, snap price surveys conducted yesterday showed a decline in the price of goods previously taxed. There were some cases of extraordinary price increases, such as the R1,24 increase in a two-litre bottle of Coca Cola at Spar, reported by the SABC.

Most supermarket chains, which worked around the clock on Sunday to reprice newly zero-rated items, undertook to freeze the price of GST-exempt foods which had not been zero-rated. (Notably, Pick 'n Pay made provision for R3m to absorb increases on 42 basic food lines.

Major retailers said it was a matter of time before consumers realised the introduction of VAT would lead to a reduction in the price of goods.

□ To Page 2

VAT

OK marketing director Mervyn Kraitzik said while initial feelings were that consumers were being cautious and would be confident in the VAT system only once it had proven its worth, feedback from regional stores late yesterday afternoon had shown they were busy.

While major retailers welcomed the last-minute zero-rating of additional basic foodstuffs, they said it had caused chaos as prices had to be changed and computers reprogrammed. Checkers closed some of its stores until noon to ensure that cashiers did not punch in incorrect amounts on items which had been double-priced in

preparation for VAT's introduction.

Many other companies and public utilities, such as Eskom, Transnet, SAA and the Post Office, which were taxing their services for the first time, announced price increases below 10% in the run-up to VAT. Others, including leaders in the food industry, the 11 motor manufacturers, Carlton Paper, Avis Rent-a-Car and the Clay Brick Manufacturers Association, undertook to pass the benefits of VAT on to consumers.

But many businesses have exploited the implementation of the new tax, pushing up prices substantially in the months preceding VAT.

□ From Page 1

Cosatu (S22) 'sorry' for 'indiscipline'

Staff Reporter

COSATU officials have apologised for the bottle throwing and window smashing that marred the end of a huge anti-VAT protest march by more than 10 000 people through the streets of central Cape Town yesterday.

Some marchers also shouted racist slogans. ("One settler, people, let") at white people.

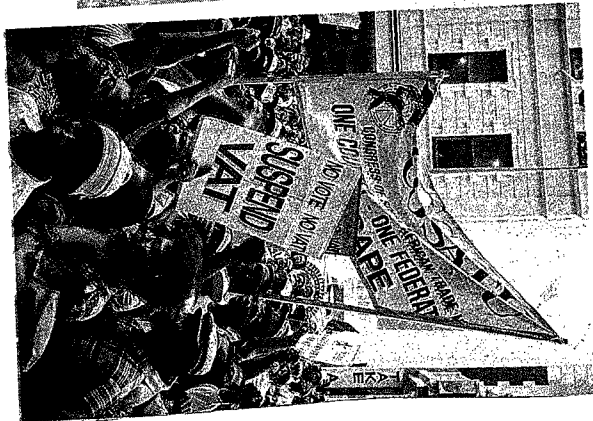
Senior union officials said at an afternoon press conference that several problems of "indiscipline" had arisen because some remnants of an earlier illegal PAC march, which had been stopped, had fused with the huge lunchtime COSATU/VATU march.

Cosatu officials said their supporters were not responsible. A meeting is to be set up with the PAC to discuss what went wrong.



... CLEAR MESSAGE. Protesters dance around the ashes of a coffin burnt outside Parliament. **RIGHT:** Anti-VAT protesters air their slogans.

Pictures: ALAN TAYLOR and STEWART CULMAN



Most shoppers happy with VAT

Staff Reporter

SHOPPERS generally had little difficulty with the switch-over to VAT yesterday — and many found the contents of their shopping baskets costing them less.

Shopkeepers, however, reported problems with the new tax.

Mrs S Oboler of Sea Point and Mrs Sophia Floreska of Gardens said their groceries seemed "a bit cheaper".

Mrs Maureen Hayden of Camps Bay thought the tax "a wonderful thing". Her trolley of goods cost her less, she thought.

Miss Rose Boyce of Guguletu said VAT did not "make so much of a difference", and she was not aware of paying more for her groceries.

Ms Sandy Joffe of Observatory said: "It doesn't feel any cheaper."

Mrs Maxine Reilly of Tamboers Kloof said she had not "really" been affected, but her shopping had worked out a bit



'CHEAPER'
Mrs Maxine Reilly



PAID LESS
Mrs Sophia Floreska



'NO DIFFERENCE'
Miss Rose Boyce



'CAN'T TELL'
Mr Ralph Dick

cheaper.

Mr Ralph Dick of Vredehoek said it was "a bit impossible" to gauge the effect of VAT so soon. Its effect could be evaluated properly only after a week or a month.

Mrs Janet Harrison felt some things seemed cheaper, others more expensive.

The opinions of shopkeepers in the City Bowl varied, with some indifferent and some confused.

Mr Abdullah Khalfe said the many

changes made to VAT before its introduction had made it "a bit confusing".

"It's a big mess," said Mrs M Goncalves. "We've been working like maniacs, changing everything."

The Receiver of Revenue in Cape Town, Mr Ernst Conradie, said his office had received more inquiries than usual yesterday. "Most were about TV licences, second-hand cars and confusing reports in the media," he said.

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SOWETAN RADIO METRO



320
Scrap
VAT,
callers
urge
Minister

MOST callers to the Sowetan/Radio Metro Talkback Show yesterday called on the Government to exempt all foodstuffs from VAT.

Some of the callers, however, called on the Government to stop the implementation of VAT because "it did not have the right to do so in the light of negotiations for new democratically elected regime."

Hugh from Yeoville in Johannesburg said: "The further zero-rating of foodstuffs announced by Minister Barend du Plessis does not mean anything.

"The Government should also stop comparing itself with overseas governments which are following a democratic principle.

"Let's speak about VAT in South Africa, which we know that, once implemented, will be raised within a matter of months," he added.

Sipho from Zola, Soweto, said he welcomed the news of a further "zero-rating" of basic foodstuffs.

He said VAT was a good tax system but added that the problem "in South Africa is that it will only benefit the whites of this country".

Veli from Kaitleng called on Du Plessis to "postpone the implementation of VAT because of the present talks that are under way to elect a new government."

"What is surprising is that the very same Government that introduces VAT is falling.

"Why go ahead introducing a tax system that the majority of people are opposing.

"This just shows that the Government is not serious with negotiating a settlement with blacks," said Veli. - Sowetan Reporter.

VAT protest has carnival atmosphere

Star 1/10/91

By Guy Jepson

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For a moment yesterday, as thousands of anti-VAT protesters lined up alongside the Rand Supreme Court, the outstretched hand of Carl von Brandis seemed to be calling for an easing of the tax burden.

Amid all the singing, smiling faces and the sea of colourful banners, the imposing statue of the Transvaal's first mining commissioner in the court garden appeared to assume an uncharacteristic benevolence.

Although their banners conveyed the depth of anger at the imposition of VAT, the protesters, yet to feel the effects of the new tax system, enjoyed being in the streets.

There was a sense of excitement, of empowerment, as hundreds of voices joined in the liltingly beautiful protest songs.

A vendor, his boerewors-roll cart parked strategically nearby, appeared to be doing a roaring trade. He assured me his customers were not paying VAT prices.

Copies of the hot-off-the-press Congress Militant, a two-page tabloid put out by the Marxist Workers Tendency of the ANC, were selling at a rate likely to make the editors of some "alternative" weeklies envious.

I paid 30c for my copy — only to discover later that the "solidarity price" was R1.

Some shopkeepers closed their doors as the big crowd began moving towards the offices of the Receiver of Revenue, followed by the armoured vehicles of the riot police; others stood in their doorways, watching.

An Indian trader walked out of his shop, grinned, raised his fist and shouted "Down with GST, down with VAT!"

At the offices of the Receiver, the SACP's Ronnie Kasrils appeared to be enjoying himself.

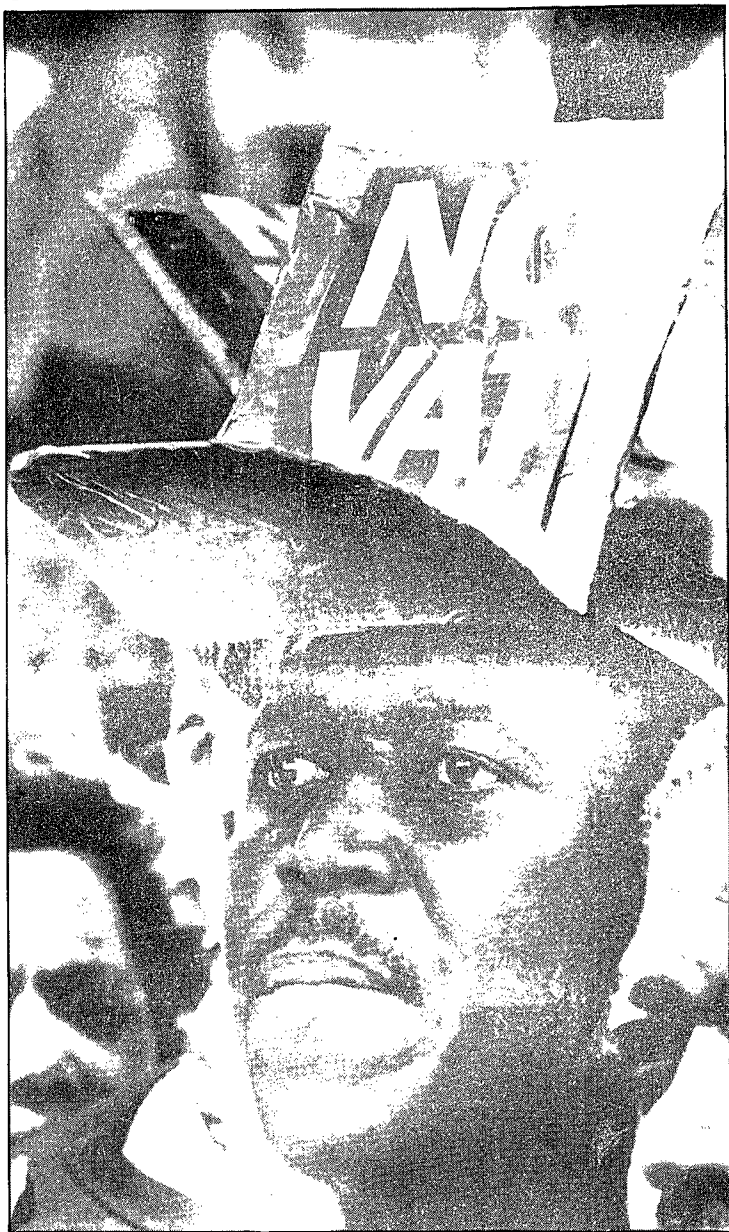
Mr Kasrils injected his angry, megaphone-delivered denunciation of the Government and VAT with some pretty neat puns.

"So we say to De Klerk and Du Plessis, VAT jou goed en trek!" he said, to the delight of the crowd.

There was more humour back in Wanderers Street as a smaller group of young protesters started a marathon toy-toy session near two Casspirs.

In a remarkable display of patience, a policeman twice removed anti-VAT posters which had been put on his vehicle, before resorting to his camera to keep his tormenters at bay.

Needless to say, they immediately gathered around, posters held aloft, for the impromptu "shoot".



VAT on his mind . . . a protester registers his disapproval of the new tax system during a march in Pretoria yesterday.

Picture: Sean Woods



FLAMES OF ANGER
Anti-VAT protesters set fire to a cardboard coffin to "cremate" the new tax which is perceived as a measure which will worsen the lot of the working class.
Picture: ALAN TAYLOR

VAT.

Bottles, rocks thrown in protest march

violence

(329) CT 10/91

A VAT protest march by more than 10 000 people in the city was marred by violence yesterday — and ended in chaos when marchers pelted police with bottles.

During the two-hour-long protest, marshals battled in vain to control groups of youths who raced ahead of the main body and repeatedly confronted police, chanting the PAC slogan "One settler one bullet".

Bottles and rocks were thrown at

government buildings and a shop and cars were vandalised.

The controversial new tax was introduced yesterday to countrywide protest marches organised by Cosatu. Marches in other centres went off without incident.

In Pretoria, several thousand protesters — including Mrs Winnie Mandela — marched on the offices of Finance Minister Mr Barend du Plessis to present a memorandum against VAT.

In Durban several hundred demonstrators held a lunch-hour protest, while the protest in Johannesburg drew about 6 000 marchers.

The Eastern Cape was hardest hit, with major companies reporting that most workers had observed a national stayaway and not come to work. The Mercedes Benz manufacturing plant was closed and at least 99% of Pick'n Pay workers heeded the stayaway call.

In further incidents in the city yesterday:

● An ANC marshal accompanying a group of about 115 protesters allegedly hijacked a bus to transport them to the city to join the march.

The bus was stopped at a routine police roadblock and the marshal arrested.

Police drove the bus to the Langa police station where singing and chanting protesters were allowed to leave.

● Police arrested 75 PAC supporters at Cape Town station as their march was illegal, police said.

● White clerical staff at the Cape Town harbour were seconded to work on the quayside yesterday as members of the SA Railways and Harbours Workers' Union

To page 2

● Small traders — whether to register — Page 10

crack of dawn



Barend is right up there with the pace of change. He's changed his mind five times before the introduction of VAT.

Syfyets Cape Times
Share Challenge



THROWING BOTTLES ... A bystander ducks as a VAT protester strikes out at police in Commercial Street.
Picture: STEWART CULMAN

'Iraq was planning A-bomb'

BAGHDAD. — The United Nations team which uncovered Iraq's nuclear secrets believes that President Saddam Hussein was preparing to detonate an atom bomb.

The team, which had been held virtual prisoner for eight days in a Baghdad parking lot, were allowed to leave the Iraqi capital yesterday. A spokesman for the UN's International Atomic Energy Agency (IAEA) in Vienna, Mr David Kydd,



P.T.O.

downed tools and joined the anti-VAT march in the city.

In the Cosatu/Vat city march yesterday, several hundred people carrying PAC banners and an ANC flag, ran ahead as marshals struggled to keep the main body of the marchers in check.

The smaller group confronted hastily mobilised police lines at the top end of Adderley and Parliament streets, chanting slogans and taunting police dogs as marshals battled to get them to move away.

The march, halted in Plein Street, where union representatives presented a memorandum, addressed to the State President, to an official from the Receiver of Revenue outside the Receiver's building.

The memorandum demanded zero-rating of basic foods, water and electricity and demanded that the government negotiate on further changes to the tax system.

Simultaneously, the smaller group of protesters, who had met another police line 200 metres away opposite the gates of Parliament, burnt a cardboard coffin with the words "Vat is killing us" painted on its sides.

Although most of the marchers then moved off, about 1 500 congregated at an entrance to the H F Verwoerd complex.

A core of PAC supporters, again chanting "One settler one bullet", demanded the release of their members arrested earlier in the day.

There were fierce scuffles as members of the crowd then tried to force their way through the ranks of marshals on the H F Verwoerd steps to confront policemen. One man was thrown standing behind them, and another was thrown bodily down the steps by a marshal.

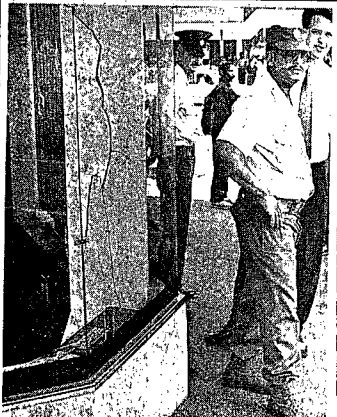
The crowd scattered abruptly when two police dog-handlers moved in with their animals, and a shower of glass bottles and tins rained down on the policemen.

Police did not retaliate, and none appeared to have been injured.

A missile broke a window of the building back down Plein Street to the station, breaking the plate-glass window of a shoe shop on the way.

Among the organisations whose banners were carried on the march were the ANC, Youth League, the PAC, ANC Women's League and a number of unions. There was a strong contingent from the SA Railways and Harbours Workers' Union. — Staff Reporter and Sapa

VAT DRAMA



ON ALERT: Police, above, guard a building with a broken window in Plein Street during the VAT demonstration.



ANTI-VAT MASSES: Some of more than 15 000 marchers, right, in Darling Street.

Cosatu 'sorry' will probe VAT violence

Staff Reporters

A MEETING between the Congress of South Africans Trade Unions and the Pan Africanist Congress is to be held on yesterday's violence in the centre of Cape Town.

Cosatu today blamed a group, some with PAC flags, for smashing shop windows, slashing tyres and damaging cars after a march organised by Cosatu to protest against value-added tax.

A police spokesman said 100 people were arrested during two anti-VAT demonstrations yesterday.

They were given the option of R100 bail or admitting attending an illegal demonstration and paying a fine.

Cosatu's regional secretary, Mr Alan Roberts, apologised "to the public".

He said: "We are sorry. We want to make it clear that none of our members was involved."

"We intervened when they started smashing windows. I don't know what would have happened if our marshals had not tried to stop them."

Cosatu and its allies had put a lot of work into organising yesterday's march, he said.

"We wanted a disciplined and orderly march and even paid for trains to bring our people to Cape Town."

Cosatu was disappointed at subsequent developments and would take up the matter with the PAC.

He said: "We are going to call a meeting with the PAC to assess and discuss these in-

cidents because they are not conducive to building unity."

He did not think that "it would undermine the formation of a Patriotic Front between Cosatu, other unions and political organisations".

But such a front had to be based on discipline, principles and common objectives, he said.

Mr Macwertha Ntsodo, a spokesman for the PAC's regional executive, blamed police for provocation and said: "We planned a peaceful march and our people were unarmed. Police were heavily armed."

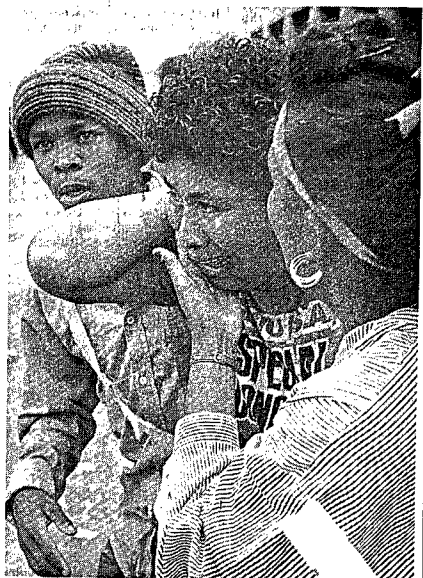
● Just after 1 pm yesterday a delegation of trades unions and the ANC and the PAC, including Mr Roberts, handed a memorandum to the Receiver of Revenue, Mr E L Conradie.

The memorandum claimed VAT would "bring additional hardship, and suffering to millions of South Africans."

Crowds of toy-toying marchers stood opposite the revenue offices, while an official tried to calm them.

The official appealed to the marchers to be disciplined "to show President De Klerk that you are disciplined people". He also threatened not to "issue the petition if the crowd do not behave".

But the thousands of marchers, most of whom were PAC members, refused to go back to District Six, and one group ran through the streets shouting: "One settler, one bullet."



Pictures: HANNES THIART, The Argus.

INJURED: A woman is comforted by a colleague after being struck on the face when marchers threw bottles and cans at the Hendrik Verwoerd Building in Plein Street. Police reinforcements moved in area to prevent further violence.

VAT-free, but diet ³²⁰ not that ^{ARG 11/10/91} worry-free

LIBBY PEACOCK
Staff Reporter

AFTER the F-Plan diet, the high-protein diet and the Drinking Man's Diet, South Africans can now try a new eating plan, courtesy of the Minister of Finance.

Introducing the VAT Diet — guaranteed to bore you rigid, but keep your purse, if not your body, healthy.

On the VAT Diet you're allowed brown bread, mielie meal, mielie rice, whole mielies, samp, powdered milk, fresh milk, dry beans, lentils and canned pilchards — all VAT-free foods.

But can you live on it?

Mrs Joan Huskisson, head of the Dietetics Unit in the University of Cape Town's department of medicine, was worried about the lack of vitamins.

"There are no water-soluble vitamins such as Vitamin C, which is found in citrus fruit, tomatoes and guavas, and which is needed on a daily basis."

Carotene, found mainly in yellow vegetables, was also likely to be short, as would the fibre one obtained from fresh fruit and vegetables, she said.

And the VAT Diet lacked variety.

"You shouldn't live on the same 10 foods daily, as you would lose out on some trace elements."

"When you're limited to 10 foods, you must take enough of the basic elements needed in a balanced diet."

"You'd need to make sure that you eat sufficient quantities of these foods to ensure that macro-nutrients, such as the protein in the milk and canned fish, are taken in reasonable quantities."

This was particularly important in growing children and teenagers, she said.

Mrs Huskisson found it "most unfortunate" that fresh fruit and vegetables had not been VAT-free, as these food items were "an essential need for all of us".

She said it was "a pity, especially in a country like ours where there is so much production of these items".

New prices stymie public

Star 1/10/
Mobutu

KINSHASA — President Mobutu Sese Seko and opposition leaders haggled yesterday on the share-out of key posts in a new crisis government.

Zaireans hope it will restore order to their vast country.

After a week of looting in which at least 117 people died, Mr Mobutu finally agreed at the weekend to give up some of the power he has wielded for more than a quarter of a century.

Etienne Tshisekedi, a key opposition figure appointed as prime minister, told reporters that he would have real power — including control of the armed forces.

"I'm not going to be prime minister for a laugh. I'm the real prime minister, with all the responsibilities," he said.

posts started in an atmosphere of mistrust when Mr Tshisekedi arrived late — and then objected to the fact that the committee consisted of 13 people, because it was

Mr Mobutu fired the army chief of staff at the weekend and replaced him with General Mahéle Liyeku, a soldier with a distinguished military record.

But ordinary Zaireans are as suspicious of the main opposition leaders — most of whom have served Mr Mobu-

Star 1/10/91

Confused consumers
Flooded Vatwatch and
The Star with complaints
Yesterday as the introduction of value-added tax was greeted by thousands of marching protesters around South Africa.

ANC executive member Ronnie Kasrils described the marches as the "first shot in the war against the illiquid VAT system".

eral Jay Naidoo warned that the Co-ordinating Committee on VAT (CCV) would make the new tax system unworkable—the same way the Labour Relations Act was

made unworkable.

“Valwatch received numerous complaints that prices had not been reduced but had, in fact, gone up. However, Valwatch inven-

However, various investigations showed that in many instances consumers were comparing new prices which included VAT, with old prices which did not reflect GST.

Referring to complaints about newspaper prices which were remaining stable or only being marginally reduced, Professor Tager emphasised that "Watwatch

VAT-related calls to The

Star varied from last-minute queries to reports concerning the unreasonable increase in prices. They included complaints

I

VAT KILLS
VAT VA

Taxing situation . . . : part of the crowd which marched to the Johannesburg Receiver

of Revenue's office.
Picture: Sean Woods

Meanwhile, marches, rallies and protests against the way in which VAT had been implemented were zero-rated on Sunday.


In Pretoria about 5 000 placard-wielding protesters marched to the Department

The CCV memorandum also presented to several of Finance where a memorandum was presented to chief director Trevor - yaa Heerden.

other marches, called for things of zero-rating of basic foodstuffs, water, electricity, and prescribed medicines and medical services.

Steps to insure small businesses were not disadvantaged by VAT, anti-price abuse controls strangle adequate poverty relief and negotiations with "the major

Winnie Mandela told the Pretoria crowds that the players "on further changes to the tax system were also demanded."



Speaking to the media, M Naidoo lashed out at the SABC for promoting the Government's views on VAT and undermining the CCV anti-VAT campaign.

"We demand the removal of the present hierarchy of the SABC," Mr Naidoo said.

Receiver of Revenue Kobus Stone was handed the CCV memorandum by Constable Wilwaterstrand regional

Mr Kasrils said VAT was

a system that, as in the Afrikaans word 'vat', takes from the poor and gives to the rich". He said ordinary South Africans were no longer prepared to accept "robbery, oppression and exploitation".

"So we say to De Klerk and Du Plessis, 'vat jou goeie en trek' (pack your things and leave)."

by about 10 000 anti-VA protesters in Cape Town ended in violence when a small number of marchers pulled police with bottles during a confrontation near

March marshals battled youths who raced ahead of the main body and repeatedly confronted police, chanting "One settler, one bullet"

Krugersdorp was virtually deserted yesterday as thousands of residents of nearby Munsieville township

● To Page 2

GST dodgers seek immunity

By Day 2/16/91

LESLEY LAMBERT

THE Inland Revenue Department said yesterday some companies that had not yet registered for VAT had asked for immunity from prosecution for GST evasions.

But the tax department was unlikely to let them off the hook, chief tax planning director Trevor van Heerden indicated.

More than R4bn was lost to the fiscus last year through GST evasion.

By yesterday, VAT registrations had increased from 110 000 on Friday to 130 000. However, Van Heerden said, the number of registrations was low compared with other VAT systems because much of the small business and informal sector was excluded by the high entry limit of R150 000.

Van Heerden said he had received letters from companies which said they would register for VAT only if the tax authorities turned a blind eye to their evasion of GST.

GST evasions would be disclosed in the VAT system because it was administratively more efficient and the first sign of evasion would be a sudden increase in

turnover, he said.

Companies which did not register would be at a disadvantage because they would not be able to recoup VAT they would be charged on their supplies.

"In fairness to the businesses which have been honest, we do not believe we can agree to their requests," he said.

"There are also people who have been out of the system altogether and have paid neither sales tax nor income tax. Inland Revenue has agreed to be lenient for a year to allow people to get used to the system. After that, we may forgive but we will not forget their actions."

A major reason for changing from GST to VAT was to stop the leakage which occurred because of GST evasion. The IMF reckons a VAT system captures about 60% of the amount evaded under GST.

The penalty for VAT evasion is an immediate doubling of the tax owed — and, perhaps, publication of evaders' names.



LET'S TALK...
Wecuwu's Mr Shaheed Mohamed explains the position of his organisation to OK's food manager, Mr Trevor Slayter Kinghorn, during yesterday's visits to chain stores by 20 Wecuwu members in protest against VAT.
Picture:
BENNY GOOL

TML explains VAT position

JOHANNESBURG. — Media giant Times Media Limited yesterday emphasised that as a company its financial situation would be neutral following the introduction of VAT.

In a statement, TML said the prices consumers paid for some of its publications were being reduced while others remained unchanged.

The company said it would be absorbing the VAT on distribution charges as well as the increase in the cost of petrol. — Sapa

Chain stores avert Azapo: Don't pay VAT

By RAMOTENA MABOTE 320
MORE THAN 20 members of the Western Cape Unemployed Workers' Union (Wecuwu) yesterday rushed into two large chain stores in the city and at the Gardens Centre grabbing loaves of bread and litres of milk off the shelves.

In a protest against VAT and as part of a campaign to get food donations from the OK and Pick 'n Pay supermarkets, Wecuwu members took the foodstuffs without any intention of paying for them.

However, the managements of both stores talked the protesters out of their plans, promising to take their pleas to their headquarters.

Wecuwu secretary Mr Shaheed Mohamed said the campaign would continue today but at different stores, which would be decided on this morning after "evaluation".

Own Correspondent

DURBAN. — The Azanian Peoples' Organisation has called on all South Africans to refuse to pay VAT — particularly black businessmen.

The call was made yesterday by Azapo's publicity secretary, Mr Strini Moodley.

● A spokesman for the National Potato Association yesterday expressed "serious dissatisfaction" that potatoes — a staple food — had not been exempted from VAT.

They nursed it, failed to rehearse it, and not surprisingly gave birth to VAT blues

Government's double blunder

Spec 2/10/91.

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FUNDAMENTAL to the row over VAT has been the Government's failure to consult with black political leaders — and this at a time when the country is entering a delicate stage of rule by negotiation.

It is a failure that is particularly significant coming from a ruling party that is advocating government by consensus as its new creed. If it can't get this right, what price its own constitutional proposals for the future?

There are those who say the ANC-led alliance has chosen the issue for a test of strength to demonstrate its powers of mass mobilisation ahead of the constitutional negotiations.

I doubt this. With the trade unions facing retrenchments and the ANC itself suffering from continuing destabilisation operations, the black organisations need a period of consolidation, not more confrontation, at this time.

But if I am wrong, if they are indeed using VAT as a popular issue on which to launch a new phase of pressure politics, then it is the Government that handed

them the issue on a plate.

It has bungled the new tax in two ways. Firstly, while no-one disputes that VAT in general is a better system than GST, the way it has been introduced here makes it an unprogressive tax which means it is not graded to make the poor pay less and the rich more.

Perversely, the Government has set its face against the kind of multi-level rating that would achieve this. Such a system, which zero-rates basic foods and other essentials like medicines, and loads luxury goods is employed in most other countries that use VAT.

This obviously eases the burden on the poor while taxing the rich more heavily for their luxuries, which is what a progressive tax should do. If it is considered appropriate for most of the relatively egalitarian countries of Western Europe, how much more so for South Africa which has one of the widest gaps between rich and poor in the world?

Yet the Government will not do it, apparently because it wants to keep the administration simple



Allister Sparks

with a uniform rate. The result is that many basic necessities of life which were exempt under the old GST system now jump in price by the standard 10 percent. VAT, while luxury goods come down by three percent. This administrative convenience takes precedence over social justice.

Klaarman has a multi-level rating to cushion the poor with poverty relief programmes. Instead of taxing them fairly he is putting them on charity.

Moreover, it is clear that these relief programmes are nowhere near ready. The Government has had nearly two years to prepare for VAT, yet it has paid so little attention to this aspect of the scheme, so vital to the welfare of 16 million black people living below the poverty line, that it will be months before the programmes

are in operation.

In the meantime Mr du Plessis, acting only under pressure from the protesters, it must be noted, has made last-minute concessions with a string of temporary zero-ratings until the welfare programmes are ready.

Bad as this is, the second blunder, the failure to negotiate with black leaders, is worse.

In the best, the most democratic of circumstances, imposing a new tax system is a delicate business, and as Margaret Thatcher found doing so in a clumsy and high-handed way can arouse strong resistance. To do that in circumstances where three-quarters of the taxpayers are without political representation and likely to respond like the American revolutionaries who saw this as tyrannical, is asking for trouble.

And to do it at a time when one's country is in a state of delicate transition, trying to draw those wronged people into an amicable agreement on a new constitution, is crass stupidity.

Building trust ought to be the name of the game right now. As the country moves deeper into the

transitional phase, with negotiations taking place at many levels and talk about special interim arrangements to include the representatives of the voiceless in the decision-making process, surely the Government should be going out of its way to confer with the extra-parliamentary organisations before every major policy decision.

It's not good enough for Mr du Plessis to say he invited "interested parties" to make representations to Watcom. That is not consultation in the proper sense. We are into the era of rule by negotiation, and what is required is prior consultation and agreement before decisions are taken, not arm's length representations that can be ignored and protests afterwards.

What would have been appropriate — what in fact should increasingly be done on all important issues — would have been for the Government to set up a joint commission with representatives from all its major negotiating partners to study the VAT proposals in the context of the overall tax system and see if they could not reach agreement on a system

acceptable to all.

In other words, to seek consensus is that not the whole basis of the National Party's constitutional proposals, its idea of how the new South Africa ought to be run? So why not demonstrate its sincerity, and the system's workability, let the Government, seems more intent on demonstrating that it is sovereign, that it is in control, and that it is not going to allow anyone to impinge upon its authority.

That reveals an attitude more in keeping with the old National Party than the new, and does not augur well for the ability of these selfsame people to operate a system that would require a troika Presidency and a multiparty Cabinet to function on a basis of continuous consensus.

stands nor is ready, for, that is manifestly unfair in its unprogressive features, that has soured the negotiating atmosphere, and may yet lead to a damaging confrontation that the country can ill afford.

Advertising — confusing consumers

The Argus Correspondent

JOHANNESBURG. — The VAT promise of "the price you see is the price you pay" was being diluted by price advertising which did not clearly include VAT. Valwatch has warned.

The watchdog body will approach the Department of Inland Revenue for clarification.

Valwatch chairman Professor Louise Tager said that since the introduction of VAT two days ago, prominent advertisements had appeared showing a basic price quite separate from the VAT inclusive price. Prices were also being displayed in shops in a similar manner.

"Consumers had been told that VAT would move away from the confusion created by the price-tag policies most businesses followed under GST. It is really most unfortunate that a similar advertising practice is now developing under VAT," Professor Tager said.

She appealed to the business sector to implement VAT in a way that helped rather than confused consumers and advised consumers to ensure the prices they saw included VAT.

32A MGA 2/16/91

VAT FILE

Price-watchers prowl the stores to check, advise

The Argus Correspondent

JOHANNESBURG. — Inland revenue inspectors are checking and advising shopkeepers on VAT and pricing.

Shopkeepers have until the end of October to change over to inclusive pricing.

If they do not comply they can be fined.

Mr. Peter Frank of the department yesterday warned consumers against being exploited and said if this happened they should refuse to buy.

"We do not have any control over prices, therefore consumers must guard against exploitation,"

Professor Louise Tager, chairman of Valwatch, appealed to consumers to make sure they were charged only 10 percent and not 13 percent. "Almost all goods should be at least three percent cheaper, if not more."

Zero-rating for rice — official

The Argus Correspondent

JOHANNESBURG. — Widespread confusion over the VAT status of rice, which even had the Ministry of Finance guessing, has been cleared up.

Rice was excluded from a list of zero-rated items sent out on Sunday.

Yesterday a representative of Tiger Oats said rice consumed at a rate of 300 000 tons a year — would not be subject to VAT for at least six months next year.

Mr. Patrick McLaughlin confirmed there had been confusion in government media statements on the zero-rating on VAT. However, when asked to clarify the statement he said they "responded sympathetically and with speed."

After inquiries late last night the Department of Finance confirmed rice was zero-rated.

Taste Rice Corporation executive chairman Stan Kaplan said he was delighted, the confusion had been cleared up.

If rice was zero-rated it was to be welcomed, Housewives League President Lyn Morris said.

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sectors.”

LESLEY LAMBERT

will be monitored very closely in the longer term.

WHEN Inland Revenue's chief tax planning director, Trevor van Heerden, says he is often at the "teething end", you can be sure that it is not only of the nation's hard-earned income.

Van Heerden was one of the main designers of the new, and strongly resisted, VAT system. His department was also responsible for the unpopular fringe benefits tax and is currently looking into, you guessed it, capital gains tax.

But the designers, and later the politicians whose job it was to market VAT, were strongly criticised for not making enough provision for the needs of a country which not only has a high level of poverty but is also

It is not surprising, then, that he thought he was under attack when his head was accidentally knocked by an eager TV cameraman as he walked out of the Receiver of Revenue's Pretoria office on Monday

Refusal to grant concessions on a wider range of basic foods and services because this would erode the broader tax base, for example, was widely criticised.

Ironically, Van Heerden sniffed at the idea of VAT when it was first recommended by the Marquo Commission. "I did not think it was the right system for SA, and became convinced that it was not after visits to the UK," he says.

communicate the benefits of VAT, provided the initial impetus for the anti-VAT lobby, enabling it to grow into a campaign which, on the eve of VAT's implementation, suddenly embraced a far broader political agenda.

But he changed his mind when he saw the New Zealand and Canadian systems, which took the best and discarded the worst of VAT systems in other countries. These examples were then refined into a system which would be more efficient and effective than GST. "We South Africans did it by making the turnover limit, below which companies need not register, lower than other countries. This excluded many companies."

Van Heerden attended many of the meetings in which Finance Ministers Barend du Plessis and the ANC and Costru-led anti-VAT alliance tried to thrash out a settlement. But by then the matter had moved into the political domain — one in which decisions imposed by practitioners are often sacrificed for political ends. Nevertheless, he is reasonably confident that the integrity of the system will remain intact despite the

last-minute concessions which reduced the amount VAT is expected to collect to R17,8bn.

But, while he believes the final list of food zero-ratings is well targeted, Van Heerden remains unconvinced of the effectiveness of zero-ratings. "When we exempted basic foods from GST, the prices moved up to absorb the benefit."

"I still believe that assistance provided outside the tax system is more effective. It is unfortunate that the poverty relief programme has not been fully implemented at the same time as VAT. We are relying on welfare organisations to administer the programme but many have not applied for funds from the R200m allocation."

On the administration side, Van Heerden is satisfied with his department's implementation of VAT, but he does concede that there were, and still are, some teething problems. Many rulings have not yet been made because requests were submitted at the last minute and practitioners which registered companies notes have received before Monday

LETTERS

□ VAN HEERDEN

were only posted this week because the final concessions had to be included.

"We have been working very hard. Staff all around the country has been working after hours and through weekends to process applications. But one of the biggest tests will be the first returns on November 25." The confusion which greeted

It may, however, help to restore confidence in a tax system which poor people believe is biased against them.

"Capital gains tax will not bring in much revenue. But it may be necessary as a 'perception' tax — to give the perception of greater equality in the tax system," Van Heerden says.

Van Heerden's next task — consideration of the proposed capital gains tax — will undoubtedly unleash another wave of protest, this time from wealthier communities and the business sector.

which the owner repudiated that he was simply passing on the benefit of the 10% rate. The marshal said he was not aware that VAT would reduce prices. He then rushed back to join his fellow marchers.

illustrates this point. One of the marshalls in the anti-VAT march on Monday popped into the cafe to buy some goods. He asked if the cafe owner was discounting his prices, to

A Pretoria businessman who has a close relationship with the offices of the Revenue Commission of Botswana falls a storm which

The confusion confirms the in-
longer term.

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• 250 Sheet cassette • Op

Banks can choose their own tax basis

BANKS would be free to choose whether they wanted to be taxed on gross interest earnings or on their capital base, Japie Jacobs, special economics adviser to the Finance Minister, said yesterday.

His remarks, made during an interview at a retail financial services conference in Johannesburg yesterday, clear up confusion about the new tax on financial institutions.

The tax, which has been likened to a kind of VAT on financial institutions, came into effect along with VAT this week.

"Hopefully, the banks will play ball and choose capital as the basis," said Jacobs. "Non-banks like insurance companies will still be taxed on interest."

There had been some uncertainty in banking circles after Finance Minister Barend du Plessis told reporters at the conference that the tax on capital was only "a guide" and that if it did not work, he would "go back to the drawing board".

Jacobs said the tax had come into effect along with VAT this week, but that the regulations were still being drafted. The

taxman is aiming to raise about R400m a year from the tax on financial institutions, about half of which will come from banks.

United Bank MD Mike de Blanche welcomed the decision.

He said he preferred the capital approach, and ventured that most banks probably would too. However, he did not exclude the possibility that certain banks, depending on their structures, might choose the interest approach.

Earlier De Blanche told delegates that banks were not "fat cats", and disputed the view that the new tax was a proxy for VAT.

"Banks that pay VAT will not be able to claim input credits due to their VAT-exempt status," he said.

The income of banks was already systematically being "nationalised" through high taxation, he said. "The special tax on financial institutions represents some 10% of pre-tax profits, bringing the effective rate of tax for banks up to 58%."

● See Page 3

Cape NP congress to debate taxes, Aids



Political Staff

ET 3/10/91

PROPOSALS to lower personal income tax levels, abolish VAT on medical services and for a more comprehensive government campaign to fight Aids are among those that will be submitted to next week's Cape National Party congress.

The congress kicks off in the city on Monday.

There is strong concern in the NP's Cape constituencies over the VAT issue and taxation in general.

The high incidence of squatting in the Cape has prompted a number of constituencies to propose that the congress examines the problem.

President FW de Klerk has announced that he will address a public meeting in Stellenbosch on Monday night.

VAT causes confusion 320

THE introduction of Value Added Tax has caused confusion among black consumers.

Amid the controversy surrounding the new tax many shopkeepers still charge the old prices.

Vatwatch has advised that when businesses purchase goods and services from their suppliers they must at all times avoid a situation where VAT adds to prices.

Vatwatch chairman Professor Louise Tager said consumers should remain alert for months to come, to counter the alarming pre-VAT price increase trends which the first of the Vatwatch market surveys had uncovered.

By JOSHUA
RABOROKO

Vatwatch received more than 620 complaints from consumers, who expressed alarm at unusual price increases before the implementation of VAT.

The complaints were registered during a two-week survey conducted by Vatwatch during the last week of August and first week of September.

In the last week of August consumers complained of price increases by the country's main supermarket chains, ranging from 20 percent to 34 percent. Affected products included breakfast cereals (27 percent), soft drinks (19 percent up) and

certain brands of washing powder (57 percent up).

In the first week of September the supermarket chains again came in for criticism from customers, but in addition consumers queried higher municipal fees (up an average 22 percent), holiday accommodation (33 percent) and pharmaceutical products (41 percent).

Consumers reported several incidents of shopkeepers already charging VAT (as early as August), and of charging both GST and VAT at the same time.

High prices

In one instance a butcher explained he had begun charging VAT "to let people get used to the idea, and alleviate the shock of September 30". In another case a dentist was being reported as having charged a R100 "VAT deposit".

Also reported were several cases of shopkeepers blaming VAT for sudden and exceptionally high price increases such as: municipality electricity and water tariffs; insurance premiums; holiday flat rental; medical equipment; school uniforms; and supermarkets.

Commenting on the analysis of the consumer reports, Tager said both consumers' inadequate knowledge of VAT, and many retail stores managers' attempts to use the tax as a reason for price increases were cause for concern.

Tager said: "While it is not the task of Vatwatch to explain the VAT system, one fundamental aspect of VAT should be clearly understood both by consumers and the business sector: VAT should not be a cost borne by business.

"People must not glibly accept remarks by stores managers that prices are up because of VAT. The fact of the matter is that at 10 percent, VAT must bring down the price of goods currently subject to GST.

"In the long run, VAT ought to either bring prices down, or at least arrest the rate of price increases in recent years. Most inexcusable, however, is the exploitation of those consumers who are being charged VAT already, even though the tax has not yet been implemented, and charging both GST and VAT at the same time."

October 8 to October 8, 1991

By Henry Ludski

South 3/10-8/10/91 Strike over VAT looms

MASS protest may be rekindled in South Africa if this week's resistance to VAT is a pointer to the months ahead.

Standing between the government and a national strike in a month's time are seven urgent demands of the Co-ordinating Committee on VAT.

The controversial tax was introduced on Monday in a storm of protest from trade unions and political organisations, with about 100 000 people taking part in 16 protest marches throughout the country.

This week trade union leaders were debating whether to keep up the momentum of the protests or to give

workers a "rest" before the planned two-day strike early in November.

"We have decided it is fruitless to go on talking to the government about our demands", said Ms Lisa Seftel, Cosatu spokesperson on VAT.

She said the commitment of the Co-ordinating Committee to press ahead with demands had been reaffirmed at a meeting in Johannesburg on Tuesday.

Individual organisations would continue their own programmes of action while trade unions would meet at a summit next week to finalise demands for the national strike. The committee was also considering civil disobedience campaigns, Seftel said.

Cosatu publicity secretary Mr Neil Coleman said a "very popular" strategy among workers was the possibility of extending the protest against VAT to other areas of taxation such as Pay As You Earn (PAYE).

The Committee's demands are:

- zero-rating of all basic foods, water and electricity and prescribed medical services;
- introduction of stronger controls to prevent price abuse;
- adequate poverty relief schemes;
- provisions to ensure that small businesses are not disadvantaged; and
- that the government enters into negotiations with the "major players"

on further changes to the tax system. This week Finance Minister Barend du Plessis extended the VAT zero-

rating to brown bread, mealie rice, whole mealies, samp, powdered milk, dry beans, fresh milk, lentils, canned pickleds and mince meal.

Meanwhile, at least three community organisations have resigned from VATWATCH in protest against the government's refusal to consider their demands. VATWATCH is an independent body "made up of concerned community members".

Those who quit are: Mr Andrew Ball of Labour Research Services, Mr Mahlonolo Skosana of the National Council of Trade Unions (Nactu) and the late Mr Sam Ntuli of the Civic Association of Southern Transvaal, who was assassinated last weekend.

ARCT 3/10/91

Sustained action to oppose tax planned

The Argus Correspondent

JOHANNESBURG. — Sectors represented on the Co-ordinated Committee on VAT have begun plans for a sustained programme of action to mobilise further support against the way in which VAT was implemented this week, the organisation said.

The statement followed a meeting on Tuesday when plans for actions were discussed.

The implementation of VAT on Monday did not change the objections raised, said committee organiser Bernie Fanaroff.

"We don't accept that the government has implemented the tax properly. We will continue fighting for the demands put forward," Mr Fanaroff said.

Action planned includes:

- A letter-writing campaign to President De Klerk initiated by the small business sector complaining about government failure to address their problems with VAT;

- Doctors organising a two-day mass closure of surgeries. Several groups will also approach medical aid societies to ask them not to collect or pay VAT;

- Religious and political groups have begun actively mobilising members to support the committee aims; and

- Trade unions meet next Tuesday to discuss a programme of action which includes a general strike in November, more marches and demonstrations and demands that no PAYE/SITE be deducted and that there be immediate wage increases.

"The expert group of the CCV has been requested to investigate opportunities for civil disobedience, following the example of the doctors," the committee said.

It said the committee was preparing for a major strategic move in the campaign which would be announced next week.

The group said Vatwatch's announcement of huge price increases confirmed the CCV warning that the consumer "will suffer from the implementation of VAT".

"This can only serve to fuel the very widespread public anger at the government and big business's determination to go ahead with the system at this time," the CCV said.

First list of offenders might be issued this week after swoop by inspectors

The Argus Correspondent

PRETORIA. — A list of businesses guilty of VAT offences might be published by Vatwatch this week.

Professor Louise Tager, chairman of Vatwatch, said tax inspectors swooped on businesses accused of VAT transgressions and warned them to follow the regulations.

"Businesses that do not cooperate will be put on a list that we will make public. The first list could be published at the end of the week," Professor Tager said.

And tax inspectors had other ways of ensuring VAT offenders did not get away with it.

They had statutory powers to fine VAT transgressors and to name them and describe their offence in the Government Gazette.

If the tax offence was deceitful or fraudulent, it could be judged in terms of the Harmful Business Practices Act, and the business closed by the Minister of Finance and its owner fined R200 000 and imprisoned.

Calls to Vatwatch shoot up

The Argus Correspondent

JOHANNESBURG. — By the fourth day of the VAT system, factors have emerged as people become accustomed to the new tax:

- Daily calls to Vatwatch doubled to 100 in the first two days of VAT. Vatwatch said it had received several complaints about milk and bread price increases as well as stores still charging GST and VAT.

- The National Potato Association has expressed "serious dissatisfaction" that potatoes, considered a staple food, are not zero-rated in spite of numerous representations to the Minister of Finance.

The exemption of VAT on mealie meal and brown bread gave these staple products an "unfair competitive advantage" in the market place, the association said.

- Cosmetics are included in the list of "luxury" items affected by a 2,5 percent ad valorem tax increase, companies pointed out yesterday. The increase in excise duty will offset the decrease in the tax rate.

- Consumers are angry that some parking garages have increased their fees by more than 10 percent after the introduction of VAT on Monday.

One reader said prices at a Sandton shopping complex jumped from R1,50 to R1,70 after the new tax was implemented. "Ten percent should equal R1,65. No big deal but it's the principle," she said.

- Central Training Unit, the educational branch of Anglo American, has reduced the cost of its services by between one and two percent.

As VAT is now applicable on this service it will be added on to the reduced costs. CTU manager Mr Johan Swanepoel said the unit would be able to claim input credit on about 15 percent of their costs.

- The Board of Directors of the Abattoir Corporation have decided to pass on VAT benefits, which amount to 50c for each tariff unit, to the users of its abattoirs.

Anti-VAT drive to be stepped up

320 LINDEN BIRNS

THE anti-VAT campaign will be intensified to include acts of civil disobedience and a two-day work stoppage by private medical practitioners, the Cosatu and ANC-led Co-ordinating Committee on VAT said yesterday.

The committee reiterated in a statement that pressure groups, including the ANC and Cosatu, would meet next Tuesday to discuss a possible general strike.

Cosatu spokesmen could not be reached for comment on what the envisaged civil disobedience would entail. The committee previously mooted a tax boycott.

The statement said a two-day work stoppage by private medical practitioners was being planned.

A National Medical and Dental Association (Namda) spokesman said last night there would not be a full work stoppage and that private practitioners would be asked to offer their services to public health institutions on the day or days in question.

The aim was to pressure government into zero-rating medical services for poor and low-income patients. *8/10 day 3/10/91*

In addition to Cosatu and Nactu, 15 independent unions and staff associations are expected to attend Tuesday's meeting. Pickets, marches and demonstrations would continue, the statement said.

The committee is demanding the permanent zero-rating of basic foods, water, electricity and medicines. Other demands include effective protection against price abuse.

Police tried to bribe me - shooting victim

By Philip Zolo *Star* 3/10/91

Two policemen tried to bribe a man they had shot in the leg by offering him R2 000 not to lay charges against them, a Johannesburg magistrate heard yesterday.

Leonard Mdledle said in the Johannesburg Magistrate's Court that he was walking along Smal Street, Johannesburg, on August 14 1989 when he noticed a white BMW car come to a halt. He then heard gunshots. Looking down, he saw he had bullet wounds above and

below the knee.

He approached the BMW in which a few young girls were sitting. The girls told him to wait for the police.

He told the court that later that evening one of the policemen who took him to hospital, Shawn Mackrell (25), entered his ward and pleaded: "Please my friend, don't lay a charge against me, I'll give you money." He then offered Mr Mdledle R2 000 and said he had shot him by mistake.

The next day the second po-

liceman, Stuart Singleton (21), offered him money not to make a statement, Mr Mdledle said.

Mr Mackrell of Ridgeway Extension 5 and Mr Singleton of Mondeor have been charged with attempted murder, alternatively unlawfully discharging a firearm and negligently causing injury to Mr Mdledle.

They have also been charged with attempting to defeat the ends of justice by trying to bribe two alleged witnesses by offering them R200 each to remain silent on the shooting.

The hearing continues.

Royal v
residen
opened

ible

By Dik Browne



CCV plans further action against new tax

Various sectors represented on the Co-ordinating Committee on VAT (CCV) have begun plans for a sustained programme of action to mobilise further support against the way in which VAT was implemented this week, the body said yesterday.

The statement followed Tuesday's meeting where action plans were discussed.

The implementation of VAT did not change the objections raised, said CCV organiser Bernie Fanaroff.

Action planned includes:

- Letters to President de Klerk from the small business sector complaining about Government failure to address its problems.
- Doctors are planning a two-day mass closure of surgeries. Several groups will also approach the medical aid societies to ask them not to collect or pay VAT.
- Religious and political

groups have begun actively mobilising members to support the CCV's aims.

● Trade unions will meet on Tuesday to discuss a programme of action which includes a general strike next month, more marches and demonstrations, and demands that no PAYE/SITE be deducted and that wages be increased.

The CCV said the committee was preparing for a major strategic move in the campaign, which would be announced next week.

The group said Vat-watch's announcement of huge price increases confirmed its warning that the consumer would suffer.

"This can only serve to fuel the very widespread public anger at the Government and big business's determination to go ahead with the system," the CCV said. — Consumer Reporter.



Are you afraid
to speak up

POLITICS

Ameen Akhalwaya



Keeping up the pressure on VAT

CAPITALISM can be a good system; it's the way it is implemented that creates so many problems. Ditto socialism, other isms and the major religions.

That point seems to escape super accountant Barend du Plessis as he turns South Africa into a nation of bookkeepers by introducing Value-Added Tax (VAT).

On one of his frequent recent appearances on SABC-TV, the finance minister reiterated that VAT was better than its predecessor, general sales tax (GST). He reeled off statistics to show how many countries were implementing VAT.

If VAT brings to account all who charged poorer and less literate people GST, and then pocketed the tax, it will be an advance.

Economists, it seems, generally agree that VAT is a better system than GST. It's the method of implementation, lack of negotiations and, more importantly, the need for it, that have caused so much anger.

In a variation of the let-them-eat-cake theme, Du Plessis, the accountant who is accountable to only a minority of the populace, claimed that brown bread, on which VAT is not payable, is healthier than the white variety, on which it is. He talked about subsidies on staples. But subsidies given by the Nat champions of the poor are not the same as tax exemptions.

What is of significance too is the minister's discovery of VAT. Surely his predecessor was aware of it before he forced GST on to us?

What the Nats are now admitting is that for the past 16 years, we've had to fork out money through our noses into a tax-collection system that was inefficient, if not deficient.

GST started at four percent. Three years later, we found out what our taxes were being used for. The Info lid was blown off, revealing massive Nat waste to bribe the corrupt into accepting its unbuyable policies. GST kept being increased to shore up additional waste, such as the corrupt bantustan and tricameral systems.

It means that the majority, for whom Barend's brown bread is healthier, have been paying more and more to allow fat-cat Nat politicians and their surrogates to keep eating less healthy white bread.

If GST was such a leaky system, and is being replaced by a drip-dry one which has been available for a long time, then it is another example of a costly, failed Nat experiment — just like apartheid and the Mossagas project, otherwise known as Morsgas, which has flushed our contributions out to sea.

The Morsgas project was initiated, so we're led to believe, because the country needed alternate sources of fuel in case misguided foreign suppliers cut off their lines to us. But economic sanctions — real or threatened — were the result of the same Nats' apartheid policies.

In other words, the Nats created a problem through apartheid, then created another by initiating Morsgas. Either way, we are paying for their mors.

Now there are people who believe that the Nats' stubbornness on VAT is another example of its undemocratic methods learned over the past 43 years. I suspect the habit goes deeper.

Rich, poor face medical headache

Consumer Reporter

The introduction of VAT on private medical services this week will mean between R5 more for minor services and R6 000 more for major operations, according to initial investigations by the medical industry.

Doctors working among poorer communities — particularly where State clinics are not readily available — are concerned about the effect of even a R5 increase on their patients.

SA Dispensing Practitioners chairman Dr Joe Maelane said patients would be hard hit by any rise. "In our areas this is a very serious problem

as our patients can hardly raise the bus fare to get here. Even if we talk of only R5 we are making it (health) a very expensive commodity."

"Besides the escalating medical costs, you cannot draw a line in the health sector — health

must be zero-rated," Dr Maelane said.

Doctors opposed to VAT are set to announce the date of a two-day mass closure of surgeries to protest against the decision.

National Medical and Dental Association

(Namda) spokesman Dr David Green said the slight reduction in the cost of medicines and the introduction of VAT on medical services could mean an average increase of between 7 and 8 percent for costs.

Namda had estimated the VAT-related increases in service costs at R5 extra for stitching up a finger to R6 000 more for a major abdominal operation.

An estimated quarter of those seeking medical care in the private sector would be pushed into the public sector as a result of the increase in costs.

"About 5 percent of South Africans will move into the public health sector," said Dr Green.

VAT briefs

● Lists of new postal tariffs, which have been changed because of VAT, are available at post offices countrywide, despite a delay in their printing due to the drop in the VAT rate.

● Johannesburg Stock Exchange-listed computer services company

ABS has announced an average drop of 5 percent in charges because of VAT. ABS Computer Centre director Connie Plokhoo said the VAT inputs, averaging 5 percent, that could be claimed were being passed on. "With heavy users, the savings are considerable."

will be an advance. Economists, it seems, generally agree that VAT is a better system than GST. It's the method of implementation, lack of negotiations and, more importantly, the need for it, that have caused so much anger.

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Now there are people who believe that the Nats' stubbornness on VAT is another example of its undemocratic methods learned over the past 43 years. I suspect the habit goes deeper.

Not being accountable to the majority, the Nats have perfected the red-herring tactic. They first implement unpopular measures. If there is an uproar, they make a few concessions, and then win accolades for the illusion that they are prepared to listen. Or, they introduce these measures and leave it to their surrogates in the bantustans and the tricam to administer them.

Let's take an example. Under the Group Areas Act, the Nats shunted us out to various areas, where they built houses. We were given an offer we couldn't refuse: take this house, or the one next door.

As the housing shortage grew, they made headline-grabbing announcements that more areas were being set aside for us. Then they deliberately delayed proclamation for years. So we couldn't build on our plots, nor obtain bonds from financial institutions. The result? We blamed the financial institutions, or bribed bureaucrats so we could have a roof over our heads.

That is why I suspect that if Cosatu and other groups keep up their laudable anti-VAT pressures, the Nats will make additional concessions and zero-rate more staples.

The Nats will take a bow for being reasonable. The system will remain intact, and like GST, the VAT rate will be gradually increased once the pressure is off. And while we think we've made them eat humble pie, the Nats will celebrate with another round of sandwiches — paid for by us, and made of white bread of course.

●Ameen Akhaway is editor of The Indicator

■ NEXT WEEK: Steven Friedman's Worm's Eye

'The People Respond to VAT'

Last week we spoke about what VAT is, why the state is implementing this new tax and the damaging effect on the living standards of the working class. In this article we look at the calls from various sectors of the people for VAT to be reduced, postponed or cancelled all together. In recent struggles in South Africa seldom has there been an issue such as VAT which has brought about the collective anger of such a broad range of people. The different classes in South Africa have however reacted with different degrees of concern and methods of struggle.

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Not a action
(Learners)
4/10-10/10/91

PHANSI
NGE VHT
DU PLESSIS
LISTEN TO US



Concerns of the bosses

When the state first announced in early 1991 that it was going to replace GST with VAT the only exemptions were brown bread and mealie meal. Soon thereafter the middle classes began complaining that paying VAT on municipal rates was unfair. Municipal rates are a tax that property owners have to pay on the value of their property. The middle classes therefore argued that paying VAT on municipal rates was paying tax on a tax.

After first arguing that municipal rates were used for services provided to property owners like road services, cleaning and garbage disposal and that these should fall under the net of VAT, the government backed down and exempted rates from VAT.

As the October 1 date for VAT came closer however, the call came from many bosses that VAT had to be postponed. The arguments used were mainly that VAT's timing was wrong. In this regard they argued that there was such a widespread outcry from organised labour that there was a real possibility that there would be industrial unrest. They also argued that on the eve of final negotiation with the ANC it was premature to impose VAT when this could bedevil negotiations. Finally they argued that the government was being inconsistent in suggesting possible exemptions at the last moment when VAT's success was dependent on it being all-embracing and that they had already spent millions preparing for VAT on its original terms.

The South African Chamber of Business (SACOB) argued as well that the size of the grant to the poor should be increased to R1,2 billion and not a mere R220 million.

In addition to these voices of the bosses a number of professional organisations have argued that VAT's increase in prices will make it difficult for working class consumers to afford their services and so threaten their existence. An important voice here has been that of the organised doctors who have collected thousands of signatures opposed to the application of VAT to medicines. Finally consumer societies such as the Housewives League have objected to VAT's imposition on food.

stuff arguing that this is sure to push up the inflation rate and drastically affect the poor.

In the face of all of these calls for postponing or reducing VAT the government has largely stood firm. They decided to reduce VAT to 10% from 12% but pushed up the price of petrol by a whopping 13 cents a litre.

The response of the working class' organisations

The political organisations such as the ANC have condemned VAT. Mayibuye, the journal of the ANC has this to say:

"If the government is sincere about wanting a better tax for a new South Africa, why do they not let the government of a new South Africa decide?"

All the other political organisations attempting to mobilise the black working class including the PAC have also called for the scrapping of VAT.

At COSATU's Fourth Congress in July worker delegates unanimously called for VAT to be scrapped altogether and called for strike action if this was not done. Workers added an essential political ingredient to the general economic attack on our living standards - that of the connection between taxes and state funding for Inkatha and its factory wing, Uwusa. The connection between a new tax, VAT, and the confirmation of their belief that the state is responsible for the violence against the people, has made workers particularly angry. In this regard there have been two responses from the organised workers: the decision at Cosatu's Congress to call on the bosses for a 5% wage increase if VAT is implemented and the call by Cosatu Wits region for a stayaway on September 18. In the case of the latter action workers have raised the need to refuse to pay VAT and PAYE (income tax or pay as you earn) until an interim government is installed. They raised the old democratic slogan: "no taxation without representation".

It is the threat of these actions more than anything else that has shaken the state and the bosses. When the organisations of capital such

as SACOB, or the press, raised the issue of the bad timing of VAT, they clearly had in mind the threats from the organised workers.

VAT: What now?

Since Cosatu's Congress decision and the Cosatu Wits region action call, there have been compromises in the union movement. Cosatu has since set up a VAT Co-ordinating Committee with the ANC, Operation Hunger and others. VATCOM has met with Minister Barend Du Plessis to look at the technical and administrative aspects of applying VAT. The members of VATCOM argued for a postponement of VAT for 6 months and for a wider range of goods especially foodstuff to be exempt. Du Plessis argued that a tax system could not be just postponed without major problems for future planning; that all parties had had an opportunity to put their case before and that VAT was necessary for social services for the people. He offered to subsidise food to the poor to the tune of R50 million and SADF assistance in poverty relief programmes. This has been rejected by VATCOM. Cosatu has set report back meetings to consult workers on what sort of mass action should follow Du Plessis' rejections of VATCOM's compromise demands. Barend Du Plessis' arguments do however raise an important question for the South African working people: how can the money be found to finance social services (housing, electricity, health etc), education and job creation? Tax is an important way to get money for the state so that it can finance social services and tax cannot be changed haphazardly without making planning impossible.

The point is that VAT is not so much about obtaining money for social services but is about shifting the tax burden away from the bosses and onto the shoulders of the working class. To this end the capitalists are being given a tax bonus of R6 billion while all consumers are made poorer, at a time when the bosses are not investing in job-creation schemes in SA. If Barend Du Plessis were seriously interested in the living standards of the working class he would look at increasing the tax on company profits (such as company tax and capital gains tax) and his party would pass laws to force companies to invest in job-creation schemes in South Africa.

What do you think? Is VAT a fairer tax? Should we return to GST? Where will the money be found for social services, health and education? Write to us at Learning Nation P.O. Box 11350 Jo'burg.

VAT

FM 4/10/91

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The belated rage of angels

Why a good tax is getting a bad press

What no-one could know — when value-added tax (VAT) was still on the drawing boards — was how much GST revenue was derived from double counting and how much was lost through tax evasion.

These huge, unquantifiable and opposing flows, which took place under the previous system of sales tax, created problems for the designers of the new dispensation. And uncertainty about the potential tax yield continues to bedevil the implementation of VAT. It undermines decision-making; confuses consumers; obscures the fundamental merits of the system; and sets the scene for continual controversy over peripheral issues.

People ask: why will a good tax cost consumers more and give the taxman less? The answer is that a value-added tax set at a neutral rate would do neither.

Will the new system achieve the neutrality needed in the present volatile political climate and strained economic circumstances? Though, technically, a calculation could have been based on projected domestic expenditure for the year, such an estimate (itself based on an estimate which leaves a number of factors such as the large residual balancing item out of account) could not be enough. Without a realistic view of where GST revenues were coming from (or not as the case may be), there was no knowing what the VAT rate should have been.

So, at a rate of 10% — revised down from 12% — both Finance Minister Barend du Plessis and a wide range of taxpayers are claiming to be losers under the new system.

Consumers are convinced that VAT will bring escalating prices — with some justification. Their worst fears will be realised only if inflationary expectations perpetuate the once-off increase whatever it may prove to be. But certainly there are grounds for expecting an initial kick-up in prices. Apart from any other consideration, VAT will bring into the tax take a range of services, previously excluded, which is roughly estimated at 15% of GDP.

A calculation by Sanlam economist Pieter Calitz shows that the broader VAT base amounts to 70%-75% of the consumer basket, compared with the 52% of the basket to which GST was applied. A rate of 12%, he calculates, would add two percent-

age points to consumer price increases in the 12 months after the introduction of VAT and a rate of 10% will add 0,5 of a percentage point.

This does not take into account the additional fuel levy and further excise duties announced when Du Plessis reduced the VAT rate, nor any potential saving which companies are expecting to pass on to consumers.

This price increase will, of course, represent extra income for government. Furthermore, whatever the rate, the system of taxing at each step in the production chain will more effectively channel funds to State revenue. A study by the IMF indicates that the change should ensure 60% of GST presently avoided or evaded should be collected under a comprehensive VAT.

However, Trevor van Heerden, Chief Director of Revenue and the man responsible for administering VAT, is convinced that a rate of 13,3% would have produced the equivalent of GST revenue of 13%. He bases his estimate on a belief that up to 40% of the GST tax base came from double counting. GST was not a pure retail sales tax because capital goods and certain intermediate goods were taxed in the hands of vendors.

The report of the committee set up to consider objections to VAT (Vatcom) pointed out that this cost was "built into the price of goods which the vendor supplies and is passed on to consumers." A price which was also subject to taxation.

In addition, Van Heerden says, in a full year R6bn would be lost because input credits have been allowed for capital intermediate goods.

For these reasons, Du Plessis assumed that

the introduction of VAT — at the original rate of 12% — would mean a loss of revenue of nearly R1bn in the present fiscal year. And when he revised the rate downward in August, he assumed a further loss of R1,4bn. The additional loss will be countered by a fuel levy expected to yield R630m and additional excise duties on certain luxury goods of R260m; a net loss then of around R500m. Now a further R200m will be forgone because he has agreed to a six-month zero rating on a range of staple foods.

Right now, the battle centres on further concessions which would represent still more losses to the fiscus. The Cosatu demand is that food and medical services, water and lights be zero-rated — a concession which would cost R5bn, says Du Plessis. And that is R5bn the government can't afford to lose, he argues.

No-one can know, until after the event, whether the tax authorities were too conservative in their revenue estimates; or whether economists and consumers have been too pessimistic in their expectations of price increases. Meanwhile, these two different perceptions of the event have left Du Plessis with little room to manoeuvre and consumers with a sense of grievance.

Though VAT has been introduced in more than 50 countries, evidence from these sources is inconclusive because the final outcome depends on what taxes VAT replaces.

Van Heerden argues, however, that the experience of Sweden is a useful guideline because of the similarities to the SA situation. When VAT was introduced in 1969, at a rate of 10%, it replaced a retail sales tax with the same rate. Capital equipment, as in the case of SA, had been taxed under the retail tax but was free under VAT. The expected loss of revenue was made good by a 1% payroll tax.

VAT researcher Alan Tait records that the Swedish rate of inflation fell to 2,3% in the eight months following, compared with a rate of 5% in each of the preceding years. Given the fall in Sweden, Van Heerden cannot see why a 13% VAT rate would have pushed up SA's inflation.

In the domestic debate, the judgment of neither side will stand close scrutiny. Du Plessis is notorious for his desperate measures to raise revenue in order to finance unjust-



Anti-VAT protest ... changes will cost the economy dearly

tifiable levels of State expenditure. A series of ad hoc changes, introduced retroactively and aimed at eliminating tax loopholes, have sown uncertainty and discontent among taxpayers. (And it must be remembered that SA taxpayers have none of the benefits of social welfare systems operating in other countries where tax rates are high; they pay for spurious social welfare which includes an unending array of slush funds set up for politically and ethically unacceptable purposes.)

On the other hand, many VAT opponents are using the issue as a useful political football. The draft VAT Bill was first published in June 1990. Vatcom, whose members were drawn from the public and private sectors (and included national publicity secretary of the UDF, Patrick Lekota) was then appointed to consider the public's response. Vatcom received 1 094 representations and heard verbal evidence from 57 leading organisations and individuals, before presenting a preliminary report to Cabinet.

The issue was very much on the backburner — and opposition to the new tax only began to build up in recent months, at a time when any significant change in the proposed VAT system would cost the economy dearly. If government was remiss in not seeking out and consulting those who would later raise a rumpus over the new tax, those who are now raising the rumpus are equally guilty for not having moved sooner.

At this point, lobbying on behalf of the economically deprived should appropriately be directed at focused aid outside the framework of the tax system. Some moves have belatedly been made in this direction by government: R150m in social pensions and R220m in food interventions and these amounts are expected to increase in the next fiscal year to R300m and R500m.

Help that comes via the expenditure side of the Exchequer account has the merit of being clearly identifiable and can be directed more precisely to support the people with the greatest need. Relief on the VAT rate would benefit the middle classes, who spend more because of their greater buying power.

Whichever government is in power in the years ahead will need an effective tax system to fund social upliftment programmes without destroying the creative potential of those who generate wealth. And VAT is such a system.

It is practically evasion-proof because it is collected from the start of the production chain. And Vatcom predicts it would bring about an additional 0,6% in GDP and create 50 000 more jobs.

But its implementation is expensive and justified only by its effectiveness which, in turn, depends on a broad tax base. Endless exemptions would destroy this.

The underlying virtue of VAT applied to a broad range of goods and services lies in its neutrality. It does not discriminate between

spending and saving, between purchase of goods and services, between consumer preferences and producer choices.

Of course, VAT is effectively a regressive tax because it takes a greater proportion of the income of the poor than it does of the higher income groups. But as Tait concludes: "Exemptions, zero-rating and multiple rates are inefficient ways to tackle the potential regressivity of VAT." What is important is disposable income. "The case for VAT is that it is an efficient way of collecting a large and buoyant revenue for government; other parts of the budget should take care of progressiveness."

VAT must be simple and efficient. "The worst of all worlds," says Tait, would be to "end up with an eroded VAT base, complicated rates and exemptions and a tax that is expensive to administer."

Whatever the failures of government in initiating full consultations with all concerned on the introduction of VAT, it is time for its opponents to count the cost of obstructing progress. The country is on the eve of a cyclical upturn. Political upheavals undermine consumer and investor confidence, disrupt the production process and drain the work force's creative energy; they will delay the day when growth is resumed.

The VAT introduction has a cost; the concessions have a cost. But the biggest bill will lie in the lost opportunities that further disruption will inevitably cause. ■

Taxing the customer

Bank charges to customers are set to rise as a result of VAT. Banks are VAT-exempt, so cannot recover input credits on goods and services provided to them, as do vendors who are charged VAT or are zero-rated.

Banks' costs will, therefore, increase, as many services they receive — such as rental of property and premises, audits and telecommunications — were untaxable under GST. They may, however, benefit by 3% on products which previously carried GST.

First National Bank (FNB)'s Niel Swart says: "We either have to increase market share or put up charges — but this will be done on a selective basis." From October 1, FNB raised its ATM charge to 70c from 60c, which Swart says is "more market-related."

Nedbank MD Richard Laubscher says his bank is also looking at charges. "Banks have been under-recovering electronic costs, mainly because of competition." He says customers will be warned when costs increase; Nedbank statements reflect the specific charges that apply to each client.

Standard Bank deputy MD Denzil Busse says some services, such as safe custody services, are directly Vatable. Charges for these will automatically increase with the inclusion of VAT. "However, as most VAT inputs incurred by banks cannot be passed on directly, banks will have to manage these additional costs."

VAT is a double whammy for banks, which are to be subject to a financial services tax devised to replace VAT on financial institutions. The 0.25% increase in prime and home loan interest rates and still to be confirmed cuts in deposit rates are a direct result of the special bank tax.

Swart says FNB's contribution to the R220m tax banks will pay this year will be around R50m. "So we will have to make an extra R100m to meet the special tax which is payable from after-tax profits."

Absa executive director Mike de Blanche estimates Absa's contribution will be around R47m. The group will reduce some investment rates once the financial team has examined the draft tax formula. ■

country to a halt. It emerged at a VAT meeting last weekend that De Klerk dealt with South Africa's people with great contempt, he said.

Doctors plan VAT protest.

C/Pres 6/10/91
By DERRICK LUTHAYI

HUNDREDS of doctors countrywide are to close their surgeries on October 28 and 29 to protest the implementation of VAT.

The steering committee of the South African Dispensing Practitioners (SADP) decided on the mass closure of surgeries at a meeting at Lesedi Clinic this week.

The SADP call has been endorsed by the National Medical and Dental Association.

Trade unions and consumer organisations have also agreed to ask their medical aid societies not to collect VAT. (320)

SADP chairman Dr PJ Maelane said the mass closure was not a stayaway and appealed to the public to use hospitals and clinics on these days.

"Our services will be available at public institutions. We request all health professionals to support this campaign," he said.

VAT puts a squeeze on homes for the elderly

S/Times
6/10/91
PENSIONERS living in old age homes are feeling the pinch of VAT — and it hurts.

Once exempt of GST, old age homes are now being taxed at 6,8 percent VAT, and face extra expenses of up to R30 000 a month each.

Inland Revenue considers their services to be board and lodging rather than rent, and has levied the tax accordingly.

By RYAN CRESSWELL

The standard VAT rate of 10 percent has been cut by a complicated series of allowances, but this is not enough, said Mr Leon Ghavalas of the SA Association of Homes for the Aged, which is campaigning for zero-rating.

Mr Ghavalas, chairman of the association's VAT sub-committee, said: "People in an old age home often pay 90 percent of their income to the welfare organisations. Some of them only get a pension of R300 a month."

Many welfare organisations were barely able to survive on donations and subsidies, he said, and VAT could "send some of them to the wall".

"The finance minister gave an undertaking that welfare organisations would be no worse off under VAT than GST, but at present this is not the case," he said.

"Despite approaches to the minister there has been no reaction."

A spokesman for the VAT section of Inland Revenue said his office had considered welfare issues carefully.

Shielded

He said the Minister for National Health, Dr Rina Venter, was looking at relief for health care and that welfare organisations could apply for help from the R220-million Nutritional Development Fund.

The acting director of the Association for the Aged in Natal, Mr Merrill Pike, said: "A lot of our people are very poor and they were shielded from GST because our services were not taxed."

A PLAGUE ON OUR HOMES... Durban pensioners show what they think of Barend du Plessis's VAT

Picture: HORACE POTTER



"Our organisation is trying to absorb VAT while we lobby for zero-rating. We think we can do it for the next two months at a cost of R20 000 a month."

Mr Ken Richardson, director of the Village of Happiness on the South Coast, said 600 of his residents would write letters to Finance Minister Barend du Plessis.

He said that until the minister relented, the home would have to pay R30 000 a month in VAT.

"Many of our clients earn less than R450 and pay up to a maximum of 90 percent of their incomes. We just can't ask them to pay VAT as well."

U.S. COMPANIES IN SA WILL SOON GET FULL TAX BENEFITS

S/Times (Buss) 6/10/91. 320

By DIRK TIEMANN

THE 110 American companies in South Africa now know how they will benefit from the lifting of the punitive Rangel Amendment which forced them to pay tax here as well as in the US.

The Rangel Amendment fell away when provisions of the Comprehensive Anti-Apartheid Act (CAAA) were lifted in July this year.

The US Inland Revenue Service has produced a formula that allows US companies to write off 47% of their total 1991 SA tax liabilities against their US tax liabilities for the year. The formula is based on the proportion of

the year for which the amendment was in force.

Next year they will be able to write off their full SA tax liabilities.

Inland revenue director: legal drafting Ian Meiklejohn says SA companies operating in the US generally qualify for a rebate on taxes here if they are taxed there. South Africa has a source-based tax system which means that the company is taxed where its income is earned.

At present there is no formal tax treaty to eliminate double tax between SA and the US as the one signed in 1948 was annulled by the Rangel Amendment. US counselor for economic affairs Donald Steinberg says a new tax treaty is unlikely. This means that each country can grant relief unilaterally in respect of tax levied on its nationals in the other country.

But there might be a need for a treaty with the US on tax holidays and other investment incentives.

Mr Steinberg says the initiative for such a treaty would have to come from the private sector as the US and SA governments have no plans in this regard.

Executive director of the American Chamber of Commerce Wayne Mitchell says SA needs such a treaty to provide maximum tax benefits to US companies receiving investment incentives here. He says if this is not done soon SA may lose US investors to Eastern European countries which offer attractive incentives.

NEW TAX BRINGS IMMEDIATE SAVINGS FOR MANUFACTURERS

S. Times (Bus) 6/10/91

WHOLESALE prices of furniture should drop by 2%-3% with immediate effect due to VAT.

The furniture industry is one of many where production costs will be reduced because of VAT. Manufacturers are now eligible for rebates on the VAT they pay on the expenses which previously carried 13% GST.

Others which have already announced reduced prices as the result of VAT savings include beer, cement and newspapers. The steel and engineering industry is also to reduce prices by between 1% and 2%.

Federation of Furniture Manufacturers executive director Winston Smith says these benefits will be felt within the next few weeks, as the furniture industry makes only to order.

Competition

Dr Smith explains that the savings come about because wooden furniture is a capital-intensive industry. It also uses a large percentage of consumables on which GST was previously paid.

He says competition is tight, which will ensure that the benefits are passed on.

The news is not so good for the appliance and electronic sector. TEK managing director Richard Ferrer says VAT benefits are minimal as they did not pay much GST before.

The benefits are partly offset by the 2.5% increase in excise duty on luxury goods, announced to compensate the drop in the VAT rate from 12% to 10%.

By TERRY BETTY

He points out that manufacturers are burdened with a negative cash flow as their average debtors book is 60-70 days. This means they will be paying the Receiver VAT they have not yet collected, and incurring interest charges.

He says there will not be the usual October increase as it could be misconstrued as being VAT-related.

Dion financial director Mannie Chaimowitz says 15% of Dion's costs incurred GST, half of which is advertising. He says the tax saving on this is substantial and will release funds for more advertising.

Mr Chaimowitz says VAT has produced savings. But they are not as great as expected, and he warns the benefits can only be passed on to the consumer once they filter through the system.

But retail customers will

still benefit from the fact that the old GST, which added 13% to the untaxed price of the item, has been replaced by VAT, which adds only 10%.

Pick 'n Pay financial director Chris Hurst says VAT will have a negative effect on retailers' cash flow. Under GST they paid the tax collected over to the Receiver on the 20th of the next month. They will now have to pay VAT to suppliers.

He says they pay on average 40 days after delivery.

VAT fails to trigger capital spending

The post-VAT takeoff in capital spending predicted by Finance Minister Barend du Plessis is not about to happen.

By CURT von KESSLERLÖCK and DON ROBERTSON

6/11/79 (Kw)

The minister has said repeatedly that the bottling of the 13% GST on certain capital goods and their VAT-free status would lead to considerable industrial investment after the introduction of VAT.

He also used this as an argument against delaying the introduction of VAT, by saying that to do so would delay the next economic upswing.

But businessmen who should be making the investments deny it. "We have not held back any more," says Mr. Groeneweg, "and we plan no new projects to take advantage of

VAT," says a spokesman for Amic, Anglo American's industrial arm.

"VAT is simply one step in the direction of improving the economy," says Mr. Barend, financial director. Everet

Groeneweg, "Other factors that still deter investment include inflation and corporate tax rates, which are high by world standards, and comments by politicians on future economic policy."

"Such comments are damaging to business confidence, especially so for the confidence of potential foreign investors."

He says the introduction of VAT has made no difference to Barlows' investment programme.

Michael McDonald, chief economist of the Steel and Engineering Industries Federation of SA (Sefisa), says some orders for the purchase of capital goods have been held back over the past few months, but that some improvement is expected.

He says the introduction of VAT has made no difference to the rate of retrenchments is expected to decline from about 2300 a month — a figure that has prevailed since 1976 — to under 2000.

He expects no major improvement in the steel and engineering industry until at least after the first half of next year.

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EVERET GROENEWEG
Comments are damaging to business confidence

Flurry

The Amic spokesman confirms that there has been a flurry of orders for commercial vehicles placed with Amic's Sannor motor company, though his group has had no orders for major items of capital equipment.

Brand Pretorius, managing director of Toyota Motor Sales (Pty) Ltd., says that commercial vehicles in October will be about 25% higher than during September.

Daily Toyota sales have been 380 on average for the past few months, but rose to 490 on Monday and 633 on Tuesday, says Mr. Pretorius.

He says that the cause of the spike in the sales of commercial vehicles is not a sudden change in demand, but a slight decline in orders for passenger cars, especially hatchbacks, which he doubts will be sustained.

Mercedes-Benz commercial vehicles boss Adolf Moosbauer says: "There has been a slight decline in orders for passenger cars, but basically the situation remains unchanged."

VAT will be 'nightmare' for some

JOB CREATION managing director Ian Hetherington believes the introduction of Value Added Tax (VAT) will be "a nightmare for the disadvantaged and the small".

"We are introducing an extremely pure form of VAT which has not been tried anywhere else in the developing world. The

basic problem is the compliance costs for the small people. They would have to keep, for them, relatively sophisticated records

"This will involve them in hiring at least part-time bookkeeping help, purchasing books and filing cabinets and finding storage space to keep all VAT re-

cords for five years. It is unlikely to cost less than R5 000 a year.

"VAT is going to split the economy permanently into two — with very little interface between the two. The small and legally unregistered, and the large who want tax invoices or a price that is 10 percent lower than the VAT inclusive

price." The SADC's central region chief, Jo Schwenke, said that as the cut-off for VAT registration was R150 000, it was highly unlikely that a business not doing a turnover of R12 000 a month would be in a position to satisfy big business in any case.

"However, if there were a case where a small business wasn't going to get the contract solely because he wasn't registered for VAT purposes, we would intervene somehow by registering a special marketing company for that purpose by negotiating with big business, or ensuring that the three conditions for registration are fulfilled.

"We believe that even the smaller business, that is one with a turnover below R150 000 which is involved in sub-contracting, should register — and can register with our aid."

VAT to be top item for Nats?

CT 7/10/91
By BARRY STREEK

THE VAT controversy and South Africa's constitutional future are expected to dominate the National Party's first racially-mixed Cape congress, to be opened at Stellenbosch tonight by President F W de Klerk.

Following the recent warning by Mr Nelson Mandela that the NP was making an impact in the Western Cape, particularly among coloured people, the party's leadership is likely to emphasise the role of the NP in the future and the need to prepare it for non-racial elections.

The conference is to be held at the Strand tomorrow and on Wednesday.

Sapa reports that ANC secretary-general Mr Cyril Ramaphosa on Saturday urged the organisation's PWV region conference to back the two-day strike initiated by Cosatu to protest the introduction of VAT.

Mr Ramaphosa said the ANC wanted to give Mr De Klerk "one last nightmare" by bringing the country to a halt.

Explaining Mr Ramaphosa's remarks, PWV regional secretary-general Ms Barbara Hogan said he did not mean that the strike would bring the country to an end, but rather that the demonstration would symbolise the degree of support behind the VAT campaign.

Gambling tax more lucrative than VAT

6/day 4/10/91
GAMBLING has been zero-rated — VAT charged at 0% — in Bophuthatswana, local inland revenue spokesman Mat Jenkinson said last week.

But he stressed the reason was not to put gambling in a more advantageous position than goods and services, which are taxed at 10%, but because the fiscus collects more money from its current gambling tax than it would from a 10% standard VAT collection.

The treatment of gambling for VAT purposes was one of the issues the TBVC states had to determine on their own as it was not dealt with in SA VAT legislation.

The TBVC states adopted the SA legislation virtually unchanged when VAT was introduced.

Inland Revenue chief director Trevor van Heerden said, through a series of double tax agreements and the harmonised VAT law, the five countries would operate as one.

For example, a Bophuthatswana company buying goods from SA would have to pay VAT but would be able to claim the tax back from its own inland revenue as an input tax credit.

The governments would then sort out the fiscal books.

He said the idea of using a "clearing house" system, to ensure businesses did not pay VAT twice on imported goods, had been scrapped in favour of a statistical formula.

Each government would calculate its

imports less its exports. If imports exceeded exports, VAT on the difference would be paid to the relevant government.

Jenkinson pointed out that a further quirk in the Bophuthatswana legislation was that if a company made a major capital purchase which pushed its input tax claim up over R50 000, the commissioner had the option of paying in instalments.

The reasoning behind this was that worldwide, unscrupulous individuals had submitted bogus claims.

Adjustments

By paying in instalments, there would be time to check the validity of each claim.

In Transkei, the only adjustments made to the VAT legislation were where references had been made to the Fringe Benefit and Close Corporation Acts.

Deloitte Pim Goldby partner Billy van der Berg said the bulk of registrations and VAT numbers had been processed and issued in Transkei.

He said they were also looking at ways of taxing casino revenue, but its treatment had not been finalised.

SA Inland Revenue officials have been seconded to Transkei, Venda and Ciskei to help the independent states with the changeover to VAT.

GILLIAN HAYNE

VAT could add impetus to upswing

LESLEY LAMBERT

THERE were indications that the introduction of VAT would contribute to the expected economic upswing, economists said last week. *BBC 7/10/77*

Two major factors could provide a catalyst for a turnaround, said Econometric economists. Companies were likely to renew their purchases of inputs, particularly capital goods, now that they would qualify for tax credits. And companies and consumers were likely to start buying the big ticket items which were now subject to a lower tax rate.

But they pointed out that potential demand for items such as motorcars, television sets, alcohol and tobacco might be suppressed by the rise in excise duties on these items.

"There can be little doubt that in certain capital goods industries the VAT input credit factor has been most important in depressing activity in the past six months. The proof as to just how much VAT has delayed the upturn will now become manifest," the economists said.

Efficiently

They cautioned, however, that even if there was a spate of buying from this week onwards, consumers were likely to be worse off initially because they would be paying more for fresh foods and many services which were previously tax-free.

It was hoped that in the longer term input credits would be applied efficiently and this would be to the benefit of consumers.

The economists also said it was necessary to temper expectations of an economic upturn because of the low gold price, high levels of consumer debt and the probable continuation of high levels of tax, inflation and interest rates.

"The upturn we look forward to will probably be fairly mild initially and represent little more than the end of a long downward trend. The government has been so inept in the manner in which it has introduced VAT that the threatened industrial action surrounding its introduction could thwart any of the benefits the new tax might bring," they concluded.

VAT 'will lift the burden of GST'

6/10/91
ANTHONY NDLOVU

320

THE correct implementation and invoicing of VAT between businesses should do away with the immense GST costs with which the business sector had been burdened, said Vatwatch chairman Prof Louise Tager on Friday.

Business should pass the "significant" savings on to consumers.

She told delegates from 16 industries and organisations at a meeting in Johannesburg: "The very least consumers expect from business is a consistent price adjustment reflecting the sales tax reduction from 13% to 10%.

"Far more significant is the business sector's potential for eliminating tax as a cost borne by business."

Tager said several business leaders had indicated that they intended achieving a comprehensive and consistent saving by pressing suppliers to remove the GST burden from their pricing calculations.

VAT-related savings on transport, advertising, printing and consumables would inevitably reduce business costs, and she was confident that those who implemented VAT correctly would be able to pass on meaningful savings.

"On top of this comes the elimination of sales tax on capital purchases." While this would take longer to filter through the system, each link in the commercial chain had to ensure that suppliers' cost savings became visible.

Tax revolt aimed at foiling Govt 'master-plan'

Unions plan showdown

Star 7/10/91

(320)

Political Staff

The trade union movement — backed by the ANC and other political groups — is set for confrontation with the Government. VAT is the issue, but the ultimate goal is a stake in the economic restructuring of the country.

At a crucial meeting in Johannesburg tomorrow, the ANC-linked Cosatu, the PAC-aligned National Council of Trade Unions and 15 independent trade unions will decide how to try to force the Government to accede to their VAT demands, including the zero-rating of more basic foodstuffs and health and medical services.

Decisions on a national programme of action against VAT will be announced later tomorrow. A national general strike has been mooted for next month, and Cosatu has proposed a two-day strike, backed up by sustained action. General resistance to taxes — including PAYE — is also on the cards.

Law to ensure correct pricing - Page 5

The Co-ordinating Committee on VAT is expected to announce its full programme of action later this week.

The SA Dispensing Practitioners announced at the weekend that there would be a two-day mass closure of clinics and surgeries on October 28 and 29 to protest against the implementation of VAT on medicines.

ANC secretary-general Cyril Ramaphosa on Saturday vowed that the organisation would help to turn next month's threatend general strike against VAT into a "nightmare" for President de Klerk.

Delivering the keynote address at the PWV regional congress in Johannesburg, Mr Ramaphosa confidently pledged it would be one of the president's "last nightmares" before the ANC took over.

He urged ANC members: "Seize the moment of the national general strike and make sure it happens completely. Mass action has always been on the agenda."

Cosatu general-secretary Jay Naidoo said at the weekend that the VAT crisis could be used to achieve a complete restructuring of the South African economy.

He said that, unless a solution could be found in the next month, the VAT crisis would lead to a general strike and a period of "sustained mass action continuing well into next year".

He added that "gauging the mood at grassroots level", the Government could be facing its first national tax revolt.

Mr Naidoo said the VAT issue could be used as a springboard for a sustained campaign aimed at gaining greater worker participation in the economy at large.

Cosatu spokesman Neil Coleman said yesterday the first salvo in the issue of greater participation in the economy had been fired during tripartite forum talks between workers, employers and the Government on the privatisation of parastatal companies.

He said Cosatu's assessment of the situation was that the Government had developed a master-plan — probably with the support of big business — to impose a

● To Page 2

Unions plan star showdown

● From Page 1

process of economic restructuring in the country in an undemocratic way before political negotiations took place.

"This restructuring is far-reaching and is aimed at tying the hands of a future post-apartheid government," Mr Coleman said. "Basically, Cosatu and the democratic movement is not prepared to stand by while this plan is unilaterally imposed."

The issue of VAT was part of the broader programme. However, the Government was insistent on going ahead with the master-plan — taking advice from outsiders such as the International Monetary Fund while refusing to negotiate with inside groups.

"Government mismanagement of the economy, particularly in the last decade, has plunged the majority of South Africans into economic disaster, and now people are being asked to further finance Government projects," he said.

Cosatu was calling for negotiations with the "major players" on economic restructuring.

It pays to hoard empty bottles under VAT system

PETER DICKSON (320) April 7/1984
Staff Reporter

SOMETIMES it pays off to be a hoarder. Those empty 750ml bottles lingering in the kitchen will fetch extra money in deposit thanks to VAT.

The South African Federation of Softdrink Manufacturers said today that consumers were protected under VAT legislation by being able to demand a deposit return of 80c from retailers on all empty one-litre bottles.

Federation president Mr. Henneke, funding the GST portion of the deposit, said from Johannesburg that value or, if not, electing to show it in because VAT, unlike general sales tax (GST), was inclusive. It would be included in the price charged for deposits on bottles.

This raised the price refundable to the consumer from 80c to 88c under VAT legislation.

Mr. Viljoen said this meant that retailers no longer had the option, as under the GST system, of either re-

Beer, wine and spirit bottles, including beer crates, also fall into the VAT net.

A spokesman for a city liquor retailer said today that the legislation encompassed "everything".

A spokesman for South African Breweries said SAB had increased the prices of containers — quart crates went up from R3 to R5 — prior to VAT to encourage consumers to return the containers.

Most took the second option," Mr. Viljoen said.

VAT requires refunds to be inclusive, so there is no longer an option. This is exact. It protects the consumer and it compensates the trade to pay 80c back to the consumer when an empty litre bottle is returned."

VAT does nothing to dispel economic truth

(320) APR 7/10/91

DES PARKER

DURBAN. — Value Added Tax has done nothing to dispel that of economic wisdom about there being no such thing as a free lunch.

Any employer who still believes he or she will be able to recover some of the lavish expense account spending of staff on restaurant meals through the medium of VAT input credits should think again: Eating (and drinking) out is classed in the VAT Act as "entertainment", for which no tax credit can be claimed.

So the salesman who wines and dines a customer as the final act in securing his signature on a deal needn't bother to ask the restaurant for a VAT invoice at the end of the meal so his accountant can claim an input credit on the tax portion.

According to Ms Jean White, a tax consultant in the Durban office of Ernst and Young, the only time VAT is recoverable on this type of spending is when the employee is obliged to spend the

night away from home — and that doesn't mean out on the tiles — and the tax credit can be claimed only for his or her meals and accommodation costs, not those of customers, clients or any other acquaintances.

However, the add-in nature of VAT in prices does mean companies can claim the tax portion of entertainment costs as a deduction on their income tax, something not possible with GST, which was added on to prices.

There are a few things worth knowing about tax invoices, which registered VAT vendors need in order to claim input credits for goods and services (known as taxable supplies) costing more than R20 (less than this and an ordinary cash slip or receipt suffices).

Invoices must be marked "tax invoice" — and it can't be scratched on in pencil as an afterthought — dated and bear the name of the supplier organisation and its VAT registration number.

VAT

Unions link up for anti-VAT onslaught

The Argus Correspondent

JOHANNESBURG. — The trade union movement, backed by the ANC and other political groups, is set for confrontation with the government over value-added tax — but the goal is a stake in the economic restructuring of the country.

At a crucial meeting here tomorrow the ANC-linked Cosatu, the PAC-aligned Nactu and 15 independent trade unions will decide how to try to force the government to accede to their VAT demands, including zero-rating more food and health and medical services.

Decisions on a national programme of action against VAT will be announced later tomorrow.

The SA Dispensing Practitioners announced at the weekend that there would a two-day mass closure of clinics and surgeries on October 28 and 29 to protest against VAT on medicines and medical services.

ANC secretary-general Mr Cyril Ramaphosa has vowed that his organisation would help to turn next month's threatened general strike into a "nightmare" for President De Klerk.

Cosatu's Mr Jay Naidoo said the crisis could be used to achieve a restructured economy.

Regulations to counter misleading VAT adverts

The Argus Correspondent

JOHANNESBURG. — Retailers who advertise their products with huge prices excluding VAT and small VAT-inclusive prices may soon find themselves on the wrong side of the law.

Regulations are being drafted to counter advertising where the VAT-inclusive price is smaller and less conspicuous than the pre-tax amount. The regulations are expected to be finalised this week.

A spokesman for the Department of Finance said the regulations would stipulate that the VAT-inclusive price be no smaller or less clear than the exclusive price.

This follows representations by VATwatch chairman Professor Louise Tager and the Advertising Standards Authority.

Law set to ensure that price you see is the price you pay

Star 11/10/91

Consumer Reporter

Retailers who advertise their products with huge prices excluding VAT and small VAT-inclusive prices may soon find themselves on the wrong side of the law.

Regulations are being drafted to counter advertising where the VAT-inclusive price is smaller and less conspicuous than the pre-tax amount. The draft regulations are expected to be finalised this week.

A spokesman for the Department of Finance said the regulations would stipulate that the VAT-inclusive price be no smaller or less clear than the exclusive price.

This follows representations by Vatwatch chairman Professor Louise Tager as well as the Advertising Standards Author-

ity after several advertisements appeared with huge prices which excluded VAT and less conspicuous VAT-inclusive prices alongside.

Professor Tager said the organisation was pleased steps were being taken as Vatwatch had received numerous complaints regarding such advertisements, which diluted the VAT promise of "the price you see is the price you pay".

She also said Vatwatch would do all it could not to create unrealistic expectations — but expected the business community to make more than just token gestures.

"Business and consumers now have a splendid opportunity of moving away from a culture of believing that cost and price increases are inevitable — because they are not," Professor Tager said.

"On the contrary, the literally

billions of rands of sales tax savings in the manufacturing/distribution process can and must lead to cost and price reductions."

The very least consumers expected from business was a consistent price adjustment reflecting the sales tax reduction from 13 to 10 percent, she added.

Professor Tager said the correct implementation and invoicing of VAT between businesses should do away with the immense GST costs with which the business sector had previously been burdened.

This, in turn, would mean significant savings, which businesses ought to pass on to consumers. Apart from price adjustments due to the tax rate, the business sector had the potential for eliminating tax as a cost being borne by business.

"When one takes into account

how VAT-related savings on transport, advertising, printing and consumables are inevitably going to reduce business costs, I am confident that those who implement VAT correctly will be able to pass meaningful savings on to their consumers," Professor Tager said.

While the elimination of GST on capital purchases would take a while to filter through the system, each link in the chain had a responsibility to ensure their supplier's cost savings became visible at some stage.

"The elimination of sales tax as a cost provides the business sector with a golden opportunity of gaining a competitive edge, without having to sacrifice profitability, most businesses can, via VAT, reduce costs and therefore prices — thus making their products and services more attractive in the market," said Professor Tager.

PAYE pressure part of unions' VAT campaign

LESLEY LAMBERT

MEMBERS of the powerful trade union movement, which is expected to finalise its plan of action against VAT today, have already started pressing companies not to deduct PAYE from employees' salaries as part of a broader tax boycott. 320

The two major trade union groupings, Cosatu and the National Council of Trade Unions (Nactu), confirmed yesterday that some of their members had been demanding action on PAYE since the idea of a general tax boycott was formulated at Cosatu's congress in July.

Nactu general secretary Cunningham Ncukana said workers had already downed tools and made demands on PAYE at Unilever and other companies. The companies had responded by refusing to participate in an illegal action. "We plan to increase the pressure," Ncukana said. 320

Decisions will be taken at a meeting today on Cosatu's proposal for a national general strike in the first week of November. The objective of the strike would be to force government to adopt the VAT Coordinating Committee's demands as well as to agree on a national forum which would be used to negotiate changes in economic policy, Cosatu spokesman Neil Coleman said yesterday.

The trade unions will also decide on action to be launched before the proposed strike. Demands for a 5% wage increase and boycotts against income tax and VAT will be on the agenda. "It may be necessary to consider civil disobedience. In Europe, people refused to pay the VAT on goods or people employed to price the goods refused to include VAT. These are theoretical possibilities," Coleman said.

Cosatu, which has 900 000 paid-up and 1.2-million signed-up members, and Nactu, which has 330 000 paid-up and 700 000 signed-up members, have already agreed on the strike action. But the more conservative groupings, such as the Public Servants Association, are likely to refuse to take part. 31 Day 8/10/91

Cosatu and Nactu will seek the support of the ANC, PAC, Azapo and other political, welfare and consumer organisations at a meeting on Thursday.

Consumers warned of post-VAT price shock

Star 8/10/91.

By Des Parker (320)

VAT is going to cause inflation to rise still further before it comes down.

Standard Bank chief economist Nico Czipionka says there will be a post-VAT shock caused by prices rising because companies do not receive immediate input tax credits from the Receiver of Revenue for the VAT they pay on goods and services previously not subject to GST.

In the wake of last week's announcement by Central Statistical Services (CSS) that annual consumer inflation, as measured by the consumer price index (CPI), at 15.6 percent in August was little changed from the July level, Mr Czipionka predicts a rate of about 17 percent for October.

It can be expected to taper off thereafter as companies receive their first input credits.

He looks to the rate falling to 12 to 12.5 percent in about a year's time when the heralded cost-benefits to business of VAT make their mark on the equation.

"Inevitably, prices previously exempt from GST are going to rise to cover the tax that has to be paid," he says.

"In those areas where GST was in place, prices may fall because the rate (of VAT) is a little bit lower (than GST), but I think we are going to have a fairly sizeable increase in the CPI."

Mr Czipionka believes Christmas will not be a time of rejoicing in the High Street, with the already hard-pressed public making the adjustment to cope with VAT on a range of goods and services where GST did not apply, such as food and

electricity, water and telephone bills.

"Markets will be soft and I think post-Christmas sales are going to start rather early. That will make many vendors sharpen their pencils; there is more chance of input credits being taken into consideration after Christmas than would have been the case during a boom," he says.

Another blow comes from the fact that with the Government expecting to collect less VAT than it would have GST in the remainder of the fiscal year — as much as R6 billion less — tax concessions in the Budget next March are out of the question.

Revenue receipts for the year are already well below levels budgeted last March and the Government has no room to manoeuvre.

● Contrary to the belief of ana-

lysts, household spending on food, accommodation and transport has declined since 1985, according to the CSS.

CSS does a survey every five years of household spending patterns to update the "weightings" applied to different areas of expenditure used in its calculation of the CPI.

According to Rosey Rosenstrauch, statistical planning director of CSS, food-spending has declined from 22.75 of average household spending in 1985 to 18.64 percent.

"I can only speculate on why it has changed to that extent," he says.

Transport costs have dipped from 17.23 percent to 14.43, which is ascribed to the fact that motorists are spending less on buying new cars because they can no longer afford them.

The weighting of housing has dropped marginally to 20.54 percent (21.21).

Mr Rosenstrauch believes this is because mortgage rates at the time the 1990 survey was done were slightly lower than the rate of more than 20 percent in 1985 and the fact that incomes have risen to help cover bond payments in the interim.

Other expenditure weightings have, however, increased to compensate for these falls.

Clothing is up from 5.98 percent to 7.02, furniture to 5.5 (4.72), household operations (cleaning materials and the like) to 3.77 (2.57) and medical expenses to an unhealthy 5.22 (2.56). Education accounts for 1.76 percent (1.21).

The category "other", which covers everything from eating out and the purchase of walking sticks and perambulators to the administration costs of insurance policies and union and sports club membership fees, has risen to 9.49 percent from 6.77 percent.

Du Plessis defends VAT on medicine

STRAND — VAT on medical services was not a question of morality but one of practicality, Minister of Finance Barend du Plessis told the Cape National Party congress yesterday.

"We do not choose to be sick, but neither do we choose to be hungry. If we are really sick and cannot afford the costs, we can go to a state hospital, but where do we go to find food?"

"I have never seen an official statement from a medical association when medical costs have risen by as much as 18%.

"That money goes into the doctor's pocket, but VAT goes to the state, and 40% of it is used for social upliftment.

"I've also never heard doctors, who are shareholders in private medical institutions, objecting when tariffs at those institutions have increased."

He said 80% of people receiving medical attention did so at the cost of the state.

There were two sources of tax — from the production side, and on consumption.

GST taxed goods and only a few services, and this created major discrepancies because, as society became more sophisticated, its consumption extended beyond goods and into services.

The poor person paid GST on goods like candles and wood while the wealthier person paid no tax on electricity.

"Tax on services extends the tax base and makes it possible for the rate to come down," said Du Plessis.

Regarding the protest culture in townships of not paying for rentals or services, Du Plessis said it had to come to an end as it would mean the death-knell of investment in the townships.

He said the person who borrowed money to build a house and did not repay the loan, "shoots his neighbour in the foot, if not in the head".

"This business of non-paying in the townships, this protest culture, is the death-knell of investment in the townships. This whole culture must be broken," Du Plessis said. — Sapa.

Tax boycotts threatened

VAT protest: unions to call general strike

320
B/D ay 9/10/91
COSATU and Nactu — SA's biggest trade union groupings — and 12 independent trade unions agreed yesterday to call a general strike for November 4 and 5 in protest against VAT.

The strike would be backed by a sustained programme of mass action, including marches, demonstrations and possibly tax boycotts.

It would be called off only if government and big business agreed to enter negotiations aimed at meeting the demands of the campaign, the unions said after a two-hour meeting yesterday.

Their demands include the zero-rating of basic foods, water, electricity, medicines and medical supplies and the negotiation of satisfactory poverty relief programmes and relief for the small business sector.

Also on the agenda are demands for "an end to unilateral economic restructuring by government and big business" and the establishment of a jointly agreed forum for socio-economic restructuring through negotiations.

The VAT Co-ordinating Committee, which includes the trade union movement as well as leading political, welfare and consumer organisations, will finalise its programme of action on Monday.

There have already been demonstra-

LESLEY LAMBERT

tions in many major industrial areas, while members of Cosatu, which has 1.2-million members, and Nactu, which has 700 000 members, have started pressing companies not to deduct PAYE from employees' salaries.

Cosatu had agreed to urge their members to place further pressure on companies not to deduct PAYE, general secretary Jay Naidoo said yesterday. They had also agreed to encourage their members to boycott VAT.

Naidoo said the demands for the general strike arose out of the "disastrous effect of VAT on workers, the poor and the unemployed" and "government's intention to restructure the economy unilaterally in a way which would benefit business and not the people".

"The government and big business want to put in place an economic system and only then negotiate the political issues. Their economic system will not benefit workers," Naidoo said.

Government and business leaders have accused the unions and other anti-VAT organisations of making demands and threats which could result in an economic crisis.

● Picture: Page 2

Labour federation on the march against VAT ²²⁰

South
9/10-16/10/91 By Mono Badela, Johannesburg 9/10-16/10/91

COSATU's decision on Tuesday to spearhead a two-day anti-VAT general strike next month signals that the labour federation is on the march to co-determine state economic policy.

Announcing the strike, Cosatu general secretary Mr Jay Naidoo said the government and big business wanted to put in place an economic system, then negotiate only political issues.

"Their economic system will not benefit workers," he charged.

"The money collected by VAT will not be used to build houses for workers or the unemployed.

"It will not be used to give electricity to the huge majority of households that do not have it and it won't provide schools."

The trade unions felt very strongly about the unilateral policy-making of the government on issues which fundamentally affect workers, he said.

"We can no longer tolerate the government ramming apartheid practices down our throats.

"The government was forced by mass resistance to urban political organisations and now it will have to be forced by mass mobilisation to take negotiations seriously."

Major economic decisions should be the result of negotiation which is inclusive and that is legitimised by the support of the major players.

The general strike for November 4 and 5 is being called by Cosatu, the National Council of Trade Unions (Nactu) and 12 independent trade unions representing nearly 3 000 000 workers in South Africa.

They are demanding:

- The zero-rating of basic foods, water, electricity, medicines and medical supplies.

- Negotiation of satisfactory poverty relief programmes.

- Provisions for small business not to be prejudiced by VAT.

- An end to unilateral economic restructuring by government and big business and

- The establishment of a jointly agreed forum for socio-economic restructuring through negotiations.

In a hard-hitting statement, Naidoo said the demands for a general strike arose out of two very serious concerns of the trade union movement:

- The disastrous effect of VAT on workers, the poor, the unemployed, pensioners and others.

- The government's intention to go ahead with economic restructuring unilaterally, behind the backs of the people, in ways which would benefit big business and not the people themselves.

- ELNEWS reports that eight workers from an East London company, Dux Inflatable Boats, say they were fired last week for participating in a local anti-VAT march.

Manager Mr Charles Rowland said: "The workers were not dismissed. They absconded."

VAT: Call for two-day strike

ET 9/10/91 (328)

Own Correspondent

JOHANNESBURG. — Cosatu and Nactu — South Africa's biggest trade union groupings — and 12 independent trade unions agreed yesterday to call a general strike for November 4 and 5 in protest against VAT.

The strike would be backed by a sustained programme of mass action, including marches, demonstrations and possibly tax boycotts.

It would be called off only if the government and big business agreed to enter negotiations aimed at meeting the demands of the campaign, the unions said after a two-hour meeting yesterday.

Their demands include the zero-rating of basic foods, water, electricity, medicines and medical supplies and the negotiation of satisfactory poverty-relief programmes and relief for the small business sector.

Also on the agenda are demands for "an end to unilateral economic restructuring by government and big business" and the establishment of a forum for socio-economic restructuring through negotiations.

The VAT Co-ordinating Committee — which includes the trade union movement as well as leading political, welfare and consumer organisations — will finalise its programme of action on Monday.

There have already been demonstrations in a number of major industrial areas, while members of both Cosatu, which has 1.2 million signed-up members, and Nactu, which has 700 000 signed-up members, have started pressing companies not to deduct PAYE from employees' salaries.

Cosatu general secretary Mr Jay Naidoo said yesterday that the trade union movement, representing 48 unions, had agreed to urge their members to place further pressure on companies not to deduct PAYE.

They had also agreed to encourage their members to boycott VAT.

Mr Naidoo said the demands for the



VAT ANGER. ... Mr John Boyd, of the Fish Hook branch of the Association of Retired Persons and Pensioners, tells his sentiments here known at the association's Mulzenberg meeting yesterday.

general strike arose out of the "disastrous effect of VAT on workers, the poor and the unemployed" and "government's intention to 'restructure the economy unilaterally in a 'wasteful' and 'benefit business and not the people'."

"The government and big business want to put in place an economic system and only then negotiate the political issues," Mr Naidoo said.

"The money collected by VAT will not be used to build houses for workers or the

unemployed. It will not be used to give electricity to the huge majority of households that do not have it. It won't provide schools," he said.

"The government insisted on implementing VAT without allowing time for consensus to be reached. Its reasons have now been shown to be spurious."

"The trade unions will no longer accept these unilateral decisions," Mr Naidoo said.

Du Plessis lashes out at doctors

Political Star

FINANCE Minister Mr. Barond du Plessis yesterday lashed out at doctors over their criticism that VAT on medical services amounted to a tax on sickness.

Mr Du Plessis, speaking at the National Party's Cape congress, said he was continuously having the "moral argument thrown at my head."

But he had not heard a single complaint from doctors when they had increased their fees or when drugs went up by 18% in a year.

"That money went straight into the doctors' pockets whereas funds raised from VAT would go into state coffers."

Mr Du Plessis had responded to an impassioned plea from a delegate — a doctor — who said that VAT on medical services meant that the more sick you became, the more you were taxed. "Is it morally defensible?" the delegate asked.

Mr Du Plessis said that the government was not going to accept such arguments and that the VAT on medical services was a necessary part of the government's financial policy.

A STATE lottery should be set up with profits going to subsidise medical services and costs, a meeting of 200 elderly supporters of the Association of Aged Persons and Pensioners resolved yesterday.

The VAT meeting in the Muzenbeig Civic Centre also resolved to request the government to zero-rate pensioners, all past foodstuffs and medical health care.

Mr Syd-Eckley, director of the SA, that because of inflation, only 8% of

Elderly to ask govt to zero-rate medicine

National Council for the Aged, Sanea, said 90%-100% of the pensions of institutionalised elderly people were already going towards paying for their own care.

Quoting a Sanlam figure, he said people retiring now would have sufficient funds to see them through. It was also "totally unacceptable" to have had VAT introduced while

racial pensions disparity existed, he told the meeting. While senior citizens living in institutions or frail-care centres receive a R900-a-month subsidy while their black counterparts receive R110. In Durban about 1 000 elderly people packed the city hall yesterday to protest against VAT and to sign a petition to be delivered to President F W de Klerk calling for the VAT to be exempt on basic foods, medicines, lights and water.

Barend chides doctors over VAT vs morality

MICHAEL MORRIS
and PETER FABRICIUS,
Political Staff

STRAND. — Finance Minister Mr Barend du Plessis has dismissed objections to VAT on medical services with a sharp swipe at doctors who charge high fees and profit from private hospitals.

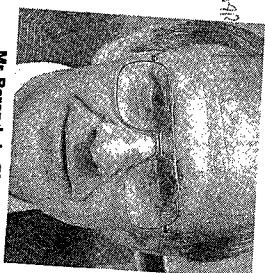
He was responding to a resolution at the Cape National Party congress, calling for VAT to be lifted on medical services.

Delegates said this was tantamount to a tax on sickness — and no-one chose to be sick. One delegate, Dr A Dercksen of Worcester, asked, "Is this morally defensible?"

He said the problem was compounded by the fact that longer illnesses led to more tax.

Mr du Plessis said that VAT on medical services did not concern morality.

"It concerns practical things," he said.



Mr Barend du Plessis

Mr du Plessis drew applause when he said morality never seemed to be an issue among doctors when they raised their fees, sometimes by as much as 18 percent.

"So let's leave this moral argument and let's look at practical matters," he said.

Illustrating how VAT could bring medical costs down, he said

a radiologist would pay no tax on equipment such as his X-ray machines and X-ray plates because GST already had been paid.

Mr du Plessis said for the poor, VAT was better than GST because it extended tax to services while GST had been paid mainly on goods.

Richer people were more inclined to use services such as electricity for cooking and heating whereas the poor used goods such as paraffin and coal.

Because the rich were paying more tax, the overall VAT rate could be kept down, benefitting the poor.

South Africa did not want to repeat the mistakes of Britain by exempting too many things.

In Britain even baby clothes were exempt from VAT, which meant that the rich paid no tax on "Pierre Cardin" baby outfits.

The result of all the exemptions was that the VAT rate had climbed to 17.5 percent.

Unions call for general strike protest against VAT

The Argus Correspondent

JOHANNESBURG. — Trade unions have called for a national general strike on November 4 and 5 to protest against the implementation of value added tax, and have promised sustained action if their demands are not met.

This was announced after a meeting between Cosatu, Nactu and 12 independent unions in Johannesburg yesterday.

Cosatu secretary-general Mr Jay Naidoo, reading out a joint statement, said workers would be urged to stay away on these days and encouraged to take part in marches, pickets and other demonstrations.

The demands are: The zero-rating of basic foods, water, electricity, medicines and medical supplies. Negotiation of satisfactory poverty relief programmes. Provisions for small

business not to be prejudiced by VAT; and

An end to unilateral economic decision-making by government and big business and the establishment of a jointly agreed forum for socio-economic restructuring through negotiations.

Mr Naidoo told a Press conference there would also be demonstrations and marches apart from the two-day strike.

The Co-ordinating Committee on VAT (CCV) will announce its programme of action on Monday, a spokesman said yesterday.

About 500 000 pamphlets telling people "VAT is a public issue. Take a public stand" were being distributed.

ANC spokesman Mr Saki Macozoma said the organisation was represented on the CCV and could be "expected to support the strike call".

Barend tilts at 'greedy' doctors

Political Correspondent

STRAND — Finance Minister Barend du Plessis has dismissed objections to VAT on medical services with a sharp swipe at doctors who charge high fees and profit from private hospitals.

He was responding to a resolution at the Cape National Party congress calling for VAT to be lifted on medical services. Delegates said this was tantamount to a tax on sickness.

Mr du Plessis said VAT on medical services did not concern morality. "It concerns practical things."

The Minister drew applause when he said one did not hear doctors raising this sort of moral argument when their fees were increased — sometimes by as much as 18 percent. Nor did one hear this argument when doctors were shareholders in private hospitals.

"So let's leave this moral argument and let's look at practical matters," he said.

Services

Illustrating how VAT could bring medical costs down, he said a radiologist would not pay tax on equipment such as his x-ray machines and x-ray plates — all of which he had paid GST on.

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The result of all these exemptions was that VAT had climbed to 17,5 percent.

Union summit vows sustained action to enforce demands

VAT: general strike is on

Star 9/10/91
By Paula Fray
Consumer Reporter

Trade unions yesterday called for a national general strike on November 4 and 5 to protest against the implementation of value-added tax — and have promised sustained action if their demands are not met.

Barend tilts at 'greedy doctors'

Political Correspondent

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The demands are:

- The zero-rating of basic foods, water, electricity, medicines and medical supplies.

- Negotiation of satisfactory poverty relief programmes.

- Provisions for small business not to be prejudiced by VAT.

- An end to unilateral economic decision-making by the Government and big business and the establishment of a jointly agreed forum for socio-economic restructuring through negotiations.

Mr Naidoo told a press conference there would also be demonstrations and marches apart from the two-day strike. Unions were already putting pressure on employers to stop deducting PAYE, he said.

The Co-ordinating Committee on VAT (CCV) will announce its programme of action on Monday, a spokesman said yesterday.

At present about 500 000 pamphlets telling people that "VAT is a public issue; take a public stand" were being distributed.

ANC spokesman Sali Maqoma said the organisation was represented on the OCV and could be "expected to support the strike call".

ANC secretary-general Cyril Ramaphosa vowed that the strike against VAT would be turned into a "nightmare" for President de Klerk.

He urged ANC members to "seize the moment of the national general strike and make sure it happens completely".

Mr Naidoo said the Government could expect to see "action on a scale not seen before".

The strike would only be called off "if the Government and big business have entered into a serious and bona fide process of negotiations aimed at meeting the demands of the campaign".



Unruffled . . . the Queen is accompanied by President Nujoma (right) on her arrival at a blustery Windhoek airp

Windy welcome for Queen in Windhoek

By Dale Lautenbach
Star Africa Service

WINDHOEK — A tearing wind at Windhoek International Airport provided by far the most vigorous greeting for Queen Elizabeth yesterday in what was otherwise a rather low-key affair.

The Queen's Royal Air Force VC-10 touched down five minutes ahead of schedule at 3.40 pm while airport workers were still struggling to anchor the red carpet.

The workers got their reward — the best possible view of the royal party — when, as a last resort, they were ordered to stand on the carpet to keep it in place.

Queen Elizabeth was escorted from the aircraft by British High Commissioner to Namibia Francis Richards and Namibian Chief of Protocol Martin Andjaba.

She and the Duke of Edinburgh were presented to a beaming President Sam Nujoma and First Lady Khambo Nujoma, with Prime

Minister Hage Geingob at his side.

From a dais emblazoned with the colours of the Namibian flag, the Queen and President Nujoma took the 21-gun salute, and the national anthems were sung.

The Queen looked a little uncomfortable in the wind and her hands did some darting to her light skirt.

Escorted by the head of the defence force, General Dino Hamatsh, and the president's aide-de-camp, the Queen inspected a guard of honour.

Dancing

With this pomp and ceremony over, it seemed the occasion would brighten, but it remained quite solemn as the royal party watched a cultural display of dancing.

There is no hostility towards the Queen in Namibia. The quiet greeting was probably not so much a lack of enthusiasm as a little too much dignity.



Barend tilts at 'greedy' doctors

Star 9/1/89
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Political Correspondent

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Build-up to short, sharp VAT shock

WINTER 11/10 - 17/10/91

(320)

CLOSE to a month remains before the union movement's threatened two-day general strike against Value-Added Tax — but the chances of averting highly damaging worker action seem slim.

Sources said the business community was "at sixes and sevens" over labour's demands, while the National Party's Cape congress held out little hope of major concessions on VAT.

This week the Congress of South African Trade Unions' general secretary, Iain Naidoo, said the strike had been decided on after careful assessment of support on the ground. "It

will be the biggest stayaway in South Africa's history," he warned. Building up to the strike will be a programme of marches, pickets and demonstrations nationwide.

In theory, employers and the state have it in their means to head off the

sayaway, set for November 4 and 5. After Tuesday's "worker summit" in Johannesburg, Cosatu, the National Council of Trade Unions and 12 non-aligned worker bodies said they would call off the strike "if the government and big business have entered a serious and bona fide process of negotiation aimed at meeting the demands of the campaign".

These are for the zero-rating of basic foods, water, electricity, medicines and medical services; the negotiation of satisfactory poverty relief programmes to offset VAT-linked price increases for the poor; protection for small business; and an end to "unilat-

eral economic restructuring" by government and big business, together with the establishment of an agreed negotiating forum on economic restructuring.

Rejecting calls at the NP's weekend Cape congress for the lifting of VAT on medical services, Finance Minister Barend du Plessis warned that South Africa should not repeat Britain's mistake of exempting too many items. This had led to the raising of VAT to 17.5 percent, he said.

At the same time, the government clearly sees the VAT campaign as a Cosatu/African National Congress spearheaded drive to undermine its legitimacy. Deputy Finance Minister Theo Alant has accused the alliance of "trying to introduce interim government by stealth" and of "blackmail".

Interviewed this week, Naidoo confirmed that the fundamental principle was that of ensuring "inclusive and democratic" processes of transition.

Attacking business for "playing the bystander", he said it had a vital role in breaking the logjam between labour and the state. "It must declare its position and help to get economic negotiations on track."

Cosatu plans talks with Saccola and other employer bodies, but business sources are pessimistic about the outcome. One commentator suggested that the "short, sharp shock" of stayaway action was needed to galvanise macro-economic negotiations, as had happened over the 1988 Labour Relations Amendment Act.

"Business is deeply divided," said a source. "Some favour a separate national economic forum; others believe talks should be conducted at industry and company, rather than national, level, or should be linked to the constitutional process. There are also doubts about whether Saccola, a specialist body on labour matters, is the right vehicle."

Naidoo stressed that the proposed national forum would set ground rules and a framework for reconstruction, and that some of the detail would have to be negotiated at lower levels. Cosatu wanted to draw in all major players, not merely the state, employers and unions, he added.

The signs are that the VAT campaign has struck an answering chord in the union rank and file. Spontaneous protests continue to erupt in Cosatu's regions, notably the Vaal and Cape Town.

Focus again falls on dreaded VAT

Sowetan
Sowetan Reporter

11/10/91
AS black workers and the Government get ready for a showdown on VAT, Cosatu general secretary Mr Jay Naidoo will take part in a seminar on this controversial issue at the Carlton Centre on October 23.

The seminar "The VAT crisis: Is there a way out?" will be held in the Cape Town room.

Other speakers are tax consultant Mr Matsheru Matsheru and hopefully a Government official.

Platform

Late yesterday efforts were still being made to get a senior Government Minister or official to share the platform with Naidoo and Matsheru.

Finance Minister Mr Barend du Plessis left for the Far East last night.

The morning seminar, sponsored by the *Sowetan* and Matsheru Matsheru, will take a close look at the crisis and consider strategies of getting the Government and Anti-VAT organisations to reach an agreement.

Further details will be announced next week.

Leading businessmen work behind the scenes to avert VAT crisis

LEADING businessmen are involved in private initiatives to resolve the VAT crisis, while organised business is considering a strike to avert a two-day general strike which could cost the economy an estimated R1bn.

Romney Saccola chairman Anton Roodt confirmed yesterday there were "numerous diplomatic initiatives" taking place behind the scenes. A Saccob spokesman said the businessmen in their personal capacities were trying to intervene with the authorities.

It is understood that organised business

is also considering intervening in an effort to facilitate a settlement between Government and the trade unions, which on Tuesday decided to call a two-day general strike in the first week of November.

Cosatu general secretary Jay Naidoo indicated this week that the trade union movement remained open to negotiation. Cosatu was conscious of the damage a draw-out conflict would cause to economic prospects, he said.

Business spokesmen said yesterday there were significant obstacles to a resolution. Government and the unions had

6/Dec 8/10/91

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adopted tough stances. Government would neither accede to demands for additional relief nor agree to an economic forum ahead of multiparty talks, while the unions had been consistent in their demand for broad negotiation of the VAT system. If either were to back down it would be considered a political victory by the other.

Business was caught in the middle. It faced the possibility of a costly strike over demands it could not directly fulfil, labour consultant Andrew Levy said.

Organised business, employer bodies and individual companies are, meantime, preparing contingency plans in case the strike goes ahead on November 4 and 5.

Saccob is expected to release a document today with guidelines for its members in the event of a strike. It is also preparing a second document which will detail the effect of VAT on various income earners, should the strike be followed by demands for wage increases to compensate for VAT.

Levy said that depending on how Cosatu planned the strike, the rule of thumb for

companies was likely to be no work, no pay and no disciplinary action.

"There have been some recent judgments in industrial relations cases which have said employers can dismiss for a slayaway, particularly if it is unrelated to labour matters and is unlawful. But there is always a distinction in industrial relations between what the law says and what a company should do. The nature of this protest is an expression of political freedom. It will hurt the economy but it is also a healthy sign of democracy. Any company

□ To Page 2

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which relies on the unique circumstances of some judgment would be unwise."

Levy believed that if there was a strike, it was unlikely to turn into a continuous general strike.

"No union will commit its members to a lengthy strike in times like this. The action will recur sporadically in the form of lunch-time demonstrations and demands for employers to intervene with the authorities. All companies can do is talk to shop stewards about orderly withdrawals."

In the case of a mass tax boycott, companies were likely to protect themselves by hiding behind the law, Levy said.

Setlisa director Brian Angus said the federation, which represented 3 500 companies employing about 350 000 in the steel and engineering industries, would discuss contingency plans next week.

Angus said he believed the unions might struggle to get widespread support in the current economic environment.

● Comment Page 8

VAT CRISIS

Bid to avert a VAT strike

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CT 11/10/91

Own Correspondent

JOHANNESBURG. — Leading businessmen are involved in private initiatives to resolve the VAT crisis, while organised business is considering collective action to avert a two-day general strike which could cost the economy an estimated R1 billion.

The former chairman of the employers' organisation Saccola, Mr Anton Roodt, confirmed yesterday there were "numerous diplomatic initiatives" taking place behind the scenes. A spokesman for the South African Chamber of Business (Sacob) said leading businessmen were trying to intervene with the authorities in their personal capacities.

It is understood that organised business is also considering intervening in an effort to facilitate a settlement between the government and the trade unions. The unions decided on Tuesday to call a two-day

general strike in the first week of November.

Cosatu general secretary Mr Jay Naidoo indicated in an interview earlier this week that the trade union movement remained open to negotiation. Cosatu was conscious of the damage to economic prospects of a drawn-out conflict, he said.

Business spokesmen said yesterday that there were significant obstacles in the way of a resolution.

Caught

Both the government and the unions had adopted tough stances. The government would neither accede to demands for additional relief nor agree to an economic forum ahead of multi-party talks, while the unions had been consistent in their demand for a broad negotiation of the VAT system. If either were to back down it would be considered a political victory by the other, the spokesmen said.

Business was caught in the middle. It faced the possibility of a costly strike over demands it

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Seifsa director Mr Brian Angus says the federation, which represents 3 500 companies employing about 350 000 in the steel and engineering industries, will discuss contingency plans next week. He believed unions would battle for support for the strike.

'Reparation' bid would force individuals to pay third of their assets

ANC PLAN FOR WEALTHY LEVY

Alive: burial mix-up girl



BACK FROM THE DEAD ... Emil Brusow comforts

ST/Two2 [3/10/91]

By BILL KRIGE

THE ANC is considering an extraordinary proposal which would force South Africans to pay a one-off levy of a third of their assets to the state in reparation for apartheid.

The proposal was adopted by a working group at an ANC conference on affirmative action in Port Elizabeth at the weekend. The conference also proposed the deliberate creation of a "business crisis" to force corporations to submit to demands for affirmative action.

The capital levy proposal comes hard on the heels of statements last week by ANC leader Nelson Mandela that nationalisation was still an option for the ANC, and a statement by ANC secretary-general Cyril Ramaphosa that the ANC would "re-evaluate" foreign loans if it came to power. Mr Trevor

Mamonnet, the ANC's economics head, also made a strong pitch to US businessmen at a conference in the United States this week to consider the ANC's proposal.

Mr Heinz Kling, the ANC member who reported the decision of the working group to the conference, said he expected to pay off the levy over 10 years.

The money would be used to fund disadvantaged communities.

Mr Kling was unable to provide further details of the proposal, but did estimate that a person with capital assets of R500 000 would pay

R100 000 a year to cover the levy.

A recent survey showed that half the white households in South Africa had net assets of more than R100 000.

The annual levy on this amount would be \$13 300.

Surrender

Reporting back on committee discussions, Mr Kling said it was felt that the proposal was "too radical" and "not in the spirit of the action. Beneficiaries ought to include the white

SA heroes in world golf final

By NORMAN DUFFIE, St Andrews

SOUTH AFRICA'S golf heroes offered a standing ovation yesterday as they topped home favourites Scotland to reach the final of the Dunhill Cup in their first major tournament since 1994.

South African captain Gary Player, who won the cup the way down the 18th hole of the historic Old Course in 1954, was among his team with "a good fore

stroke win." "Gordon Brand junior," who had a "good forestroke win," said: "Here we are back in the home team and we get an ovation. I think it proves everyone is glad

The Springbok triumph over Scotland followed an amusing win over the United States, the No 1 seed.



JOHN BLAND

a strong pitch to US businessmen at a conference in the United States this week to continue disinvesting.

Mr Heinz Klug, the ANC member who reported the decision of the working group to the conference, said taxpayers would be expected to pay off the levy over 10 years.

The money would be used to help disadvantaged communities.

Mr Klug was unable to provide further details of the proposal, but a rough estimate shows that a person with capital assets of R500 000 would pay R16 700 a year to cover the levy.

A recent survey showed that half the white households in South Africa had net assets above R100 000. The annual levy on this amount would be R3 300.

Surrender

Reporting back on committee discussions, Mr Klug said it was felt that any land reform process must include affirmative action. Beneficiaries ought to include the victims of forced removal (both rural and urban), the homeless, township residents, those displaced by violence, aspirant black farmers and tenants.

"The beneficiary would not be able to pay for it (the land). That would be the responsibility of the state," he said in proposing the one-third capital levy.

ANC speakers at the conference made it clear that to compensate for apartheid, a future government would have to go beyond mere reparations — and have its actions enforceable by law.

In this process whites — "promoted beyond their level of competence" by a privileged past — would be forced into a rapid surrender of land and political and economic power.

Siege

If necessary measures as extreme as those invoked for a decade to reconstruct war-battered West Germany would have to be taken.

On affirmative action in the private sector, the conference heard that reparations would not be enough. The beneficiaries of any affirmative action would be "blacks, women, the disabled and anyone disadvantaged".

Not only would blacks be favoured for promotion at all levels of public and private life, but affirmative action programmes should continue indefinitely and be made mandatory, speakers said.

ANC economist Don

SA in go.

By SOUTH AFRICA yesterday as it reach the final international

South Africa the way down of the historic as he clinched his team with stroke, win Brand jnr.

"It is marvellous Player. "Hereing the home to get an ovation proves every we're back."

The Springbok over Scotland amazing win of ed States, the Ryder Cup champion favourites, ing quarter-fin

South Africa by two matches John Bland Frost both snatched a Player loss.

Recc

But all three cans were in form against South Player scoring der-par 70 after to his trusty older which has tournaments all world.

Frost turned round of the tournament

Wealth levy

From Page 1

Mkwanazi said that South African business should be placed in a state of siege: "Affirmative action can never succeed on its own in South Africa. We must create a crisis."

"If businessmen continue to make large profits there will be no incentive for affirmative action," he said.

Pressure had to be applied to the "pressure points" of business, such as profits, costs and customer service, to induce a crisis without which corporate South Africa would never submit.

"The economic and human costs of change must be high," he said, adding: "Those who have been on the receiving end of

injustices have the right to redress."

Along with other speakers, he cited economic feather-bedding for whites and said they had been "promoted or placed beyond their level of competence" through black exclusion.

Democratic Party leader Zach de Beer warned that the proposed levy was intrinsically communist and hoped that the conference's recommendations would not be accepted by the leadership.

The National Party's finance spokesman, Mr Francois Jacobsz, said such a move would put a damper on capital formation and discourage private initiative.

See Page 8

IN THE deeply divided society that South Africa is and will realistically remain for years to come, major tax reform is even more problematic and controversial than usual. The current controversy around VAT is very unlikely to be the last of its kind.

However, leaving aside the peculiarly South African socio-political emotions that tax reform will inevitably stir up, it allows at least the opportunity to pose two important questions:

First, in introducing a VAT system in SA in or out of line with current tax practice and the lessons of recent tax reform in other middle income, semi-developed countries; secondly, how is tax relief to the poor handled in these countries?

The research conclusions contained in comparative international tax studies focusing on the experience of developing countries is particularly relevant in the SA fiscal debate.

Many local actors still suffer badly from another apartheid legacy — comparing ourselves with First World, high-income countries such as the UK, Germany or the US instead of with our real peers, the middle income countries of Brazil, Mexico, Columbia, Korea, Turkey and many others.

Hence some major findings of three recent tax studies are briefly highlighted below.

International tax expert Richard Bird, reflecting on the experience of tax re-

VAT can work for poor in SA

STimes (R455)

13/10/91



Dr JOHANN VAN ZYL, taxonomist and development consultant to the Department of Finance's tax research unit, examines the causes of the controversy surrounding VAT — and forecasts there will be more dissent

forms in Latin America in the 80s, concludes that the value-added tax currently plays a central role in most large-scale tax reforms.

There is, furthermore, much greater awareness of the practical constraints imposed by administrative capabilities. This has, in fact, led to a major shift in tax policy.

It is proclaimed at present (rightly or wrongly) that the sharply progressive 'global' personal income tax that once constituted a key instrument in the tool kit of every

tax reformer can no longer be regarded as administratively feasible, even in the most sophisticated of countries.

The rise of VAT has therefore been accompanied by a move away from progressive income taxation. Another highly respected researcher, Wayne Thrisk, comes to similar conclusions in examining recent tax reform in 19 mostly middle income countries all over the world. He notes more generally that much less emphasis is currently being placed on

achieving a redistribution of wealth through the tax system.

A correspondingly greater emphasis occurs on the goals of revenue generation, economic neutrality and simplifying the tax system in accordance with realistic administrative capabilities.

In Thrisk's view, the goals of tax reform in middle income developing countries are now more modest, but perhaps also more realistic, than they were. It is widely felt that the tax system is likely to work much better if the aim is to achieve a measure of rough justice rather than some ideal but administratively hopeless objective.

Keep-it-simple rules and procedures may ignore the fine distinctions that some equity considerations demand. But the greater efficiency in handling vast numbers of people also serve the broader interest of tax equity by encouraging better compliance with tax laws and making evasion more difficult.

Relevant

Finally, reference has to be made to a major recent World Bank study on general tax policy issues in developing countries. Most of the lessons of tax reform discussed in a comprehensive report confirm the findings of the individual researchers.

Two propositions, however, are particularly relevant in view of the present uproar around VAT.

● Broadening the base of the tax system should be a high priority.

● Tax reform can lower the burden on the poorest groups.

On base broadening, the report suggests in particular that VAT should be the instrument of choice for most developing countries considering a broad-based tax on goods and services.

It notes that, in the experience of developing countries so far, VAT and simplified

versions of it have been an outstanding success in raising additional revenues and reducing the economic efficiency costs of taxation.

The report does warn explicitly, however, that one serious weakness associated with VAT is its inherently limited ability to deal with equity issues. In consequence, these will have to be addressed in the larger tax system and ultimately in the Budget as a whole.

Such a system-wide approach is indeed essential if a sound overall balance is to be found between efficiency and equity considerations. Focus on VAT alone to obtain wide-ranging equity would be much akin to flogging a dead horse.

Current 'best practice' in tax systems suggests three mechanisms to lower the burden on the poor. Firstly, some goods — such as unprocessed foods, which account for a significant proportion of the budget of the very poor — should be exempted from the tax base.

Secondly, excluding a portion of personal income (on the order of twice to three times per capita GDP) from the income tax base would help much in removing the burden of taxation from the poorest groups.

Finally, selective excise taxes on luxuries and non-essentials can enhance the revenue take as well as the progressivity of the tax system as a whole without significant economic efficiency losses.

It should be noted that the above tax relief measures are aimed at 'the very poor' or 'the poorest groups'. Not significantly at 'all of the poor' and certainly not generally at those who can still find employment in the formal sector of the economy, represented in SA by well-organised unions.

Such an apparently minimalist approach is conditioned not by a callous disregard for poverty in general (as suggested in some non-establishment circles) but rather by much hard practical experience.

The preferred route of attempting to reach the poorest groups in society via the expenditure side of the Budget is very difficult to achieve and/or cost-ineffective in execution.

Handouts

Tax concessions tend to amount to little more than handouts. And handouts generally have a very weak record of stimulating the real development of people.

Thus the SA government of the day should rather protect and broaden its tax base as much as possible and channel increased revenue towards appropriate programmes for stimulating the human development of less advantaged communities.

In modern development thinking and practice, such an approach is likely to produce far better developmental value for money than extended tax relief to all segments of the poor.

IIT speeds up spending

STimes (R455)

13/10/91. By DIRK THIEMANN

THE INDEPENDENT Development Trust has allocated over R12-billion of the R22-billion it received in June 1990, while only R226-million has actually been spent. Spending will accelerate when the 160 projects currently under way are completed. A huge cashflow is expected and the R226-million figure should treble by the end of the year.

Executive director Michael Ridley says not too much importance should be attached to the small spending figure because "many of the grants made are phased in specifically agreed instalments".

The July 1991 figures indicate that R286-million has been allocated to housing, R442-million to education and R236-million to health, rural and community development.

Of the housing allocation, R750-million was set aside for a capital subsidy scheme for 100 000 sites at R7 500 a site. Four contractors will develop the first 1 027 sites.

The R750-million is expected to be out of IDT hands by the end of November.

Public authorities and parastatals will develop 27% of the 100 000 sites. Community trusts will handle 34%, utility companies 20% and private developers 9%.

Of the 484 applications to participate in the R750-million site development, only 11% were private.

Mr Ridley says site development is simply not attractive to private developers "but expect greater private contractor involvement in the civil engineering".

The IDT does not award contracts but funds agencies, which then do the contracting, subject to certain criteria, such as competitive pricing, maximising the spread of spending and maximum use of local labour.

Although the money spent to date looks puny, the IDT regards money that has been allocated as "spent and forgotten", says Mr Ridley.

Using this criterion, the IDT has almost run out of money. The intention was originally to gear the R2-billion received from government with as much private money as possible. So far, R500-million has been pledged.

Mr Ridley says none of these funds will be received by the IDT directly. "But we expect to collaborate and achieve synergy with the private fund." The money goes into a fund chaired by ex-Barlow Rand chairman Mike Rosholt. The IDT is still negotiating the terms of a foreign loan of more than \$100-million.

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VAT AND YOUR BUSINESS

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 accountants 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

WITH all the furore over VAT's introduction there has been very little attention focused on the income tax ramifications of VAT.

VAT's income tax treatment differs radically, depending on whether the taxpayer is registered as a vendor or not.

With a few exceptions, the implications will be minimal for registered vendors.

Many vendors submit returns every second month. Consequently, many financial year ends will occur in between reporting periods and financial statements will have to reflect this.

With vendors, VAT is neither income received nor an expense of earning that income. It is either a short-term loan to revenue (inputs due) or from revenue (outputs due). This is reflected in the balance sheet as, respectively, current assets or current liabilities.

The exceptions are the three areas where input tax credits are denied: motor car purchases, club subscriptions and entertainment expenses.

From an income tax point of view, the VAT paid on these transactions will be treated as an expense. For example: the VAT paid on a motor car increases the capital cost of the vehicle and is included in the depreciation allowance.

VAT paid on club subscriptions and entertainment expenses can only be treated as an expense if the actual subscriptions or entertainment expenses themselves can be deducted (under s11 of the Income Tax Act).

charts and tables, have been added to the manual. The price of the expanded manual is R76,95, plus R5 postage and handling fee. It is available from: VAT: Levenstein & Partners, Box 18600, Hillbrow 2038.

Readers with VAT questions or problems should write to: The Editor, Business Times. They will be dealt with confidentially and may be discussed in general terms in this series.

VAT (Buss)
VAT payable by employers on employee fringe benefits is also allowed as an expense when incurred, even if not yet paid across.

Vendors with turnover under R2,5-million a year can register to submit their returns on a cash basis. This means they have to pay the Receiver only the VAT they have actually collected.

But for income tax purposes, all input and output VAT must still be accounted for on an accrual basis, even if not yet paid or received.

Credit 320

Where there is a permitted reimbursement of GST previously paid on consumables it is dealt with under VAT as an input credit, as and when the consumables are used or equally over 24 months.

But for income tax purposes, the gross GST reimbursement is taxable income immediately, irrespective of the terms of recovery.

VAT outputs will not feature in income tax for non-registered vendors, as they cannot charge VAT. There is

also no input credit granted on VAT paid on expenditure.

For income tax purposes, VAT incurred will be given the same treatment as the underlying expense, whether or not it has actually been paid by the time the financial statements are compiled.

If the expense is an asset, depreciation will be allowed on the capital sum, inclusive of VAT. If the expense is non-deductible, the VAT on such an expense is also non-deductible.

Where a non-registered vendor had trading stock on hand on September 30 on which GST was not paid, it must pay this GST to Revenue by December 31.

For income tax purposes, the GST liability accrued in full on September 30.

● A few gremlins crept into last week's report.

No documentation need be submitted to Revenue except for the VAT return. Tax invoices may be submitted together with the delivery notes, but copy tax invoices may only be sent at a later date if the customer claims to have lost the original.

Barend saw trap and sidestepped — or did he slip?

David Breier,
Political Correspondent

BAREND du Plessis says it was all an offal trap that Cosatu laid for him. Cosatu says Barend made his own bed of offal and must lie in it.

That is the guts of a VAT row between the Government and the plant trade union movement which is preparing for next month's strike and mass action against value-added tax.

The controversy over the zero-rating of offal arose after a meeting between Cosatu and its allies and a Government delegation led by State President F W de Klerk about two weeks ago.

After the meeting Cosatu secretary-general Jay Naidoo reported that the Government was prepared to zero-rate a number of foods for a short period — including offal and intestines.

He angrily denounced the Government for not accepting that poor people also ate meat and chicken.

In the event, the Government did zero-rate a number of basic foods — but not offal, so it could not be accused of saying in Marie Antoinette fashion to the poor: "Let them eat offal."

Observers noted that if the Government had chosen to zero-rate offal as opposed to other

basic foods, it would have been the worst public relations gaffe since 'let them eat cake'.

At this week's Cape congress of the National Party, Mr du Plessis gave his own version of the offal truth, saying it was a Cosatu trap.

He said the night before the meeting, an official in his department telephoned him to say a certain professor had told him that the zero-rating of offal would be acceptable.

Mr du Plessis says he immediately told the official that it was a trap. The Government would not fall for it.

He said his suspicion was confirmed when, after the meeting, he read that Mr Naidoo had announced the Government had offered to zero-rate offal.

However, Cosatu spokesman Neil Coleman has a different version. He told the Sunday Star that a Government tax expert telephoned Cyril Ramaphosa with the offal offer. Mr Coleman said Mr Ramaphosa mocked the idea. "If it was a trap, they laid it for themselves," Mr Coleman said.

He added this was no reflection on people who ate offal, but it was "arrogant and insulting of the Government to choose what they regard as appropriate food for poor people to eat."



PROUD CHEFS . . . Berrick Tshabalala, Martin Macgregor and Rebecca Mfola show off their offal dishes. Picture: Debbie Yezbak

ANC after new tax plan

(320)

Sowetan 14/10/91
THE African National Congress is preparing a plan that would heavily tax the country's whites as a form of reparations for apartheid, according to a report yesterday.

A report in a Sunday newspaper said the proposal would require citizens to pay a levy equivalent to one-third of their assets to raise money for the impoverished black majority.

The money would be used to buy land and other resources for blacks, said ANC official Heinz Klug.

The plan is not official ANC policy, but it was recently adopted by the group's committee on affirmative action, according to the report.

SA PRESS ASSOCIATION

The ANC says the redistribution of wealth from the 5 million whites to the 30 million blacks will be a leading priority if the group comes to power.

Economic measures

ANC president Mr Nelson Mandela and other top officials have suggested several controversial economic measures recently, drawing sharp criticism from many whites, local businessmen and potential foreign investors.

Under the latest proposal, a family with as-

sets equivalent to R250 000 would be required to pay the government R83 000 over a 10-year period.

This would be a special levy in addition to already existing taxes. All citizens would be subject to the special tax, but it would clearly target whites, who control the vast majority of assets.

ANC critics say the organisation is wedded to socialist economics that failed throughout Eastern Europe and much of Africa.

They argue that a free market economy is the fastest way to improve black living conditions, and it would also keep skilled whites from leaving the country. - Sapa-AP.

Tax on wealth 'is an option for the future'

B/day 14/10/91

320

SUSAN RUSSELL

A WEALTH tax was just one of a number of proposals which could be considered as a means of addressing SA's racial disparities, ANC constitutional committee spokesman Dullah Omar said yesterday.

The issue was raised at a weekend conference arranged by the constitutional committee in Port Elizabeth on affirmative action. It was proposed that a levy equal to one third of individuals' assets be payable over 10 years.

Omar said the proposal had to be seen in the context of the purpose of the conference, which was to examine ways of eliminating disparities created by apartheid.

"This was not a policy-making con-

ference, but was designed to place issues on the agenda for discussion," he said.

"We looked at methods which had been used in other countries. It appears it was a measure used highly successfully in West Germany to ensure orderly development."

"No specific details have been worked out," Omar said, "but we will certainly be looking into it."

Our political staff reports ANC economic policy committee member Don Mkwanzani told the conference there was a necessity to create a "crisis" in business.

"If they continue to make huge profits there will be no incentive to implement affirmative action programmes," Mkwanzani said. He said affirmative action was an interim strategy — and did not involve compromising standards.

Sapa reports ANC president Nelson Mandela on Saturday told a function in Durban that the ANC was prepared to abandon its nationalisation policies if business could provide an alternative to redressing economic imbalances.

The ANC had gone out of its way to bring the business community into the debate, but business people had failed to provide an alternative.



Mixed views over levy

By SONTI MASEKO

THE imposition of a one-off levy on a third of the assets of those people who have benefitted under apartheid was impractical and would lead to war and confusion.

These were the views of some callers to the Sowetan/Radio Metro Talkback Show yesterday while others said the levy would be a fair form of compensation for the poor and especially blacks who had been impoverished by apartheid.

Pat from Jabavu said the levy was not a matter of right or wrong.

"One has to look at people's living conditions, the legacy of apartheid, poverty, homeless people and land removals.

He said people who were opposed to nationalisation and other forms of wealth redistribution were failing to advance solutions on affirmative action.

Daniel from Edenpark said there was no country in the world without poor people.

He said the proposed levy was not only unfair but unprofessional and would never succeed.

The country needed to rid itself of the unrest and attract more investment which would improve the living standards of the poor, he said.

Thomas from Berea said South Africans should let "bygones be bygones".

"Whatever happened is something of the past. If we repossess we are going to end up with a worse South Africa," he said.

He was supported by Joey from Pinville.

Jabu of Springs said the poor had to get land first before any discussion of redressing past imbalances.

"The levy is not enough," he said.

Mandela denies plan to heavily tax the wealthy

SAPA 320

ANC president Nelson Mandela has denied weekend news reports saying the ANC was preparing a plan that would heavily tax wealthy South Africans.

Speaking to reporters at the ANC headquarters in Johannesburg yesterday, Mandela said: "It is certainly not the policy of the ANC. No such statement was made by the ANC."

The proposal, which would require people to pay a levy equivalent to one third of their assets to the Government for uplifting the impoverished, was merely discussed at a seminar of an ANC committee on affirmative action in Port Elizabeth.

"It was not even taken up," Mandela said.

He said it was tragic that the journalist who had written the weekend report had got his facts wrong despite having been present during the debate.

The whole matter was unfortunate, Mandela said.

Monday
le Bar
MALO

HURRY
VA PRIC

Biday 15/10/91

Long hours spent on the tax front

TAXATION is one of the most important considerations for companies thinking about investing in SA, says Sacob taxation committee chairman Bob Wood. (220) (220)

For this reason, hundreds of man-hours are put in by this committee to fight for the interests of business at government level.

Many issues, such as PAYE in respect of directors of private companies and members of closed corporations, share ownership and share options schemes, the valuation of trading stock and the withholding of tax on interest, have been the subject of submissions and discussions between the taxation committee and government.

One example of the influence this committee wields is demonstrated by its handling of VAT.

"Intensive work over a long period has been done by the taxation committee and by its working group on VAT," Wood says.

"During 1990, representations were made to Vatcom as to the shape VAT should take.

"These representations were largely successful

as the marked changes made by the authorities to the original VAT proposals, shows."

Subsequently, close contact has been maintained with tax authorities with beneficial results, Wood says.

"For instance, Sacob's submissions to the decision by government that capital goods brought into use on or before April 18, 1991, but before September 29, 1991, would qualify for an additional initial allowance of 15% for income tax purposes."

Submissions have been made on numerous other aspects of vat, including the handling of returnable containers and details on handling of exports, he says.

Following the publication of a new industrial policy for SA by Sacob earlier this year, the committee considered the impact this would have on tax structures and made recommendations regarding this.

These included lowering the nominal corporate tax rate, restoring the previous depreciation formula for industrial equipment and also ensuring stability in the tax system.

'Harebrained' scheme dismissed

Wealth tax

6 Dec 15/10/91

an option, 'not ANC policy'

THE ANC moved yesterday to defuse the growing row and confusion over reports that it was considering imposing a one-off wealth tax to redress SA's economic imbalances.

ANC president Nelson Mandela denied his organisation was preparing a plan to impose a one-third tax on the assets of wealthy South Africans. "It is certainly not the policy of the ANC," he told Sapa.

He said the proposal was merely discussed at a seminar on affirmative action in Port Elizabeth. "It was not even taken up," Mandela said the whole matter was unfortunate.

ANC secretary-general Cyril Ramaphosa said he was not present at the conference but should the wealth tax form part of the ANC's economic policy unit's proposals, it would be discussed at the national executive committee meeting in December or January. Only if it was accepted by the NEC would it become policy. Ramaphosa said that as a result of the news reports the proposal had gained a fair amount of support from ANC members.

ANC member Saki Macozoma clarified the position further and said the conference had no status as an ANC meeting. It was jointly organised by the ANC's constitutional committee, the Community Law Centre at the University of the Western Cape and the US Lawyers Committee for Civil Rights under the Law.

Experts from such countries as Zambia, Tanzania, the US and Norway had attended the conference, which was investigating the issue of affirmative action, regarding women, business and land.

BILLY PADDOCK

He said the so-called proposal had formed part of the report-back by the committee looking at redressing the disparity in land distribution. ANC constitutional committee member Heinz Kling, reading the report, had said wealth tax was one of the measures initiated by Conrad Adenauer in post-war Germany.

"It incenses us when this is then taken to mean we are going to implement this as part of our economic plan," Macozoma said. But he said it was totally legitimate for the ANC to discuss a variety of options available to deal with the disparities in SA. Deputy Finance Minister Theo Alant in a statement said he noted that the workshop was not a policy-making conference.

"I do not wish, at this stage, to take issue with other political organisations about controversial proposals for redressing imbalances in the economy, but the government will take a firm stand on such matters once the negotiations for a new constitution and new political and economic dispensations begin in earnest."

ALAN FINE reports that tax expert Prof Denis Davis, who advised the Constitutional VAT Co-ordinating Committee in its dealings with Finance Minister Barrow du Plessis, yesterday slammed the proposal for the wealth tax as "harebrained and utterly unimplementable".

Davis, director of Wits University's Centre for Applied Legal Studies, said such a confiscatory tax would give rise to huge shifts of wealth from corporations and in-

□ To Page 2

Wealth tax

6 Dec 15/10/91

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□ From Page 1

dividuals to structures such as trusts as a means of tax avoidance.

The wealthiest section of the population would cope through avoidance or capital flight, and the burden of the tax would fall on the middle classes whose most important assets were their homes.

However, Davis said there were certain types of wealth taxes, not confiscatory in nature, which were simple to administer and could be implemented in SA.

These included a capital gains tax, estate duties at a rate higher than is the case in SA but similar to the situation in the US, UK and Europe, and a land tax on large commercial farmers.

Davis estimated that if these taxes were introduced at a reasonable level so as not to engender capital flight, they could bring in R2,5bn to R3bn a year.

Meanwhile, Jacob said the wealth tax

idea was linked to previous ANC views on nationalisation and foreign loans. Jacob's annual convention would design a business response to the tax proposal tomorrow.

ANDREW GILL reports that contradictory statements by the ANC and Cosatu had created the impression there were parties intent on destabilising the economy for short-term political gain, the Steel and Engineering Industries Federation (Seifsa) said yesterday.

Seifsa president Robert Barbour said it appeared these organisations were adopting "a scorched-earth policy". Recent "utterances" on nationalisation, re-evaluation of foreign loans, destabilisation of industry and the assumption of political power were confusing local business while the international business community simply steered clear of the country.

● Comment Page 14

VAT strike on despite exams

Political Staff

DURBAN. — Cosatu yesterday rejected calls to change the date of its national anti-VAT strike, which clashes with black matriculation exams. ~~320~~ CT 15/10/91

Instead it will exempt pupils, teachers and key workers — like some in health — from taking part and encourage pupils to write exams on November 4 and 5.

There has been strong criticism of the decision to hold the strike on examination days.

ANC has no wealth tax plan — Mandela

Star 15/10/91.

ANC president Nelson Mandela has dismissed reports saying the ANC was preparing a plan that would heavily tax wealthy South Africans.

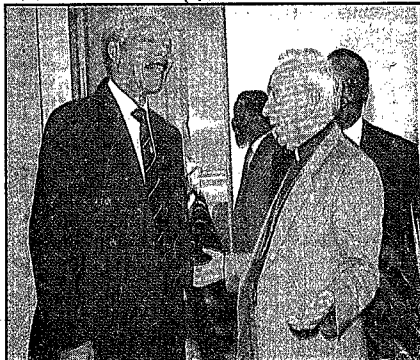
Speaking to reporters in Johannesburg yesterday, Mr Mandela said: "It is certainly not the policy of the ANC. No such statement was made by the ANC."

The proposal, which would require people to pay a levy equivalent to one-third of their assets to the government for the upliftment of the poor, was merely discussed at a seminar on affirmative action in Port Elizabeth.

"It was not even taken up," Mr Mandela said. He said it was tragic that the journalist who had written the weekend report had "got his facts wrong" despite having been present during the debate.

The press report, which has caused alarm among property owners and politicians, claimed the so-called "wealth tax" proposal was adopted at the weekend conference.

The report also said the meeting had proposed the



A joke shared . . . Nelson Mandela and Dr Emilio Castro after their meeting.
Picture: Herbert Mabuza

deliberate creation of a "business crisis" to force companies to submit to demands for affirmative action. The levy would be payable over a period of 10 years and be imposed in addition to normal taxes.

If adopted, people with capital assets of R500 000 would pay R16 700 a year and those with assets of

R100 000 would pay R3 300 a year, the report said.

On Sunday, a top ANC official who took part in the workshop but asked not to be named, told Sapa the proposal was neither ANC policy nor a concrete position of the conference.

ANC economic policy head Max Sisulu told The Star yesterday that the levy was

not official policy, but said he saw "nothing alarming" in the proposal. He said the proposal was merely one of many suggestions which had emerged as the ANC was looking for solutions to addressing the imbalance of wealth in SA.

Mr Mandela and other ANC leaders have come under sharp criticism from the country's business community recently for issuing controversial and apparently conflicting statements on SA's future economy.

On Saturday, Mr Mandela said that although the ANC had no ideological attachment to nationalisation, it was the only effective way of ensuring an equal distribution of wealth.

● Mr Mandela yesterday urged religious and business leaders to facilitate a multi-party conference before the year-end — similar to the role they had played in the peace initiative.

Mr Mandela was speaking in Johannesburg after holding talks with World Council of Churches general-secretary Dr Emilio Castro yesterday afternoon. — Sapa.

Patients to fork out 25% more

320 CT 15/10/91

Staff Reporter

DOCTORS were awarded a 16% pay rise to off-set the effects of inflation — but subscriptions could rise by 25% or more and the medical industry has expressed fears about its survival in the face of rising private health costs.

The Representative Association of Medical Schemes (Rams) yesterday announced the increase in its scale of benefits to take effect from January 1, 1992.

Rams said dentists, private hospitals, day clinics and other providers of medical services would receive an average increase in payments of 16%.

Increases would depend on the individual schemes. Their expenditure was affected by two fac-

tors: The cost of providing a service and the frequency with which it was used.

The latest increase comes on the back of the 8% rise to compensate for the effects of VAT.

Rams executive director Mr Rob Speedie said private health care costs were expected to rocket by nearly R1 billion next year to at least R7,6bn, "if over-use of health care goods and services continues at the current rate".

In 1987 South Africa's private health care bill was below R4bn.

Mr Speedie said increased costs were not due to more people using medical schemes but to the fact that users of medical aid had "gone on a consumption spree".

"If users and providers of services were more responsible, it

would cut tens if not hundreds of millions of rands from the budget," he said.

To counter the spiral "more and more" medical aids were looking to the introduction of no-claim bonuses and penalising excessive users by raising individual subscription rates.

Medical Association of South Africa secretary-general Dr Hendrik Hanekom said the "indiscriminate use of services" could jeopardise the future of private health care.

The Medical Association of SA (Masa) was alarmed at the fast-rising costs of health care and had called for a concerted effort to slow the spiral, he said.

Dr Hanekom said Masa would continue to fight for the exemption of all medical services from VAT.

VAT: ³²⁰ What ^{CRIS 10/91} you see is what you pay

Own Correspondent

JOHANNESBURG. —

The Advertising Standards Authority (ASA) yesterday ruled that all advertisements reflect the VAT-inclusive prices of goods as prominently as exclusive prices.

But Vatwatch chairman Louise Tager said the watchdog body was totally opposed to any form of VAT-exclusive advertising.

"The price you see is the price you pay, and there is no room for any exceptions," said Tager.

ASA executive director Jack Siebert said the ASA was concerned that a lot of advertisements were misleading the public. "We have been expecting legislation to be promulgated under the VAT-Act for some time, but so far nothing has been forthcoming," he said.

"Meanwhile, although advertisements may be legal, they are often misleading. The Copy Committee has unanimously decided all advertising will have to show VAT-inclusive prices in the same size type, and with equal prominence as pre-tax prices.

"This means they cannot display exclusive prices in bright colours and inclusive prices in dull colours, for example," said Siebert.

Regulations from the Finance Department are widely expected later this week, but confirmation could not be obtained from the department yesterday.

Clamp on misleading VAT prices (320)

The Advertising Standards Authority has ruled that VAT-inclusive prices of goods must have the same size and prominence as the pre-tax prices.

This effectively clamps down on advertisements showing huge pre-tax prices and smaller VAT-inclusive prices — which Vatwatch has labelled as diluting the promise of “the price

you see is the price you pay”.

Regulations are being drafted by the Department of Finance.

The organisation warned that all advertising which did not conform had to be amended as soon as deadlines permitted. It viewed the manner in which VAT prices were reflected in advertising “with growing concern”. — Consumer Reporter.

Spotlight on VAT ³²⁰ at seminar

Sowetan 16/10/91

By JOSHUA
RABOROKO

THE Value Added Tax controversy comes under the spotlight at a seminar where the Government, trade unions and tax experts will try to resolve the crisis surrounding the new tax.

The seminar, organised by *Sowetan* Business in conjunction with Matsheru Masharu Tax Consultants, is at the Carlton Hotel, Johannesburg, next Wednesday at 8am.

Strike

The Government, trade unions and political organisations argued heatedly over VAT, which was introduced on September 30.

The seminar comes at a time when trade unions have called for a national strike on November 4 and 5 against VAT - and have promised sustained action if their demands are not met.

The seminar is an exploratory forum where black business will meet trade unions and political organisations and express their problems.

The fee is R50 and for further information phone Irene Evans at (011) 474 0128.

Business to be asked to talks on VAT row

13/10/20
16/10/91 LESLEY LAMBERT (320)

THE VAT Co-ordinating Committee plans to invite leading businessmen to discuss the VAT conflict and to facilitate further negotiations.

"The need for business to take a position on the committee's demands for changes to VAT and for negotiations, and on the process used by the government to implement VAT, will be raised if they accept," committee chairman Bernie Fanaroff said yesterday.

The committee would also meet National Health Minister Rina Venter on November 14 "to explore the possibilities for negotiating more satisfactory poverty relief programmes".

DAVE LOURENS reports that students and education organisations were yesterday exempted from observing the November 4 and 5 anti-VAT general strike called by Cosatu and Nactu.

It had been feared the strike would disrupt examinations.

● Comment: Page 8

ANC wrong on war 'wealth tax'

6/Day 17/10/91
THE controversial "wealth tax" suggested by an ANC member bears little resemblance to measures used to rebuild the economy in post-war Germany despite assertions to the contrary by leading ANC officials.

The wealth levy in Germany consisted of a levy of 0.2% of property value, paid over 20 years by owners of property not damaged during the Second World War.

The SA proposal, raised by an ANC member at an affirmative action workshop sponsored partly by the organisation, is for a levy equal to one third of an individual's assets to be paid over a period of 10 years.

Dismissed

ANC president Nelson Mandela has subsequently said the wealth tax was not official ANC policy.

ANC constitutional committee spokesman Dullah Omar claimed at the weekend that such a measure had been used "highly successfully" in West Germany after the end of the Second World War.

The German levy came in the context of a wave of reform and rebuilding, and has been dismissed by most historians as incidental to the rebuilding process in post-war West Germany.

The Marshall Plan, involving massive US assistance to Western Europe; free market reforms initiated

ed by political leaders Ludwig Erhard and Konrad Adenauer, the German industrial base; and the global economic boom, enhanced by the Korean War, are the commonly cited reasons behind the West German "economic miracle" of the '50s.

Golo Mann's *The History of Germany* since 1789, widely considered to be one of the most authoritative commentaries on German history, does not even mention the levy in its four chapters on the country in the post-war period.

University of Stellenbosch economics professor Sampie Terreblanche said yesterday the ANC's plan appeared to be a misinterpretation of a plan put forward by a visiting US professor earlier this year.

He said Wesleyan University economics professor Basil Moore said during his visit that all South Africans with net assets of over R500 000 should pay one-third of the excess to government in a one-off payment.

But, under Moore's plan, the payee would receive exactly the same amount back from a loan granted to SA by a "world financial body", to be paid off over 20 years.

The effect would be the instant raising of a large sum, with the effect being cushioned for the taxpayers over a period of years.

This was different to what had happened in Germany, Terreblanche said.

NEWS IN BRIEF

6/Day 17/10/91 Bail court at prison

GOVERNMENT has approved the institution of a so-called bail court at Pretoria Prison, Deputy Justice Minister Danie Schutte said yesterday.

He said the court was to be instituted as a pilot project.

"The objective of the institution of such a court is to simplify the application for, and payment of bail and to promote the accessibility of the court of law."

6/Day 17/10/91 Political inmate dies

BOPHUTHATSWANA political prisoner Rabusang "Black Mamba" Monnane, 37, of Leeuwinfontein died at the homeland's Rooigrond Prison on Tuesday, the homeland's Commissioner of Prisons Brig S S Thooe said yesterday.

He said Monnane was admitted to the sickbay on October 3 with "high blood pressure".

No gun restriction

THE proposed amendment to the Arms and Ammunition Act was definitely not intended to restrict firearm ownership to only one firearm per person, Law and Order Ministry spokesman Capt Craig Kotze said yesterday.

"All the proposed amendment does is that it recognises the needs of the collector. It does not negate any other provisions. It is as simple as that. We are not disarming people," he said.

REPORTS: Business Day Reporter, Sapa.

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Call to zero rate housing

Sowetan 17/10/91



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VARIOUS political groups, trade unions and business organisations have made the suggestion that property purchases should be zero-rated for VAT and payment of bonds should receive tax relief.

Sowetan 17/10/91
Camdon's Group managing director, Mr Scott McRae, put forward the suggestion on the basis that housing was an essential commodity which should not be taxed and pointed out that the homeowner is "reeling" under the onslaught of increased bond interest rates, double-digit inflation, high taxation, and the imposition of VAT.

Massive industrial and protest actions are looming countrywide following altercations between the Government, trade unions and political organisations regarding VAT.

The groups have requested the Government to zero rate various items, including basic foods, water, electricity, medicines and medical supplies.

They have also demanded negotiating satisfactory poverty relief programmes; provisions for small business not be prejudiced by VAT; end to unilateral economic decision-making by the Government and big business; establishment of a jointly agreed forum for socio-economic restructuring through negotiations.

McRae said the decision by the institutions to increase mortgage rates again was dismaying. Bank profits were excellent right now and the hard-pressed homeowner would find it extremely difficult to reconcile that fact with the need to increase his bond payments yet again.

He said: "Abolishing VAT for property purchases would provide a hefty 'kick start' for the economy by

By JOSHUA RABOROKO

boosting the property market and the construction industry with its massive employment potential, and creating demand for a multitude of service industries.

"The VAT concessions announced by Minister of Finance Barend du Plessis last month would provide temporary relief for the homebuyer.

"However, thereafter VAT would be charged at the full rate of the new 10 percent level announced by the Government.

"Originally VAT was set to 12 percent. The reduction to 10 percent is therefore a concession in itself. But the case for eliminating VAT completely is very strong.

"An economist will almost certainly tell you that any revenues lost to Government by way of VAT will be more than made up by the stimulus to economic activity that will follow.

"While the Government slice of each individual piece of VAT cake will be smaller, the cake itself will be larger. Just as importantly, the move would stimulate employment and possibly even help defuse unrest."

He noted that in granting the VAT concessions, the Government recognised the importance of providing housing and of assisting contractors and homeowners.

He said: "This may signal a change of attitude in the Government where, in the past, there has been at best, indifference to the worsening plight of the homeowner. But I would now call on the Government to take the concessions to their logical conclusions and make them general and permanent."

VAT critics tell off IMF for meddling



LESLEY LAMBERT

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THE VAT Co-ordinating Committee has asked the IMF to stop meddling in SA's economic policy making and to freeze an application the committee claims the SA government has made for a R30bn loan.

The committee has also asked UN secretary-general Javier Perez de Cuellar to take action in terms of three UN resolutions. The resolutions, adopted by the General Assembly in 1986 and 1990, commit the UN to discourage the IMF, the World Bank and other international funding organisations from extending loans or assistance to SA until there is "clear evidence of profound and irreversible changes".

The committee's requests were backed yesterday by the SA Council of Churches' call for the continued isolation of SA from international capital markets, until government had ceded power to a transitional authority. *31 Day 17/10/91*

Both statements were timed to coincide with the World Bank and IMF meeting in Bangkok.

In a letter addressed to IMF MD Michel Camdessus, the committee claimed the IMF had played a strong role in VAT's implementation. "In particular we were led to believe that the IMF was instrumental in influencing the rate of VAT," committee convener Bernie Fanaroff said.

Fanaroff said committee members had "protested against the meddling by the IMF in SA economic policies and called on the IMF not to process the R30bn loan to the SA government until the VAT dispute has been resolved and political and socio-economic negotiations are advanced".

But Finance Department officials yesterday strongly denied knowledge of a loan application for R30bn — representing about 40% of SA's annual Budget.

They reiterated that SA did not qualify for IMF funding. Its balance of payments was stable and it had no need for short-term IMF financing of temporary deficits.

Responding to claims that the IMF was meddling in the country's economic affairs, the spokesmen said it was necessary for it to monitor the economies of member nations and to comment on changes in economic policy.

VAT group's plea to UN

THE Co-ordinating Committee on Value Added Tax yesterday asked the United Nations to persuade the International Monetary Fund not to process a R30 billion loan to the Government.

In a letter to the UN, the committee, which represents more than 100 organisations, asked the world body to stop the IMF from "meddling" in South Africa's economic policies until the tax disputed had been settled.

The committee comprises the country's two largest union federations, the African National Congress, the

Sowetan 17/10/91
Pan Africanist Congress, the Azanian Peoples Organisation, consumer, welfare and religious groups.

The letter said VAT would spread the tax burden significantly on to South Africa's poorest people, most of whom were disfranchised.

It said State President FW de Klerk had explicitly refused to enter into discussions over tax reform or economic reconstruction, while showing willingness to negotiate a political settlement. - *Sapa*.

Income tax 'theft' alleged by W Coast fishermen

South

By Rehana Rossouw

17/10 - 23/10/91

FISHERMEN from towns on the west coast are demanding that thousands of rands deducted from their salaries as tax but not reflected on their IRP5 forms be returned to them.

The West Coast Fishermen's Union, representing 1 200 fishermen in Saldanha Bay, Laanplak, St Helena Bay and Stormpansbaai, allege the money was "stolen" from their impoverished members.

Mr Thomas Cupido, a fisherman for 18 years and executive member for the union, said members were em-

ployed by skippers contracted by manufacturing companies to catch their quota of fish.

Their salaries, which varied from month to month depending on the catch, were paid by the skippers of the boats who acted as "middlemen" for the company.

"When we received our IRP5 forms in April this year, we discovered they did not tally with our payslips," said Cupido.

"Some of our members discovered that only half of the money deducted in tax was reflected on the IRP5s." Mr Benjamin Appel found his IRP5 reflected that R1 106,19 was deducted in the past tax year, while his payslip

during the same period showed R3943,38 was deducted. The remaining R2837,19 was unaccounted for.

Mr John Fredericks found R1254,88 not accounted for. His IRP5 showed R3 011,16 deducted while his payslip indicated that R1 756,28 was deducted in tax.

Cupido said the union approached the skipper of the Jacobroose, Mr André Strydom, who employed some of the fishermen who had problems with their tax.

Strydom referred them to the Receiver of Revenue's offices in Bellville and a delegation of fishermen, armed with proof of their tax

deductions, went to sort out their problems.

"The Revenue officials sent inspectors to Saldanha Bay but so far there has been no comeback."

Cupido said the union was angry that its members had been "cheated" of thousands of Rands and that there had been no prosecution of the people responsible. "During the past year some of our members have lost their homes, had their water and electricity cut and their furniture and cars repossessed," he said.

Appel, who claims he has lost more than R2 000 in accounted tax deductions, said he was tired of waiting for the problem to be sorted out.

He said he was unsure whether it was the skipper of the Jacobroose or his accountant who was responsible.

"I lost my job during the year when the Jacobroose was dry-docked," Appel said. "Since then I've been struggling to make ends meet. With an extra R2 000 I might not have struggled so much."

A spokesperson for the Receiver of Revenue, Mr Johannes Smalberger, said the fishermen were unduly concerned as his office had launched an intensive investigation into their problem.

"I'm sure it will be sorted out soon — they must not worry, we have the situation under control."

VATWATCH, set up by the government as an independent monitor of abuses of Value Added Tax, has fallen into disarray with doubts being cast on its effectiveness by the body's own chairperson.

Already four members of Vatwatch have quit the body in solidarity with their community-aligned organisations which are spearheading the continued protests against VAT.

"Vatwatch is not truly representative and it cannot function effectively until the impasse between the government and community organisations is broken," said Vatwatch chairperson Professor Louise Tager.

"It's extremely urgent and in the

Vatwatch collapsing as protests grow

South 14/10-23/10/91

interest of every South African that this deadlock is broken.

"I understand why people have resigned because there is a need for them to identify with the concerns of the VAT Coordinating Committee," said Tager.

The committee, representing trade

unions, political organisations and consumer bodies, met this week to finalise a programme of strike action to push for changes to VAT.

The committee has called on the private sector to put pressure on the government to introduce changes to VAT.

The committee said a series of meetings and marches are being planned as a build-up to the planned two-day national strike on November 4 and 5.

The small business sector has undertaken a letter campaign to State President F.W. de Klerk and have pledged support for the action programme of the Coordinating Committee.

Protests are also being organised by doctors who, on October 28 and 29 plan to request that their patients attend provincial hospitals and clinics to highlight dissatisfaction over the imposition of VAT on certain medical services and equipment.

Resume talks, pleads Tager

By Paula Fray
Consumer Reporter

THE STAR
VAT
WATCH



Vatwatch has made an urgent appeal to Government and the Co-ordinating Committee on VAT to resume talks after several organisations withdrew from the tax watchbody.

Vatwatch chairman Professor Louise Tager said yesterday the organisation was finding it extremely difficult to function in an environment clouded by an impasse between the two parties.

The appeal comes as preparations are underway for a further programme of action to demand changes to VAT — including a two-day general strike on November 4 and 5.

Organisations whose representatives have withdrawn are Cast, Nafcoc, Nactu, the Labour Research Service and the Black Consumers' Union.

Professor Tager said Vatwatch had striven from the outset to be a truly representative — and independent — body concerned with the way in which VAT would affect consumers.

"The deadlock between Government and the CCV, however, has led to several bodies withdrawing their representatives from the Vatwatch committee.

"For Vatwatch to be truly representative of all South Africans, all communities must participate in our activities. Unfortunately, this is no longer the case," said Professor Tager.

She said the central concern of Vatwatch was for the poor and the unemployed. At present the organisation was making every effort to persuade the business sector to let its considerable VAT savings filter through to consumers.

Progress had already

been made in the form of the Vatwatch Pledge being signed by many businesses.

The SA Institute of Chartered Accountants has undertaken to encourage its 14 000 members to take a new look at VAT and advise their clients on ways and means of deriving, and passing on to customers, the savings that business would achieve as a result of the demise of GST.

"These savings, however, will take time to reach the consumer. The urgent question is how to deal with the plight of the needy and the unemployed in the next few months," Professor Tager said.

"We believe that constructive talks can be held around major issues, such as the imposition of VAT on municipal services in the disadvantaged communities, and on basic nutritional food."

"Other crucial issues are the structure and implementation of a targeted poor relief programme; and the education of small business and consumers about VAT, about its correct implementation and about the savings which business can achieve under the VAT system."

CCV co-ordinator Bernie Fanaroff welcomed the Vatwatch appeal as it showed even the watchbody believed "there is a need to zero-rate further items".

The committee has said its doors were still open for negotiation.

VAT group writes to UN over IMF

JOHANNESBURG. — The Co-ordinating Committee on Value-Added Tax has written a letter to the United Nations, urging the world body to censure the International Monetary Fund for its involvement in South Africa's economic policies.

The letter quoted a resolution passed at the committee's second VAT summit, calling on the IMF not to process the R30-billion loan to the SA government until the VAT dispute was resolved and "the political and socio-economic negotiations are advanced". It added that VAT would spread the tax burden significantly to the country's poor.

● Doctors in Durban yesterday held a placard protest against the imposition of VAT on medical services.

More than 100 doctors of the National Medical and Dental Association (Namda) walked to the Receiver of Revenue offices in West Street, where a memorandum was handed to the Receiver, Mr Geoff Grant.



Letter to UN slates IMF role in VAT

By Paula Fray

The Co-ordinating Committee on VAT (CCV) has appealed to the United Nations to assist in stopping the International Monetary Fund from "meddling" in South Africa — especially in regard to the implementation of VAT.

The organisation has also written to the IMF.

In a statement issued yesterday, CCV co-ordinator Bernie Fanaroff said the IMF had apparently worked out the technical aspects of the VAT system for the Government and had advised a VAT rate higher than the 10 percent originally proposed by Vatcom, the committee set up to investigate VAT.

"The Government seems to have relied on IMF advice not to allow exemptions or zero rat-

ing of basic foods, electricity and water, medicines and medical services in its discussions with the CCV," it said.

The UN secretary-general was requested to take action in terms of three UN resolutions, adopted by the General Assembly in 1986 and 1990, which commit the world body to call on the IMF, the World Bank and other organisations not to extend loans or assistance to the South African Government until there is "clear evidence of profound and irreversible changes in South Africa".

In a letter to the UN secretary-general, the CCV said that while certain minor changes to the VAT system had been made, the Government had refused to enter into a process of negotiation.

Moves to ensure strike won't affect exams

By PORTIA MAURICE

W/ Mon 18/10-24/10/91

THE education sector has been exempted from the strike around Value-Added Tax next month, and negotiations are under way to ensure students will have transport to exam venues.

The strike, called for November 4 and 5 by the Congress of South African Trade Unions, the National Council of Trade Unions and 12 independent unions, clashes with matric final English and mathematics exams.

Department of Education and Training spokesman Corrie Rademeyer said this week that other departments shared aspects of the timetable, but exams will also be in progress at universities, technikons, technical and teacher training colleges. English is a prerequisite

for a matric pass.

At a press conference this week, a broad range of education organisations — among them the Congress of South African Students, South African Students Congress, National Education Crisis Committee, Azanian Students Convention, South African Democratic Trade Unions and the Union of Democratic University Staff Associations — called on pupils to write their exams under teacher supervision, although expressing support for the anti-VAT campaign.

An intensive campaign is planned for next year around the extension of the levy to education-related items such as textbooks and stationery, but the NECC has called for a moratorium on

mass mobilisation in the coming "delicate" period.

"Participation in the strike would have had catastrophic consequences for education," said the NECC's James Maseko.

The organisations are discussing internally the issue of mass mobilisation, towards a binding policy and code of conduct. Azasco president Sipho Maseko said the education crisis would always prompt mass action, but that it was a strategy which "should be used wisely".

NECC representative Mel Holland said a meeting would be held today with taxi associations and transport unions to ensure students are not left stranded.

ANC ECONOMIC MUDDLE

Taxing the poor

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FM 18/10/91

Spare a thought for the ANC and its troglodytic economics. Without threats of nationalisation and a wealth tax, how else could it scare the whites? Or must it threaten total dispossession to win an economic argument against them?

However painstakingly the facts of economic life are explained to ANC leaders, they come bouncing back parrot fashion with the same worn *non sequiturs*. They have a grasp of economic logic equalled only by that of the Cabinet.

So we're back to having to explain to Comrade Nelson, as we did long ago to Gauleiter Verwoerd, that there is no alternative to nationalisation if the object is to redistribute wealth. For nationalisation doesn't spread largesse. It takes it from the thrifty and gives it to government — which uses it to perpetuate the myth that its actions are always in the interests of the people.

Nobel Prize winner James Buchanan has shown up that argument for what it is: sheer fabrication. Government is a constituency of its own, acting inevitably in its own interests, not in that of the people. Ordinary blacks will get no bite of any nationalised cherry. The chaps in the Union Buildings get it all; you can bet your last rouble on that.

What will redistribute wealth is economic growth, encouraged by stable prices, political peace, no sanctions, a capital inflow, low taxes — and hard work. Growth at 5% for three

years will see the lowest-paid worker something like three times better off than he is now. That is wealth redistribution.

Growth was the essence of the Industrial Revolution, which brought about massive redistribution of wealth. Before that, getting rich was a zero sum game. In medieval times you got rich by robbing your neighbour. Later, in socialist economies, where the State ran everything, everybody faced equal destitution. Only democratic capitalism has consistently created and distributed wealth. That's no egalitarian myth.

A wealth tax won't redistribute wealth. How does a man with a house pay 33%, or even a lesser amount of its value to government? He, like most other house-owners, after inflation has eroded his savings, has to be a forced seller in a falling market. And anyway, who is to say what the value of his house is?

By the time comrade commissar at the Exchequer has something to distribute, it's a fraction of what it was. And it will take R30bn to pay each black person R1 000 a year.

Meanwhile, there will be a massive loss of jobs, shops will empty of goods, housing will fall into ruin, disease and misery will predominate — and Comrade Nelson, like Comrade Nyerere of Tanzania, will say: "Sorry, we made a mistake. We've redistributed all we have." That is when the World Bank will take over. ■

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PROPERTY

VALUE-ADDED TAX

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Informal sector endgame

The VAT stick which is being used to beat government also looks set to give the low-income housing market a pasting. Even without this, the sector — regarded as a priority for those who envisage the future SA as a property-owning democracy — is all but crumbling at the foundations.

DP MP Tony Leon points out that at Khayelitsha in the Cape Peninsula, for example, which he visited recently, there were 12 homebuilders in the market a year ago; but now there are only two. The significance of the withdrawals is that they were pre-VAT. Given the volatile situation, the tax will make things even more difficult.

He comments: "Without a satisfactory solution at the bottom end of the market, we just won't be able to build high enough walls around top-end homes to make them safe."

According to Independent Development Trust Finance Corp figures, there is a 1,2m black housing backlog with an additional 1,1m homes needed this decade. That translates into an annual demand for the construction of 174 000 houses between 1990 and 2000. But only about 25 000 dwellings are being built each year.

To cap it all, says Gavin Hardy, chairman of the National Association of Home Build-

PROPERTY

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Shaky foundations

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ers (NAHB) and head of Murray & Roberts Housing, VAT is adding another nail to the coffin of the housing industry — both from a contractor's viewpoint and for the country's estimated 7m shack dwellers.

Ironically, he says, measures taken to ease the building and property markets into the VAT era through a gradual phasing in have created a virtually unworkable situation for contractors. "Inland Revenue has provided guidelines on the phasing. But it is so complex that we, as a large organisation with the resources to do it, have qualified chartered accountants employed to decipher them — I don't know how smaller companies are managing. An unworkable number of permutations can be worked out from the matrix.

"VAT may well be a better system of tax collection but if the methods introduced to facilitate this are impractical it all comes to naught," he says.

But if VAT makes things difficult for home-builders, M & R Housing's Noel Ayres believes it makes home ownership well nigh impossible for the country's millions of shack dwellers, euphemistically known as the informal housing sector.

Based on an Eskom survey of 260 households at the Orange Farm settlement outside Johannesburg, the approximate household income is R770 a month. Even at this level, Ayres explains, home ownership, coming to an average of around R5 000 a dwelling,

There are seven million shack dwellers in SA. Each shares his home with six to nine others. Total income per shack averages R800 a month, which is spent as follows:

MONTHLY BUDGET	R	VAT could add 5%
Taxi, bus and train	200	15
Food (R1 a person a day)	300	15
Repayment on house over four years	163	15
Clothes	50	-1,32
Drinks, tobacco and sundry	50	-1,32
School fees and related costs	15	1,50
Fuel, coal and gas	45	-1,19
Doctors' bills	10	1
Church donation	5	
Stokvels/Funeral	20	
	858	43,67

needs to be financed. Prior to the introduction of VAT, this required a deposit of R750 or less with monthly instalments of just over R148 over four years.

He estimates: "VAT will add nearly R15

to these costs — which may not seem much. However, when one considers that this is roughly 2% of the take-home pay and many households are already living beyond their means (see cost of living table)."

The cost of living for these families is also being pushed up by VAT.

Leon stresses that he doesn't want to bash government over VAT. Zero-rating housing would not wipe out antagonism to VAT, he feels: "There are people looking for a cause of war to maintain mass mobilisation and protest. Government, through VAT, has unwittingly handed them the ammunition."

Nevertheless, he's convinced that the country's first priority is the provision of affordable housing. This should be reflected in fiscal policies.

Leon adds: "Government identified export-driven growth as a priority — hence the treatment of VAT on capital goods. That was making an economic policy and giving it physical effect. It must try the same with housing if it hopes to establish the commendable goal of a property-owning democracy in SA. To do so, it must tailor all other considerations, fiscal policy included."

While Hardy and Leon may well be pleading for special interest groups, there is little doubt that the low-cost housing is a political flashpoint which needs addressing along with other critical political and economic issues.

PO COLLECTS

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FM 18/10/91

A hike in the price of postage on September 30—the day VAT was introduced—will give the Post Office a bonus.

Says Kessel Feinstein tax partner Ernest Mazansky: "The VAT content of the postage payment is claimable by a registered business from the Receiver of Revenue as input tax. But, the way the legislation is structured, VAT is only payable, and hence claimable, when postage stamps are bought, not when they are used.

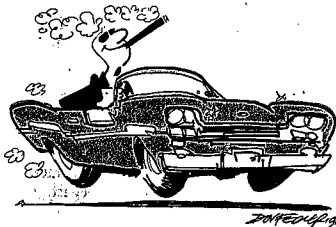
So the increase in postage costs attributable to VAT will not be claimable on stamps or franking machine cards in stock on September 29.

"It will, of course, represent revenue to the Post Office as it will not have to pay over the additional amount as VAT."

Swings and roundabouts

FM 18/10/91

Changes to the Income Tax Act gazetted recently have narrowed the gap between the tax consequences of a travelling allowance and the use of a company car, says Kessel Feinstein tax partner Beric Croome. They are retroactive to March 1 and employees



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NEW DEAL

Value of the vehicle R	Fixed cost R	Fuel Mainte- cost nance cost c c
0- 16 000	7 875	12,5 13,1
16 001- 18 000	8 552	12,6 13,2
18 001- 20 000	9 230	12,6 13,3
20 001- 22 000	9 908	12,7 13,4
22 001- 24 000	10 586	12,8 13,5
24 001- 26 000	11 263	12,9 13,6
26 001- 28 000	11 940	12,9 13,7
28 001- 30 000	12 616	13,0 13,9
30 001- 35 000	14 438	13,2 14,0
35 001- 40 000	15 527	13,4 14,2
40 001- 45 000	16 950	13,6 14,5
45 001- 50 000	18 774	13,8 14,7
50 001- 55 000	20 398	14,0 15,0
55 001- 60 000	22 021	14,1 15,2
60 001- 70 000	24 072	14,5 15,7
70 001- 80 000	26 425	14,9 16,2
80 001- 90 000	29 461	15,3 16,6
90 001-100 000	32 497	15,6 17,1
100 001-110 000	35 534	16,0 17,6
110 001-120 000	38 570	16,4 18,1
120 001-130 000	41 606	16,8 18,5
130 001-140 000	44 642	17,1 19,0
140 001-150 000	47 708	17,5 19,5

Where the value of the vehicle exceeds R150 000:

- a) the fixed cost shall be the sum of R47 708 plus an amount of R3 100 for every R10 000 or part thereof by which the value of the vehicle exceeds R150 000;
- b) the fuel cost shall be 18c per km; and
- c) the maintenance cost shall be 21c per km.

tax blow to travel allowances.

For employees with travel allowances, increases in deductible costs allowed are proportionately larger at the lower end of the scale than at the higher, so owners of cheaper cars will benefit most.

Employees may claim, of course, actual expenses rather than rely on the table — and experience shows that this usually results in a greater deduction — but this requires the taxpayer to keep detailed records. ■

can claim increased costs against travelling allowances received (see table).

Previously, on a car costing R50 000, the fixed cost element was R16 119, the fuel cost 9c/km and the maintenance cost 6,4c/km; these have been increased to R18 774, 13,8c and 14,7c respectively.

The passing of the Income Tax Amendment Act in June swung the balance heavily in favour of company cars, says Croome.

The new provisions raised deemed private distance travelled from 10 000 km a year to 12 000 km in respect of travel allowances while business use was capped at 20 000 km — in the absence of proof to the contrary. They also changed the method of valuing fringe benefits conferred by employer-owned vehicles, taxing them at a flat 1,2% a month of the cash cost of the car, excluding GST or VAT, but this was not enough to offset the

VAT: SELF-INVOICING
In practice FM 18/10/91
(320)

Inland Revenue is issuing practice notes explaining how difficult areas of the VAT Act are to be administered. Note 2 includes an indication of how Revenue will handle requests for self-invoicing of transactions — that is to say, the issue of a tax invoice by the customer rather, than is normal, by the vendor.

Coopers Theron tax partner Koos van Wyk explains that self-invoicing has become a subject of dispute between some of the major retail chain stores and their suppliers. Deloitte Pim Goldby director Des Kruger says Inland Revenue has now "restored some sanity" on the subject.

"Certain major purchasers" have claimed that Revenue granted them blanket approval to self-invoice. But this was not in accordance with the law; one of the requirements laid down in practice note 2 is that approval

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(320)

ing has traditionally been followed. Typical examples are:

- ☐ Farmers supplying products to co-ops where the price is determined only after delivery;
- ☐ Subcontractors who supply a service where the amount payable can be determined only after certification by the customer or by a third party (for example, an architect);
- ☐ Commission agents for supplies of the principal's goods or services where the commission is calculated by the principal (for example, a short-term insurance broker);
- ☐ Royalties calculated by licensees based on their records; and
- ☐ Transport contractors who determine the amount payable by reference to their records on quantity, volume or weight of goods and the distance travelled.

Mazansky confirms that approval will not be given where the purpose is merely to facilitate the obtaining of a tax invoice by the recipient of the service. ■

FM 18/10/91
for self-invoicing will be granted only where there is written acceptance of the procedure by each affected supplier. (320)

At the heart of efforts by purchasers to become self-invoicers is a cash flow advantage, as self-invoicing would enable them to claim an input tax credit earlier.

Kessel Feinstein tax partner Ernest Mazansky says the authority for self-invoicing lies in Section 20(2) of the VAT Act. Typically, this is appropriate where the details to be invoiced are within the knowledge of the customer rather than the supplier, so that it would be cumbersome for the customer to advise the supplier of them. In these circumstances it makes more sense for the customer to issue the tax invoice.

The practice note says approval for self-invoicing will be granted only to industries and transactions where effective self-invoic-

Let's have it FM 18/10/91.

They seem determined to engage in a trial of strength and the unions' call for a general strike against VAT on November 4 and 5 may well be it.

Many suspect that the unions and the ANC will be left with egg on their faces — as happened when their two most recent stayaway calls drew little visible support. Times are tough, after all, and many people will have forgotten the controversy by then.

Cosatu maintains that the VAT issue is a different matter and that the "momentum" for a general strike is growing. "People's pockets are being affected all the time," says a Cosatu spokesman. There was, for example, a march in protest in Kimberley last weekend; another is planned for Secunda this weekend.

It is also expected that black business chambers Nafcoc and Fabcos are due to throw their weight behind the strike. Cosatu met Nafcoc representatives on Monday. It appears that Nafcoc has agreed that its members will shut their shops from 11 am to 3 pm on both strike days.

The committee against VAT is hoping to meet business next week to discuss the issue.

Meanwhile, with black school exams scheduled to start when the strike does, the unions have "exempted" the "education sector" from taking part. But the potential for intimidation and disruption must be considerable.

□ Cosatu's Jay Naidoo and Sydney Mufamadi and Numsa's Moses Mayekiso were convicted of kidnapping and assault by a Johannesburg magistrate on Tuesday. The case arose after they forcibly kept a security policeman under guard in Cosatu's headquarters last year.

Evidence in mitigation was being heard as the FM went to press. ■

Township surgeries set to close in VAT protest

Weekend Argus Reporter

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MAG 19/10/94
SCORES of township surgeries are likely to be closed in protest against VAT being charged on medical services on October 28 and 29.

Doctors will meet at UCT medical school tomorrow night to ratify a decision to close surgeries.

The meeting has been called by the Dispensing Family Practitioners' Association.

Chairman Dr Robert Rapiti said members were opposed to VAT being charged for health care.

"We want to discuss with all doctors our future strategy against VAT."

The association had taken the decision to close surgeries with great reluctance at regional level, he said.

MANY landlords have illegally raised domestic rents to meet their Vat costs.

Domestic rental accommodation to natural persons is exempt from Vat. But this also means the landlord does not receive input refunds on Vat for expenses, such as repairs and maintenance.

Rents may not be increased because of Vat on expenses. This is because certain expenses carried GST which was taken into account in determining the rent. Vat paid on previously GST-exempt items should be partly offset by the drop in the tax rate from 13% to 10%.

Tenants with leases for fixed monthly domestic rents who have suffered an increase because of a landlord's claims about Vat should check on the legality of the action.

Tenants should be aware that costs for their own account, such as electricity and repairs, are Vatable. Tenants have to bear this additional cost.

The Act does allow an increase where Vat is to be levied on the actual contract, such as business rental leases and accounting services.

Hotels

Where landlords receive both Vatable and exempt rents, input credits will be granted only for the Vatable portion. Where the Vat expense is not directly attributable, then credit refunds will be apportioned between Vatable and exempt receipts.

For residential hotels where 70% of residents are expected to stay longer than 45 days, Vat is calculated on 60% of the guests payment.

Where meals and other services are provided, at least 20% of the total charge is allocated to meals on which Vat is charged. The remaining 80% is subject to the same apportionment of 60%,

Landlords already in on the profit act

VAT and YOUR BUSINESS

SOME landlords are profiteering, according to this article in the series 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.

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.

so the effective Vat rate is about 6.8%.

The private sale of residential property between individuals is unlikely to include Vat because the seller is unlikely to be registered as a vendor. Purchases from a development company registered as a vendor are taxed. However, when Vat is paid there are no transfer duties.

With shareblock units or sectional title ownership, Vat is charged only on the monthly levies if the management company voluntarily registers for Vat.

An exception is timeshare units where the levy charged is considered part of the holiday and not residential accommodation and carries Vat.

There are special transitional rules for property until March 31, 1992:

- All property agreements completed before September 30 are exempt from Vat, irrespective of the transfer date.
- A builder with dwellings completed in the 12 months before Vat, will not charge

tax if the buildings are sold before March 31.

- A dwelling completed and sold before December 31, 1991, will be taxed at 3%.
- A house completed and sold before March 31 will be taxed at 6%.
- A house completed after March 31 will be taxed at 10%, irrespective of when the sale is completed.
- Land acquired for the construction of a dwelling before March 31 will be taxed at 6%.

In all the above where Vat is levied below the standard rate, transfer duty of 3% is payable.

Irrespective of the Vat status of a property transaction, a registered estate agent charges Vat at the standard rate on his commission.

ANC and the wealth tax

LAWYERS acting for ANC member Heinz Klug have written to the Sunday Times to dispute aspects of our report last week which outlined the proposal for a tax on wealth put forward at an affirmative action conference in Port Elizabeth last week.

The "wealth tax" proposal has reverberated around the world, and leading ANC figures — among them Mr Dullah Omar and Mr Max Sisulu — have since confirmed that it is under consideration within the ANC.

Mr Klug, through his lawyer, has protested that the Sunday Times report on the issue was erroneous in four main aspects.

Firstly, he says, the conference was co-hosted by the ANC constitutional committee and three other organisations, and that it was attended by a number of participants from

other countries. "It was therefore not accurate to call it an "ANC conference".

In fact, conference documents show that the conference was hosted by the ANC and was well attended by ANC members. The Sunday Times, however, accepts that it was not exclusively an ANC conference, and apologises for suggesting otherwise.

Secondly, Mr Klug says, the conference did not break up into working groups, as the Sunday Times report said, but into "commissions" which reported back to the plenary session.

These commissions did not take votes or make decisions but simply discussed options. The Sunday Times accepts, then, that it was wrong to suggest the Land Commission "adopted" the wealth proposals.

Thirdly, Mr Klug says, the wealth levy is not ANC policy and he did not purport to report ANC policy to the conference.

The Sunday Times report did not, in fact, say the wealth tax proposal was ANC policy. It said it was being "considered" by the ANC. Subsequent statements by top ANC officials confirmed this to be correct.

The headline to the report did, however, refer to an ANC "plan" and to the extent that this implied official ANC endorsement of the proposal, the Sunday Times apologises.

Lastly, Mr Klug insists that he at no time recommended the adoption of the plan for a wealth levy. The Sunday Times is happy to accept this assurance and apologises for any impression that he was personally advocating it.

NEW PATHS... Cosatu's Jay Naidoo says the success stories of Japan and Germany are being analysed in efforts to come up with a viable economic policy for South Africa.

By SEMOLA SELLO

DURING the past three weeks the ANC and its alliance partner Cosatu have been under heavy fire from the government, big business and foreign investors.

The ire of these groups was sparked by what they perceived as ANC/Cosatu insistence on outdated economic policies such as nationalisation of

banks and mines, refusal to honour loans taken to "bolster apartheid" and taxing the wealthy.

Cosatu has further stirred the troubled waters with plans for a two-day strike against VAT on November 4 and 5.

Cosatu secretary-general Jay Naidoo has denied that the alliance is waging economic war against the government and big business.

Taxing task of creating work

CP/rev
26/10/91
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In an interview on Friday he debunked claims that the ANC and Cosatu were following failed policies.

Neither body had taken a policy decision on nationalisation, or wealth tax. Discussions on these issues were continuing.

Cosatu was reviewing the success stories of capitalist economies like those of Japan, and Germany to see what could

be learnt from them.

Cosatu proposed four points on which national economic reconstruction could be based. The first step would be to examine the macro policy path the government should take.

"We have got to determine the most effective growth path in the development of South Africa," Naidoo said. The focus would be on the country's major, immediate devel-

opment needs.

Foreign trade, policies and relations with international bodies like the World Bank and the International Monetary Fund would be scrutinised to determine whose interests such relations would advance.

The intention would be to curb government borrowing for projects that did not benefit the people, such as the Mosses-

"white elephant".

Industrial reconstruction would be the next priority. A primary concern would be transforming the collective bargaining to runs to help in "job creation, economic growth and making us (South Africa) more competitive".

Cosatu believed the country was less technically advanced than Japan, Germany and South

Korea because of apartheid policies.

"The third and most difficult proposition involved socio-economic development. Failure to address this would lead to government collapse.

Naidoo said: "Any government has to deliver to the black people of this country as the constituentry when has been historically deprived." It was largely on the

understanding of "the enormous problems that a future government would face that the ANC/Cosatu alliance involved alternatives like nationalisation and wealth taxes.

The fourth proposition involved restructuring bodies such as the National Marpower Commission, the National Trading Board, and the new Labour Relations Act.

These four propositions

■ Pic: ANDRIES MCINERK
were regarded as a broad framework around which to debate economic reconstruction.

Naidoo said: "There can be no blueprint that any single organisation can impose on this country in search of economic solutions to our problems." This could evolve only after consultation and negotiation involving the major players.

Naidoo denied that the planned anti-VAT strike could lead to retrenchments.

He said the tax was introduced without proper consultation, and that representations made to the government on it had been ignored.

Government policies were deepening South Africa's economic crisis and the added burden of VAT would drive many people below the bread line.

RHETORIC by politicians is designed to be music to the ears of their followers or potential followers.

So when a relatively junior official of the ANC proposed a "wealth tax" at a recent regional conference of that organisation, it must certainly have been music to the ears of the poor.

But the effect in the business community was devastatingly negative.

To counteract that, the ANC's two top spokesmen, president Nelson Mandela and general secretary Cyril Ramaphosa, had to pour cold water over the idea, pointing out that it was not official policy, but merely one of many options likely to be considered when the ANC's economic policies are designed.

Even overseas media reported on the proposal. Unfortunately, efforts by Mandela and Ramaphosa to play down the issue were hardly mentioned at all.

It's confidence that keeps cash here

C/Rev 20/10/91

MONEY TALK

leaving the impression abroad that a future ANC-dominated government in South Africa was likely to follow similar policies to those which left the Soviet Union with a begging bowl at the International Monetary Fund meeting in Bangkok.

But the perceptions of local businessmen are far more important. Indian

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businessmen, for instance, point out that they have been disadvantaged by apartheid as much as, and often more than, Africans. Yet will they, also, be penalised when new taxes, such as a wealth tax, are introduced?

But this somewhat emotional reaction is not really important because it can be regarded as part of the long drawn out "funeral" of apartheid. What is important is the way businessmen and investors respond with their cash and their willingness to take risks with new

investments.

The tragic truth is, as Walter Sisulu confirmed in his reaction to the "wealth tax" debate, that billions of rands are leaving the country.

As happened in so many parts of Africa, businessmen are trying to protect their wealth. Many openly admit they are planning to leave South Africa once they have built up successful business interests in Australia, Europe or the United States.

What is needed is the restoration of confidence that South Africa will remain a country where the capital of wealth-creating entrepreneurs will be safe from looting by those holding political power.

It is the responsibility of our politicians to rebuild the confidence of those who are planning to pack their bags soon. Once gone, they won't come back.

IMPORTANT part of the controversy over VAT is the debate on SA's tax structure. The tax system and its administration is in desperate need of reform. The crude application of supply-side economics dominated the Margo Commission of Inquiry into our tax structure in 1987 and hence its report did little to ensure the operation of a tax system which would be tailored to socio-economic demands.

The Margo Commission took as part of its general approach "certainty" in policy considerations, which included the desirability of having high after-tax income "to encourage the immigration to SA of those with much-needed skills and technology", and to promote "entrepreneurship and capital formation".

Moreover, the commission felt that "where possible, individuals should be encouraged to invest 'materially', and the rate for corporations should be reduced to the same levels. It went on to say that "a climate favourable to job creation, competition, and foreign investment in SA should be encouraged".

In bringing these objectives to fruition, the commission recommended that a comprehensive business tax, and failing that, VAT, be implemented. The government accepted the latter recommendation, thus giving birth to VAT.

The government's thinking and that of big business is clearly evident in the update of the Long-term Economic Strategy proposed by the President's Economic Advisory Council (September 7 1990). This document outlines the government's economic policy for the next five years. Among the "particular" factors affecting growth, it identifies the "tax burden". The paper says there is a reluctance on the part of the private sector to invest, production is low, and the tax burden is heavy. This is ascribed partly to the companies in SA are often to which, as with most OECD countries, SA has seen a dramatic shift towards an increasing burden of taxation upon individual taxpayers. While most OECD countries impose even great-

Slapdash imposition of VAT shows govt's economic ineptitude

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B/Dav 21/10/91.
DENIS DAVIS and BERNIE FANAROFF

er tax burdens upon the individual than SA, unlike most of these countries, SA has an almost non-existent security base. Further, while the average rate of tax rate in most OECD countries is at least some 40% by 1990, the effective rate of company tax in SA is far below this — a fact acknowledged by the Margo Commission.

It is in the light of these realities that the debate about VAT should be seen. The pressure from the IMF, the government's desire to increase the cost of capital to unacceptably high levels and that there was a need to introduce VAT. While both the Margo Commission and Watson showed some albeit intellectual and economic soundness, the government insisted on introducing VAT purely on technical and administrative criteria.

Thus they "plagiarised" the New Zealand Goods and Services Act and imposed VAT on the broadest possible basis. VAT was to be easy to implement. New Zealand's experience was that VAT was not a burden on the economy. What was forgotten in SA was the effect on individual taxpayers who were already burdened with an increasing tax liability. Before the VAT, the government was not even considering the possibility of a tax on food, which is supplied to the Coordinating Committee on VAT during negotiations

indicated that people earning less than R3 000 a year would suffer a cost of living increase of 3% to 4%. There are three particular aspects of our VAT system with which we take issue.

Firstly, the immediate granting of a full input tax credit on capital goods means a loss of R6bn in revenue in the first year of operation of VAT. For the countries phased in to VAT, the government has had many national experts with whom we discussed this problem at Harvard last month were amazed that the SA government had seen fit to implement the full tax credit. In the absence of so, government restricted programmes in particular, and generally ensuring that VAT would not exacerbate the plight of the poor.

Secondly, many countries employ a system of multiple VAT rates. A system of multiple VAT rates, as introduced while essential services such as food and medical services are taxed at a lower rate — say 5%. Recently the EC issued a directive in which it provided guidelines to member countries to introduce a multiple system of VAT.

The reason this was not considered for SA appears to be the inability of the government to deal with anything more complex than the VAT system. It is a shocking indictment on the condition of the Inland Revenue Department that social and economic considerations have given way to the demands of an inefficient bureaucracy. The multiple rate system would have provided a solution to our problems.

Thirdly, small businesses with a turnover of less than R1 million have claimed that VAT would year after year harm owing to discriminatory practices favouring larger businesses. Reports of such practices now confirm these fears. Notwithstanding the critical need to promote small business, government refused to follow international practice and grant a deemed input tax credit to purchasers of goods and services supplied by small business.

It also appears government may have made some fundamental miscalculations. The co-ordinating committee has been told by government representatives that VAT could not be delayed because there were massive capital projects and others for which VAT was essential. However a recent report (Business Times, October 6) suggests that the implementation of VAT gives no

guarantee that massive capital expenditure will take place before political and economic certainty is restored in this country. If this is correct, the Minister owes the country an explanation.

To date, Revenue has not been able to publish a comprehensive manual indicating its interpretations of the legislation. Specific practice notes have been published but have been extremely restrictive, providing only the privileged few with knowledge.

Clearly, VAT is intended to assist in making significant structural changes in the SA economy, aimed at encouraging capital investment and employment in particular.

One of the reasons cited by officials of VAT — the ANC and Congress in particular — is that there is a need for broad-based consultation and deliberation about a fiscal policy for the future SA. Any restructuring of the economy must be the result of bona fide discussion of given the very different views on the subject.

This suggestion is intended to produce the kind of consensus needed to ensure business, government and labour will be able to achieve the social and political equilibrium needed to develop a future SA economy.

It was clear from the results of that work, however, that the Finance Committee and the Finance Ministers' committee that much of government's fiscal policy-making takes place in the absence of reliable statistics (without the CSS database), the absence of a facility to calculate basic economic indicators, the government's reluctance to calculate the effects of various tax measures (the IMF did it for them).

Policy seems to have been based on hearsay, much of it increasingly, as for instance the flood of investment in the capital goods which were supposedly "on the water" and waiting only for the introduction of VAT.

SA can no longer afford this kind of slapdash, impressionistic and uninformed economic policy-making.

□ Fanaroff is chairman of the Co-ordinating Committee on VAT and Prof Davis heads its technical committee.

Revenues up as spending by state slows

B/day 21/10/91

AFTER a slow start to the fiscal year, government revenue growth picked up during the second quarter to September, while the increase in state spending slowed appreciably.

Finance Department figures for the first half of fiscal 1991/92, released at the weekend, indicate that it may still be premature to expect a budget deficit well above the targeted figure of R11.8bn.

The wild card in the Budget equation remains VAT revenues which, following the introduction of the tax at the end of September, will accrue only in the second half of the current fiscal year.

A statement accompanying the figures admitted to "uncertainties" about the cash-flow implications of VAT.

Government revenues, budgeted to rise by a revised 11% this fiscal year, were up a meagre 0.7% on 12 months earlier at the end of the first quarter. First-quarter state spending, meanwhile, raced ahead by 20.7% against a budgeted 15.1% for the full year, signalling the possibility of a large overshoot in the budget deficit.

Revenues rallied in the second fiscal quarter, however, to stand 8.2% ahead of the 1990/91 September quarter. Spending growth eased off over the same period to a level 14.8% up on last year. At the halfway mark of the current fiscal year, therefore, revenues are up 4.9% and spending 17.6% over last year.

On releasing the figures, the Finance Department restated government's determination to control spending strictly and keep it within the budget's guidelines. The department said the current year's budget-

SIMON WILLSON

ed government spending level of R86bn "should not be exceeded".

Private-sector estimates of revenue prospects for the remainder of the fiscal year are divided: some are cautiously optimistic, citing the likelihood that the bulk of the rise in revenues has been effectively "back-ended" by the introduction of VAT. Others fear a ballooning deficit resulting from continued buoyant spending and a revenue undershoot.

Stanbic MD Conrad Strauss said last week state expenditure could overshoot by R2bn if the current tempo was maintained, while the continuing recession held back revenue by depressing receipts from income tax and sales tax. Strauss outlined a worst-case scenario in which the budget deficit-to-GDP ratio topped 5%.

Bankorp chief economist Nick Barnard believes it is quite possible that the authorities have underestimated VAT proceeds, and notes two other VAT-related factors that could boost revenues during the second half of fiscal 1991-92.

"VAT has had the effect of postponing a certain amount of capital spending. Given the import-intensive nature of much of this delayed spending, it could lead to a pick-up in imports during the fourth quarter of the calendar year which would increase customs revenue.

"It is also possible that back-payments of GST from the many evaders of this tax that are being uncovered by VAT could increase state revenue."

□ To Page 2

Revenues 6/day 21/10/91

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From Page 1

The new Finance Department estimates for fiscal 1991/92 now envisage a budget deficit for the year equivalent to 3.9% of GDP, compared with a projected deficit-to-GDP ratio of 3.4% in the March Budget speech. Such an outcome — well above the 3% limit for this ratio recommended by the IMF — should not be interpreted as excessive fiscal stimulation of the economy, according to Barnard, who forecasts a deficit-to-GDP ratio of 4% for 1991-92.

"Including strictly all government and government-related spending — such as that by the Independent Development Trust — would take the deficit-to-GDP figure to 4%. That is not aggressively stimulatory when you remember that government spending is only some 2% higher in real terms, while revenues are low because of the recession's impact on the tax base and not because of tax cuts."

Medical Association rejects huge shutdown

320 24/10/91

The Argus Correspondent

JOHANNESBURG. — The Medical Association of South Africa has reiterated its refusal to support "protest action against VAT on medical services in the form of mass demonstrations and the closure of medical practices for any period of time".

Masa was approached for comment after a meeting of members of the health sector of the Co-ordinating Committee on VAT to attempt to create unity on closures.

Masa delegates were at the meeting but did not sign a statement outlining mass protest action, including the "voluntary, responsible" closure of medical practices next Monday and Tuesday.

Federal council chairman Dr Bernard Mandell reaffirmed Masa's opposition to the imposition of VAT on medical services.

But he said Masa could not support the closing of medical practices since it would be unethical unless doctors made sure of alternative professional support for patients.

A spokesman for those in favour of closing said: "All efforts would be made to avoid putting patient-care in jeopardy."

At a Press conference here the protesting doctors warned: "The closure will be followed by sustained action. This is the first part of a long, strategic campaign."

Said Dr Aslam Dasoo: "We will not concede on this. We have no option but to continue. We have a moral and ethical duty to our patients."

Namda spokesman Dr David Green said the protest could be supported by a "conservative figure of about 3 000 doctors countrywide".

Support was widespread in rural areas and mainly among doctors working with poorer communities in urban areas.

Cosatu said it urged "all doctors and patients to support the action on October 28 and 29. We call on patients to attend state hospitals on these two days to expose the inadequacy of these hospitals".

VAT concessions will cost state R1,6 billion

By Sven Lünsche (320)

Recent concessions on VAT could cost the Government up to R1,6 billion in lost revenue in the second half of the 1991/92 fiscal year, according to estimates by the Department of Finance.

This comes on top of government revenue which fell way short of budgeted targets in the first half of the current fiscal year.

Releasing the Government's expenditure and revenue statistics for the fiscal year to date, the Department of Finance says total tax receipts at R34,9 billion were only 4,9 percent higher than in the corresponding period last year.

For the full fiscal year, Finance Minister Barend du Plessis had budgeted for an 11 percent rise in revenue, but the im-

part of the recession has undoubtedly impacted on tax receipts so far.

VAT, which was introduced earlier this month, will not help matters.

The Department of Finance cautions that the precise cash-flow implications of VAT are difficult to assess, but it provides revised revenue estimates to take account of recent concessions by the Government.

Bringing down the VAT rate from 12 to 10 percent and measures announced at the same time could cost up to R1,4 billion, while the zero-rating of certain foodstuffs adds a further R200 million.

The increases in excise duties and the fuel levy will add R900 million to government coffers, but this is not enough to reduce budgeted revenue for the full year from R74,87 billion to R74,16 billion.

With total expenditure budget-

ed at R84 billion — excluding the one-off capital expenditure of R1,95 billion to be financed from the sell-off of strategic reserves — and in the unlikely event that the revised revenue forecast will be achieved, the deficit before borrowing for the year will be about R9,88 billion.

This equals 3,2 percent of Gross Domestic Product and is about R700 million higher than specified in the Budget.

In the first six months of this year alone the deficit before borrowing already totalled R7,24 billion and the Government will be hard-pressed to meet its target.

In addition, loan redemptions in the first half were R2,21 billion, pushing the total financing requirements so far this fiscal year to R9,45 billion.

The Department of Finance says about R10,5 billion of the gross loan financing requirements this year have already been met

through a combination of bond issues worth R10,39 billion and foreign loans of R139 million.

Against these trends, government expenditure growth is roughly in line with budgeted targets.

In the first six months of this year expenditure was R42,15 billion, an increase of 17,6 percent on the same period in fiscal 1990/91.

The amount represents 49 percent of total budgeted spending of R85,98 billion, which is in line with the 48,5 percent and 49,4 percent of the 1990/91 and 1989/90 fiscal years respectively.

In the first three months of the year spending increased by 20,7 percent, but this slowed considerably to 14,8 percent in the following three months.

Total spending this year is targeted to rise 15,1 percent. The department is confident the expenditure level of R85,98 billion will not be exceeded.

Expert will explain VAT ⁽³²⁵⁾

AN EXPERT will state the Government's case on VAT in a seminar at the Carlton Hotel in Johannesburg tomorrow.

The chief director of financial planning, Dr V Solomon, will analyse VAT from the Government's point of view, starting at 8am.

Mr Jay Naidoo, general secretary of Cosatu, and Mr Matsheru Matsheru, a tax consultant, will also voice their opinions.

The seminar, organised by *Sowetan Business* and Matsheru Matsheru Tax Consultants, hopes to provide a solution to the VAT controversy as a na-

tional general strike to protest its implementation looms.

Since VAT's introduction on September 30 the Government, independent and trade union federations and political organisations have been at loggerheads.

Representatives of the

ANC, PAC, Azapo, Cosatu, Nactu, independent trade unions, the Southern Transvaal Chamber of Commerce and Industries and the Foundation for African Business and Consumer Services have been invited to the seminar.

The seminar is an ex-

ploratory forum where black business will meet trade unions and political organisations to discuss their problems.

It is not intended to water down the proposed national strike on November 4 and 5.

Admission is R50. For further information phone Mrs Irene Evans at (011)474-0128 between 8.30am and 4.30 pm.

More doctors oppose threatened GP strike

By Jacqueline Myburgh

Local doctors have condemned a threatened strike by general practitioners in the Cape to protest against VAT on medical services, saying it would be unethical and contravened the rights of patients to treatment.

All doctors have, however, supported the renewed call for the lifting of VAT on medical services.

The Ministry of Finance yesterday declined to react to the VAT protest plan.

Last night National Health Minister Dr Rina Venter said that if the doctors went on strike, it would be the responsibility of the SA Medical and Dental Council, which looked after the welfare of patients, to take steps against them.

Soweto doctor and community leader Dr Nthato Motlana said he would be "unhappy" to

support the strike by general practitioners next Monday and Tuesday. *Star 22/10/91*

"I feel very uneasy about supporting such an action," he said.

The Western Cape Dispensing Family Practitioners Association agreed last week to close doctors' rooms while demanding the withdrawal of VAT on health care services.

The Society of Dispensing Family Practitioners in the Transvaal, which represents about 1 200 doctors, has also condemned the planned strike.

National co-ordinator Dr Fazel Mukadam has dismissed the call as that of an ad hoc group of about 40 militant doctors.

Leading surgeon Dr Marius Barnard said he could not support any action detrimental to the well-being of the patient.

VAT debate

Sowetan By JOSHUA RABOROKO 330

23/10/91
IT IS all systems go for the *Sowetan* VAT crisis seminar at the Carlton Hotel, Johannesburg, starting at 8am today.

The chief director of financial planning, Dr V Solomon; Cosatu's general secretary, Mr Jay Naidoo; and a leading tax consultant, Mr Matsheru Matsheru, will discuss their different attitudes towards the new tax.

The seminar, organised by *Sowetan* Business and Matsheru Matsheru Tax Consultants, is geared to find solutions to the problems created by VAT's introduction as a national general strike to protest the new tax looms.

Trade unions, political organisations and business people are expected to throw their weight behind Naidoo during the "hot debate" at the seminar.

Call for economic forum

By JOSHUA
RABOROKO

TRADE Unions called for the establishment of a negotiating forum to involve all major players in the economy.

The call was made by the Congress of South African Trade Unions and the National Council of Trade

SOWETAN VAT SEMINAR

Sowetan 24/9/91

Unions at the Sowetan's VAT crisis seminar yesterday.

Cosatu general secretary Mr Jay Naidoo told delegates that a much deeper

malady in the country existed than VAT. The fact that the Government continued to take unilateral decisions despite the fact that it was by no means

representative of the people.

He said there was a broad consensus on what problems faced the South African economy.

Rampant poverty, large-scale unemployment, lack of housing and decent schooling.

"The economy's heavy reliance on the export of minerals and agricultural

products and the lack of development in the manufacturing sector.

Naidoo said: "The Government and big business are either trying to solve these problems unilaterally or in a piecemeal way. Thus we have seen the initiation of a numerous micro-economic restructuring framework."

"The process will not work."

only be rejected by the majority of the people but it can be dangerous and ineffective in the absence of a national framework which has the support of the major players.

"That was why small and big business, the Government and political organisations should come together to solve the problems," he said.

VAT could lead to a grim legacy

By JOSHUA
RABOROKO

A LEADING black consultant has warned that if no relief was given to the poor within the VAT or income tax systems there could be great turbulence in a future South Africa.

Speaking at the Sowetan-sponsored VAT crisis seminar in Johannesburg, Mr. Matsheru Maisheru said if that happened, the present Government would leave a grim legacy.

He told delegates from trade unions, political, church and other organisations that the VAT controversy had sent signals that political elections would be won or lost on economic grounds.

He said those grounds included tax and there was no doubt that workers would have an influence in the future tax system.

He endorsed the demands by trade unions and political organisations for the zero-rating of food, water, medicine, electricity and the protection of small business.

He suggested that the Government should help the poor by giving them tax relief within VAT and income tax systems.

"The poor are hungry now, they need food now, and they must be helped now."

He urged the private sector to come into the fold by helping them in order to avoid a crisis that might follow.

He said there was anger among the voteless communities after the introduction of VAT because they were still poor.

"Now, there is visible tax resistance especially on the part of the voteless and a strike is looming. Strong tax resistance is rapidly becoming the rule rather than the exception with ample justification."

He suggested that the Government should heed the demands of the trade unions and political organisations in order to avert a disaster.



Government financial adviser Vivian Solomon and Cosatu general secretary Jay Naidoo at Sowetan's seminar on VAT yesterday.

VAT activists open to talks

THE VAT Co-ordinating Committee yesterday said its doors were open for talks to avert the national general strike planned for November 4 and 5.

This assurance was given by Vatcom's Mr Rashid Allie at the Sowetan's "Vat Crisis - Is there a Way Out" seminar at the Carlton Hotel yesterday.

Cosatu general secretary Mr Jay Naidoo said the Government did not want "to budge" and the general strike, backed by sustained action, was the only alternative available for the community.

The fact that neither Minister of Finance Mr Barend du Plessis nor his deputy Mr Theo Alant attended the seminar despite invitations and assur-

ances that major players in the VAT crisis would be present was a clear signal of the "arrogance and intransigence" with which they treated the crisis, Naidoo said.

Senior Sowetan assistant editor Mr Thami Mazwai chaired the meeting.

However, the Government's chief director of financial planning, Dr Vivian Solomon, was present at the seminar and promised that he would convey the sentiments of the delegates to other Government officials. The Minister was overseas and his deputy had other commitments, he said.

● See page 5

By JOSHUA RABOROKO

30 welan 24/10/91 320

Doctors plan VAT protest

A MASS closure of doctors' surgeries will go ahead next Monday and Tuesday following urgent talks between organisations opposed to VAT on medical services. *Donelan 24/10/91*

As many as 3 000 private general practitioners are expected to take part.

in the country. ~~320~~ 320

A Co-ordinating Committee on VAT spokesman said he did not believe the closure of surgeries would be in contravention of the South African Medical and Dental Council's rules, as the doctors would make alternative arrangements for the care of their patients.

VAT: Naidoo says there is no alternative to strike

(320)

(B102) (B103)

B102 24/10/91

DAVE LOURENS

A GENERAL strike on November 4 and 5 was the only alternative available to VAT opponents, said Cosatu general secretary Jay Naidoo yesterday.

But he added that opponents of the tax remained willing to negotiate the issue.

Speaking at a seminar organised by The Sowetan entitled "VAT Crisis: Is there any way out?" Naidoo said disenfranchisement meant the streets of cities and townships had to be used as ballot boxes.

Educationalists at the conference expressed concern that students would become targets for the "third force" on the days of the strike. Students, scholars and teachers have been granted exemption from the strike to avoid disruption of end-of-year exams.

Naidoo said precautions would be taken to ensure people's safety.

"But the issue is whether there is a third force, or is it simply the second force?" he said, apparently referring to the security forces.

Finance Department chief director Vivian Solomon said both sides should respect each other's integrity. Significant concessions had been made, and although they might not be enough in some people's view, this indicated there was no intransigence on the part of government.

Budgets could not satisfy everybody, and the need and willingness to provide for greater social spending in the Budget had come up against the need for job creation and economic development.



Finance chief director Vivian Solomon under fire at a seminar in Johannesburg yesterday on the VAT crisis. Picture: CATHERINE ROSS

It had been a dilemma to reconcile these two needs, but the will was there to devote more resources to the upliftment of the needy and to address the backlog of resources.

Deloitte Pim Goldby taxation services director Willem Cronje said a choice had to be made between helping the poor by using the tax system or by direct aid. The theory that the best way was through taxation had been generally discredited, he said.

Direct aid would provide a more effective solution, but the R220m relief package proposed by government was not enough.

The SA Communist Party yesterday added its support to the proposed strike.

Meanwhile, the Co-ordinating Committee on VAT has criticised the publication on TV2 of a survey of retail prices which, it said, presented "a misleading picture of the effects of VAT. The survey reported the price of an unspecified

basket of goods had dropped 2,7%.

The committee said this was misleading for several reasons.

The survey covered only the retail chains, and omitted smaller retail stores where many people, especially in the townships and rural areas, did their shopping.

The reported 2,7% drop should, in any case, have been 3%, the difference between GST and VAT, the committee said.

It was clear retail chains were not meeting their pledge to Vatwatch to pass on savings. Many chains had simply added 10% to prices.

The survey also did not cover services which were now being taxed for the first time.

The effects of the petrol price rise on goods and services had not yet been felt. After discussions with an SA Reserve Bank representative, the committee estimated this would add 2% to

the cost of living.

The committee said the survey, therefore, was misleading, and reiterated its belief that the imposition of VAT would cause an unacceptably large increase in the cost of living.

□ Sapa reports from Cape Town that the SA Medical Journal has said criticism of the Medical Association of the Medical Association of SA (Masa) for its handling of the VAT issue was grossly unfair.

Editor-in-chief Nic Lee, writing in the latest issue of the journal, said Masa could have done little more than it had already done in informing its members about VAT, and how they should cope with it.

When the tax was first announced, Masa said it was totally opposed to its application to medical services — and applied for zero-rating.

Masa had organised country-wide seminars on VAT and an explanatory booklet had been issued to its members.

VAT brings joy to Soshanguve business world

BLACK business in Soshanguve township is set to boom.

For many years businesses in the township suffered huge financial losses, and even closed down, because consumers preferred to buy from Mabopane, where GST tax was not applied.

The introduction of VAT in Bophuthatswana will without doubt change that situation.

At the same time, the Department of Inland Revenue has brought to an end liquor trafficking between Bophuthatswana suppliers and Soshanguve entrepreneurs looking to avoid GST.

The trafficking disrupted the industry and brought many honest retailers, shebeens, taverns and small businesses to the brink of ruin, according to Nafcoc's property manager

By JOSHUA
RABOROKO

Mr Themba Zwane.

He said GST had been in the spotlight as businesses with the potential to grow and create jobs in Soshanguve had faced a dilemma.

Many business people chose not to operate in the area because of the disadvantageous situation.

Consumers who shopped in Bophuthatswana were not charged any custom or export fees.

Circulation

The result was that little money was in circulation in Soshanguve.

Zwane said the Nafcoc shopping centre which turned out to be a 'white elephant' would be developed and more people would be employed by business.

Although the introduction of VAT had brought relief in Soshanguve even though, Zwane said the community supported the scrapping of VAT for electricity, water, basic food, and medicine.

Students back VAT stayaway

CT 21/10/91
THE Pan Africanist Student Organisation has backed the planned November 4 and 5 stayaway against VAT, but has urged students to go to school on the days of the protest. (25)

However, end-of-year examinations at the University of the Western Cape scheduled for those days have been postponed owing to the stayaway call.

③25 CT 24/10/91



ANC Viewpoint
by MZIWONKE
JACOBS

posed to the principle of an indirect tax on consumption. What we object to is the high-handed manner in which the government has implemented VAT and its failure to take seriously the concerns of major constituents in our country. This attitude poses a major threat to the ne-

a month had to pay R33 in GST. Under VAT, with most basic food items taxable, they are paying R49.

the input credit on capital allowances. Not only is it estimated that business will gain an extra £6 bn but the prospects of a sharp increase in the unemployment rate is very real. As businesses spend more on capital goods there is every chance that there will be a drop

● An end to unilateral decisions about the future direction of the South African economy and a commitment to involve all sectors in such decisions.

ANC as well is the silence of many in the business and professional community.

□ *Mziwonke Jacobs* is publicity secretary of the ANC in the Western Cape.

CAPE TOWN 8000

CUL INCREASE

Representations from the committees have been largely ignored by Du Plessis. Calls to reduce the rate were met by a its lowering from 12% to 10% and an increase in the petrol price of 136/71 Cals for the zero rating of basic foods, water, electricity, medicines and all health services have fallen on deaf ears. Conservative esti-

It is therefore not surprising that trade

Vygra retard

atters pment

mates indicate that the cost of living will increase between 3% and 5%. Because basic essentials are being taxed, this increase will hit the poor much harder. Research shows that a family which earns R800

In other countries where VAT was introduced a number of measures were taken in anticipation of price increases.

The city council has been possibly remiss in condoning, let alone encouraging, the practice of awarding this illegal occupancy to the ratepayers of their lifelong occupation. The council should have minimized their culpability, if not completely absolved it.

services income for the city term.

is prime real estate, with the potential for development by the council's plan for the area. It is inappropriate for this land to be squatted — it is a matter of city planning tenets. The council has no business being involved in such a thing — the land belongs to the people and the community.

The call "No taxation without representation" is winning increasing support and adding impetus to the call for an interim government.

The ANC calls on all South Africans to support these reasonable demands. This can be done by signing petitions, writing letters to newspapers and participating in peaceful pickets, marches and demonstrations.

● Effective poverty relief programmes for those who are most affected by the cost of living increases caused by VAT.^{11, 12, 13}

It is not our intention to cause chaos and anarchy. Our experience as a liberation movement has shown us that the government is not prepared to make concessions easily. Its commitment to the negotiation process is being viewed with increasing suspicion in the light of the

ing increases caused by VAT.

- An end to unilateral decisions about the future direction of the South African economy and a commitment to involve all sectors in such decisions.

Of great concert to the ANC as well is the silence of many in the business and professional community.

□ *Mziwonke Jacobs* is publicity secretary of the ANC in the Western Cape.

Box 11 CAPE TOWN 8000

Vygrond squatters retard development

The existence of the Vineyard camp inhibits the development of the adjoining privately-owned land to the south. In accordance with a Council decision, the privately-owned land would generate much-needed employment in the short term and valuable rates and services income for the city in the long term.

This land is prime real estate, with considerable potential for development, as evidenced by the council's decision to purchase it. It is, therefore, manifestly inappropriate for the land to be occupied by planners — it is a gross reversal of city planning tenets. The council has no business being in the property business — the land

Sabta³²⁰ supports³²⁰ tax strike

THE Southern Africa Black Taxi Association yesterday came out in support of the proposed two-day nationwide stay-away in protest against value-added tax on November 4 and 5. ^{Suda}

Sabta president Mr James Ngcoya called on all of its associations to contact the VAT Co-ordinating Committee at local levels to ensure that transport would still be available for pupils, teachers, nurses, doctors and other workers who perform essential services. ^{25/10/91}

He said Sabta's regional and head offices would be closed during the two-day stayaway, which will be staged to demand an end to VAT on basic things. - *Sapa.*

Support for VAT strike

320 THEO RAWANA

BLACK business federations Nafcoc and Fabcos have thrown their weight behind the Cosatu-initiated anti-VAT general strike planned for November 4 and 5.

And taxi association Sabta, a Fabcos affiliate, has called on its members to ensure that transport is not available during the strike except to students, teachers, nurses and workers in essential services.

Cosatu, Nactu and 12 trade unions in the Co-ordinating Committee on VAT (CCV), have called for the two-day strike to protest against VAT on basic foods, water, electricity, medicines and medical services.

Nafcoc, in a statement, called on all small businessmen to close their shops on November 4 between 11am and 3pm and commit themselves to further action "unless government renegotiates the relevant contents of the VAT law".

Fabcos called on its membership to "support this call... against continued economic exploitation by government".

Sabta president James Ngcoya said: "All Sabta members throughout the country are encouraged to co-operate with the CCV to ensure that their operations (provision of transport service) fit within the committee's overall plan."

Prices shot up just before VAT

By Paula Fray

Consumer Reporter

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Prices of goods and services increased dramatically in the week before VAT was introduced, with a net country-wide increase of 2,26 percent, Vatwatch said today.

This was lower than the average increase of 2,56 percent at the end of August/beginning of September.

A Vatwatch spokesman said in the week before VAT was introduced on September 30 the cost of services — not subject to GST but subject to the new tax — leapt. These included: electrical repairs which increased on average by 17,5 percent; motor

vehicle lubrication services (17,4 percent); TV repair services (12,5 percent).

The highest increases among goods included furniture (up 9,8 percent) and footwear (up 7,1 percent).

The independent survey, done by a marketing research company, monitored 105 outlets countrywide.

The sample basket included 104 grocery items, three fresh meats, three types of shoes, three furniture items and various services such as medical, travel and accommodation, vehicles, TV rental and repairs and electrical and plumbing services.

National Black Consumers' Union president Nonia

Ramphomane said consumers, who had been asked to be alert for price increases after the introduction of VAT, had been confused by the increases before the new tax was brought in.

"We were aware that prices had gone up really dramatically immediately before VAT was introduced. We said VAT would affect people drastically which is why we appealed for essential foods and services to be zero-rated," she said.

Neil Coleman, Congress of South African Trade Unions (Cosatu) spokesman, said the figures highlighted concerns expressed by the Co-ordinating Committee on VAT.

CPI: LAST FLING

FM 25/10/91

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280

Pre-emptive price increases, which continued until the eve of the introduction of VAT, don't necessarily foreshadow further increases, says Rand Merchant Bank economist Rudolf Gouws. He is confident the recent surge in prices is close to its end.

There are several reasons:

☐ Increases in anticipation of VAT have taken care of immediate cost problems. In a competitive market, producers and distributors won't be able to push prices further;

☐ Producer price increases show signs of slackening (see "Slimming down");

☐ Though a number of previously exempt foods now carry 10% VAT, a wide range of foodstuffs will benefit by the reduction from the 13% GST; and

☐ Though food inflation is likely to decelerate, it will probably remain above the rate of overall increase. So the index as a whole will benefit by food's reduced weighting in the basket, down from 22,72% to 18,64%.

In recent months, food has been largely responsible for the disappointing performance of the consumer price index. In the 12 months to September, food prices climbed 19,7%, pushing the rise in the overall index to 15,4% (August: 15,6%). The largest contributor to the 1,4% monthly rise in the nonseasonally adjusted index was food — more than one third, says the Central Statistical Service.

From August, CPI is based on new 1990 weightings, but last year's comparative figures still use the old basket. As the year progresses, the new weightings will play an increasing role in neutralising inflation. An indication of this is that September-September inflation calculated on the 1990 weighting for both years would be only 13,7%.

The weighting was last changed in November 1987 when the 1975 base was replaced with a 1985 base and the weighting of food brought down from 24,98%.

☐ The seasonally adjusted change in the overall index over the month was 1,2%.

Home from home

Legislation says long-term accommodation in a dwelling is not subject to VAT. But excluded from the definition of a dwelling is accommodation in "any hotel ... boarding house, hostel or similar establishment ..."

"It is by no means clear," says Ernst & Young tax consultant Colin Rushmere, "whether a conventional old-age home is a tax exempt dwelling or a taxable 'commercial rental establishment ...'"

Revenue's view is that old-age homes will fall into the category of commercial rental establishment and the subcategory of residential rental establishments. The effect is that accommodation charges, whether based on a means test or at commercial rates, will be subject to VAT at the rate of 10% on 60% of the charge actually levied on each resi-

Continue

FM 25/10/91

(320)

dent.

Rushmere says: "This treatment would generally be favourable, giving the establishment the right to claim full input tax credit at 10% on all inputs, while charging relatively little in the way of VAT on outputs."

Two points in particular must be remembered in regard to output tax charges:

☐ Subsidies received will effectively be tax free, as long as the old-age home is a welfare organisation as defined, and registered under the Fund Raising Act, in which case subsidies will be zero-rated. (If the home is not a welfare organisation, other problems arise); and

☐ As a general rule, 20% of the charges levied on residents will be deemed to relate to food and certain other fully taxable services. For example, if a resident is charged R100 per month, VAT will be determined on the following basis:

$R80 \times 60\% = R48$ $\times 10\% = R4,80$ VAT

$R20 \times 10\% = R2$ VAT

Total of R100 carries R6,80 VAT. ■

'18% pre-VAT shoe increase'

Staff Reporter

THE price of shoes increased locally by up to 18% in the last few days before the introduction of VAT while furniture prices and electrical repairs countrywide also climbed substantially before the tax was implemented.

This claim is made by Vatwatch which yesterday published its third countrywide market survey. It showed that the cost of services increased heavily.

The price rise was led by electrical repairs (17,5%), vehicle lubrication (17,4%) and TV repairs (12,5%).

The highest price increase among goods was for footwear: 7,1% countrywide (and 18% in Cape Town). Shoes were followed by furniture with an average price hike of 9,8%.

The survey was conducted for Vatwatch by Interfact, at 105 sales/service outlets countrywide.

The sample basket contained 104 grocery items, three fresh-meat items, three types of shoes, three furniture items and the following services: Medical, travel/accommodation, vehicle services, TV rental and repairs, elec-

Front receives strike memo

DURBAN. — A joint Cosatu/Nactu memorandum delivered to the patriotic front Congress here yesterday re-committed the trade union bodies and 12 other organisations to a two-day general strike in November.

The general strike in protest against VAT would be on November 4 and 5, and would take the form of a stayaway and a "complete shutdown", the memorandum said.

The striking organisations would call for the removal of VAT on basic foods, water and electricity, medicine and medical services, the memorandum explained.

● About 30 placard-carrying protesters added their voice to the anti-VAT campaign outside the Pretoria offices of the Receiver of Revenue during lunch-hour yesterday. — Sapa

trical and plumbing services.

The survey showed that in the last week of September the net price increase was 2,26%. This followed the end-of-August increase of 2,56%.

Two more Vatwatch surveys are already under way: The first post-VAT survey of exactly the same basket of goods and services tested up to now, and a special survey on office and shop rental costs, to determine the extent by which major commercial property owners are passing VAT savings to smaller businesses.

● Furniture and footwear stores in Cape Town have denied Vatwatch's statement that they sharply increased the prices of their goods a few days before VAT was implemented.

Director of Pridestyle Shoe Manufacturing Mr Nagin Ranchod said his company had an

average increase of 5% in July because at that time their staff members received their increase.

Mr Edward Daniel, warehouse manager of Futura Footwear in Salt River, said his store increases its prices twice a year, in January and July, but the increase was not by 18%.

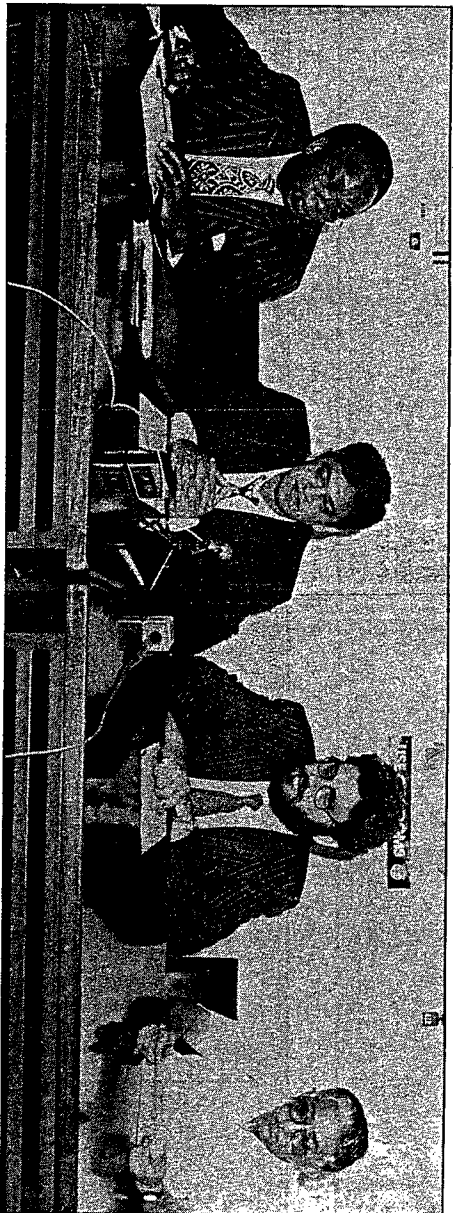
He said the increase was between 10 and 12% and was made seasonally, not because of VAT.

The Jordan Company said there was absolutely no increase.

Two furniture stores — Kaplan Manufacturers and Jack Mendel Furnitures — also said there was no increase.

Mr Jack Mendel said his company did not include VAT in prices.

Katz Furnishing Company said prices in the bedding section only had increased by 3,5%.



MEDIC ALERT ... Doctors from the health sector of the Co-ordinating Committee on VAT announce protest action. ■ Pius ANDRIES MCINENKA

Doctors take to the streets in VAT protest

By DERRICK LUTHANI ^{Clare} 2-7/10/91

ARE South African hospitals well equipped enough to attend to millions of patients a day?

This will be answered tomorrow and Tuesday when about 3 000 doctors in private practice voluntarily close their surgeries for two days in protest against the implementation of Value-Added Tax.

Tomorrow doctors will hold a protest meeting at the Central Methodist Church in Johannesburg to be followed by a march the next day to the

Receiver of Revenue in Rissik Street.

The health sector of the Co-ordinating Committee on Vat (CCV) said the government had exempted State health services from Vat as they provided health care for the poor.

Spokesman Dr David Green said the protest was voluntary and the doctors would make their services available to local state-clinics and hospitals.

"All efforts are being made to prevent putting patient care in jeopardy. Participating doctors will be available to provide emergency care

to their patients."

"Our voluntary responsible closure of practices will demonstrate our resistance to this unethical and unjust tax among the medical profession."

"We believe we are acting in the best interest of the patients at large and we find ourselves compelled to act in this way because of the government's intransigence."

"We are determined to keep pressure on the government until we have removed this unethical tax from medical services."

"Any doctor who feels patient care

would be compromised by closure of his surgery should not do so," said Green.

Costau and the National African Federated Chamber of Commerce supported the doctors' action.

Costau said if a viable and comprehensive national health service existed in the country, there would be no need to zero rate medicines and private medical services.

Trade unions will show their anger by staying away from work on November 4 and 5.

(320)

Doctors' VAT protest today

Sowetan 28/10/91.

320

ABOUT 3 000 doctors are expected to close their surgeries today and tomorrow in protest against the implementation of Value Added Tax on medical services.

The action will launch a series of protests organised by the health sector of the Co-ordinating Committee on VAT against what the group feels is Government intransigence by refusing to exempt medical services and basic food-stuffs from VAT.

Today's strike will be followed by a mass meeting of doctors at 7pm at the Central Methodist Church in Johannesburg and a march to the Receiver of Revenue at lunchtime tomorrow.

The Natal VAT Forum, comprising doctors, pharmacists and physiotherapists, is to join the two-day strike. The decision was taken at a meeting on Saturday.

Natal VAT Forum spokesman Dr Mohamed Kathree said drastic action was needed after petitions and protests had fallen on deaf ears.

The strike was also backed by general practitioners in Cape Town last week as a "last resort" action.

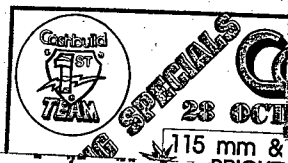
The Government has exempted only State health services from VAT, saying they provide health care for the poor.

By SONTI MASEKO

Kathree said the closure would demonstrate that private practitioners provided health care to the majority of South Africans, most of whom were poor.

"By taxing health care given by general practitioners, the Government will be making health care unaffordable and inaccessible to many South Africans.

"The State health services, already overburdened, underfinanced and understaffed will not be able to cope with the increased burden caused by taxing healthcare," a statement by the CCV said.



320 322 28/10/91

VAT: Doctors close doors

DURBAN. — More than 300 private doctors in Natal are to close their surgeries today and tomorrow in protest against the implementation of VAT on health services and medicines.

This was announced by the Natal VAT Forum — comprising doctors, pharmacists and physiotherapists — following a meeting at the University of Durban Westville on Saturday afternoon.

A spokesman for the Forum, Dr Mohamed Kathree, said drastic action was needed after petitions and protests had fallen on deaf ears.

The closure would demonstrate that private practitioners provided health care to the majority of South Africans, most of whom were poor.

During the two days, doctors would provide only emergency care to patients.

Meanwhile the Inkatha Freedom Party Women's Brigade has made a passionate plea to the ANC/SACP/Cosatu alliance to call off the proposed national anti-VAT strike, due to be held early next month.

The call was made at the end of the brigade's annual conference in Ulundi at the weekend. — Sapa

Inkatha's no to strike over VAT

THE Inkatha Freedom Party Women's Brigade has asked the African National Congress, the South African Communist Party and Cosatu to call off the general strike planned for November 4 and 5.

At their annual general conference held in Ulundi this weekend, the women's brigade expressed concern about the consequences of a national strike.

They called on the ANC, the SACP and Cosatu not to prejudice the future of hundreds of thousands of black students who could fail their examinations if the strike proved disruptive because of intimidation tactics.

Other resolutions stated the brigade's support of the State President's stand that political change was irreversible. - *Sapá* *29-10-91*

Doctors in anti-VAT campaign

By MOKGADI PELA, JOE MDHLELA and Sapa

THOUSANDS of doctors yesterday closed their surgeries countrywide in protest against the implementation of Value Added Tax on medical services. *Sowetan 29/10/91*

Several surgeries in the PWV-area, Natal, the Eastern Cape and Western Cape were closed.

Dr AS Hussein of the Pretoria Medical Discussion Group, said about 50 doctors had closed their surgeries in the Pretoria areas of Eersterus, Laudium and Marabastad.

While their surgeries were closed, the doctors would be available for emergencies, Hussein said.

About 70 doctors joined an anti-VAT protest march in Port Elizabeth. The Medical Association of South Africa said it supported the campaign, but took a firm standpoint against any mass demonstrations.

Their spokesman, Dr Ron Benson of the Eastern Cape branch, said they would continue making

●To page 2

Taxi to a Dream

Doctors in VAT protest

From page 1

representations to the Government not to impose VAT on medical services.

Dr Diliza Mji, publicity secretary of the National Medical and Dental Association, said the situation was not clear.

Mji said the Durban Medical Centre, which supplied a large sector of the public in Beatrice Street, was "virtually quiet" yesterday.

Mji said: "Our response to the call has been good, but we regret that Masa did not see fit to join us. We hope that if additional tactics and actions are taken to stop VAT on medical services and basic food, Masa will reconsider and join us." *Sowetan 29/10/91*

Protest

The deputy secretary of the Southern African Medical Discussion Group, Dr Thamsanqa Bomvana, said his group decided at a Johannesburg hotel at the weekend to back the protest. He said doctors would today hold a demonstration against VAT at the Methodist Church in downtown Johannesburg.

In the Western Cape, 300 doctors joined others countrywide and closed their surgeries.

The 300 - mainly from Mitchell's Plain, Grassy Park, Elsies River, Retreat and Blue Downs - stopped working for two days.

Doctors countrywide join in VAT protest

ABOUT 3 700 doctors and dentists closed their doors yesterday to protest against the imposition of VAT on medical services.

National Medical and Dental Association (Namda) director Dr David Green said about 3 300 practices around the country had been closed on the first of the two-day protest, co-ordinated by Namda and various health organisations.

He said that as far as he knew no doctors in Johannesburg's northern suburbs had closed their doors but in Soweto about 80% of private doctors and dentists had.

Many had worked at Soweto's Motolo Clinic and attended to outpatients at Baragwanath Hospital. Taxis had transported patients to the public hospitals free of charge, he said.

Sapa reports that about half of Cape Town's private doctors, serving both black and white areas, had joined the protest yesterday.

In the Northern Transvaal townships

about 75% of doctors closed their practices, while in Port Shepstone there was a 100% stayaway from work by doctors and dentists, Green said.

The Natal VAT Forum, which consists of doctors, pharmacists and physiotherapists, said more than 300 doctors in Natal would keep their surgeries closed today.

Green said doctors in Middelburg and Witbank had been told not to close their practices because alternative treatment at public hospitals was far away and patients could have been compromised.

Green said he expected fewer practitioners to take part today.

The Medical Association of South Africa is not supporting the work stoppage and has urged its members not to take part as it was "unethical for doctors to withhold their services" from patients.

TANIA LEVY

Surgeries closed in protest

320
0229/10/91

By BRONWYN DAVIDS
SEVERAL normally busy surgeries on the Cape Flats were deserted yesterday as about 350 Western Cape doctors closed their practices for a two-day protest against VAT on medical services.

Surgeries in Mitchells Plain, Athlone, Grassy Park, Blue Downs and Khayelitsha were closed with notices on doors referring patients to state clinics and hospitals during the two-day protest, which ends today.

The chairman of the Dispensing Family Practitioners' Association, Dr Robert Rapiti, said the doctors were available for emergency cases and had offered their services to the state clinics if they could not cope with the increased patient load.

Doctors were concerned about the welfare of their patients but the protest was two-fold in that it also drew

Vatwatch will name culprits

Staff Reporter

VATWATCH will tomorrow disclose the names of shops and businesses guilty of breaking Value Added Tax regulations, public relations officer Mr Pierre de la Ray said yesterday.

He said about 90 firms nationally had so far been sent written warnings to comply with the regulations or have their names made public.

attention to the "inadequacy of state hospital services", said Dr Rapiti.

The Medical Association of South Africa (Masa) has slammed the protest as unethical, saying it was unprofessional for doctors to withhold services to patients.

Dr Rapiti said he would have agreed that the action was unethical, "had the doctors not offered emergency services".

"The state is unethical to implement VAT on health care," he said.

The doctors "would be more unprofessional to look the other way" as the implementation of

VAT on health now would make health care "unaffordable" to many people in the future", he said.

● The Natal VAT Forum, comprising doctors, pharmacists and physiotherapists, is considering ways to provide emergency medical services during the strike, Sapa reports.

● Doctors in Durban, Port Elizabeth and Pretoria also closed their consulting rooms as part of the protest.

Doctors plan to march against VAT

The Argus Correspondent

JOHANNESBURG. — Hundreds of doctors will march on the offices of the Receiver of Revenue here today in a protest against the imposition of VAT on health services.

Yesterday about 3 400 doctors closed their rooms countrywide, said Dr David Green, spokesman for the Co-ordinating Committee on VAT.

At a militant meeting here last night, doctors warned that the closure

and march were only the first actions taken in a sustained programme of resistance against VAT on medical services.

Addressing about 200 doctors, Cosatu secretary-general Mr Jay Naidoo said doctors were sending out a clear message to the government: "Tax on health is immoral and we will not be used as your tool to collect it."

The number of closed surgeries yesterday varied from area to area, said

Dr Green. While the protest was effective in townships and rural areas, most doctors in major cities operated normally.

Almost all doctors closed their surgeries in areas such as Mafikeng, Port Shepstone and Port Elizabeth, as did 88 percent of Soweto doctors.

About half of Cape Town and East London's doctors came out in support of the protest while support in the far northern Transvaal was split down racial lines.

Sowetan
Correspondent

THE voluntary closure of some surgeries by doctors ended yesterday with a march to the Johannesburg Receiver of Revenue offices to protest against the imposition of VAT on health services.

"No tax on health, Barend you must be sick", chanted the small group of doctors and other health workers.

At times they were cheered on by members of the public while some pedestrians merely gave bemused smiles.

Numerous banners held aloft indicated exactly where they stood: "Doctors are not tax collectors," said one while another read "No VAT on health".

Dressed mainly in suits and even medical attire, they marched briskly - a strong and often lone

Doctors Sowetan march 30/10/91. against VAT 320

voice leading them in the American spiritual "We shall overcome".

Johannesburg's Receiver of Revenue Mr Kobus Stone received a memorandum addressed to President FW de Klerk, Finance Minister Barend du Plessis and Minister of Health Dr Rina Venter.

South African Dispensing Practitioners chairman Dr Joe Maelane said they rejected VAT on medical services.

"It is unethical and immoral to charge Value

Added Tax on health services, particularly for the disadvantaged community and the poor whites," Maelane said.

The doctors called for the zero-rating of all health services, medicines, basic foodstuffs and other essential services as well as the reconsideration of VAT as applied to small businessmen.

National Health Forum spokesman Dr Aslam Dasoo described the protest as a success. He told cheering marchers more than half the private practitioners in the country had responded to the call to close their surgeries voluntarily.

Co-ordinating Committee on VAT health forum spokesman Dr David Green said more than 3 400 doctors had closed their practices countrywide.

VAT strike could mobilise

South 31/10 - 6/11/91
By Heather Robertson

THE GENERAL strike called by the VAT Action Committee for November 4 and 5 could be a turning point in the chequered labour history of the Western Cape.

Lack of co-ordination and the problem of an apathetic "coloured" workforce have been cited by various unions as the reason for the failure of previous general strikes in the region but it is agreed this has changed.

Despite the abysmal failure of Cosatu's VAT protest rally at Vygieskraal on Sunday, Cosatu affiliates in the Western Cape argue there has been sufficient preparation for the general strike on a shop-floor and branch level.

If this is correct 200 000 paid up Cosatu and 87 000 Nactu members will stay away on Monday and Tuesday — 28 percent of a million economically active people in the Western Cape.

Mr Nosi Pieterse, Cosatu treasurer in the Western Cape, said the shopstewards' councils have been campaigning for the stayaway soon after the Cosatu National Congress decided on a general strike in July.

Mr Leonard Ramatlakane, spokes-

person for the Construction and Allied Workers Union (Cawu), said the failure of the rally definitely did not imply opposition to VAT had simmered down.

"The problem with the rally was administrative, late notification and an unfamiliar venue. Workers on the factory floor are angry about VAT because even the price of bread is more than it was with GST. Our members will definitely stay away."

Ms Jocelyn Vass of the Chemical Workers Industrial Union said there had been support for the general strike from members.

Mr Richard Kawie, a Sactwu organiser, said he was confident of a 90 percent stayaway of workers in the clothing industry.

Whether 30 000 municipal workers in the Western Cape will down tools is unknown, as the South African Municipal Workers Union only started mobilising around the stayaway two weeks ago.

Mr John Erentzen, Samwu general secretary, feels this is sufficient as there has been a tremendous positive response from members for the stayaway.

"We're definitely coming out in full force," says Samwu chairperson Mr Salie Manie.

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"Most of our depots will be out. The only exception is to ensure essential services such as fire brigades, ambulances and certain traffic people will be at work."

South African Commercial Catering and Allied Workers Union spokesperson Ms Zoe Holland is more cautious. She says the union has received isolated reports from companies which seem positive but they were unable to gauge the overall response.

Mr Harald Harvey, branch secretary of the Transport and General Workers Union said there have been discussions at workplaces since a branch executive committee meeting on October 13 endorsed the stayaway call.

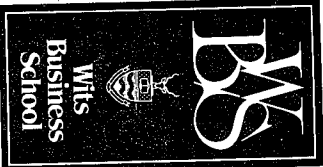
TGWU workers have been involved in setting up Cosatu local structures in Bellville, Cape Town and the docks.

He said TGWU members at UCT and the University of Stellenbosch will definitely be out.

The ANC has started an anti-VAT poster and pamphlet campaign this week, a few days before the stayaway. An ANC anti-VAT march will take place in Guguletu on Monday.

The Cape Town Chamber of Commerce in their October 25 Bulletin warned management has the prerogative to take "no work no pay" disciplinary action against workers.

Sowetan Business



VAT a blow to informal sector

See page 3 11/10/91

3.20

BY JOSHUA RABOROKO

MOST small businesses have been hit by Value Added Tax and are facing closure.

Organisations representing the informal sector, including hawkers, spaza shops and dressmakers, intend to make representations to the Minister of Finance, Mr Barred du Plessis, about their plight.

Most said they were unable to register for VAT because they did not have sufficient funds and demanded the Government reconsider reducing requirements to register.

In terms of VAT regulations, the informal sector should be able to buy stock/

to pay."

Many hawkers and spaza shop owners - the majority of whom were unemployed people trying to earn an honest living - have been forced to close their operations and to seek work at a time when the country was ravaged by large-scale unemployment.

The director of the National Industrial Chamber, Mr Ian Heithington, said because of severe educational disadvantages many small and family business proprietors were unable to cope with the "rat's race tape" arising from com-

plex economic laws, including the tax laws.

As a result many were forced to operate in the so-called informal sector. He said small business organisations have been making proposals for simplified tax laws for small business, since 1987, and for realistic modifications to VAT, but these have fallen on deaf ears.

The proposals made include:

- *Modifying the present draconian penalties, which give the Commissioner of Inland Revenue the effective right to close down non-complying small businesses;
- *Permitting registered

buyers to claim input credit against invoices from legally unregistered small suppliers.

*Compensating small businesses in full for their extra costs in acting as the State's tax collectors;

*Lifting the VAT registration threshold from its present level of R3 000 sales a week to R10 000 sales a week; and

*Launching, at the State's expense, a massive educational and practical assistance programme to help the thousands of disadvantaged to comply.

A leading Soweto tax consultant suggested a reduction from R150 000 to R50 000.

Talking Business is a weekly column in which experts from the University of the Witwatersrand School of Business deal with problems that worry businessmen. Readers are invited to send in any question regarding business and businessmen.

Write to Talking Business, Box 6663, Johannesburg 2000.

While not every question can be answered individually, our experts will try to pick up on themes.

THE two-day national general strike goes ahead next Monday and Tuesday.

There was no possibility "at this late hour" for the anti-VAT Co-ordinating Committee to reach a settlement with the Government on the proposed strike, Congress of South African Trade Unions general secretary Mr Jay Naidoo said yesterday.

The strike, expected to be supported by more than 2 million people, will go on as scheduled, Naidoo said, quashing reports that "a settlement could be reached with the Government".

It follows the Government's "unilateral" imposition of VAT on the people of South Africa, Naidoo said.

"The Government has been intransigent, unwilling to listen to the voices of the oppressed people. There is no way we can call off the mass action by our people," he said.

Naidoo revealed that no-

Two-day strike to go ahead

Soweto

31/10/91

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By JOE MDHLA

ports had been filtering through that people in vehicles and using loudhailers had been going around Soweto, Kaitleng and Tokoza threatening, in the name of the organisations, to attack or kill those refusing to participate in the strike.

"We challenge the police to arrest and bring to book those engaged in this criminal activity. Only *agents provocateurs* paid to do this work could contemplate such lunacy," he said.

Discussions at the highest level continued with the police yesterday to ensure the strike action went on without violent incidents, Naidoo said.

He warned employers who took action against their workers that they could be blacklisted for future industrial action.



SENNAKGOMO



JAY NAIDOO

committee chairman, Mr JP Landman, said workers would be hit hardest as employers would generally apply a policy of "no work, no pay".

United Workers Union of South Africa spokesman Mr Duke Senakgomo said the union believed the objective could be achieved without a strike.

He said Uwu members would work during the strike.

The Azanian Peoples Organisation, Ntata and Fobos yesterday supported the action.

Journalists, schoolchildren and workers in essential services are exempt

from the strike.

Meanwhile, at a meeting yesterday between a six-member delegation of the CCV and Deputy Minister of Law and Order Mr Logan Scheepers, both parties agreed to appoint people from both groups to regional liaison structures to facilitate communication to tackle incidents which might arise during the strike.

Scheepers said the Government and police did not oppose peaceful, legal, democratic protest, but the police were obliged to uphold the law and would act with sensitivity and reasonableness.

The CCV identified possible flashpoints and the police undertook to investigate appropriate measures to prevent violence. Fears of violence were also expressed by SA Institute of Race Relations executive director Mr John Kane-Berman, who said yesterday he had also received reports that people were being threatened.



FISTS UP, STETHOSCOPES DOWN: About 200 doctors marched to the Receiver of Revenue in Johannesburg to register their protest against VAT. PIC: ELMOND JIYANE — DI

VAT protests not over, doctors warn govt

South 31/10 - 6/11/91

By Mono Badela

ALMOST 4 000 doctors countrywide stopped working for two days this week in protest against VAT. In Johannesburg doctors ended their protest with a march to the Receiver of Revenue where they handed over a memorandum.

The doctors have vowed to embark on "more radical action".

"One of the options is a defiance campaign by doctors to refuse to pay or charge VAT," said Dr Aslam Dasoo of the South African Health Workers' Congress (SAHWCO).

He said a decision on this option would be taken by November 10.

The march, supported by more than 100 doctors and other health workers, was in protest against the continued imposition of VAT on medicine, doctors' and other health services.

The marchers, cheered and encouraged by onlookers, some of whom joined in, handed a memorandum to the Receiver of revenue.

It listed a demand for the zero-rating of basic foodstuffs and other essential services like water and electricity.

The voluntary closure of surgeries on Monday and Tuesday was very successful, especially in black townships and rural areas, said the National Medical and Dental Association.

VAT stayaway death threats

Own Correspondent

JOHANNESBURG. — Soweto residents are being threatened with death if they go to work during next week's VAT strike, the Executive Director of the South African Institute of Race Relations, Mr John Kane-Berman, said yesterday. (320)

Speaking at a breakfast meeting at the Johannesburg Country Club, Mr Kane-Berman said his organisation had reports from

various parts of Soweto that vehicles equipped with loud-speakers were travelling around the sprawling township warning people to stay home.

Soweto police liaison officer Lieutenant-Colonel Tienie Halgryn said police were not aware of the threats but would investigate.

He said the police would be out in force next week in an attempt to prevent residents from being intimidated. CT 31/10/91

Cosatu spokesman Mr Bangumzi Sifingo yesterday denied that his organisation was involved in any sort of intimidation.

● ANC, Cosatu and Nactu members will march on the Johannesburg offices of the Receiver of Revenue on Saturday in an anti-VAT protest.

● The East Rand Inkatha Youth Brigade chairman, Mr Thabani Dlamini, has declared himself opposed to the anti-VAT stayaway.

— Sapa

GERALD REILLY

PRETORIA — VAT has had little or no effect on the living costs of the poorest black households, a survey by Unisa's Bureau for Market Research has found.

However, the rate of increase of the cost of living for higher paid workers was greater than that of lower paid workers.

The survey showed that a black family of six in Johannesburg, living at the bureau's minimum living level of R827,07 a month, experienced a 0,9% increase in living costs in the month VAT was introduced. This contrasted with a 1,2% increase each month in the previous six months. In Pretoria the respective figures were 1% and 1,1%.

A Johannesburg family living at the bu-

VAT's effect on poor blacks 'negligible' (320)

8/Day 31/10/77
reau's supplementary living level of R1 124,22 a month experienced a 1,1% increase in living costs in the month after VAT, while the monthly increase in the previous months was 1,5%. In Pretoria the increases were 1% and 2,3%.

The bureau also examined the effect of traders adding 10% VAT to items previously not subject to GST, and the effect on items previously subject to 13% GST now subject to 10% VAT. The calculations showed VAT would raise living costs of black families at the lower end of the scale by 0,9% and at the upper end by 1,6%.

Blacklist threat jolts companies

Staff Reporter

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CT 3/10/91

COMPANIES that put up prices before the introduction of VAT have begun "co-operating" since tax inspectors threatened them with heavy fines and with being publicly blacklisted.

A Vatwatch spokesman who confirmed this yesterday did not disclose what form the "co-operation" was taking.

He warned, however, that those companies which were still infringing regulations would be publicly named.

Vatwatch chairwoman Professor Louise Tager said yesterday that tax inspectors had statutory powers to fine VAT transgressors, to name them and describe their offence in the Government Gazette.

Should the tax offence be fraudulent or deceitful it could be judged in terms of the Harmful Business Practices Act, the business could be closed by the Minister of Finance and its owner fined R200 000 and imprisoned.

The clampdown follows disclosures by Vatwatch that prices of goods and services increased dramatically in the week before VAT was introduced, with a net countrywide increase of 2.26%. Electrical repairs and motor vehicle lubrication services increased by an average of over 17%.

Flexing muscles over scorned tax

Star 31/10/91 320

IT HAS been said that Cosatu and other unions are merely using the VAT issue as an excuse to confront the Government on the formulation of economic policy, ahead of constitutional negotiations. Is that the case?

At a political level we have said very openly that we are an independent organisation and that the trade union movement, as part of civil society, intends to play a key role in the present transition and in a post-apartheid South Africa in determining the political and economic future of this country. We have a legitimate right to demand that the Government halts the unilateral restructuring of the economy because we are in a transition period.

At the economic level, the imposition of VAT is going to have an adverse impact on the lives of millions of people who at present live below the bread-line. Without effective mechanisms to control price abuse, VAT will lead to a rise in the cost of living.

We have committed ourselves to make VAT unworkable (and) are planning to broaden the campaign in the new year to include the non-payment of PAYE. It is unacceptable to us that a white minority Government in this transitional period can continue to dominate the structures of decision-making at the economic and political level.

The demands that we are making around VAT, including the setting up of a forum for macro-economics negotiations, are aimed at putting pressure on the Government to see that there has to be a process of bona fide negotiation of political and economic issues.

For us, coming from a constituency that has been historically deprived of access to resources and wealth, it is absolutely essential that political change must also be accompan-



ied by economic change, so that the issue of the vote is linked to the provision of jobs, housing, education, etc.

The Government is unilaterally restructuring the economy at every level through measures including privatisation and deregulation. We are concerned that this will perpetuate the domination of white minority interests.

What would persuade the unions to call off the strike?

Our doors are still open. The Government must zero-rate basic foodstuffs, medical services, water and electricity. It must make concessions to small business and negotiate poverty relief programmes. Linked to that, the Government must agree to set up a macro-economics negotiating forum.

The forum — to include Cosatu and Nactu, the major employers, the Government, consumer organisations and the major political parties — would discuss economic changes consistent with the political transformation taking place.

The strike may be perceived as directed primarily at the employers. Is it?

Disagreement over the introduction of VAT has seen the Government and South Africa's biggest labour groupings on a collision course. Unless there is a last-minute resolution of the dispute, the unions have vowed to call out their members on a two-day general strike starting on Monday. The strike call is supported by, among others, the ANC, PAC, the National Council of Trade Unions and the Azanian People's Organisation. In an interview with MIKE SILUMA, Congress of SA Trade Unions general-secretary Jay Naidoo (left) who has been personally involved in the campaign to reform VAT legislation, and whose federation is party to the strike call, warns of even more conflict in the next few months if the Government continues to "unilaterally restructure" the economy.

Employers could have played a central role in resolving the issue. But throughout the negotiations, the Government was basing its entire argument on the fact that big business was geared up for VAT's imposition.

SA Chamber of Business and Afrikaanse Handelsinstituut representatives insisted that big business was entirely behind the Government and that there would be chaos if the Government did not go ahead with the introduction of VAT. (The employers' hands are not clean.

When approached by us to intervene, the SA Consultative Committee on Labour Affairs said they were not prepared to take a stand on the issue. We warned them that unless big business was seen to be moving to pressure Government to negotiate, we were going to have a situation where there would be conflict between us and the Government, with employers stuck in the middle.

Couldn't the strike be seen as a breach of the Peace Accord, of which Cosatu is a signatory?

No. The Peace Accord, in fact, entrenches the right of or-

ganisations to protest. It restrains those organisations that want to use violence to protest. What we have said is that the strike is voluntary, that there must be no force used. We have made provision for mechanisms to prevent the use of force, and to monitor the extent to which violence is used against us. In our view the strike is absolutely voluntary.

What of the economic damage (in lost production and pay) likely to be wrought by the strike?

Our view is that it is because of resistance in the last few years that the Government has entered the process of negotiations. We know it's going to be an economic burden we will have to carry. But we are determined to stop the devastation of the economy — in relation to the majority of our people — by not allowing the economic policies of the National Party to continue unopposed.

What we are doing is protecting the integrity of the future economy and ensuring that when we put in place a new system it is jointly decided by all the major players. □